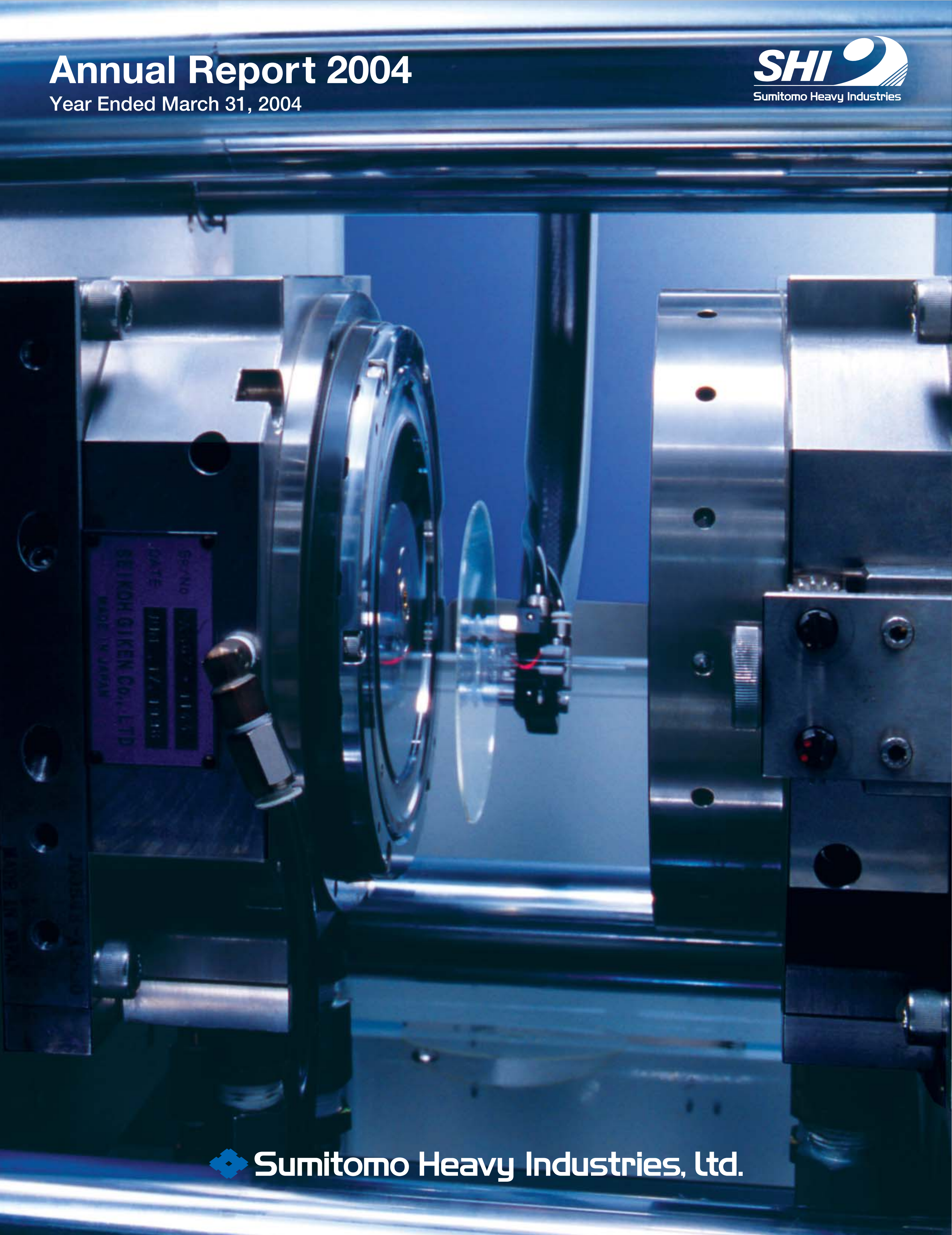
Annual Report 2004

Year Ended March 31, 2004

SHI
Sumitomo Heavy Industries

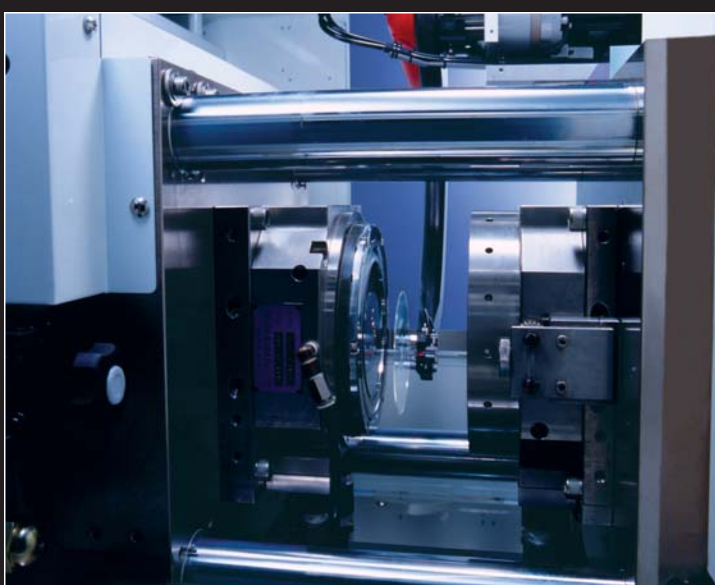


Sumitomo Heavy Industries, Ltd.

Profile

Sumitomo Heavy Industries, Ltd. first opened for business in 1888 and was incorporated in 1934. As an integrated manufacturer of leading-edge industrial products, we manufacture and sell industrial machinery, precision control equipment and components. Offering both the latest in technology and the finest in quality, we provide our customers around the world with superior products designed to meet a wide range of demands.

Our core business principles for value creation are
Competence – strengthening world-class competitiveness
Concentration – focusing together on elevated goals
Creativity – delivering change, innovation & responsiveness
Confidence – building our business in concert with our customers



Injection Molding Machine Dedicated to Optical Discs

The photograph on the cover shows the moment a freshly molded disc is automatically removed from the core molding section of the injection molding machine dedicated to optical discs. Taking less than three seconds to transform plastic resin into a disc packed with music and image data, this machine has created a new world of high-speed technology. This model, launched in September 2003, is not only for currently mass-produced optical discs such as CDs, MDs, DVDs. It is ready for the next generation that includes Blu-ray Discs and AODs. While retaining the high-cycle, stable molding characteristics of its predecessors, its advanced design meets the ultra-precision molding requirements of the next-generation discs.

* Please see page 10 for information on injection molding machines.

Contents

Cautionary Statements with Respect to Forward-Looking Statements

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

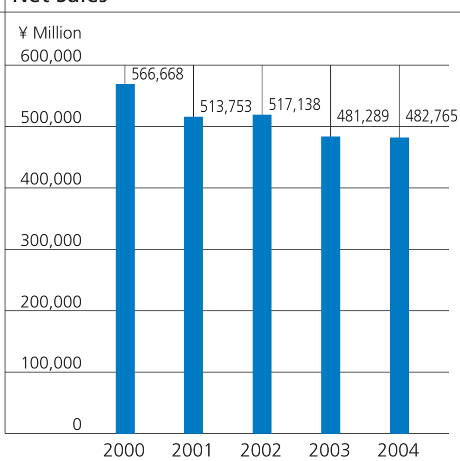
Financial Highlights

SUMITOMO HEAVY INDUSTRIES, LTD. and Consolidated Subsidiaries
Years ended March 31, 2004, 2003, 2002, 2001 and 2000

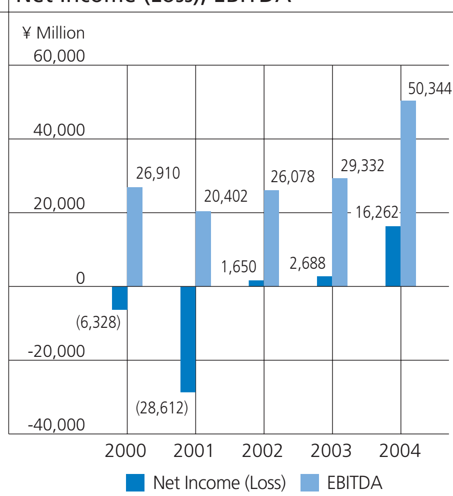
	Millions of yen (unless otherwise specified)					Thousands of U.S. dollars (unless otherwise specified)
	2000	2001	2002	2003	**2004**	**2004**
Net sales	¥566,668	¥513,753	¥517,138	¥481,289	**¥482,765**	**$4,554,387**
Operating income	12,708	7,485	14,175	17,213	**40,231**	**379,541**
(Operating income by segment)						
Mass-Produced Machinery	13,670	13,444	6,463	14,358	**26,046**	**245,713**
Environmental Protection Facilities, Plants & Others	2,951	4,069	5,034	3,820	**4,567**	**43,084**
Ship, Steel Structure & Other Specialized Equipment	(76)	(1,554)	3,538	(3,416)	**1,547**	**14,592**
Industrial Machinery	438	(3,874)	(902)	(485)	**2,908**	**27,437**
Construction Machinery	(4,275)	(4,722)	14	2,969	**5,150**	**48,581**
Elimination	—	122	28	(32)	**13**	**134**
EBITDA(2)	26,910	20,402	26,078	29,332	**50,344**	**474,943**
Net income/loss	(6,328)	(28,612)	1,650	2,688	**16,262**	**153,416**
Net income/loss per share of common stock(3) (Yen/U.S. dollars)	(10.74)	(48.60)	2.80	4.57	**27.01**	**0.25**
Stockholders' equity	64,829	30,049	87,494	89,331	**114,526**	**1,080,438**
Stockholders' equity per share of common stock (Yen/U.S. dollars)	110.12	51.04	148.63	151.86	**190.25**	**1.79**
Total assets	657,149	579,772	634,904	588,010	**580,291**	**5,474,440**
Interest-bearing debt	341,912	324,325	294,552	273,544	**215,807**	**2,035,918**
Stockholders' equity ratio	9.86%	5.18%	13.78%	15.19%	**19.74%**	—
Interest-bearing debt ratio	52.03%	55.94%	46.39%	46.52%	**37.19%**	—
ROIC(4)	1.9%	1.3%	2.3%	2.6%	**6.5%**	—

(1) The U.S. dollar amounts have been translated, for convenience only, at ¥106=$1, the prevailing exchange rate at March 31, 2004.
(2) EBITDA (earnings before interest, taxes, depreciation and amortization)=Operating income+depreciation and amortization.
(3) Net Income per share of common stock is based on the weighted average number of shares outstanding in each year.
(4) ROIC (Return on Invested Capital)= $\frac{\text{(Operating income + Interest and dividend received)} \times 55\%(=1\text{-Effective tax rate})}{\text{Average of stockholders' equity + Average of interest bearing debt}}$

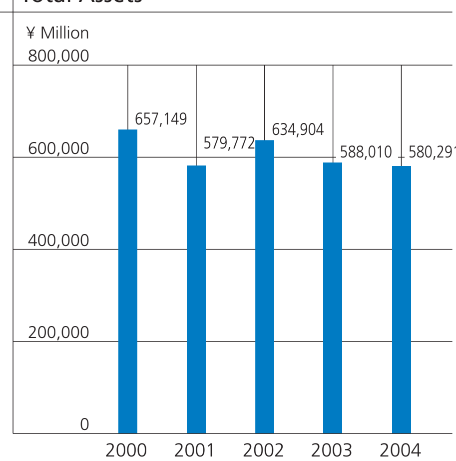
Net Sales



Net Income (Loss), EBITDA



Total Assets



To Our Shareholders, Customers, and Employees

Yoshio Hinoh
President and CEO

Transforming into a High-Profit Company

Review of Fiscal 2003 (April 2003 to March 2004)

Business Environment

Supported in large measure by capital investment related to “digital consumer electronics” and by growth in China, private-sector capital investment was robust, achieving a double-digit increase compared with the previous fiscal year. In particular, the growth in China has invigorated demand for and shipment volumes for almost all the raw materials such as steel, crude oil, and copper, leading to renewed strengthening of competitiveness and replacement investment in mature industries in Japan such as shipbuilding and iron & steel. We expect that these trends in the business environment will continue for the time being.

Our Business Performance
— Achieved Record-High Consolidated Profits

On a consolidated basis, although orders grew 16% compared with the previous fiscal year to ¥531.5 billion, net sales were basically flat (up 0.3% year-on-year) at ¥482.8 billion. Analyzing sales by segment confirms that our business restructuring is proceeding according to plan. Sales were down sharply in “Environmental Protection Facilities, Plants & Others” and “Ship, Steel Structure & Other Specialized Equipment” segments in which our plan places the highest priority on profitability by promoting careful order selection and specialization in fields where we are competitive. In contrast, sales grew a strong 21% year-on-year in the Mass-Produced Machinery segment, where we had centralized our management resources.

Profits posted record year-on-year growth across the board, with net income up 2.3 times to ¥40.2 billion and net income increasing 6.1 times to ¥16.3 billion. It is particularly noteworthy that we achieved a profit in every all segments. While our efforts to reduce costs throughout the Group contributed, this is in particular attributable to our success in the Mass-Produced Machinery segment in developing products in close collaboration with our customers and in marketing new products in a timely manner. Thanks to management’s focus on cash flows, we made progress in reducing interest-bearing debt and the financial position steadily improved. By reducing fiscal year-end interest-bearing debt from ¥294.5 billion in fiscal 2001 to ¥215.8 billion in fiscal 2003, we achieved—and exceeded—a full year early our target for the end of fiscal 2004 (¥250.0 billion or lower), which is the final year of our medium-term management plan.*

*We set the target for interest-bearing debt on a gross basis.

Progress in Our Three-Year Medium-Term Management Plan (Fiscal 2002 to Fiscal 2004)

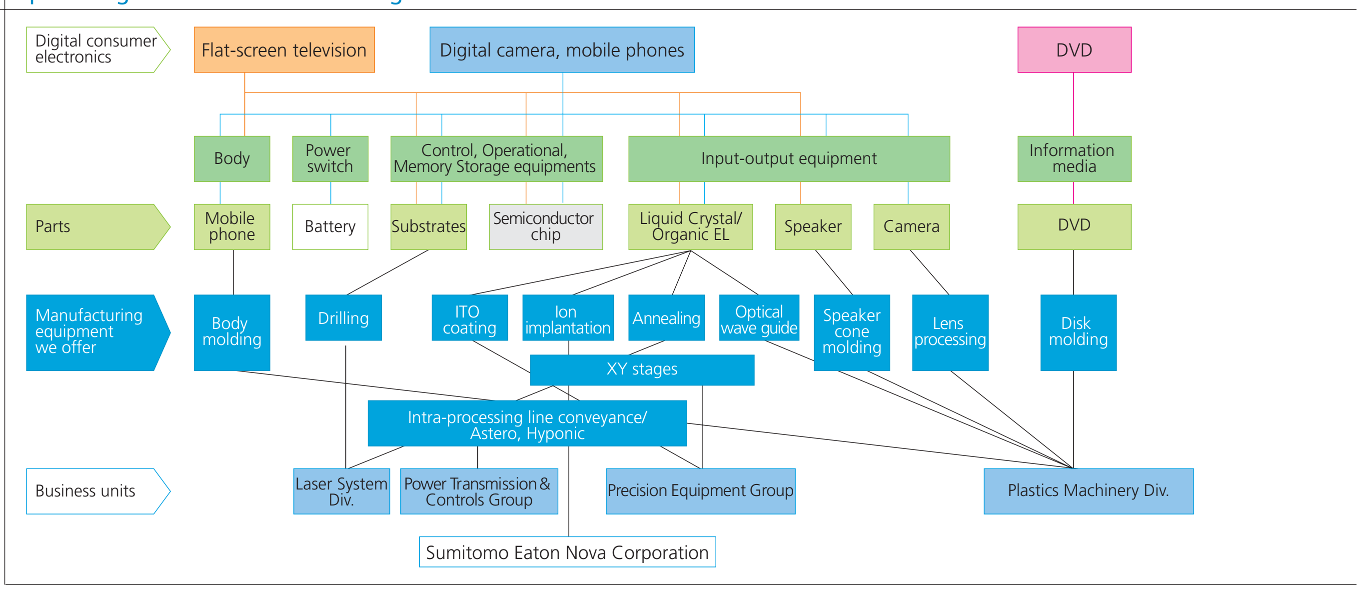
Key Points and Aims of Current Mid-Term Plan —Creating a Group that is Powerful in Every Sense

The ultimate objective of our medium-term management plan is the "creation of a Powerful Sumitomo Heavy Industries Group." Our use of "powerful" can be broadly divided into three senses. The first is "powerful products and services," the second is "powerful cost-competitiveness," and the third is "powerful synergistic value chain."

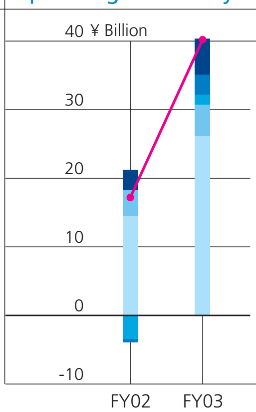
1. Powerful Products and Services —Proven Record in Differentiation and New Combinations of Technologies

Powerful products and services are a result of thorough differentiation of technologies and new combinations of technologies based on the "voice of customers." We have already achieved technological differentiation in "power transmission and controls" and "high-end plastic molding machines," which are mainstay products for our Group. In these product areas, we are continuing our efforts to

Optimizing Businesses Related to Digital Consumer Electronics Market



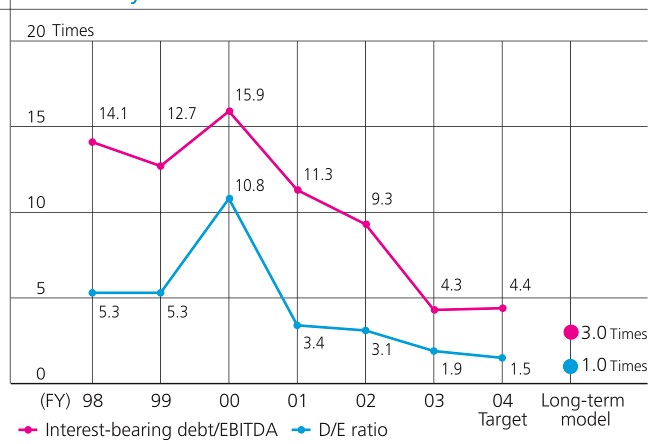
Operating Income by Segment



¥ Billion

	FY02	FY03	Change
Mass-Produced Machinery	14.4	26.0	11.6
Environmental Protection Facilities, Plants & Others	3.8	4.6	0.8
Ship, Steel Structure & Other Specialized Equipment	-3.4	1.5	4.9
Industrial Machinery	-0.5	2.9	3.4
Construction Machinery	3.0	5.2	2.2
Total	17.2	40.2	23.0

Profitability Structure Reform



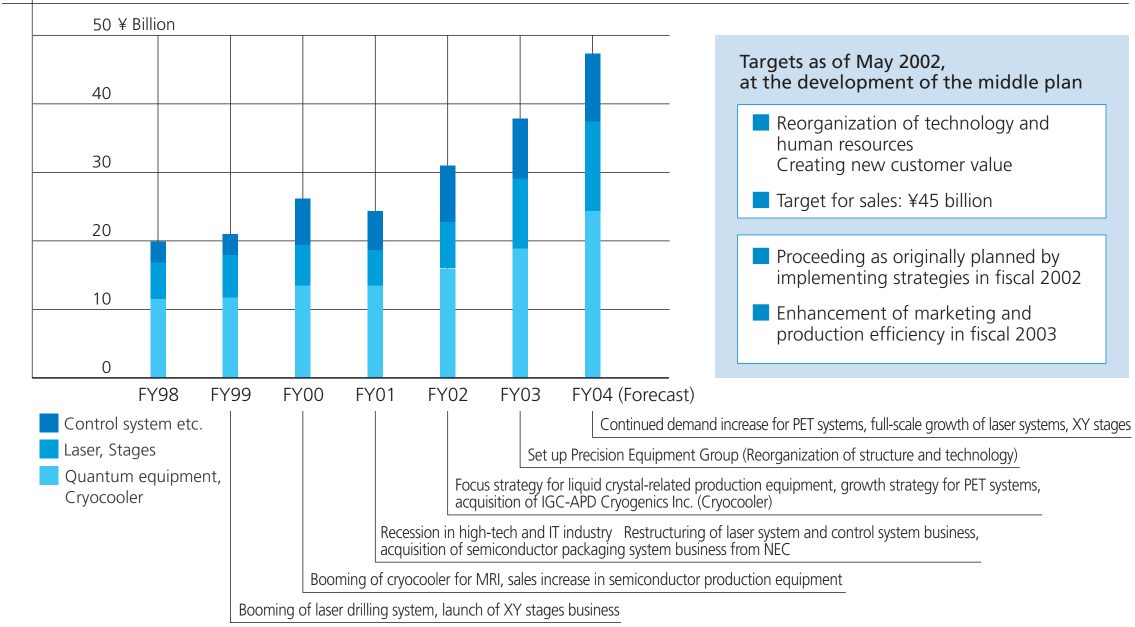
improve quality and update specifications to meet increasingly diverse and sophisticated needs in order to solidify our technological superiority. We are also actively reinforcing our relations with customers.

We have also been developing “precision control equipment and components,” which we expect to rapidly grow in to our third core product family. We have promoted the growth of these products to become globally competitive, based on new combinations of our broad range of technologies. As a result, our market presence is rapidly expanding. For example, our domestic share in medical cyclotron, a key component for the PET (positron emission tomography) systems that are used for the early detection of cancer, has already exceeded 60%. In cryocoolers, a key component for MRI (magnetic resonance imaging) devices, our global share is nearly 90%. We also have a large share in ultra precision positioning stages for LCD color filter resist coaters. These are all a result of our Group’s efforts to differentiate technologies related to accelerator, cryogenic and precision control. They are also a result of the synergistic value chain that takes full advantage of our Group’s comprehensive strengths. Of equal importance is our broad application of the processing and assembly technology that our Group has long developed in heavy industrial machinery, as well as the mechatronic control technology for motors that we have developed into an expertise in the Power Transmission and Controls business.

2. Powerful Cost-Competitiveness —Progress in Production Innovation

As manufacturer, we at Sumitomo Heavy Industries Group are committed to workmanship and to innovation at the production site. This has boosted cost-competitiveness in all product and business areas. In the Power Transmission and Controls business in our Mass-Produced Machinery segment, for example, we have made progress in creating a supply chain on a global basis. In Construction Machinery, moreover, we have introduced a complete “built-to-order” (BTO) production system. We have also made progress in our shipbuilding business in terms of reducing inventories and shortening delivery times by introducing the Toyota Production System (Kanban System).

Sales of Precision Control Equipment and Components



3. Powerful Synergistic Value Chain

Promoting a “select and focus” approach, we have downsized and withdrawn from unprofitable and low-profit businesses while focusing resources on businesses areas where we can maintain competitiveness. In the area of “risk management,” we refrain from getting unprofitable orders and have strengthened post-order project management. These efforts have made it possible to take full advantage of each business unit’s self-reliance. That the respective business units then combined organically and began to yield new achievements contributed to the business performance of the fiscal year under review.

We do not believe that business restructuring for new growth can be attained by merely selecting from among our approximately 50 business units according to profitability. Rather, we must rebuild them into an aggregate of businesses that creates new value by providing solutions for customers. We will achieve this by combining the competitive expertise, skills, and technologies of our diverse businesses into a cooperative system that transcends organizational boundaries. This defines our “synergistic value chain” concept. The rich variety of our machinery and businesses is the source of our power in creating the synergistic value chain. We will achieve the true “creation of a Powerful Sumitomo Heavy Industries Group” only with an ongoing restructuring that yields new products and businesses by combining these into an organic network.

A powerful synergistic value chain depends upon human resources. For this reason, we constantly work to “improve our organizational and human resource capabilities.” One example of our efforts to develop and strengthen our up-and-coming generation of talent is our ongoing promotion of the Six Sigma Program. As of the end of fiscal 2003, 400 participants had been certified as Black Belts and Green Belts (versus 270 as of the end of fiscal 2002).

I believe that earning the long-term trust of our customers through our commitment to “creating customer value” supports the sustained development and increases the corporate value of our Group businesses, helping us to meet the expectations of our shareholders, employees, and local communities.

Plan for Fiscal 2004

Maintaining and Developing “Momentum” with Consistent Policy

Restructuring businesses, reducing downside risks, and strengthening the financial position are ongoing activities that never end. We at the Sumitomo Heavy Industries Group aim to achieve continuous growth through our firm commitment to reform in the areas of “business structure,” “management,” “marketing,” and “workmanship (production).” I am confident that our results for fiscal 2003 are proof of steady improvement in the Group’s strengths rather than a product of transient phenomena in the business environment. We are devoting all of our efforts to maintaining this momentum to achieve our profit targets for fiscal 2004. We are also developing a new growth strategy and have begun formulating our next medium-term management plan.

Our consolidated targets for fiscal 2004 are nets sales of ¥485.0 billion and net income of ¥15.0 billion. While the recent strength in the IT, semiconductor, and LCD industries make these seem slightly conservative, we are doing everything in our power to exceed them.

The fundamental corporate restructuring that we began in the second half of fiscal 2000 has finally begun to yield results, bringing us closer to becoming a high-profit corporation. I deeply regret that lack of capital accumulation prevented us from paying a dividend for a long period up to fiscal 2003. As we have finally achieved a growth base capable of meeting the expectations of you, our shareholders, we look forward to your continued support.

Yoshio Hinoh

Yoshio Hinoh
President and CEO

Special Feature:

Medium-term Management Plan (Fiscal 2002 to Fiscal 2004) —Progress Report

The goal of our three-year medium-term management plan initiated in fiscal 2002 is to create a "Powerful Sumitomo Heavy Industries Group." Our specific targets for fiscal 2004 are:
(1) Achieve ROIC* greater than WACC**
(2) Achieve consolidated operating income of more than ¥20 billion
(3) Decrease interest-bearing debt to less than ¥250 billion

We are currently reorganizing our business structure to achieve these goals as well as reinforcing our management platform and Group management capabilities. In fiscal 2003, we achieved 1) ROIC of 6.5%, 2) ¥40.2 billion in consolidated operating income, 3) a reduction in interest-bearing debt to ¥215.8 billion, which means we have reached the targets a year ahead of schedule.

*ROIC (Return on Invested Capital)=

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

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

Reorganization of Profitability Structure

We will first explain improvements in operating income and net income.

The chart at right shows how our profitability structure has been changed from fiscal 1999 through fiscal 2004. Operating income is shown on the horizontal axis and net income on the vertical axis. Under the previous medium-term management plan implemented between fiscal 1999 and fiscal 2001, we reorganized the industrial machinery business, shipbuilding business, and construction machinery business and inevitably posted a huge loss as a result. However, through the reorganization of unprofitable businesses coupled with financial restructuring, we have finally established a solid business structure to generate net income of ¥15 billion annually in fiscal 2003, which is the second year of the current medium-term management plan through fiscal 2004.

Operating Income Structure Reform

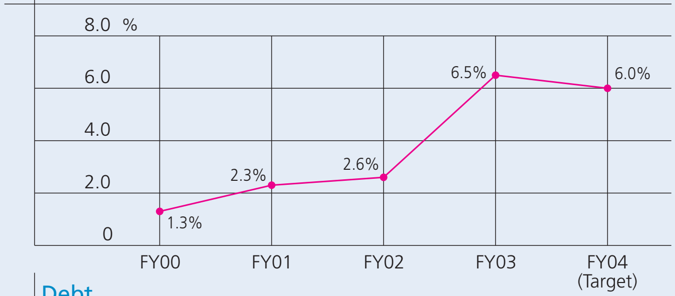
We next discuss the operating income structure reform from fiscal 1999 until the present. From now on, we expect to achieve minimum net operating income of ¥35 billion by implementing the following three measures:

1) Reducing factors causing downside risks or losses by further strengthening internal management.

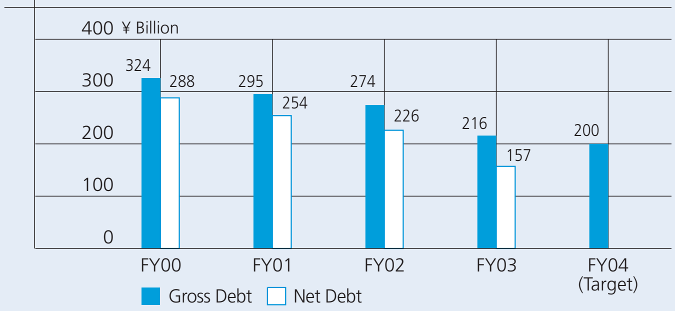
2) Enhancing our ability to withstand economic fluctuations through further cost reductions and improving the efficiency of profitable businesses.

3) Improving use of fixed expenses by achieving more efficient marketing and development operations through enhanced cooperation between businesses and greater amalgamation of technologies.

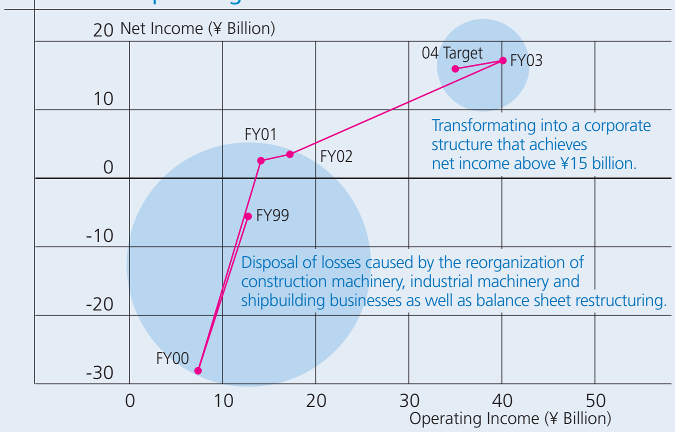
ROIC



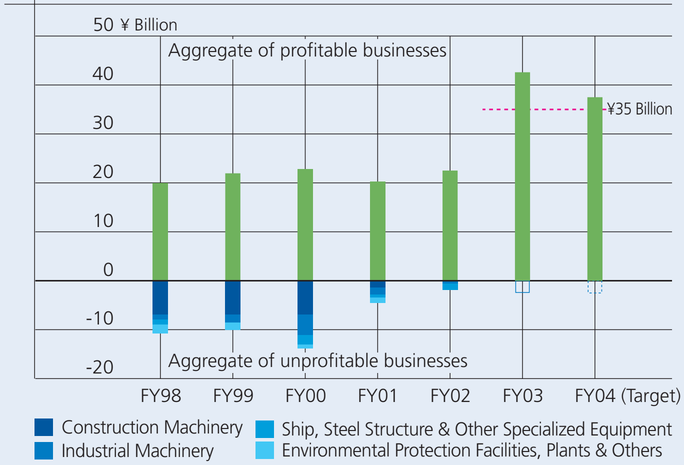
Debt



Trend in Operating Income and Net Income



Operating Income Structure Reform

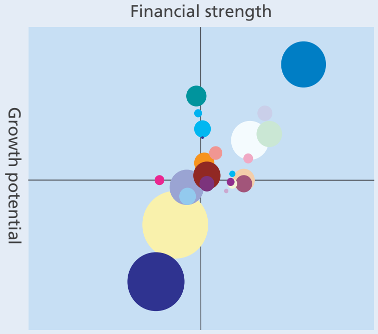


Reorganization of our Business Portfolio

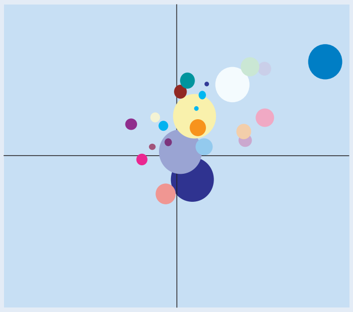
The graphs below show the transition of our business portfolio. The horizontal axes shows competitiveness (growth potential) and vertical axes financial strength. Circles represent the size of capital invested in each business unit. We have successfully transformed these businesses into units that are capable of achieving profit by adapting operations to the market environment and by implementing strategies tailored to each unit's individual position while reducing capital investment.

Shift of SPACE Position and Invested Capital

As of fiscal 2000 year-end
(At the time the plan was developed): ROIC 1.3%



As of fiscal 2003 year-end: ROIC 6.5%



Upper Right: Expanding
Upper Left: Nurturing
Lower Left: Restructuring
Lower Right: Focusing

Our strategy is to shift all business units' positions to upper right category, where a big growth by small investment will be materialized.

*The size of the circle shows the size of invested capital

Business Linkage Management to Achieve Positive Spiral

Our goal is to build a fully integrated corporate structure in which multiple specialized businesses complement each other and work together to develop new products and businesses. This is the strength created through our concept of "synergistic value chain" of businesses.

First, we will integrate manufacturing and assembly technology, or a broad range of control technologies for large (heavy) industrial machinery, with precision technology and will expand sales of new large precision products that meet the needs of customers in the area of digital consumer electronics, robots and semiconductors.

Second, we will employ cutting-edge precision control technology or power transmission and control technology (which are finely tuned to meet the needs of customers in precision technology field) to respond to restoration and renovation needs of heavy industry customers. We thus intend to achieve high-value added technological innovation in the area of heavy industry, which is recognized as a mature market.

Human Resource Management

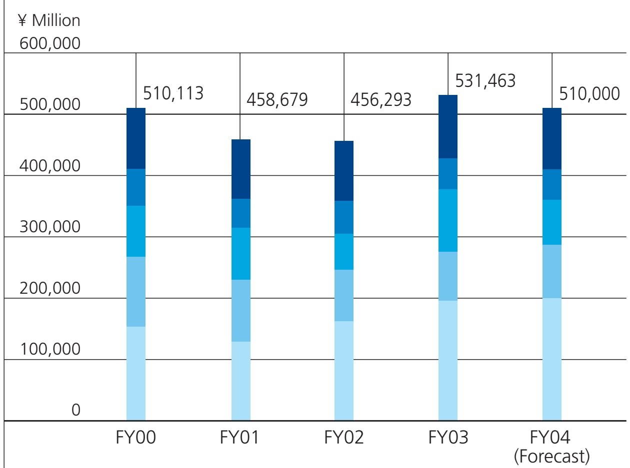
With the basic recognition that human resources drive the development of our company, we established an in-house business school in 1999 to motivate employees and enhance skills, especially those of middle management. Participants in the school reached 112 in fiscal 2004 including those from Group companies, and these members are helping to strengthen the Company's competence and increase the vitality of the organization.

We have also been implementing our Six Sigma program throughout the company since fiscal 1999. Application of this program extends from production innovation to R&D, sales & marketing. It also consolidates human resource development.

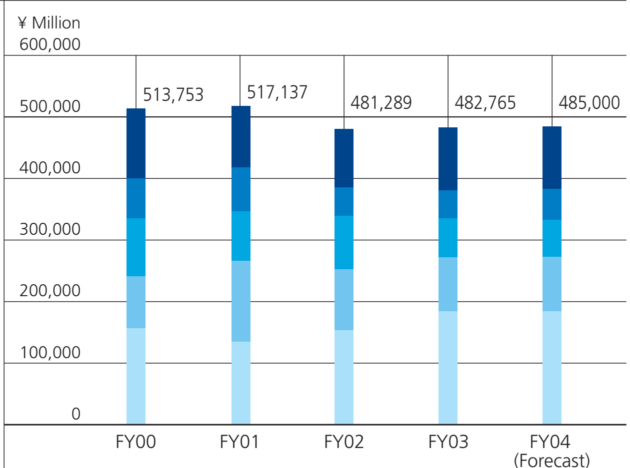
As of March 2004, managers acquired Black Belts and Green Belts, including 10 Master Black Belts, 75 Black Belts, and 322 Green Belts. Among them, 26 Black Belt earners were assigned to manufacturing lines and utilizing their expertise in daily operations. We projected a ¥2.5 billion improvements in cash flow in fiscal 2003 as a result of the Six Sigma program.

Review of Operations
Overview

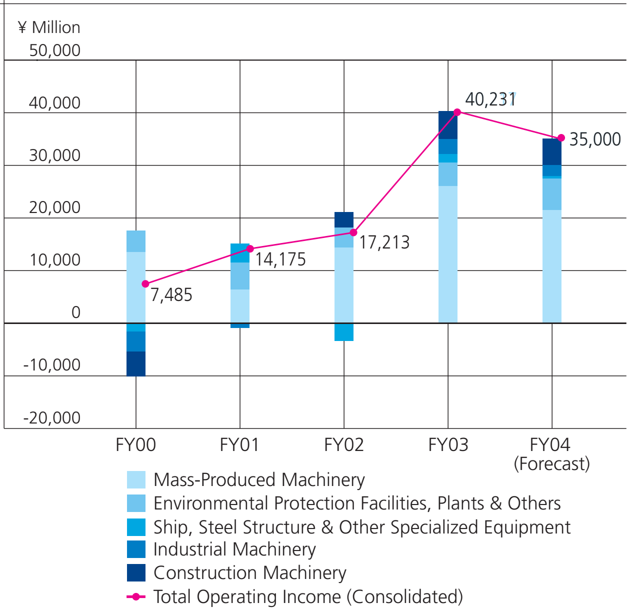
Orders by Segment



Net Sales by Segment



Operating Income by Segment



Review and Analysis of Results in Fiscal 2003

Orders totaled ¥531.5 billion, up 16% compared with the previous fiscal year. By segment, our core business of Mass-Produced Machinery posted a strong 21% year-on-year increase. In addition to the strong growth in plastic injection molding machines resulting from rapid expansion of the digital consumer electronics industry and from recovery in the semiconductor and LCD industries, power transmission and controls business and accelerators for medical use performed favorably. Additionally, the vigorous expansion of domestic demand in China has been both the main cause of and an indirect factor behind the order growth in the Ship, Steel Structure & Other Specialized Equipment segment and Construction Machinery segment. Net sales were basically flat year-on-year at ¥482.8 billion. Specifically, the Mass-Produced Machinery segment and the Construction Machinery segment were up sharply while declines were posted by the Ship, Steel Structure & Other Specialized Equipment segment and the Environmental Protection Facilities, Plants & Others segment, which were on the verge of completing major projects.

We achieved record profits across the board, with operating income up 2.3 times to ¥40.2 billion, and net income increasing 6.1 times to ¥16.3 billion. While this was partly a result of an increase in the relative weight of Mass-Produced Machinery, our most profitable segment, we also achieved higher operating income margins in all segments. This is attributable to improved operational efficiency throughout the Company and a stronger financial position. Many other reforms also contributed, including thorough application of project management in each segment, differentiation of technologies, and strengthening of marketing capability.

Outlook for Fiscal 2004

We estimate orders at ¥510.0 billion, sales at ¥485.0 billion, and net income at ¥15.0 billion, all basically in line with fiscal 2003. The business environment continues to be on an upward trend. There are several reasons, however, why our estimates do not reflect a further strengthening of performance. First, the product mix may deteriorate slightly as we expect a reactive decline in our relatively profitable disk injection molding machines. The second is the strong yen. Our assumption for fiscal 2004 is 105 yen to the U.S. dollar. Going forward, we will step up our efforts to 1) add further value to products and services and 2) improve cost-competitiveness by innovating production system.

Mass-Produced Machinery

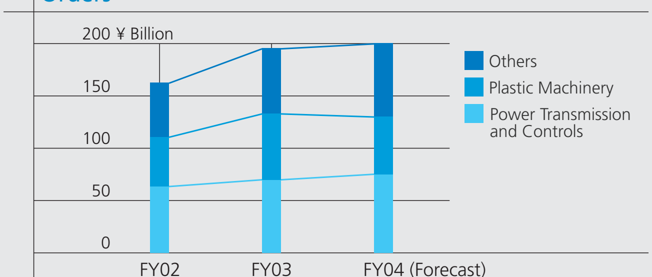
Main Products

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

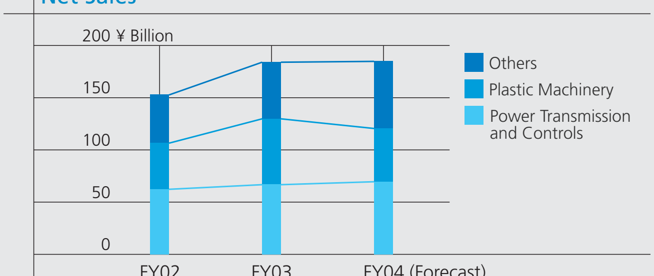
Major Units

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

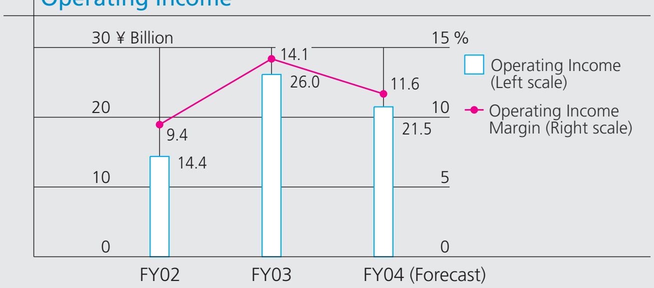
Orders



Net Sales



Operating Income



Segment Overview

Business Environment

In Japan, the digital consumer electronics market grew rapidly, supported by its three new “sacred treasures”—flat panel TVs, digital camera mobile phones, and DVD players. This in turn bolstered corporate confidence in capital investment. The semiconductor market has also become more brisk. Additionally, health insurance has begun to cover PET (positron emission tomography) scans for early cancer detection. As a result, private hospitals have stepped up installation of PET systems.

Overseas, the economic expansion in China is having a ripple effect, giving a boost to digital consumer electronics and a broad range of other fields in Southeast Asia and surrounding areas. The business environment is thus favorable both in Japan and overseas for all the main products in this segment.

Review and Analysis of Results in Fiscal 2003

In the Power Transmission and Controls (PTC) business, overseas sales increased, supported by steady progress in our global expansion. Sales in Japan were also favorable. We focused on four issues in this division: 1) implementing a brand marketing strategy by introducing “Sumitomo Drive Technologies” as a unified brand, 2) enriching and reinforcing our global support system, 3) strengthening ties with customers, and 4) differentiating ourselves from competitors based on quality. Both in Japan and overseas, the Plastic Machinery business enjoyed continued strength compared with the previous fiscal year in electric injection molding machines for digital consumer electronics. In addition, growth in specialized models for recordable DVD discs resulted in large increases in both orders and sales.

Moreover, in addition to continued year-on-year strength in medical equipment such as PET accelerators and MRI Cryocoolers, growth was large in laser processing systems such as laser annealing systems for LCDs and laser drilling systems for multilayer boards. Also on a growth trend are precision positioning stages, thanks to demand from next-generation large LCD panels, which continue to be a focus of active capital investment.

As a result of the above, this segment achieved strong growth, with total orders up 21% year-on-year to ¥195.6 billion, sales up 20% year-on-year to ¥184.5 billion, and operating income up 81% year-on-year to ¥26.0 billion.

Outlook for Fiscal 2004

There have been no signs that demand momentum is weakening in the PTC business, where we introduced a unified brand, or in the cutting-edge businesses of LCD and semiconductor equipment and of medical equipment, which we are positioning as a third driver for our businesses. For this reason, even if there is a decline in specialized models for discs and other plastic machinery reflecting their strong growth in fiscal 2003, we consider it likely that total orders and sales in this segment in fiscal 2004 will maintain their fiscal 2003 levels. In that case, however, we also project a slight decline in profit due to a change in the product mix.

Main Businesses

Power Transmission & Controls

Business in Fiscal 2003

In Japan, capital investment concentrated on digital consumer electronics and export with increased briskness has raised the growth momentum of fiscal 2003, in addition to steady fiscal 2002. Performance was in excellent conditions in regions such as Taiwan, Southeast Asia, South Korea, Europe, and especially China, with substantial booking increase. This resulted in Power Transmission and Controls (PTC) booking, for speed reducers and gear motors, reaching almost the highest level in its history by the end of fiscal 2003.

Reducers for precision control applications for LCD and semiconductor industries performed well in Japan and Europe. Medium and large sized gearboxes performed well in Chinese market and Japanese rubber and plastics industries. Small size gearmotors increased its booking for various industries, including factory automation and materials handling equipment industries. In August 2003, we reached the ten million mark for accumulative Cyclo® Drive units produced, the core product released in 1939. In October, we launched our global brand, "Sumitomo Drive Technologies," to unify all thirty companies worldwide, which produce and sell our speed reducers and gear motors, and to enhance our brand awareness in the global market.

Strategies for Fiscal 2004

We continue our endeavor to provide even higher customer value by introducing new products aggressively and through solution-offering sales, in step with the global economic recovery.

We will respond to increasingly sophisticated customer requirements by strengthening our technical capacity on reducers for precision control applications. We will aim for share expansion by introducing more compact and lighter products by improving our efficiency to meet shorter delivery times. We will emphasize on enforcing our engineering capability and solution-offering ability for medium to large size gearmotors and gearboxes.

In market overseas, we are now expanding our market share playing active roles in major projects, to serve our customers procuring from all over the world, by thorough collaboration with our overseas subsidiaries.

PTC business made increase in sales by our steady progress on the global expansion approach. Sales in Japan were also favorable. Our division focused on four major tasks: 1) Implement a brand marketing strategy through introduction of the unified brand, "Sumitomo Drive Technologies." 2) Enrich and reinforce the global support system. 3) Strengthen ties with the customers. 4) Differentiate ourselves from the competitors by our superior quality.

Injection Molding Machines

Business in Fiscal 2003

In fiscal 2003 the injection molding machine industry maintained the strength it showed in fiscal 2002, supported in Asia by IT-related industries such as DVDs, mobile phones, and digital cameras and in Japan by a firm market for the automobile industry. Growth was particularly strong in exports of molding machines to China, where capital investment is brisk. In the end, total demand for injection molding machines in the industry exceeded 20,000 units for the full year, up about 1.4 times compared with fiscal 2002.

In this business environment, our latest SE-D Series of electric injection molding machines maintained an extremely strong reputation in Japan and overseas as it did in fiscal 2002. The disc-related business also was strong, supported by growth in demand for DVDs, and we expect this to continue for some time.

In response to increasingly diversified and sophisticated needs, we are enriching our lineup of models for specific purposes using the SE-D Series as a platform. Committed to the development of our own molding application technologies as well, in fiscal 2003 we developed and marketed a specialized model for discs and a new double-shot injection molding machine model. Our precision, high-cycle technology was extremely well received at the June 2003 National Plastics Exhibition (NPE), one of the global plastic industry's three largest exhibitions.

Strategies for Fiscal 2004

In fiscal 2004, we will further solidify our position as the established "Technology and Solution Leader" by segmenting our customers by end product area and developing and marketing injection molding machines tailored to the needs of each segment. In

Cyclo® Drive

Sumitomo Drive Technologies

Always on the Move

Global Brand "Sumitomo Drive Technologies"

All Electric Super-high Precision Injection Molding Machine
Dedicated to Optical Discs "SD40E"

addition, we will strive to become a global leader among integrated plastics machinery manufacturers by taking full advantage of our global network and developing together with our customers a synergistic value chain in an increasingly globalized and borderless plastic injection molding machine industry.

Quantum and Advanced Equipment

Business in Fiscal 2003

Having topped ¥10.0 billion orders for the first time in fiscal 2002, this segment surged further ahead in fiscal 2003 to reach ¥13.0 billion.

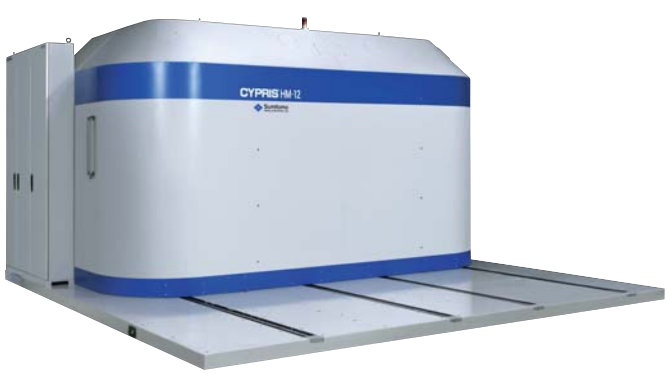
While the mainstay of Quantum and Advanced Equipment is medical equipment centered on PET (positron emission tomography) business, where demand continues to expand, expansion of the solar battery and flat panel display markets led to a large increase in orders for coating machines, helping to establish a base as a future business mainstay.

The PET market continues to expand as private hospitals accept a business model under which they recover high investment costs by providing examinations for which payments are covered by the patient.

In addition to this, there is strong demand for hospitals to install both cyclotrons and pharmaceutical synthesis equipment in order to produce FDG for themselves because it may still take time for a pharmaceutical company to start a commercial production of FDG to distribute to hospitals. (Note: FDG is pharmaceuticals necessary for conducting PET examinations. Demands for the FDG are naturally increasing as demands for PET examinations are on the rise. At this moment, however, hospitals have no choice but to produce FDG using a cyclotron by themselves until the time when the government approves pharmaceutical companies to begin providing them.)

As part of our efforts to conform to the needs of the PET market, in fiscal 2003 we accomplished the increase of the FDG production capacity of cyclotrons and achieved the highest level of performance globally not only for those models installed in hospitals, but also in the class that possesses sufficient capacity to mass produce FDG for distribution to external users.

In this context, in addition to achieving a high production capability in the HM-12 Series, we introduced a new model with self-shield for space saving and safety, that has become one of our best selling models.



Small Cyclotron for PET "CYPRIS HM-12S"

Strategies for Fiscal 2004

We expect medical equipment to remain at the center of this business in fiscal 2004. However, we will also focus efforts on the development of machines that will become the core of a future business in response to growth in orders for ITO coating machines and transfer coating machines as the organic EL market comes on stream, and in response to continued orders for solar coating machines for solar battery as well. We also aim to further expand share in the magnet business in which we have maintained a top market share. In the medical field, we are promoting the application of various devices for medical use as part of our differentiation strategy and will introduce them as new products. In addition, accelerating our fiscal 2003 entry into overseas markets, we aim to expand orders for PET systems in Southeast Asia.

Laser Systems

Business in Fiscal 2003

There were large increases in both orders and sales in fiscal 2003, supported by strong orders for laser annealing and other equipment for the LCD field and laser drilling equipment for printed circuit boards for China and other parts of Asia.

In particular, sales of our SLR-210T laser drilling machine for processing rigid boards and flexible printed circuit boards began to grow rapidly from the second half of the fiscal year to double compared with the previous fiscal year. This was in response to briskness in the printed circuit board industry in China and other parts of Asia that was supported by strong mobile phone demand. In the LCD area, we completed a series of deliveries in succession to the previous fiscal year of laser annealing machines to major LCD makers, and inquiries for the next generation are on the rise. In addition, following the acquisition by our business partner GSI Lumonics, Inc. of Spectron Laser Inc., a U.K. laser device maker, we have added Spectron's small-scale YAG laser and diode-pumped, solid-state laser to our product lineup. We have also received orders for stencil mask processing machine equipped with Spectron's lasers.

Strategies for Fiscal 2004

We expect changes in the industry to accelerate further in fiscal 2004 and believe that customers will have heightened needs for

Excimer Laser Annealing System

improving productivity and developing next-generation products. In order to respond to this, we will continue to focus on enriching and improving the performance of our product lineup and accumulating application technologies.

In the LCD industry, we expect that our customers will require improvements in both productivity and next-generation LCD panel quality, and we aim to provide annealing machines that meet these requirements. For the printed circuit board industry, in addition to sales of laser drilling machines, we will provide total solutions that include processing technology, and will continue to develop other applications for the electronics and electrical industries. For the automobile industry, we will focus on responding to automakers' growing requirements in the areas of environmental preservation measures and information technology.

Cryogenics

Business in Fiscal 2003

In fiscal 2003, both orders and sales have grown more than 10% year-on-year, supported by 1) a recovery in semiconductor demands and 2) broader and deeper business opportunities in the MRI market that had been brought by our global network.

Orders were up in the semiconductor production field, supported by our introduction of a variety of new products designed for specific processes. These include Cryocoolers for Cryopumps, Chiller units for the inspection process, and MCZ magnets for silicon wafer production. We have also expanded sales of 4KGM Cryocoolers, one of our core products, in the MRI market, by taking full advantage of our alliance with SHI-APD Cryogenics (APD).

In addition, we have expanded sales through the business that combined our ability to develop technologies and our global operations, for example, starting an upgrade business for existing Cryocoolers by taking full advantage of our global service network.

Another aspect of our active approach to meet the next-generation needs timely is the strengthening of our technology development such as Cryopump and 4K Pulse Tube Cryocooler, which we expect to become a new mainstay for business growth going forward.

Strategies for Fiscal 2004

As reflected in the slogan "Global No. 1 in Cryogenics," our target is for Group consolidated sales from this business to top ¥10.0 billion in fiscal 2004. As we continue to improve product quality and put in place a high profitability structure that takes maximum advantage of our global supply chain, we will expand and strengthen existing businesses and growth businesses.

Specifically, we will further strengthen our business base by continuing to pursue high profitability in the MRI market and expand the service market for our core 4KGM product.

In the semiconductor field, we will also strengthen our position in Chiller units and MCZ magnets. In order to ensure business expansion over the medium to long term, we will complete Cryopump and 4K Pulse Tube Cryocooler development and market these products.

Stage Systems

Business in Fiscal 2003

Capital investment in the semiconductor industry, which is the main market for positioning stage products, increased in fiscal 2003 as chips shrank and wafers became larger (300 mm). This environment led to growth in orders for and sales of our positioning stage products for semiconductor manufacture and inspection.

In the LCD market, there has been an acceleration in the trend of reduction in costs by using larger scale glass substrates as demand for large televisions expands. The fifth generation of new capital investment for personal computers has almost been completed, and the sixth generation of new capital investment for large televisions is increasing. To satisfy these market demand, we jointly developed with TAZMO Co., Ltd. a spinless photoresist coater for next-generation LCD color filters and became the pioneering company to market such a product in February 2003.

In order to keep up with demand growth, we have accelerated productivity by bringing on stream an integrated production for this product at our Okayama Works. Economical in terms of both resists- and space-saving, our spinless photoresist coaters are becoming the global standard in resist coaters for large scale glass substrates as major panel makers in Japan, South Korea, and Taiwan adopt them in rapid succession.

We entered a new business by marketing "Airsonic," a high-precision air actuator. It has been adopted as semiconductor assembly device that meets increased packaging precision requirements. In recognition of its innovation, this

Cryopump "VESPA"

Air Actuator "Airsonic"

product was presented the Component Award in the First Annual Component Manufacturing Awards sponsored by the Nikkan Kogyo Shimbun.

Strategies for Fiscal 2004

We expect capital investment in the semiconductor industry to maintain its current strength going forward. Under the circumstances, we aim to further expand orders of this segment centering on ultra-precision positioning stages for inspection apparatus, which is a core products of the segment. We also plan to develop next-generation models for 45-nanometer process nodes (design rule for the width of the electronic circuit engraved on the wafer).

In the LCD market, we expect to see a seventh and perhaps an eighth generation of capital investment as televisions increase further in size. We plan to expand this business going forward by developing and marketing stage products that anticipate market needs.

We will also accelerate our advance into the mounting market for semiconductors and LCDs, by promoting development of our series of high-precision air actuators.

Precision Positioning Stages

that support the production processes for semiconductors and LCDs of higher density and finer design rule.

Our precision positioning stages are made possible by two of our main strong points: "precision control technology" and "large-scale precision processing technology." Its sales have been increasing as a key component in the manufacturing process related to the semiconductor and the liquid crystal.

What is a Precision Positioning Stage?

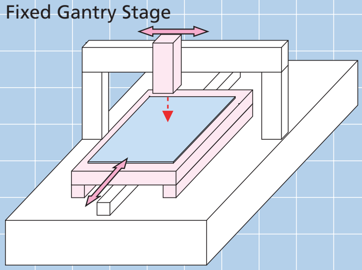
It is a device which moves the object on the stage to the front, back, left and right. Depending on the distance to be moved (stroke) and precision (resolution) required, there is an area that uses ball screws and an area that uses a higher-precision linear motor.

As semiconductors and LCD displays develop into devices of higher density and finer design rule, the precision required of production and inspection equipment reaches the nano level (one millionth of a millimeter). The precision positioning stages of our company with linear motors fully satisfy these demands. They have already become an indispensable component in the production of semiconductors and LCDs.

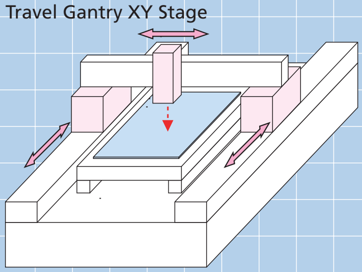
Various Types of XY Stages

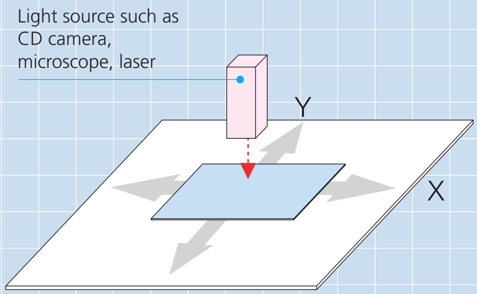
XY Stages are a mechanism device that moves or positions items (e.g., objects for processing, substrates, wafers) to the front, back, left and right. They are also referred to as XY tables.

Fixed Gantry Stage



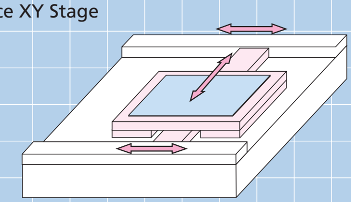
Travel Gantry XY Stage



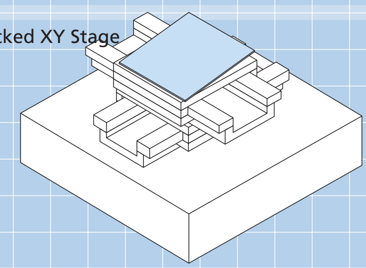


In addition, we combine up and down (Z axis), and rotating (θ axis) functions according to customer needs.

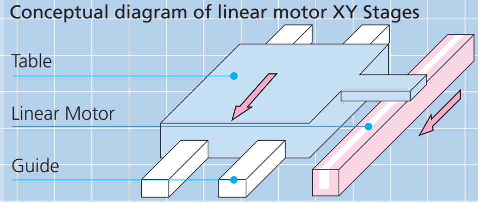
Surface XY Stage



Stacked XY Stage



Conceptual diagram of linear motor XY Stages



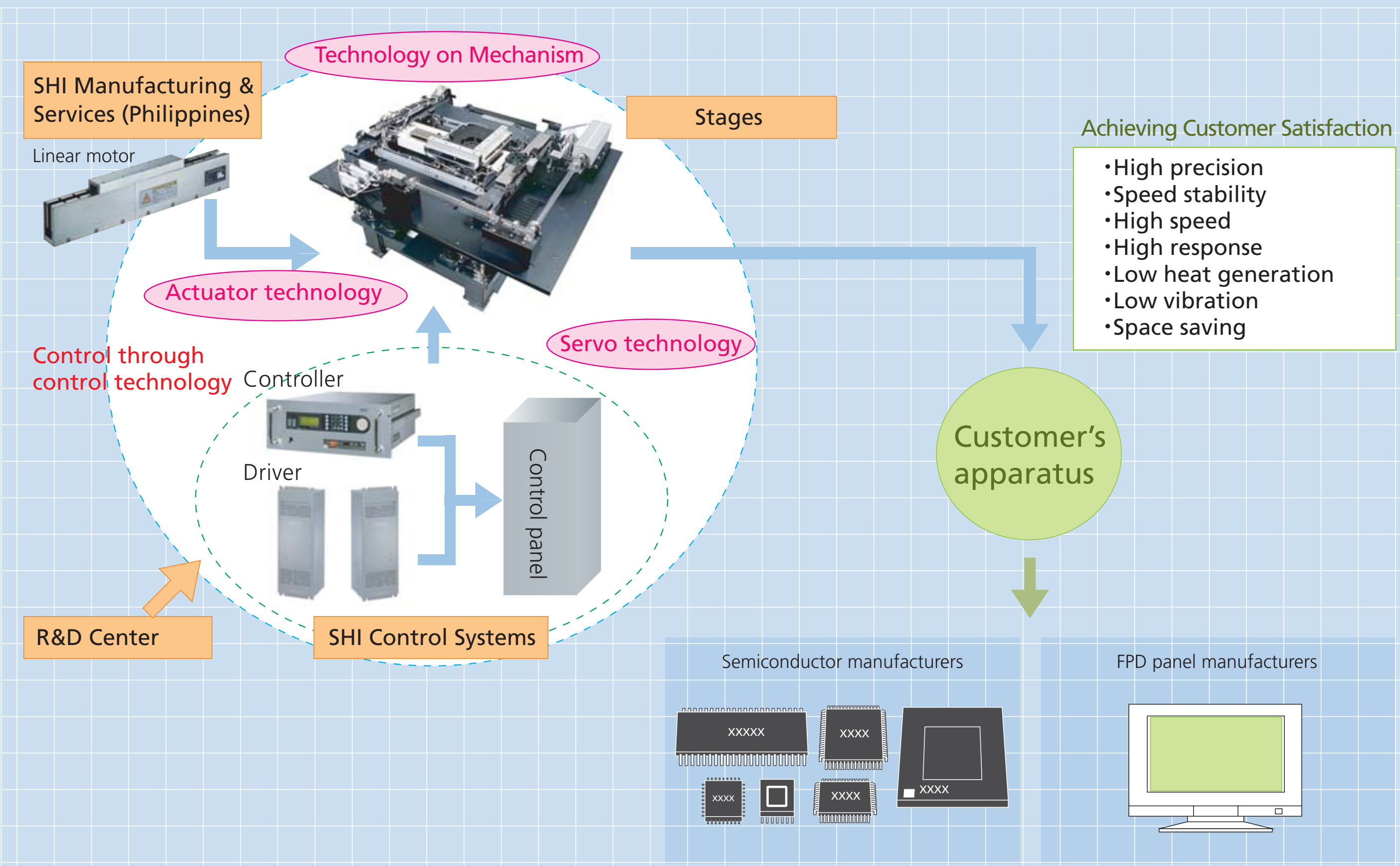
Targeted Markets and Main Uses

Our precision positioning stages are used in the production and inspection of semiconductors, LCD displays, and optical communication components. In cooperation with equipment makers, we have recently been focusing on development for the next generation. Our products target the ultra-precision field.

- Semiconductor manufacturing and inspection apparatus: Exposure apparatus, wafer inspection apparatus, etc.
- LCD panel manufacturing and inspection apparatus: Exposure apparatus, resist coating apparatus, wafer inspection apparatus, repair apparatus, etc.

Provided as Highly Integrated Systems

Based on machinery, actuator and servo technologies accumulated over many years, our precision positioning stages combine these technologies with our proprietary control systems. We aim to achieve strong customer satisfaction by providing total solutions.



Environmental Protection Facilities, Plants & Others

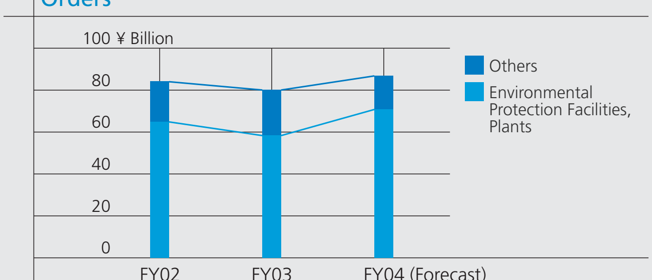
Main Products

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

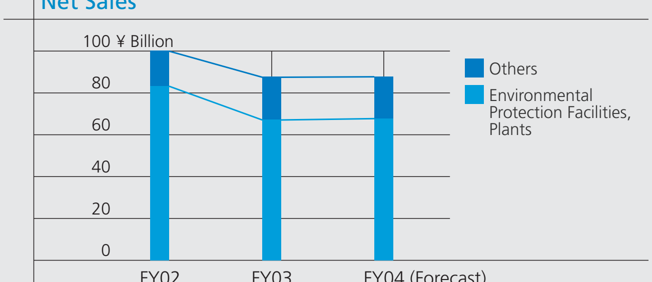
Major Units

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

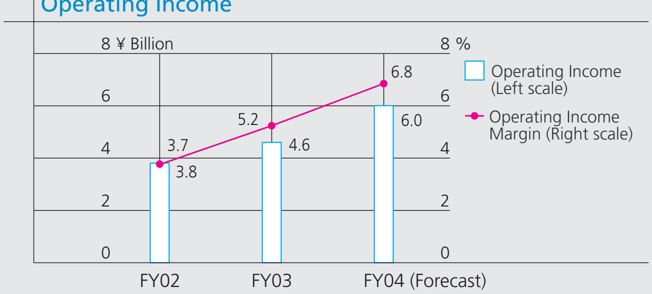
Orders



Net Sales



Operating Income



Segment Overview

Business Environment

Marketability of this segment comes from both public and private sectors. In the portion from public sector, all of the competitions in this market continue to intensify as public works projects remain on a downward trend. In private-sector portion, in contrast, there is growth in demand related to the promotion of new energies related to electrical power generation field aimed at preventing global warming. In particular, the promotion of biofuel and other thermal recycling has accelerated in such field. In addition, with economic activity brisker in Southeast Asia including China, urgently rising demand for electricity is leading to growth in plans for building power generation systems in order to meet the electricity demand in this region, giving a boost to our Energy-related Plant business.

Review and Analysis of Results in Fiscal 2003

Given the declines in public-sector investment, in fiscal 2003 we mainly placed a marketing emphasis on our Water and Sewage Engineering business, where we have a technological advantage. In our Energy-related Plant business, we received large-scale orders of circulating fluidized-bed boilers (CFBs) for biofuel power generation systems in Japan and co-generation systems in China, based on the global state-of-the-art CFB technology from Foster Wheeler Power Group, a global sales leader in the field.

In addition, we developed wastewater treatment system products that fulfill the market's needs in terms of less construction and delivery times and aggressively introduced them in the market. Meanwhile, having noticed an acceleration in the trend to outsource to the private sector the operation of treatment systems formerly done by local government agencies and related organizations, we have strengthened our service-related business. As a result of this, in fiscal 2003 we received an order for a "total maintenance" system that handles all aspects of running a treatment system from operations and administration to maintenance after sales.

As a result of the above, the annual total orders received in this segment reached ¥80.4 billion, down only slightly compared with the previous fiscal year despite the contraction in public-sector investment. Despite a 13% year-on-year decline in sales to ¥87.7 billion annually, operating income increased 20% year-on-year to ¥4.6 billion thanks to a turnaround in profitability achieved through our efforts by continued cost reduction and enhanced project management.

Outlook for Fiscal 2004

Although public-sector demand is likely to be weak, as it was in fiscal 2003, we expect the market for Energy-related Plant business to continue its growth trend onward. As we will continue to be highly selective in the orders we accept in these circumstances, we expect operating income to be flat year-on-year on the back of slight rises in both orders received and sales.

Main Businesses

Water and Sewage Engineering

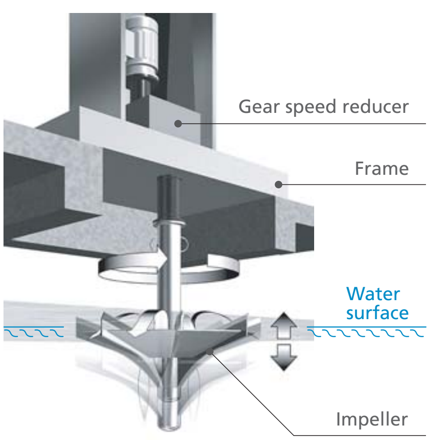
Business in Fiscal 2003

By making a stable contribution in terms of orders, sales, and profitability, in recent years the Water and Sewage Engineering business has grown into a core business in this segment. This has especially been the case with the sewage field. Despite concerns that fiscal 2003 orders, sales, and profitability would deteriorate due to weaker public-sector investment and intensifying competitions, we could achieve our initial targets thanks to aggressive marketing and thorough cost-cutting.

We introduced a new series of our "Sumirator" vertical shaft surface aerator, which is used in more than 800 sewage treatment systems and boasts a top position in the industry. This new series, developed combining water treatment and gear speed reducer technologies of our company, offers higher performance, enhanced energy-saving function and is optimal for small-scale sewage treatment systems in terms of higher efficiency and easier maintenance. We also introduced a cascade sludge collector designed to meet the replacement demand for water treatment depositing reservoirs. This new type cascade collector has advantages, such as shorter installation time, less capital and running costs compared with the previous models.

Strategies for Fiscal 2004

In fiscal 2004, we aim to expand our sewer treatment share by continuous introduction of the new products we made in fiscal 2003. In water supply systems, we expect replacement demand in urban areas and demand growth due to revision of small-scale water systems in rural areas. We are responding to these two types of demand by developing new technologies and products for water supply systems based on the technology we have cultivated in our private-sector business. To that end, we are maximizing the efficiency of our sales process by appointing personnel from other divisions of our company, by establishing new tie-up with others and by expanding information channel.



Our improved "Sumirator" adopts a lift-type impeller, making aeration volume adjustable. In addition to facilitating initial low-load operations, this enhances its advanced treatment capabilities.

Vertical Shaft Surface Aerator "Sumirator UD"

Energy-related Plants

Business in Fiscal 2003

In Japan, the market for "biofuel power generation" is expanding as a new energy that is attracting attention for its effectiveness in preventing global warming. In part thanks to this trend, in fiscal 2002 we secured an order for a large-scale biofuel power plant facility (50,000 kW) from Summit Myojyo Power Corporation and in fiscal 2003 we bolstered our capacity to handle several promising projects.

Overseas, the plans to install power generation systems are increasing in Southeast Asia including China. In fiscal 2003, we completed on schedule the supply of two units of boiler (each capacity: 205 tons of steam per hour) for Independent Power Producers (IPP) in Vietnam; they are currently in the commissioning stage. In fiscal 2003, we secured orders via Marubeni Tekmatex Corporation for delivery to Dragon Special Resin (Xiamen) Co., Ltd. of three CFB boilers (220 tons of steam per hour) for a cogeneration plant being built in Xiamen, Fujian Province, China. One of the primary causes for this successful order is an acknowledgement of the advantage that our CFB boilers have in being able to maintain highly efficient combustion even with burning the lower-grade coal produced in China.

Strategies for Fiscal 2004

In fiscal 2004, a series of recently ordered power generation systems will begin commissioning in rapid succession. In order to meet the performance required by our clients, we take every possible measure to verify the superiority of our CFB boilers. In addition, aiming to achieve the top share in biofuel power generation systems for the raw materials industry, we are strengthening our marketing to the pulp & paper, iron & steel, and other industries.

Overseas, we plan to further strengthen our ability to respond to inquiries about and secure orders for power generation systems, given the growth in electricity demand in Southeast Asia. We are also promoting organizational and structural improvement and reinforcement in order to handle medium-term expansion in the energy-related plant business.

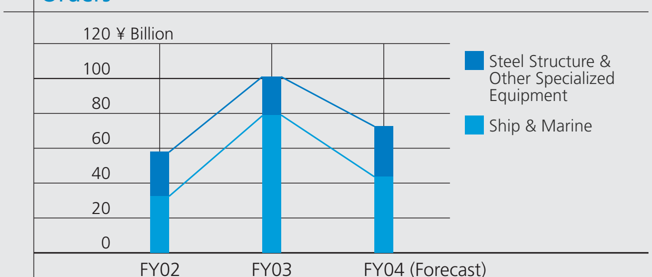
Large-scale Biomass Power Plant Facility, Summit Myojyo Power Corporation

Ship, Steel Structure & Other Specialized Equipment

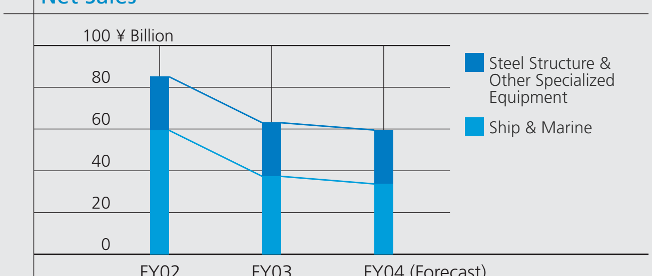
Main Products
Ships
Marine Structure
Marine Equipment
Bridge & Steel Structures
Water Gates
Pressure Vessels
Mixing Reactors
Coke Oven Machines

Major Units
Sumitomo Heavy Industries Marine & Engineering Co., Ltd.
Sumiju Steel Construction & Engineering Co., Ltd.
SHI Mechanical & Equipment, Inc.
SHI Examination & Inspection, Ltd.

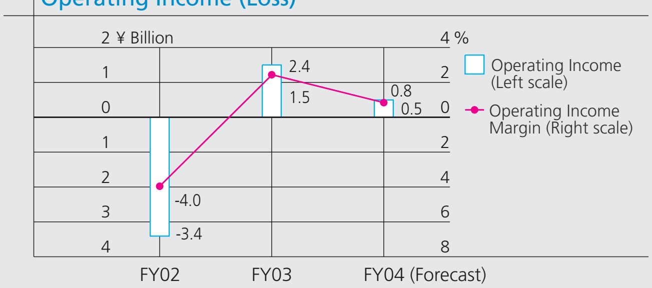
Orders



Net Sales



Operating Income (Loss)



Segment Overview

Business Environment

Under the condition that the central and local governments in Japan continue to pursue fiscal reconstruction as a main priority, steel bridge construction business continues to be severely affected with a protracted downturn in the volume and price of new orders.

On the other hand, shipbuilding business has experienced a relatively solid year in terms of volume and price of orders placed. This is a result of a stimulated shipping market triggered by China's accelerated infrastructure investment and the expansion of the world economy, along with replacement orders following the revision of international regulation related to vessel's hull structure. In 2003, total new vessel orders worldwide doubled that of the previous year to reach 62 million gross tons, the highest level since the world oil crisis. Newbuilding prices also improved gradually throughout the year.

Review and Analysis of the Results in Fiscal 2003

In spite of such harsh business environment, our Steel Structure (including steel bridge) & Process Equipment business, has maintained an appropriate profit levels through strenuous efforts to upgrade the technological capability and also to improve the cost competitiveness. Shipbuilding business, which is experiencing a favorable environment as mentioned above, has successfully secured orders for seventeen vessels primarily for medium-sized tankers, which led to an order backlog to cover yard operations up to the first half of 2006. Even though sales for the year included the delivery of seven vessels (including Aframax tankers) did not meet the previous year's figures, we have been making efforts to increment profit margins by introducing a new production system. Overall, orders in this segment for the year totaled ¥101.6 billion, an increase of 75 % over the previous fiscal year, and sales totaled ¥63.4 billion, a decrease of 26 % from the previous fiscal year. Operating income totaled ¥1.5 billion, which showed a significant recovery from an operating loss of ¥3.4 billion in the previous fiscal year.

Outlook for Fiscal 2004

We are afraid that in the steel bridge market, we foresee further contraction in terms of volume and price. Furthermore, we cannot be too optimistic about the shipbuilding industry either, while the effect of increased prices for new orders emerges only gradually because of the time needed to complete work, and material costs including steel are on the rise. In addition, the yen's appreciation trend against U.S. dollar is also one of our concerns. By fully recognizing such circumstances, in this segment, we are committed to promoting a strategy focusing on profitability through cost reductions brought about by innovative production system and thorough implementation of enhanced project management.

Main Businesses

Bridges

Business in Fiscal 2003

In line with the reform of cost-structure initiated by the Ministry of Land, Infrastructure and Transport (MLIT), we are proactively strengthening its capability of creating value for customers by focusing on meeting cost requirements and enhancing product competitiveness. Actually, such efforts are incorporated in the project of girder widening of Machiya-Bashi Bridge ordered by the Chubu Regional Bureau of MLIT. In this project, "packaged order system" has been newly adopted in accordance with our proposal because it has been not only beneficial to project promoters, but also more user-friendly and economical to local users. (Under the new order system, we have provided wide range of services, from design through installation for both the upper and the lower portions of bridge combined.) In other words, we intend this kind of work to promote value for customers through our comprehensive engineering capabilities.

We are also putting emphasis on new product development, such as the joint development with Asanuma Corporation of the "Short-term Overhead Crossing Construction Method," or "SMArt Crossing," for which marketing has just started. By adopting a new method for constructing an overhead crossing, the crossing section can be supported by one pier only, thus securing open lanes for the traffic and eliminating traffic jams that may occur during the construction period. Furthermore, the combination of the said "one-pier-on-one-pile" structure and our own proprietary "connection of a pile head" technology enabled the project to be completed in only four months, or to shorten by at least eight months compared with those conventional methods.

Strategies for Fiscal 2004

In the face of a market shrinking in terms of volume and prices, instead of reacting passively with stopgap measures, we are determined to respond proactively by considering medium- to long-term changes in the market environment, since we believe it will bring about the "creation of value for customers."

We have set the "pursuit of both quantity and quality" as our business target for fiscal 2004. To this end, we will make every efforts in enhancing our marketing capability based on technological competitiveness along with improving profitability through cost competitiveness. Also, we create a positive spiral enabling optimization of proposed technologies and also take a diversified approach in addressing new technologies and products so that we can strengthen our sales capability. As a part of improving cost competitiveness, we should focus on innovative production system. Using both sales capability and cost competitiveness as our underlying objectives, we should implement a model that is capable of securing profits in a changing environment.

Ships

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

Business in Fiscal 2003

Our shipbuilding division was spun off on April 1, 2003 as a new company, "Sumitomo Heavy Industries Marine & Engineering Co., Ltd." which is currently focusing on growth and profitability with the aim of creating value for customers. With a strong shipbuilding market, in fiscal 2003 the company received orders for seventeen vessels in total including nine Aframax tankers, one Aframax product carrier and seven Panamax tankers. In the fiscal year under review, seven vessels were built and delivered, including five Aframax tankers, one Aframax product carrier, and one Panamax bulk carrier.

Strategies for Fiscal 2004

Shipping and shipbuilding markets in 2004 is expected to see yet another solid year driven by global economic growth although not so much overheated as in the market of 2003. Most of shipyards already secured significant order backlogs. Although strong market demand still exists, the potential upward spiral of material prices, such as steel, as well as foreign exchange risks are causing yards to be cautious about taking on future contracts. Under the circumstances, our shipbuilding division, should concentrate on business restructuring and profitability, instead of expansion, to establish a solid business foundation that can respond to changes.

Short-term Overhead Crossing Construction Method "SMArt Crossing"

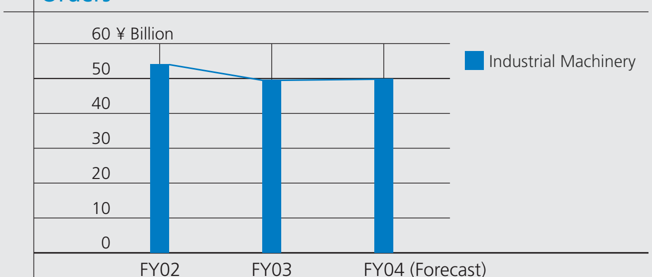
105,200MTDW Oil Tanker "SERENITY"

Industrial Machinery

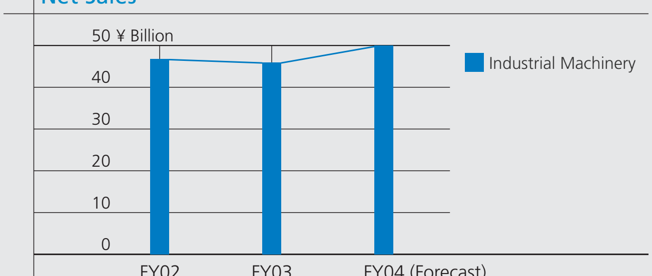
Main Products
Logistics & Handling Systems
Automated Parking Systems
Moving Sidewalks
Forging Machines
Material Handling Systems
Turbines
Pumps

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

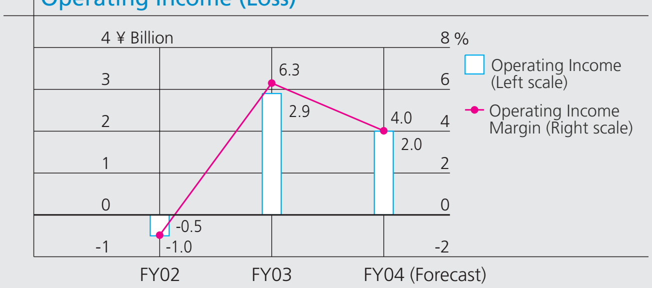
Orders



Net Sales



Operating Income (Loss)



Segment Overview

Business Environment

While total orders received in fiscal 2003 were down slightly year-on-year because large-scale orders were nearing completion, the overall order environment is “looking up.”

1) In “material handling equipment,” the long pent-up replacement demand in heavy manufacturing industries such as iron & steel and shipbuilding has finally been set in motion by the strong economic growth in China. 2) In “turbines and pumps,” we were successful in our double strategy of differentiating by boosting the energy conservation function and expanding our lineup to strengthen our presence in the small and medium equipment market, where competition is less severe. As the global economic expansion coincided with these two factors, we have become more positive on the outlook for the business environment.

Review, Analysis of Results in Fiscal 2003; Outlook for Fiscal 2004

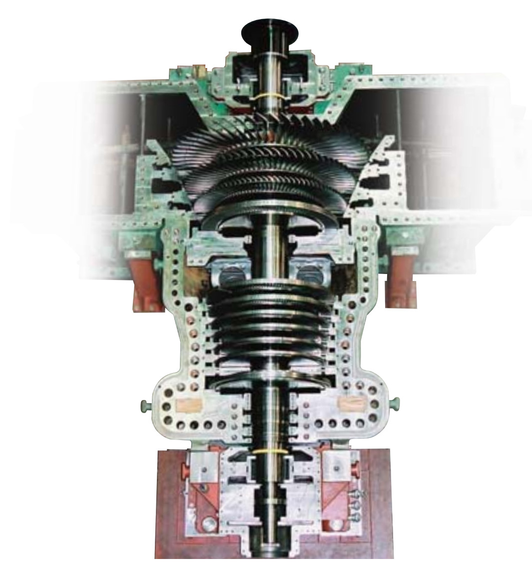
This division achieved a dramatic recovery, moving from a loss in fiscal 2002 to an operating income margin of 6.3%. As the fiscal 2003 margin was in part attributable to high-profit projects, we expect a slight decline in fiscal 2004. We believe, however that we have put in place an earnings structure capable of maintaining a constant 4.0%. Going forward, we aim to boost the operating income margin by further differentiating our technology and expanding our solutions business.

Main Businesses

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

Business in Fiscal 2003

Turbine demand was strong. This is in part attributable to growth in biomass power generation projects in, for example,



32MW Condensing Steam Turbine (Model: C10)

Australia, where commodity prices are exerting pressure, and in Asia and India, where infrastructure is undergoing rapid improvement. Another factor was energy conservation efforts in Japan. Notably, we differentiated ourselves from the competition by “reducing installation costs through a change in installation method.” This contributed to receiving orders for ten of our axial exhaust turbines, which we had positioned as a priority. It also yielded results in terms of expanding and improving our product lineup. In addition to its established global presence in small and medium equipment, this division has extended its range of products to large-scale equipment, which it was able to develop by cutting costs with a modular approach. Pumps also performed well, with orders strong for both process pumps and vacuum pumps. The main driver for process pumps was demand in the Middle East and China, where economies are expanding, while that for vacuum pumps was the semiconductor-related industries, which are getting a boost from the accelerating change of generations. A notable pump-related development in 2003 was our first order from the European engineering company Technip Italy S.p.A., which is in part attributable to our aggressive efforts to date to expand and improve our global network.

Strategies for Fiscal 2004

In this division’s businesses, we aim to raise marketing efficiency and profitability through development in terms not only of product lines such as turbines and pumps but also of operational functions such as sales and service. In fiscal 2004, we will move turbines to a production system that accommodates a full lineup from small and medium to large-scale. In the area of product development, we are working on improving blades as part of our efforts to further boost the efficiency of large-scale high-temperature turbines, for which demand is solid. In pumps, we will further strengthen the performance of our process pumps, which already have a strong presence in the industry, and will improve our ability to quickly deliver vacuum pumps to the semiconductor companies by standardizing unit design.

Material Handling Machinery & Systems

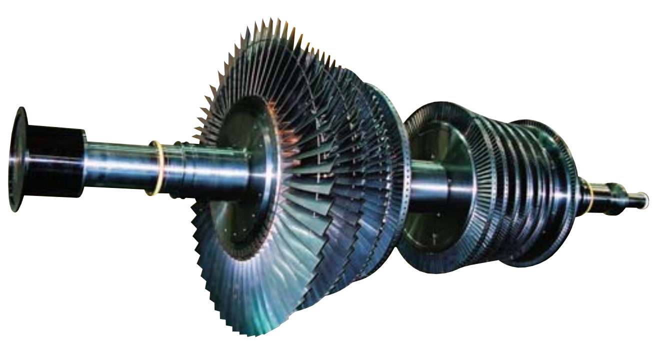
Business in Fiscal 2003

Buoyed by the brisk Chinese economy, investment in Japanese markets finally showed positive signs in fiscal 2003. In particular, this trend appeared early among the steel makers, where investment plans have been strengthened for all phases of production from raw material handling to steel making and shipping. In addition, the shipbuilding industry is enjoying strong orders for new ships. This is attributable to higher charter rates supported by rapid expansion of internal demand in China and by the bullish tone of the global economy. As in the previous year, we received a large number of orders for material handling equipment centering on Goliath cranes and jib cranes. Receiving approximately 80% of the domestic orders placed by shipbuilders for these types of cranes, we retained the largest share of the market.

We have also continued to make an aggressive approach in overseas markets, concentrating on eastern Asia. These include orders from shipbuilders in South Korea for jib cranes, and the delivery of Rubber Tyred Gantry Cranes (RTGC) for container handling, which was made possible by cooperation and collaboration with Chinese manufacturers.

Strategies for Fiscal 2004

Despite an increase in positive factors, the business environment is also characterized by a negative factor from a tightening supply of raw materials such as steel. In response, we are giving priority to two strategies. The first is the promotion of solution-oriented management in close contact with customers where our basic policy is “to provide value to our customers through a synergy between our service business and product business.” The second is the construction of a global supply chain based on our strength of “possessing Japan’s only specialized plant for large-scale cranes.” We aim to maintain and expand order volume and profits by being the most competitive player in terms of “quality, cost, and delivery.”



32MW Condensing Steam Turbine Rotor (Model: C10)

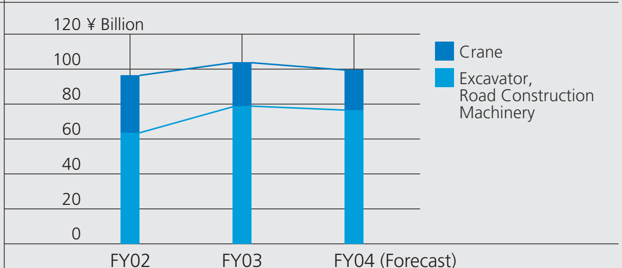
Rubber Tyred Gantry Crane (RTGC)

Construction Machinery

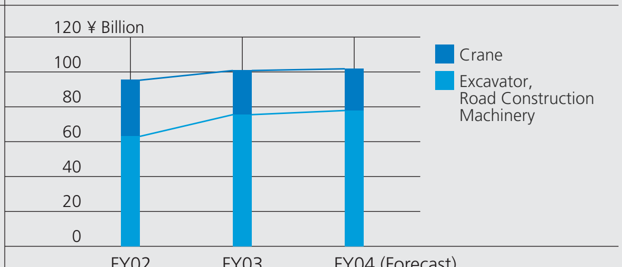
Main Products
Hydraulic Excavators
Cranes
Road Construction Machinery

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

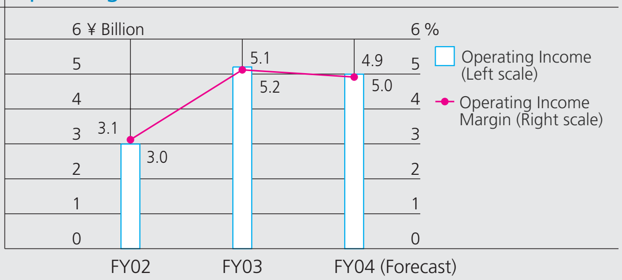
Orders



Net Sales



Operating Income



Segment Overview

Business Environment

In fiscal 2003, domestic business of construction machinery turned around, marking its first year-on-year increase in seven years. This is attributable, despite a continued decline in public works, to a modest recovery in private-sector construction demand in urban areas and to progress in the long-delayed replacement of construction machinery that was sparked by stricter environmental regulations. Overseas, a rapid and strong growth in the Chinese hydraulic excavator market was achieved, as domestic demand expanded due to strong investment in infrastructure. In North America, although demand related to infrastructure improvements decreased compared with the previous fiscal year, the overall economy begun to show signs of bottoming out.

Review and Analysis of Results in Fiscal 2003

The hydraulic excavator market returned to positive year-on-year growth. This is attributable to the new machine demand created by brisker exports of used machines from Japan to China but also replacement with new machines to meet newly introduced emission regulations. In China, moreover, excavators made by Japanese manufacturers, which are relatively expensive but much superior in terms of durability and performance were required very much so that exports of our products on a unit basis grew about three timed compared with the previous fiscal year.

"Road machinery" was also strong as users purchased replacements to conform to environmental regulations.

Crane sales, on the other hand, were sluggish due to the delayed recovery, especially in the U.S., in demand for large crawler cranes, one of our specialties. As a result of these factors, excavators and road machinery covered the decline in the crane division, so that this segment achieved 7% year-on-year increase in orders and a 6% year-on-year increase in sales. By minimizing fixed cost growth and boosting sales, we achieved a 73% surge in operating income compared with the previous fiscal year to ¥5.2 billion.

Outlook for Fiscal 2004

In fiscal 2004, continued and steady growth is expected both in Japan and overseas. Despite concerns over raw material price increases and uncertainty due to exchange rate volatility, we will run our business more profitably than ever through our ongoing cost reduction efforts at our Chiba Works and promotion of controlled export business all over the world.

Main Businesses

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

Business in Fiscal 2003

We successfully conducted business in standard hydraulic excavators. Additionally, we introduced newly developed material-handling machines for the scrap metal/iron, other scrap materials, and timber. As a result, sales increased by 38% compared with the previous fiscal year. In addition to sales of the new machines, other important businesses that generated good profits include sales of the used machinery and repair/maintenance services.

Overseas, we have been taking part in major three markets, namely Europe, North and South America and Asia Pacific including China.

In particular, the Chinese market for hydraulic excavators was the biggest in the world in 2003, where 31,000 units were sold. In order to expand our business in this growing market, our sales company Sumiju SCE (Xiamen) Construction Machinery, Co., Ltd. started business on March, 1, 2003 to provide Chinese customers with a better sales and service networks.

In Europe, we have maintained a business relationship with CNH Global N.V. (product brand name: Case) for six years. The company announced again that we should support the Case brand network at BAUMA 2003 in Munich following the five-year anniversary celebration at Intermat 2002 in Paris.

In America, we have two networks and brands: one is CNH (Case brand and network) and the other LBX (Link-belt brand and network). Both have been working very well. We enjoyed a net sales increase of 39% in North America and 237% in China compared with the previous fiscal year.

In the road machinery business, new machines grew 49% year-on-year in terms of units sold as we stimulated replacement demand by introducing new products that conform to environmental regulations in fiscal 2003. We have combined our leading technology in asphalt finishers with the technology of Niigata Engineering Co., Ltd., which we acquired in 2002, to bring new products into the domestic market.

Strategies for Fiscal 2004

In Japan, we will do our best in not only the standard hydraulic excavators business but also in the in the area of application machines including mobile crushers and soil recycling machines.

At the same time, we will do our utmost to develop overseas market as well by further strengthening our business relationship with CNH.

Crane Business:
Sumitomo Heavy Industries Construction Crane Co., Ltd.

Business in Fiscal 2003

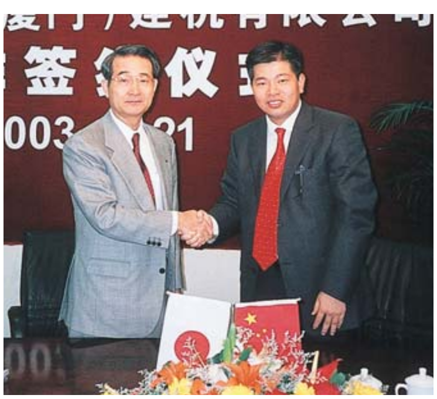
We are developing the “HITACHI SUMITOMO” brand through Hitachi Sumitomo Heavy Industries Construction Crane Co., Ltd. (HSC), our joint venture with Hitachi Construction Machinery Co., Ltd.

The fiscal 2003 environment for crawler cranes saw demand grow in overseas markets such as China and Southeast Asia and show signs of recovery in Japan. In response, we worked to expand share using a global approach of developing models so that they fit the characteristics of each targeted market. In specific, in Japan, we introduced two new jointly developed models with engines that conform to the second-tier emission regulations, while overseas we introduced large-scale models meeting the requirements of markets in Europe and North America.

As a result, overseas orders for our core range of 200 tons to 250 tons models increased sharply. With 40% of the domestic market and 30% of the North American market, we now have the top share of the global market.

Strategies for Fiscal 2004

In fiscal 2004, in addition to accelerating sales of new models by displaying them at international construction machinery exhibitions in Europe and China, we will aggressively develop our businesses both in Japan and overseas. In Japan, we aim to further expand our market share through the following three initiatives. First, we plan to introduce in succession a series of new models in the crawler crane market. Second, we will continue to accelerate used machine sales. Third, we strive to take a more proactive stance in marketing by utilizing our user-friendly maintenance service, which only comprehensive makers like we can provide. In the strong growth market of China, we will set up a local sales subsidiary, introduce new models, and promote the switchover to local production of them. In North America, we will promote our global business expansion through the joint development of machines with HSC and Link-Belt Construction Equipment Company, our business partner and a base for our business in North American market.

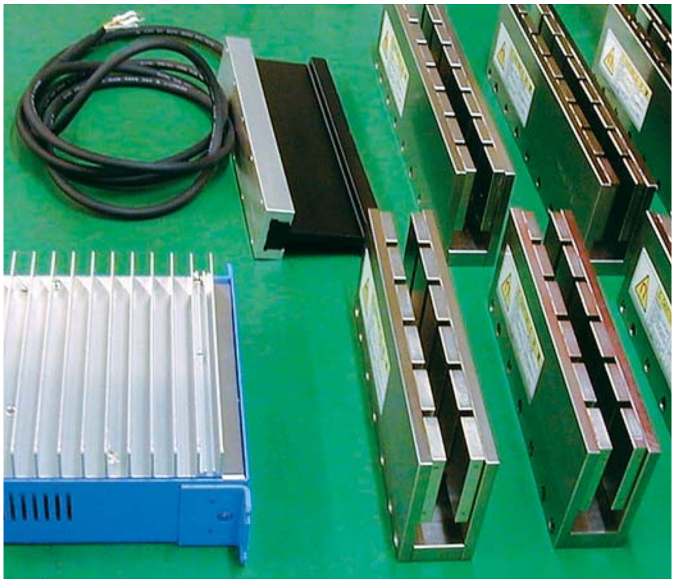


Start-up of Sumiju SCE (Xiamen) Construction Machinery Co., Ltd.
At left hand side: Hiroyasu Taniguchi, President, Sumitomo (S.H.I.) Construction Machinery
At right hand side: Uwong Chiu Yeung, Representative, Zhong Jun Group

Material Handling Machinery

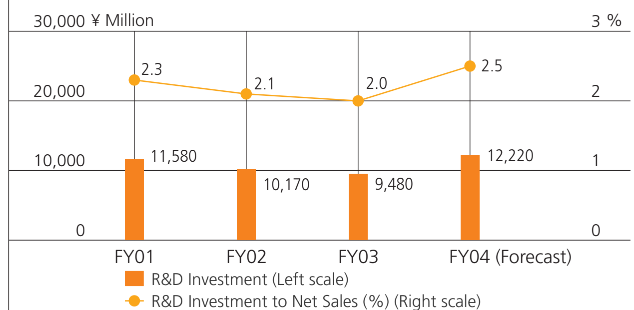
250ton-Type Crawler Crane

Research and Development

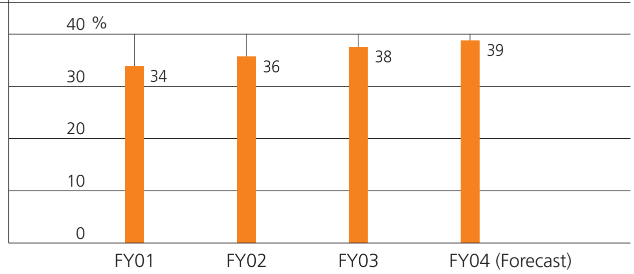


High Power Linear Motor

Research and Development Investment (Consolidated)



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



1. Research & Development (R&D) Strategies

Our Group positions semiconductor and liquid crystal production equipment, information technology related equipment, and advanced technology such as medical equipment as strategic growth businesses and focuses on technological development that could certainly lead to commercialization as well as enhanced differentiation of its products. In 2002, we consolidated R&D bases and business departments involved in development of cutting-edge technology into Yokosuka Works. This has contributed to accelerate the speed of development and to strengthen product competitiveness, resulting in better performance.

We spent ¥9.5 billion in fiscal 2003 on R&D. Total R&D investment has been decreasing in recent years because we have also implemented a “focus” strategy in R&D operations. Thorough implementation of the strategy, however, has increased concentration as well as a sense of crisis on the part of R&D staff, which has in turn led to an uptrend in the contribution to total sales by new products (the percentage of sales from newly developed products, including replacements in the past three to five years, to total sales). This contribution for non-consolidated companies was 38% in fiscal 2003 (versus 36% in fiscal 2002). In fiscal 2004, total R&D investment will turn to an increase as a result of measures to enhance our technological superiority mainly in the Mass-Produced Machinery segment and the Construction Machinery segment.

2. Major Achievements in R&D

(1) Growth Business Areas

Semiconductor and Liquid Crystal Equipment

We have developed “VESPA,” a cryopump for semiconductor equipment, etc., by applying cryocooler technology, one of our strengths, which achieves vacuum emission with less electric power. It improves the energy efficiency of the semiconductor fabrication equipment by offering extremely low power consumption. Specifically, by optimized operation of one compressor and multiple expanders, electricity consumption is reduced to 0.9 kilowatts or less per pump. This is 25% lower than our conventional technology and 40% lower than the conventional products of competitors. The product has been garnering strong support in the semiconductor and LCD equipment industry.

In the area of precision positioning devices, we are developing large-scale stages and high power linear motor which serve as actuators in response to accelerating upsizing of liquid crystal boards. It also introduced the “Airsonic,” air-pressure driven actuator, which can drastically improve the efficiency of semiconductor fabrication apparatus to be used for embedding semiconductor chips on circuit boards. This new product has finally realized an ultra-precision positioning just within a couple of microns range, where proto-type pneumatic control equipment had never attained. The new product also boasts its compactness and high-performance that enables a load control with rating of less than 1%.

For laser annealing systems, which are used in manufacturing LCD substrates used in flat panel displays (FPDs), we have developed and introduced a high-output excimer laser of 300-watts in response to the upsizing of these panels. We have also developed equipment that can irradiate large-sized boards of 730mm x 920mm in one scan and are now conducting evaluation research among customers. Elsewhere, for the patterning process of large-size FPD, we have developed laser beam multiple-branching technology and drawing technology that achieves precision positioning in the order of microns.

Information Technology Related Equipment

In the area of information technology related equipment, we promote development of specialized types of all-electric injection molding machines for the IT market including digital consumer electronics, etc. In fiscal 2003, we launched an injection molding machine optimal for low-height and narrow pitch connectors, which are becoming smaller and increasingly precise. This product succeeds the specialized machines for disks and lenses introduced in fiscal 2002. These specialized machines are not only distinct in terms of precision or high cycle frequency, which are common features of our all-electric injection molding machines, but also in the sense that they respond to the market's need for higher added value in terms of small size and precision through employment of newly developed cutting-edge application technology. We have also developed an electric injection molding machine that is optimized for precision compound material molding for the auto parts market where IT integration is progressing.

Medical Equipment

In the area of medical equipment, we placed priority on development of a Positron Emission Tomography (PET) accelerator being used to diagnose cancer and other diseases as well as radiopharmaceutical synthesis equipment. In fiscal 2003, it developed and launched a high-current cyclotron and a high-yield target that enable a large volume of radiopharmaceutical synthesis in response to a local supply center project for distribution of FDG (18F-fluoro-deoxyglucoseis, a pharmaceutical labeled with fluorine-18). In addition, a standard-type system that is more reasonable in price is now under development. We expect this product to contribute to expansion in the PET market.

(2) Other Business Fields

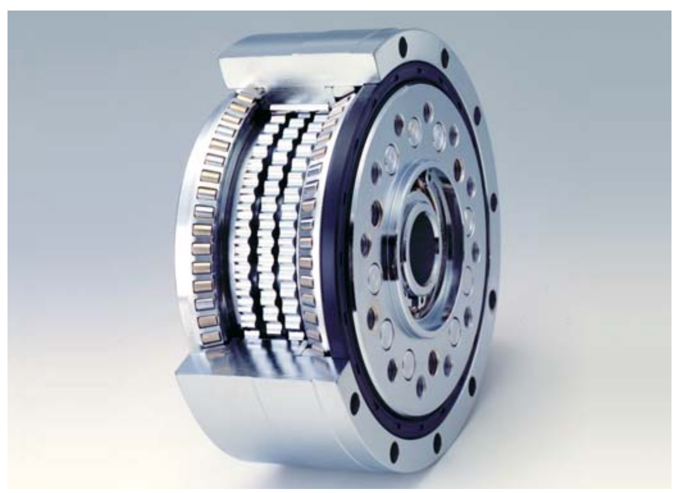
Environmental Protection Facilities, Plants & Others

Amid the lack of dumping sites for waste disposal, which is becoming a serious problem in Japan, there is a growing need for rapid development of technology to reduce the volume of waste. In order to accurately assess these needs, we have been doing its utmost to develop waste reduction system technology such as for general and industrial waste and sewage sludge. In fiscal 2003, we developed and launched sludge collectors for sewage treatment facilities. We also completed development of a system to biologically reduce sludge. Furthermore, it is developing total solution services for customers by systematizing operation know-how and maintenance information for waste treatment facilities.

For speed reducers, one of our core products, we are strengthening development of products for precision drives. In the area of precision control Cyclo® Drive used mainly for robots, we are trying to achieve higher efficiency through mechanism analysis and robust designs. We are also endeavoring to assess the needs of customers around the world and to use this information to improve existing products and develop new ones in a timely manner.

We are focusing not only on development of new products, but also on development of next-generation products and related materials technology at the Technology Development Center. Priority is being placed on investment in highly advanced areas (e.g., femtosecond technology, which is a NEDO project, nano-scale fabrication, precision control technology, etc.), that we expect to become core technologies in differentiating the Group from competitors in the near future.

Injection Molding Machine Dedicated to Connectors


Precision Control Cyclo® Drive

FINANCIAL STATEMENTS

Contents

Financial Statements -Consolidated Balance Sheets

March 31, 2004 and 2003

ASSETS

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Current assets:			
Cash and deposits (Note 2)	¥ 58,454	¥ 47,973	$ 551,453
Marketable securities (Note 2)	—	3	—
Trade receivable:			
Notes receivable	22,136	29,537	208,830
Account receivable	120,552	132,630	1,137,285
Allowance for doubtful accounts	(2,509)	(3,198)	(23,668)
Inventories (Note 3)	93,907	92,428	885,915
Deferred income taxes (Note 5)	10,738	6,493	101,303
Prepaid expenses and other current assets	18,122	23,365	170,955
Total current assets	321,400	329,231	3,032,073
Property, plant and equipment:			
Land	116,288	118,621	1,097,054
Buildings and yards	116,842	117,508	1,102,284
Machinery and equipment	123,185	133,526	1,162,122
Construction in progress	2,528	3,161	23,846
	358,843	372,816	3,385,306
Less accumulated depreciation	171,235	176,712	1,615,423
Total property, plant and equipment	187,608	196,104	1,769,883
Investments, long-term loans and other assets:			
Unconsolidated subsidiaries and affiliated companies	14,671	13,087	138,406
Long-term loans receivable and investments (Note 10)	25,356	17,670	239,213
Deferred income taxes (Note 5)	11,049	11,388	104,236
Other assets	26,277	28,233	247,892
Allowance for doubtful accounts	(6,070)	(7,703)	(57,263)
Total Investments, long-term loans and other assets	71,283	62,675	672,484
	¥580,291	¥588,010	$5,474,440

See accompanying notes.

LIABILITIES AND STOCKHOLDERS' EQUITY

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Current liabilities:			
Bank loans (Note 4)	¥ 70,439	¥124,008	$ 664,517
Long-term debt due within one year (Note 4)	34,795	38,215	328,257
Commercial paper (Note 4)	10,000	8,000	94,339
Trade payable:			
Notes payable	50,596	46,017	477,317
Accounts payable	80,323	70,300	757,760
Advance payments received on contracts	28,669	21,318	270,462
Accrued income taxes	5,608	5,147	52,907
Accrued expenses and other current liabilities	27,826	29,762	262,510
Total current liabilities	308,256	342,767	2,908,069
Long-term debt due after one year (Note 4)	100,573	103,321	948,805
Employees' severance and retirement benefits (Note 12)	16,202	9,666	152,850
Deferred income taxes on revaluation reserve for land	31,216	31,297	294,486
Other long-term liabilities	5,585	3,675	52,691
Minority interests	3,933	7,953	37,101
Contingent liabilities (Note 7)			
Stockholders' equity (Note 6):			
Common stock:			
Authorized-1,200,000 thousand shares	30,872	30,872	291,242
Issued-602,626 thousand shares in 2004			
Issued-588,697 thousand shares in 2003			
Capital surplus	16,800	15,712	158,494
Retained earnings	19,848	3,493	187,243
Revaluation reserve for land, net of income taxes (Note 1)	45,500	45,619	429,244
	113,020	95,696	1,066,223
Unrealized gains (losses) on securities, net of income taxes	5,362	(398)	50,588
Foreign currency translation adjustments	(3,783)	(5,929)	(35,686)
Less treasury stock at cost, 636,359 shares (482,829 shares in 2003)	(73)	(38)	(687)
Total stockholders' equity	114,526	89,331	1,080,438
	¥580,291	¥588,010	$5,474,440

See accompanying notes.

Consolidated Statements of Operations

Years ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Net sales (Note 8)	¥482,765	¥481,289	$4,554,387
Costs and expenses (Note 8):			
Cost of sales	378,422	400,460	3,570,020
Selling, general and administrative expenses	64,112	63,616	604,826
	442,534	464,076	4,174,846
Operating income (Note 8)	40,231	17,213	379,541
Other income (expenses):			
Interest and dividend income	552	462	5,212
Interest expense	(4,074)	(4,476)	(38,437)
Loss on devaluation of securities	—	(4,379)	—
Gain on sale of securities-net	1,302	199	12,284
Gain on sale of property, plant and equipment-net	683	8,571	6,440
Gain on securities contributed to employee retirement benefit trust	212	782	2,001
Foreign currency exchange losses, net	(186)	(280)	(1,754)
Amortization of net transition obligation of severance and retirement benefits	(5,516)	(5,523)	(52,035)
Loss from liquidation of subsidiaries	(4,143)	—	(39,083)
Loss from cancellation of a sale contract for a piece of factory land	(4,067)	—	(38,372)
Loss from plant relocation	(1,671)	(904)	(15,768)
Loss on disposal of inventories	(2,307)	(769)	(21,768)
Loss on disposal of property, plant and equipment	(1,459)	(732)	(13,768)
Equity in earnings of unconsolidated subsidiaries and affiliated companies	1,830	363	17,267
Other-net	(3,853)	(2,502)	(36,343)
	(22,697)	(9,188)	(214,124)
Income before income taxes	17,534	8,025	165,417
Income taxes (Note 5):			
Current	8,639	7,019	81,504
Deferred	(7,609)	(1,527)	(71,786)
Total	1,030	5,492	9,718
Minority interests in consolidated subsidiaries	(242)	155	(2,283)
Net income	¥ 16,262	¥ 2,688	$ 153,416

	Yen		U.S. dollars (Note 1)
	2004	2003	2004
Amounts per share of common stock:			
Net income	¥ 27.01	¥ 4.57	$ 0.25
Diluted net income	—	—	—
Cash dividends applicable to the year	—	—	—

See accompanying notes.

Consolidated Statements of Stockholders' Equity

Years ended March 31, 2004 and 2003

	Number of shares of common stock (Thousand)	Millions of yen						
		Common stock	Capital surplus	Retained earnings (Accumulated deficit)	Revaluation reserve for land, net of income taxes	Unrealized gains (losses) on securities, net of income taxes	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2002	588,697	¥ 30,872	¥ 26,752	¥ (10,327)	¥ 44,585	¥ (319)	¥ (4,065)	¥ (4)
Increase due to change in numbers of consolidated subsidiaries and companies accounted for by the equity method	—	—	—	790	—	—	—	—
Decrease due to change in numbers of consolidated subsidiaries and companies accounted for by the equity method	—	—	—	(710)	—	—	—	—
Transfer from revaluation reserve for land, net of income taxes to retained earnings	—	—	—	12	(12)	—	—	—
Transfer from capital surplus to retained earnings	—	—	(11,040)	11,040	—	—	—	—
Net income	—	—	—	2,688	—	—	—	—
Adjustment for revaluation reserve for land, net of income taxes	—	—		—	1,046	—	—	—
Adjustment from translation of foreign currency financial statements	—	—	—	—	—	—	(1,864)	—
Adjustment for unrealized losses on securities	—	—	—	—	—	(79)	—	—
Treasury stock	—	—	—	—	—	—	—	(34)
Bonuses to directors and corporate auditors	—	—	—	(0)	—	—	—	—
Balance at March 31, 2003	588,697	¥ 30,872	¥ 15,712	¥ 3,493	¥ 45,619	¥ (398)	¥ (5,929)	¥ (38)
Increase due to change in numbers of consolidated subsidiaries and companies accounted for by the equity method	—	—	—	1	—	—	—	—
Decrease due to change in numbers of consolidated subsidiaries and companies accounted for by the equity method	—	—	—	(27)	—	—	—	—
Transfer from revaluation reserve for land, net of income taxes to retained earnings	—	—	—	119	(119)	—	—	—
Increase due to an exchange of stocks	13,929	—	1,086	—	—	—	—	—
Sales of treasury stock	—	—	2	—	—	—	—	—
Net income	—	—	—	16,262	—	—	—	—
Adjustment from translation of foreign currency financial statements	—	—	—	—	—	—	2,146	—
Adjustment for unrealized gains on securities	—	—	—	—	—	5,760	—	—
Treasury stock	—	—	—	—	—	—	—	(35)
Bonuses to directors and corporate auditors	—	—	—	—	—	—	—	—
Balance at March 31, 2004	602,626	¥ 30,872	¥ 16,800	¥ 19,848	¥ 45,500	¥ 5,362	¥ (3,783)	¥ (73)

	Number of shares of common stock (Thousand)	Thousands of U.S. dollars (Note 1)						
		Common stock	Capital surplus	Retained earnings (Accumulated deficit)	Revaluation reserve for land, net of income taxes	Unrealized gains (losses) on securities, net of income taxes	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2003	588,697	$291,242	$148,229	$ 32,956	$ 430,364	$ (3,757)	$ (55,929)	$ (359)
Increase due to change in numbers of consolidated subsidiaries and companies accounted for by the equity method	—	—	—	6	—	—	—	—
Decrease due to change in numbers of consolidated subsidiaries and companies accounted for by the equity method	—	—	—	(255)	—	—	—	—
Transfer from revaluation reserve for land, net of income taxes to retained earnings	—	—	—	1,120	(1,120)	—	—	—
Increase due to an exchange of stocks	13,929	—	10,250	—	—	—	—	—
Sales of treasury stock	—	—	15	—	—	—	—	—
Net income	—	—	—	153,416	—	—	—	—
Adjustment from translation of foreign currency financial statements	—	—	—	—	—	—	20,243	—
Adjustment for unrealized gains on securities	—	—	—	—	—	54,345	—	—
Treasury stock	—	—	—	—	—	—	—	(328)
Bonuses to directors and corporate auditors	—	—	—	—	—	—	—	—
Balance at March 31, 2004	602,626	$291,242	$158,494	$ 187,243	$ 429,244	$50,588	$ (35,686)	$ (687)

See accompanying notes.

Consolidated Statements of Cash Flows

Years ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Cash flows from operating activities:			
Income before income taxes	¥17,534	¥ 8,025	$165,417
Adjustments to reconcile net income before income taxes to net cash provided by (used in) operating activities:			
Depreciation	10,112	12,119	95,400
Amortization of consolidation adjustment	(934)	—	(8,811)
Gain on sale of property, plant and equipment	(683)	(8,571)	(6,440)
Loss on disposal of property, plant and equipment	1,459	732	13,768
Loss from cancellation of a sale contract for a piece of factory land	4,067	—	38,372
Gain on sale of securities	(1,302)	(199)	(12,283)
Loss on devaluation of securities	—	4,379	—
Loss from liquidation of subsidiaries	4,143	—	39,083
Gain on securities contributed to employee retirement benefit trust	(212)	(782)	(2,001)
Increase in employees' severance and retirement benefits	7,118	673	67,151
Equity in earnings of unconsolidated subsidiaries and affiliated companies	(1,830)	(363)	(17,267)
Decrease in allowance for doubtful and other allowances	(2,612)	(975)	(24,641)
Interest and dividend income	(552)	(462)	(5,212)
Interest expense	4,074	4,476	38,437
Changes in operating assets and liabilities:			
Decrease in notes and accounts receivable	27,974	20,567	263,899
Decrease (increase) in inventories	(2,944)	15,884	(27,774)
Increase (decrease) in notes and accounts payable	16,818	(11,222)	158,656
Other-net	5,212	(1,943)	49,171
Sub-total	87,442	42,338	824,925
Interest and dividend received	629	562	5,931
Payments for interest	(3,880)	(4,668)	(36,603)
Payments for income taxes	(7,789)	(5,605)	(73,479)
Other-net	(627)	(3,128)	(5,920)
Net cash provided by operating activities	¥75,775	¥29,499	$714,854

See accompanying notes.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Cash flows from investing activities:			
Decrease (increase) in time deposits	¥ (461)	¥ 183	$ (4,350)
Payments for securities	(2,840)	(4,114)	(26,793)
Proceeds from sale of securities	2,652	2,186	25,018
Proceeds from redemption of securities	2,000	—	18,868
Payments for purchases of property, plant and equipment	(10,811)	(12,111)	(101,989)
Proceeds from sale of property, plant and equipment	5,351	14,690	50,483
Payments for cancellation of a sale contract for a piece of factory land	(2,281)	—	(21,518)
Proceeds from sale of securities which decreased the number of consolidated subsidiaries	100	—	940
Payments for long-term loans receivables	(1,851)	(801)	(17,462)
Collection of long-term loans receivables	688	205	6,489
Other-net	(476)	(1,312)	(4,488)
Net cash used in investing activities	(7,929)	(1,074)	(74,802)
Cash flows from financing activities:			
Decrease in short-term loans	(52,563)	(21,925)	(495,875)
Increase (decrease) in commercial paper	2,000	(1,296)	18,868
Proceeds from long-term debt	38,958	34,921	367,528
Payments for long-term debt	(44,174)	(25,570)	(416,739)
Payments for redemption of bonds	(1,000)	(8,180)	(9,434)
Other-net	113	(66)	1,070
Net cash used in financing activities	(56,666)	(22,116)	(534,582)
Effect of exchange rate changes on cash and cash equivalents	(323)	(343)	(3,051)
Net increase in cash and cash equivalents	10,857	5,966	102,419
Cash and cash equivalents at beginning of year	47,661	40,846	449,636
Net increase (decrease) from the change in consolidated companies	(840)	849	(7,926)
Cash and cash equivalents at the end of year (Note 2)	¥ 57,678	¥ 47,661	$ 544,129

See accompanying notes.

Notes to Consolidated Financial Statements

1. Significant accounting policies

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

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

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2004, which was ¥106 to U.S. $1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

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

Investments in unconsolidated subsidiaries and significant affiliated companies are accounted for by the equity method.

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

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

Accounting Standard for Impairment of Fixed Assets — In the year ended March 31, 2004, the Company did not adopt early the new accounting standard for impairment of fixed Assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council on August 9, 2002) and the implementation guidance for accounting standard for impairment of fixed assets (the Financial Accounting Standard Implementation Guidance No. 6 issued by the Accounting Standards Board of Japan on October 31, 2003). These standards are required to be adopted in periods beginning no later than April 1, 2005.

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

Cash flow statements — In preparing the consolidated statements of cash flows, cash on hand, readily available deposits and short-term highly liquid investments with maturity not exceeding three months at the time of 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 shareholders' equity. Realized gains on sale of such securities are computed using the moving- average cost.) 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 moving-average method.

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

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

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

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

Foreign consolidated subsidiaries provide for doubtful accounts, based on the estimation of the probable bad debts' amount.

Revaluation Reserve for 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. As a result of the revaluation, the land, which previously had a book value of ¥32,412million ($305,776 thousand), was revaluated at ¥109,349 million ($1,031,595 thousand), which is determined primarily based on real estate tax value. The Company recorded ¥44,585 million ($420,612 thousand) as revaluation reserve for land in stockholders' equity section, after reflecting deferred income tax effects of ¥32,352 million ($305,207 thousand) which were recorded as long-term liabilities.

The current value of the land on March 31,2004 fell ¥18,420 million ($173,769 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 term is stated based on the estimated amount of retirement benefit obligations and pension plan assets as at the end of the term.

The "net transition obligation" arising from adopting new accounting standards as of April 1, 2000, amounted to ¥51,945 million ($490,048 thousand), some of the amount was expensed as a result of the contribution of investment securities to the employee retirement benefit trust and some of the amount was charged to income by some of the consolidated subsidiaries in the year ended March 31, 2001. The remaining net transition obligation amounting to ¥27,897 million ($263,176 thousand) is recognized as expenses in equal amounts primarily over 5 years commencing with the year ended March 31, 2001.

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

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

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

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

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

As a result of this change, in the year ended March 31, 2004, selling, general and administrative expenses increased by ¥172 million ($1,623 thousand), operating income decreased by ¥172 million ($1,623 thousand) and income before income taxes decreased by ¥1,319 million ($12,440 thousand).

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

Research and development costs — Research and development costs included in cost of sales, and selling, general and administrative expenses were ¥6,263 million ($59,085 thousand) and ¥5,800 million for the years ended March 31, 2004 and 2003, respectively.

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

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

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

All asset and liability accounts of foreign subsidiaries and affiliates are translated into Japanese yen at the exchange rates in effect at the balance sheet date of the foreign subsidiaries, except for common stock and capital surplus, which are translated at historical rates. Expenses and income are translated at the rates at the balance sheet date. The resulting foreign currency translation adjustment is reported in shareholders' equity.

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

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

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

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

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

Also, if interest rate swap contracts are used as hedge and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

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

The diluted net income per share is not presented, because the Company does not have convertible bond or bond with warrant.

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

2. Cash and cash equivalents

Cash and cash equivalents include all highly liquid investments, generally with original maturities of three months or less that are readily convertible to known amounts of cash and have negligible risk of changes in value due to their short maturities.
Cash and cash equivalents as of March 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Cash and deposits	¥58,454	¥47,973	$551,453
Marketable securities	—	3	—
Time deposit over three months	(776)	(315)	(7,324)
Cash and cash equivalents	¥57,678	¥47,661	$544,129

3. Inventories

Inventories as of March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Finished products and semi-finished products	¥28,705	¥29,563	$270,798
Work in process	56,062	51,483	528,890
Raw materials and supplies	9,140	11,382	86,227
	¥93,907	¥92,428	$885,915

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

Bank loans at March 31, 2004 and 2003 consisted of short-term loans, bearing interest principally at 0.83% and 0.88% per annum. At March 31, 2004 and 2003, commercial paper principally bore an average annual interest rate of 0.28% and 0.90%, respectively. Long-term debt at March 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
3.0 % domestic bonds due in January 2005	¥ 3,000	¥ 3,000	$ 28,302
U.S. dollar variable rate industrial development revenue bonds due in May 2008	535	600	5,054
1.7 % domestic mortgage bonds due in November 2005	1,000	1,000	9,434
2.3 % domestic mortgage bonds due in January 2006	—	1,000	—
Loans principally from banks and insurance companies due serially through March 2015 with interest ranging from 0.84% to 9.32% in 2004			
Secured	6,571	6,660	61,988
Unsecured	124,262	129,276	1,172,284
	135,368	141,536	1,277,062
Less amount due within one year	34,795	38,215	328,257
Amount due after one year	¥100,573	¥103,321	$ 948,805

2.3 % domestic mortgage bonds due in January 2006 have been redeemed before its scheduled maturity.

Annual maturities of long-term debt as of March 31, 2004 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars (Note 1)
2005	¥34,795	$328,257
2006	53,457	504,312
2007	28,466	268,545
2008	13,704	129,286
2009	3,099	29,235
Thereafter	1,847	17,427

At March 31, 2004, assets pledged as collateral for bank loans, secured long-term loans from banks and insurance companies and domestic mortgage bonds were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Cash deposit	¥ 200	$ 1,887
Land	36,057	340,160
Other property, plant and equipment, at cost less accumulated depreciation	4,785	45,140
	¥41,042	$387,187

5. Income Tax

The Company and its domestic consolidated subsidiaries are subject to a number of income taxes, which, in the aggregate indicate a statutory tax rate in Japan of approximately 42% for the years ended March 31, 2004 and 2003, respectively.

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

	2004	2003
Statutory tax rate	**42.05%**	42.05%
Increase (decrease) in tax rates resulting from:		
Expenses not deductible for tax purposes	**6.67%**	15.27%
Per capital inhabitant tax	**1.15%**	2.35%
Income not counted for tax purpose	**(0.19%)**	(0.73%)
Elimination of dividend received	**5.85%**	3.61%
Equity in earnings of affiliated companies	**(4.39%)**	2.12%
Adjustment of gain on sales of stock of affiliated company	**—**	1.55%
Reversal of taxable temporary differences on the consolidated financial statements for eliminated devaluation loss on investments in a subsidiary	**(53.41%)**	—
Amortization of consolidation adjustment	**—**	(0.90%)
Valuation allowance for eliminations	**8.51%**	—
Effects of the change on statutory tax rate	**—**	4.00%
Others	**(0.36%)**	(0.85%)
Effective tax rate	**5.88%**	68.47%

Significant components of deferred tax assets and liabilities as of March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Deferred tax assets:			
Accrued bonuses	¥ 2,512	¥ 2,002	$ 23,696
Allowance for doubtful accounts	2,896	3,028	27,322
Allowance for warranty	1,165	1,350	10,993
Allowance for employees' severance and retirement benefit	11,301	8,288	106,615
Inventories	1,852	2,802	17,476
Unrealized profit on inventories	959	920	9,045
Devaluation of marketable securities and investments	2,547	2,826	24,026
Excess depreciation	818	923	7,712
Operating losses carry forward	6,992	7,421	65,958
Net unrealized holding gain on securities	—	11	—
Others	2,938	2,324	27,720
Total deferred tax assets	33,980	31,895	320,563
Less-valuation allowance	(7,626)	(12,884)	(71,940)
Deferred tax assets-net	26,354	19,011	248,623
Deferred tax liabilities:			
Difference on revaluation of assets and liabilities of subsidiaries	(1,391)	(1,391)	(13,123)
Accelerated depreciation	(523)	(927)	(4,934)
Excess tax depreciation reserve	(174)	(178)	(1,637)
Net unrealized holding gains on securities	(3,713)	(210)	(35,027)
Retained earnings in consolidated subsidiaries overseas	(302)	—	(2,850)
Others	(89)	(5)	(843)
Deferred tax liabilities	(6,192)	(2,711)	(58,414)
Net deferred tax assets	¥20,162	¥16,300	$190,209

6. Stockholders' equity

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

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

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

As a result of legal earnings reserve requirement, the retained earnings of the Company available for cash dividends at March 31, 2004, subject to shareholders' approval, amounted to ¥1,695 million ($15,994 thousand).

7. Contingent liabilities

The Companies were contingently liable as endorsers of trade notes receivable discounted with banks in the amount of ¥461 million ($4,352 thousand) at March 31, 2004. In addition, at the same date the Companies were contingently liable as guarantors of bank loans to unconsolidated subsidiaries and affiliated companies and employees in the amount of ¥8,617 million ($81,290 thousand) (net of guarantees by co-guarantors).

8. Segment information

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

A summary of net sales, costs and expenses, and operating income by segment of business activities for the years ended March 31, 2004 and 2003, and a summary of identifiable assets, depreciation expenses and capital expenditures by segment of business activities for the years ended March 31, 2004 and 2003 are presented below:

Millions of yen

2004	Mass-produced machinery	Environmental protection facility, plants & others	Ship steel structure & other specialized equipment	Industrial machinery	Construction machinery	Elimination and/or corporate	Consolidated
I Sales and operating income							
Sales:							
Unaffiliated customers	¥184,489	¥ 87,691	¥ 63,439	¥45,988	¥101,158	¥ —	¥482,765
Intersegment	1,074	2,629	325	364	97	(4,489)	—
Total	185,563	90,320	63,764	46,352	101,255	(4,489)	482,765
Costs and expenses	159,517	85,753	62,217	43,444	96,105	(4,502)	442,534
Operating income	¥ 26,046	¥ 4,567	¥ 1,547	¥ 2,908	¥5,150	¥ 13	¥ 40,231
II Identifiable assets	¥202,787	¥ 96,267	¥100,867	¥45,079	¥ 98,101	¥37,190	¥580,291
Depreciation expenses	5,153	979	1,544	698	1,738	—	10,112
Capital expenditures	6,177	1,184	1,250	457	1,494	—	10,562

2003	Mass-produced machinery	Environmental protection facility, plants & others	Ship steel structure & other specialized equipment	Industrial machinery	Construction machinery	Elimination and/or corporate	Consolidated
I Sales and operating income							
Sales:							
Unaffiliated customers	¥153,229	¥100,310	¥ 85,599	¥46,758	¥ 95,393	¥ —	¥481,289
Intersegment	597	2,332	279	403	155	(3,766)	—
Total	153,826	102,642	85,878	47,161	95,548	(3,766)	481,289
Costs and expenses	139,468	98,822	89,295	47,646	92,579	(3,734)	464,076
Operating income	¥ 14,358	¥ 3,820	¥ (3,417)	¥ (485)	¥ 2,969	¥ (32)	¥ 17,213
II Identifiable assets	¥197,077	¥105,206	¥ 99,663	¥37,386	¥110,741	¥37,937	¥588,010
Depreciation expenses	5,421	982	1,665	763	3,288	—	12,119
Capital expenditures	6,250	2,252	2,229	408	3,268	—	14,407

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

The figure for the year ended March 31, 2003 in the above table was computed based on the new classification.

Thousands of U.S. dollars (Note 1)

2004	Mass-produced machinery	Environmental protection facility, plants & others	Ship steel structure & other specialized equipment	Industrial machinery	Construction machinery	Elimination and/or corporate	Consolidated
I Sales and operating income							
Sales:							
Unaffiliated customers	$1,740,465	$827,278	$598,475	$433,847	$954,322	$ —	$4,554,387
Intersegment	10,126	24,800	3,068	3,438	911	(42,343)	—
Total	1,750,591	852,078	601,543	437,285	955,233	(42,343)	4,554,387
Costs and expenses	1,504,878	808,994	586,951	409,848	906,652	(42,477)	4,174,846
Operating income	$ 245,713	$ 43,084	$ 14,592	$ 27,437	$ 48,581	$ 134	$ 379,541
II Identifiable assets	$1,913,083	$908,174	$951,575	$425,277	$925,483	$350,848	$5,474,440
Depreciation expenses	48,619	9,239	14,565	6,582	16,395	—	95,400
Capital expenditures	58,273	11,170	11,791	4,317	14,092	—	99,643

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

(B) Information by geographic area for the year ended March 31, 2004 and 2003 is as follows:

					Millions of yen
2004	Japan	North America	Other areas	Elimination and/or corporate	Consolidated
I Sales and operating income					
Sales:					
Unaffiliated customers	¥435,671	¥31,017	¥16,077	¥ —	¥482,765
Intersegment	17,870	1,038	2,606	(21,514)	—
Total	453,541	32,055	18,683	(21,514)	482,765
Costs and expenses	414,485	31,697	17,798	(21,446)	442,534
Operating income	¥ 39,056	¥ 358	¥ 885	¥ (68)	¥ 40,231
II Identifiable assets	¥478,875	¥30,356	¥15,326	¥55,734	¥580,291
2003					
I Sales and operating income					
Sales:					
Unaffiliated customers	¥428,590	¥37,286	¥15,413	¥ —	¥481,289
Intersegment	17,976	1,048	1,000	(20,024)	—
Total	446,566	38,334	16,413	(20,024)	481,289
Costs and expenses	430,651	37,577	15,879	(20,031)	464,076
Operating income	¥ 15,915	¥ 757	¥ 534	¥ 7	¥ 17,213
II Identifiable assets	¥489,456	¥37,763	¥15,476	¥45,315	¥588,010

					Thousands of U.S. dollars (Note 1)
2004	Japan	North America	Other areas	Elimination and/or corporate	Consolidated
I Sales and operating income					
Sales:					
Unaffiliated customers	$4,110,101	$292,619	$151,667	$ —	$4,554,387
Intersegment	168,589	9,791	24,584	(202,964)	—
Total	4,278,690	302,410	176,251	(202,964)	4,554,387
Costs and expenses	3,910,234	299,033	167,898	(202,319)	4,174,846
Operating income	$ 368,456	$ 3,377	$ 8,353	$ (645)	$ 379,541
II Identifiable assets	$4,517,684	$286,381	$144,583	$ 525,792	$5,474,440

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

Other areas include mostly the United Kingdom, Germany, and Singapore.

(C) Overseas sales of the Companies for the years ended March 31, 2004 and 2003 were as follows:

				Millions of yen
2004	To North America	To Asia	To other areas	Total
Overseas Sales	¥ 60,558	¥ 74,520	¥ 55,109	¥ 190,187
	12.6%	15.4%	11.4%	39.4%
				Thousands of U.S. dollars (Note 1)
Overseas Sales	$571,306	$703,019	$519,888	$1,794,213

Other areas include mostly the United Kingdom, Germany, and Singapore.

Overseas sales of the Companies for the year ended March 31, 2003 were ¥172,631 million ($1,628,595 thousand) and accounted for 35.9% of consolidated net sales.

Overseas sales consist of export sales by the Company and its domestic consolidated subsidiaries as well as sales by overseas consolidated subsidiaries.

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

As explained in Note 8 (A), the Company changed its classification in the segments of certain products.

The effects of the change on the mass-produced machinery group are to increase net sales by ¥12,006 million ($113,268 thousand), costs and expenses by ¥10,422 million ($98,323 thousand), operating income by ¥1,584 million ($14,945 thousand), identifiable assets by ¥10,864 million ($102,486 thousand), depreciation expenses by ¥166 million ($1,569 thousand), and capital expenditures by ¥103 million ($973 thousand). Those on the ship, steel structure & other specialized equipment group are to decrease net sales by ¥598 million ($5,643 thousand), costs and expenses by ¥479 million ($4,517 thousand), operating income by ¥119 million ($1,126 thousand), identifiable assets by ¥573 million ($5,407 thousand), depreciation expenses by ¥9 million ($85 thousand), and capital expenditures by ¥8 million ($71 thousand). Those on the industrial machinery group are to decrease net sales by ¥11,069 million ($104,421 thousand), costs and expenses by ¥9,605 million ($90,610 thousand), operating income by ¥1,464 million ($13,811 thousand), identifiable assets by ¥10,244 million ($96,640 thousand), depreciation expenses by ¥157 million ($1,484 thousand), and capital expenditures by ¥96 million ($901 thousand).

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

The effects of the change on the mass-produced machinery group are to increase costs and expenses by ¥81 million ($765 thousand), to decrease operating income by ¥81 million ($765 thousand), and to decrease identifiable assets by ¥136 million ($1,281 thousand). Those on the environmental protection facilities, plants & others group are to increase costs and expenses by ¥20 million ($191 thousand), to decrease operating income by ¥20 million ($191 thousand), and to decrease identifiable assets by ¥295 million ($2,785 thousand). Those on the ship, steel structure & other specialized equipment group are to increase costs and expenses by ¥74 million ($694 thousand), to decrease operating income by ¥74 million ($694 thousand), and to decrease identifiable assets by ¥766 million ($7,224 thousand). Those on the industrial machinery group are to decrease costs and expenses by ¥3 million ($26 thousand), to increase operating income by ¥3 million ($26 thousand), and to decrease identifiable assets by ¥122 million ($1,151 thousand). Also the effects of the change on Japan segment are to increase costs and expenses by ¥172 million ($1,623 thousand), to decrease operating income by ¥172 million ($1,623 thousand), and to decrease identifiable assets by ¥1,319 million ($12,440 thousand).

9. 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, 2004 is as follows:

	Millions of yen		
	Acquisition cost	Accumulated depreciation	Net book value
Machinery and equipment	¥23,804	¥10,424	¥13,380
Others	241	143	98
Total	¥24,045	¥10,567	¥13,478

	Thousands of U.S. dollars (Note 1)		
	Acquisition cost	Accumulated depreciation	Net book value
Machinery and equipment	$224,570	$98,347	$126,223
Others	2,273	1,346	927
Total	$226,843	$99,693	$127,150

Total lease payments for finance leases which do not transfer ownership to lessees amounted to ¥4,591 million ($43,308 thousand) and ¥4,788 million ($45,168 thousand) for the years ended March 31, 2004 and 2003, respectively.

Future lease payments as of March 31, 2004 and 2003, inclusive of interest under such leases were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
Due within one year	**¥ 4,140**	¥ 4,483	**$ 39,059**
Due after one year	**9,338**	8,713	**88,091**
Total	**¥13,478**	¥13,196	**$127,150**

10. Securities

(A) The following tables summarize book values of securities not stated at fair value as of March 31, 2004 and 2003:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Acquisition value:			
Non-listed corporate bonds	—	¥ 2,000	—
Non-listed equity securities	¥6,813	7,353	$64,268
Others	1,027	1,030	9,692
Total	¥7,840	¥10,383	$73,960

(B) The following tables summarize acquisition costs, book values and fair values of securities with fair value as of March 31, 2004 and 2003:

	Millions of yen		Thousands of U.S. dollars (Note 1)
Available-for-sale securities	2004	2003	2004
Acquisition value:			
Equity securities	¥ 7,105	¥5,843	$ 67,023
Bonds	8	15	77
Others	13	49	123
Total	¥ 7,126	¥5,907	$ 67,223
Book value:			
Equity securities	16,149	5,632	152,353
Bonds	11	21	103
Others	11	36	102
Total	¥16,171	¥5,689	$152,558
Difference:			
Equity securities	9,045	(211)	85,329
Bonds	2	6	26
Others	(2)	(13)	(20)
Total	¥ 9,045	¥ (218)	$ 85,335

(C) Total sales amounts of available for sale securities sold in the year ended March 31, 2004 amounted to ¥2,525 million ($23,824 thousand) and the net gains amounted to ¥1,302 million ($12,286 thousand).

(D) The following tables summarize maturities of available-for-sale securities and held to maturity securities with maturities as of March 31, 2004

	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	¥11	—	—	—	¥11
Total	¥11	—	—	—	¥11

	Thousands of U.S. dollars (Note 1)				
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years	Total
Bonds	$103	—	—	—	$103
Total	$103	—	—	—	$103

11. Derivatives information

The Companies enter into forward currency exchange contracts and interest rate swap contracts as derivative financial instruments. The Companies deal with forward currency exchange transactions to hedge exchange rate risk of monetary receivables and payables denominated in foreign currencies in order to minimize the risk of exchange rate fluctuations. Interest rate swap transactions are made in order to minimize the risk of interest rate increase 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, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
Contracted amount to be paid/received:			
To sell foreign currencies	**¥ 662**	¥2,968	**$ 6,244**
To buy foreign exchange options	**788**	—	**7,429**
To sell foreign exchange options	**1,238**	—	**11,675**
Fair value:			
To sell foreign currencies	**649**	2,893	**6,119**
To buy foreign exchange options	**32**	—	**302**
To sell foreign exchange options	**(10)**	—	**(94)**
Net unrealized exchange gain	**¥ 35**	¥ 75	**$ 334**

(B) Interest rate swap agreements

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

Year ended March 31, 2003	Millions of yen		
	Contract amount	Fair value	Unrealized loss
Interest rate swaps:			
Received float/Pay fix	¥500	¥(12)	¥(12)
	¥500	¥(12)	¥(12)

Year ended March 31, 2004	Thousands of U.S. dollars (Note 1)		
	Contract amount	Fair value	Unrealized loss
Interest rate swaps:			
Received float/Pay fix	**$4,717**	**$(37)**	**$(37)**
	$4,717	**$(37)**	**$(37)**

12. Information regarding retirement benefits

1. Projected benefit obligation on the balance sheet date consists of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
(1) Projected benefit obligation	¥(64,154)	¥(67,047)	$(605,224)
(2) Fair value of employee retirement benefit trust	30,771	23,457	290,291
(3) Unfunded projected benefit obligation	(33,383)	(43,590)	(314,933)
(4) Unrecognized net transition obligation	5,585	11,045	52,683
(5) Unrecognized actuarial difference	11,390	21,647	107,455
(6) Unrecognized prior service cost	227	1,277	2,144
(7) Prepaid pension benefit expenses	(21)	(45)	(199)
(8) Allowance for severance and pension benefit	(16,202)	(9,666)	(152,850)

2. Included in the statements of operation for the years ended March 31, 2004 and 2003 are the following severance and pension benefit expenses:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
(1) Service cost	¥ 4,002	¥ 4,084	$ 37,752
(2) Interest cost on projected benefit obligation	1,675	2,017	15,806
(3) Expected return on plan assets	(311)	(594)	(2,935)
(4) Amortization of net transition obligation	5,459	5,523	51,500
(5)Recognized actuarial difference	1,968	1,466	18,565
(6)Recognized prior service cost	107	201	1,014
(7) Severance and pension benefit expense	12,900	12,697	121,702

3.Assumptions for calculating:

	2004	2003
(1)Allocation of the estimated amount of all retirement benefits to be paid at the future retirement date	Equally to each service year using the estimated number of total service years	
(2) Assumed discount rate	2.0%	2.5%
(3) Expected rate of return on plan assets	1.5%	4.0%
(4)Amortization period of unrecognized net transition obligation	5years	5years
(5) Amortization period of actuarial differences	12years	12years
(6)Amortization period of prior service cost	12years	12years

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of Sumitomo Heavy Industries, Ltd. and consolidated subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of operations, shareholders' equity and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sumitomo Heavy Industries, Ltd. and subsidiaries as of March 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following.
As discussed in Note 1 to the consolidated financial statements, effective April 1, 2003 , the Company changed its accounting policy and expensed as incurred certain selling, general and administrative expenses which had previously been allocated to work in process.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2004 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

Tokyo, Japan
June 29, 2004

KPMG AZSA & Co.

Network

【Domestic Network】

Offices

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

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

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

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

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

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

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

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

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

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

Major Subsidiaries

Sumitomo (S.H.I.) Construction Machinery Co., Ltd.
9-11, Kitashinagawa 5-chome,
Shinagawa-ku, Tokyo 141-8686, Japan
Principal business: Holding Company of Sumitomo(S.H.I.) Construction Machinery Sales Co., Ltd. and Sumitomo(S.H.I.) Construction Machinery Manufacturing Co., Ltd.
Tel: 81-3-5421-8600
URL: http://www.sumitomokenki.co.jp
100% owned subsidiary

Sumitomo Heavy Industries Construction Crane Co., Ltd.
1, Asahi-machi 6-chome, Obu-shi,
Aichi 474-8550, Japan
Principal business: Manufacture and sales of construction crane
Tel: 81-562-48-5151
URL: http://www.sumitomocrane.com
100% owned subsidiary

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

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

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

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

Izumi Food Machinery Co., Ltd.
2-18, Awaza 2-chome, Nishi-ku,
Osaka-shi, Osaka 550-0011, Japan
Principal business: Food processing machinery and related equipment
Tel: 81-6-6543-3500
URL: http://www.izumifood.co.jp
50% owned subsidiary

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

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

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

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

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

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

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

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

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

SHI Control Systems, Ltd.
19, Natsushima-cho, Yokosuka-shi,
Kanagawa 237-8555, Japan
Principal business: Design, production and distribution of various industrial regulating systems
Tel: 81-46-869-2380
URL: http://www.shi.co.jp/scs
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

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

【Overseas Network】

Offices

Sumitomo Heavy Industries (U.S.A.), Inc.
666 Fifth Avenue, 10th Floor, New York, N.Y. 10103, U.S.A.
Tel: 1-212-459-2477
100% owned subsidiary

Sumitomo Heavy Industries (Europe), Ltd.
5th Floor, Bury House, 31 Bury Street, London EC 3A 5AR, U.K.
Tel: 44-20-7621-0100
100% owned subsidiary

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

Major Subsidiaries

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

Sumitomo (SHI) Cyclo Drive Europe, Ltd.
Marfleet, Kingston Upon Hull HU9 5RA, U.K.
Principal business: Power transmission equipment
Tel: 44-1482-788022
URL: http://www.sumitomodriveeurope.com
100% owned subsidiary

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

SHI Designing & Manufacturing Inc.
4th & 5th Floor Fems Tower One, 1289 Zobel Roxas Avenue Cor., South Superhighway, Manila, Philippines
Principal business: Project implementation - from basic design through detailed design to sales
Tel: 632-525-8338
100% owned subsidiary

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

Management
(As of June 29, 2004)

Board of Directors
*a director with representive rights

Yoshio Hinoh*
President and Chief Executive Officer

Eiichi Fujita*
Director

Naoki Takahashi
Director

Kensuke Shimizu
Director

Yukio Kinoshita
Director

Akihiko Yoshii
Director

Hiroyasu Taniguchi
Director

Tsutomu Nishimura
Director

Corporate Auditors

Shuji Toyoda, Standing Auditor

Masaaki Takeuchi, Standing Auditor

Mohachi Sugiyama, Auditor

Hideki Kumagai, Auditor

Exeucutive Officers

Yoshio Hinoh
President

Eiichi Fujita
Senior Executive Vice President
General Manager,
Corporate Operation & Service Group
General Manager, Export Administration Dept.

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

Kensuke Shimizu
Executive Vice President
General Manager, Plastics Machinery Div.
General Manager, Chiba Works

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

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

Yasuo Naide
Executive Vice President
General Manager,
Engineering & Environment Group

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

Shigeru Nisugi
Senior Vice President
Regional General Manager, Kansai Office

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

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

Osamu Sekiya
Senior Vice President
General Manager, Cryogenics Div.
Precision Equipment Group
Deputy General Manager,
Precision Equipment Group
General Manager, Tanashi Works

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

Shinji Nishimura
Vice President
General Manager, Ship & Marine Div.
CEO, Sumitomo Heavy Industries Marine &
Engineering Co., Ltd.

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

Corporate Data

Head office	: Sumitomo Heavy Industries, Ltd. 9-11, Kitashinagawa 5-chome, Shinagawa-ku, Tokyo 141-8686, Japan Tel : +81-3-5488-8336 Fax : +81-3-5488-8056 URL : http://www.shi.co.jp
Founded	: 1888
Incorporated	: November 1, 1934
Paid-in Capital	: ¥ 30,871,651,300
Number of Employees*:	11,318 (Consolidated) 2,838 (Non-consolidated)
Transfer Agent	: The Sumitomo Trust and Banking Co., Ltd.
Stock Exchange Listings	: Tokyo, Osaka
Shares Outstanding*	: 602,625,585
Number of Shareholders*	: 88,484

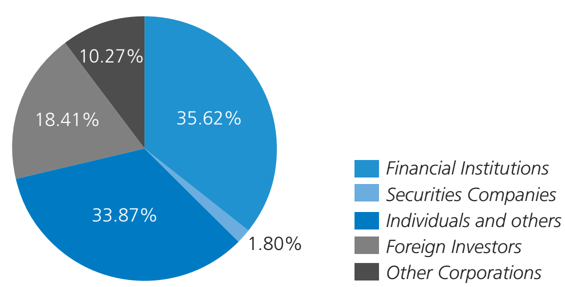
Major Shareholders* :

Name of shareholder	Percentage of voting rights
Japan Trustee Services Bank, Ltd. (Trust Account)	8.70%
The Master Trust Bank of Japan, Ltd. (Trust Account)	6.00%
Sumitomo Life Insurance Company	3.60%
Sumitomo Mitsui Banking Corporation	2.60%
Stock Sharing Group consisting of Trade Partners	2.00%
State Street Bank and Trust Company	2.00%
Nippon Life Insurance Company	1.70%

* As of March 31, 2004

Breakdown of Shareholders as of March 31, 2004

Breakdown of shareholders	Number of shares held (unit 1,000)
Financial Institutions	214,684
Securities Companies	10,899
Individuals and others	204,161
Foreign Investors	110,983
Other Corporations	61,896



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

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

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

http://www.shi.co.jp

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