Sumitomo Heavy Industries, Ltd.

Annual Report 2003

Sumitomo Heavy Industries, Ltd.

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Annual Report 2003

Year Ended March 31, 2003

SHI
Sumitomo Heavy Industries

Sumitomo Heavy Industries, Ltd.

Profile

Sumitomo Heavy Industries, Ltd. first opened for business in 1888 and was incorporated in 1934. An integrated manufacturer of leading-edge industrial products, SHI's core businesses include production and sales of 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

PET cyclotron

The picture on the front cover is of the central part of a small cyclotron used for Positron Emission Tomography (PET). Within the magnetic field generated by electromagnets in the central part of the cyclotron, protons are gradually accelerated in an outward spiraling path (or cyclone) by high-frequency electrodes set between the electromagnets. A radioisotope with a very short half-life is produced through a nuclear reaction occurring when protons accelerated to the speed of light in the cyclotron are irradiated to a target liquid or gas.

※ Please refer to page 18 for the details about the PET cyclotron.

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.

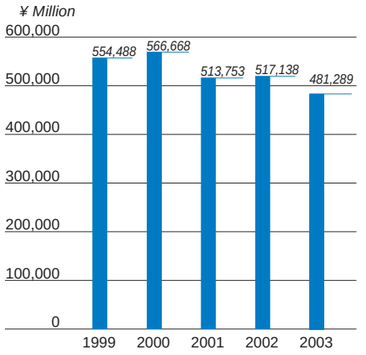
Financial Highlights

SUMITOMO HEAVY INDUSTRIES, LTD. and Consolidated Subsidiaries
Years ended March 31, 2003, 2002, 2001, 2000 and 1999

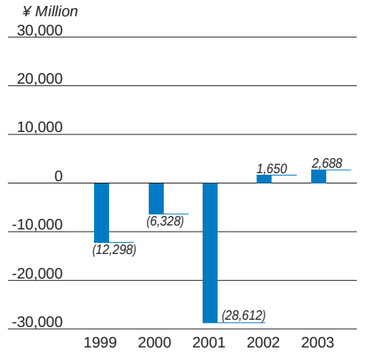
	Millions of yen (except as otherwise specified)					Thousands of U.S. dollars (except as otherwise specified)
	1999	2000	2001	2000	2003	2003
Net sales	¥554,488	¥566,668	¥513,753	¥517,138	¥481,289	$4,010,743
Operating income	9,630	12,709	7,485	14,175	17,213	143,442
Net income/loss	(12,298)	(6,328)	(28,612)	1,650	2,688	22,398
Net income/loss per share of common stock (Yen / U.S.dollars)(2)	(20.88)	(10.74)	(48.60)	2.80	4.57	0.04
Stockholders' equity	72,975	64,829	30,049	87,494	89,331	744,426
Total assets	723,673	657,149	579,772	634,904	588,010	4,900,081
Interest-bearing debt	387,199	341,912	324,325	294,552	273,544	2,279,534
Stockholders' equity ratio (%)	10.1	9.9	5.2	13.8	15.2	—
Interest-bearing debt ratio (%)	53.5	52.0	55.9	46.4	46.5	—
ROIC (%)(3)	1.6	1.9	1.3	2.3	2.6	—

(1) The U.S. dollar amount have been translated, for convenience only, at ¥120=$1, the prevailing exchange rate at March 31, 2003.
(2) Net Income per share of common stock is based on the weighted average number of shares outstanding in each year.
(3) ROIC (Return on Invested Capital)= $\frac{\text{(Operating income + Interest and dividend received)} \times 55\%(=1\text{-Effective tax rate})}{\text{Average of stockholders' equity + Average of interest bearing debt}}$

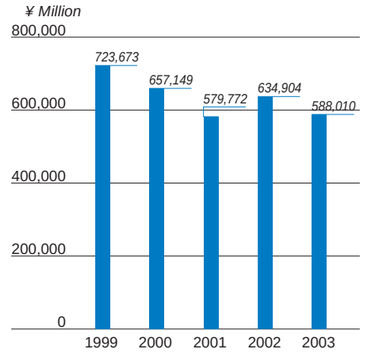
Net Sales



Net Income (Loss)



Total Assets



To Our Shareholders, Customers and Employees,

Yoshio Hinoh
President and CEO

In fiscal 2002 (the year ended March 31, 2003), we initiated a new three-year medium-term management plan, aimed at creating a Powerful Sumitomo Heavy Industries (SHI) Group. Such a Powerful SHI Group cannot be achieved by simply regrouping our nearly 50 business units in terms of profitability. It is essential to reorganize these business units and transfigure them into a workable network to create new value by connecting our business units "organically," making use of the competitive expertise, skills, and technological capabilities possessed by these diversified business units. This network is what we call our "Synergistic Value Chain." When one business unit responds to customer needs, we create true value for customers by dynamically combining the competencies of that unit with those of a totally different business unit. Through this approach, we can create a "positive spiral" where formation of the value chain will lead to stronger competitiveness in each business unit.

Our vast array of products and businesses is a source of the strength needed to realize this synergistic value chain, and a truly Powerful SHI Group can be established by organically connecting these products and services. We will further contribute to customers and enhance their competitiveness and profitability by offering, through our marketing force and global supply chain, distinctive, world-class products based on the "voice of customers."

Our efforts to achieve a Powerful Sumitomo Heavy Industries Group

In fiscal 2002, we focused on four significant management tasks: reorganization of our business structure, reduction of downside risks that undermine profit, downsizing of interest-bearing debt, and human resources development within the Group. To carry out these tasks, we flexibly reallocated management resources, reorganized unprofitable businesses to restore profitability, and invested aggressively in growth businesses.

As for the Group's consolidated results, total sales declined 7% year-on-year to ¥481.3 billion, but we achieved an operating profit of ¥17.2 billion, an increase of 21% year-on-year. This was accomplished thanks to our continuous efforts to reduce variable and fixed expenses such as labor costs. We also posted net income of ¥2.7 billion, an increase of 63% compared to the previous fiscal year.

On a non-consolidated basis, however, we were obliged to record a net loss of ¥0.9 billion owing to extraordinary losses stemming from the write-down of securities. For this reason, with much regret, we decided to suspend dividend payments again this fiscal year .

1) Reorganization of Business Structure

In the current medium-term management plan, we categorized the Group's businesses by profit models into the following three types: 1) Mass-production businesses that focus mainly on value-added products, 2) conventional businesses that pursue profits primarily from factory production, and 3) engineering service businesses that pursue profits mainly by providing technology and expertise. We decided then to focus on promoting growth in mass-production businesses in which we provide world-class mass-produced and precision products, and engineering service businesses in which we provide solutions-oriented services. In line with this approach, we will set and exceed ROIC targets in each type of business*.

*Please refer to P6 for details of medium-term management plan.

ROIC (Return on Invested Capital)=

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

The two major growth drivers in mass-production businesses are gear reducers and plastic injection molding machines. In addition to these areas, we positioned the precision control equipment and components business as a third driver, which has entered a full-scale growth stage, with orders increasing a significant 24% compared to the previous fiscal year. Precision control equipment and components include products such as key components for liquid crystal and semiconductor equipment as well as medical equipment. Such equipment was developed by applying our unique strengths in accelerator, cryogenic and control technologies. Leveraging available resources to promote business expansion and profit growth, we integrated these businesses and established the Precision Equipment Group on April 1, 2003. We also turned part of our former shipbuilding center at the Yokosuka Works into a primary site for cutting-edge technologies such as precision control equipment, and established it as a base for development-oriented businesses. We transferred the Research and Development Center there in 2001, and in fiscal 2002, we established a precision machinery factory at the site, and further, consolidated the laser and semiconductor encapsulating businesses.

Having been newly classified as an engineering service business, the material-handling system business, which includes such products as port cargo cranes, is showing renewed growth. In June 2002, we integrated this area into Sumitomo Heavy Industries Engineering & Services Co., Ltd., which handles service businesses, and transformed its business model into one that draws on comprehensive engineering capabilities, and IT and control technologies to provide high value-added solutions and services. Under this new model, we provided packaged equipment, in line with customer needs, to port logistics companies in Asia and to shipyards in Japan. As a result of these efforts, material handling system orders, including service and maintenance, grew 18% year-on-year to ¥20 billion, leading this area once again to profitability.

2) Reduction of downside risk

We reorganized the structures of non-profitable businesses, which are a major factor dragging down profits. In sales-by-order businesses in particular, we stringently focused on areas which are capable of profitably leveraging our technological capabilities.

Specifically, we first implemented stricter cost management, stressing profitability, throughout the Company, aiming at eliminating unprofitable orders. As a result, we successfully reduced the number of large-scale, unprofitable orders by the end of fiscal 2002.

Second, on April 1, 2003, we moved the shipbuilding segment into a wholly-owned subsidiary, whose large losses from the construction of the ice-breaking Aframax Tankers, significantly affected the Company's bottom line. We newly established Sumitomo Heavy Industries Marine & Engineering Co., Ltd., downsizing its business to ensure profit-generation as a specialized shipbuilder. We also created a low-cost business operating structure and a system to enhance profit management on orders received. Through these efforts, we expect to restore the shipbuilding segment to profitability in fiscal 2003.

Although the ice-breaking Aframax Tankers resulted in significant losses, the technology developed was recognized for its excellence and the ship received several awards** in 2002 both in Japan and abroad.

**We were awarded "Innovation in Shipbuilding Awards (Tankers) of SMM 2002 Awards for innovation in shipbuilding and marine technology" by The Lloyd's List, London in SMM held in Hamburg, Germany. We were also awarded "Ship of the Year 2002" by The Society of Naval Architects in Japan.

Finally, in the construction machinery business, we made our domestic sales subsidiaries profitable and increased exports for hydraulic excavators, and in so doing achieved an operating profit margin of 3.5%. The restructuring activ-

ities we initiated in fiscal 2000 largely contributed to this achievement. Also, in the mobile crane business, where the main products are crawler cranes, we jointly established Hitachi Sumitomo Heavy Industries Construction Crane Co., Ltd. in July 1, 2002 with Hitachi Construction Machinery Co., Ltd., securing the top share of the domestic market. We consolidated all operations in the new company, including development, production, sales and services.

(3) Downsizing interest-bearing debt

For businesses such as construction machinery, which are capital intensive, we further curtailed investment to reduce risk. We also sold a portion of our production facilities, as we consolidated and phased out production bases. Although we continued active capital investment that included construction of a new precision equipment plant, through these efforts to make selective investments, we were able to downsize interest-bearing debt faster than originally planned. Interest-bearing debt as of the end of March 2003 stood at ¥273.5 billion, down ¥21 billion from the previous fiscal year.

4) Human resources development

We are currently working to enhance human resources development across the entire Group in order to further motivate and increase the skill levels of middle management. To this end, we opened an in-house business school in 1999, which to date has seen the participation of 110 managers. The graduates of this school are already helping to boost company competencies and invigorate the organization. We initiated the Six Sigma program in 1999, and we use it as both a managerial tool and as a system for training managers. As of the end of March 2003, more than 270 managers had acquired black belts or green belts, up from 138 at the previous fiscal year-end. Through these education programs, our organization is being imbued with greater dynamism and many managers are taking greater initiative in proactively solving problems.

Fiscal 2003 Initiatives

In fiscal 2003, the second year of our medium-term management plan, we will further reorganize business structures by leveraging our "synergistic value chain" to create customer value. Specifically, we will strengthen our marketing force, bolster cost competitiveness, and promote businesses focused on global markets.

In terms of quantitative targets, we will seek to achieve consolidated operating income of ¥21 billion and consolidated net income of ¥5 billion. We will also work to reduce interest-bearing debt to ¥250 billion as of the end of March 2004 and achieve a 3.3% ROIC. These figures are actually fiscal 2004 year-end targets, the final year of our three-year medium-term management plan, and it seems increasingly certain that we will achieve them a year ahead of time.

1) Strengthening our marketing force

The Group's basic policy for growth is to concentrate resources on world-class products and create customer value with solutions-oriented marketing that leverages our comprehensive capabilities.

To achieve this objective, we established the Corporate Marketing Department successfulling within the Head Office in June 2002, enhancing the marketing power of the Group as a whole. The new department successfully utilized our comprehensive capabilities that transcend any individual business segment to secure several large orders in March 2003. In fiscal 2003, we will share knowledge among business units to further enhance our synergistic value chain in the area of marketing, and also promote marketing activities that leverage Group networks and comprehensive capabilities. Guided by these strategies, we plan to provide products that generate high levels of customer satisfaction.

2) Strengthening cost competitiveness

Cost strategy is of the utmost importance if a business is to survive. In fiscal 2003, we established a global supply chain in China and throughout the rest of East Asia with a view to reduce procurement costs. We will also promote in-house development of high-technology, high value-added key components. In doing so, we will seek to transform our technological strengths—from nano-level ultra precision processing technologies to large precision processing technologies—into differentiated products that are highly competitive by transcending business segments and leveraging our synergistic value chain.

In February 2003, we transformed a former diesel engine plant at our Okayama Works into a precision equipment assembly plant, with a clean room and a full assembly line for ultra-precision positioning equipment, in order to expand sales globally in cutting-edge fields such as liquid crystal panel manufacturing equipment.

We are able to utilize the large-scale precision processing technology, which was developed at the former plant, in the new plant as well. We will apply this example to all of our manufacturing facilities.

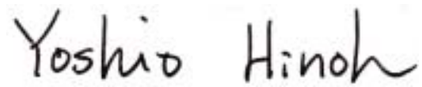
(3) Businesses focused on global markets

It is necessary to further expand our businesses on a global scale if we are to ensure continuous growth. In our core business of mass-produced machinery, we have already established marketing, service, and production bases in Asia, Africa and Europe for power transmissions and controls and plastic injection molding machines, and we plan to initiate further expansion .

For other businesses, we will establish systems for product development, manufacturing, sales and services, which are oriented to the global market in line with the characteristics of each product and activity. Additionally, we will centralize information management related to the overseas strategies of the whole Company, while at the same time promoting regional management that efficiently manages business bases by each geographical area.

The Company is committed to creating corporate value by providing higher value-added products and services. It is our priority to create value for customers and to meet the expectations of shareholders, customers, employees and every other stakeholder.

We are much obliged if we could obtain continuing understanding and support from all the stakeholders.



Yoshio Hinoh
President and CEO

Corporate governance: basic policies and specific measures

The Company's basic policy for corporate governance is to establish efficient and transparent management in order to raise our credibility among stakeholders who include shareholders, customers, employees and society as a whole. We recognize that strong corporate governance is indispensable to the ability to consistently increase corporate value and are, accordingly, implementing the following measures:

(1) Enhancement of the functions of the Board of Directors
In June 2002, we appointed an outside director for the first time ever, who provides advice and objectively monitors the Company's management. We further appointed an attorney and a certified public accountant as outside auditors, and enhanced monitoring systems for compliance and corporate accounting as a whole. Currently, there are eight directors (including one outside director), four auditors (including two outside auditors) and 15 executive officers (of which six are also directors).

As to the issue of remuneration for directors and executive officers, we expanded the scope of performance-based compensation beginning in June 1999 and established a system that links increases in corporate value to compensation and incentives.

(2) Enhancement of our auditing system
The Board of Corporate Auditors plays a central role in audit management. Auditors, accounting auditors and our in-house auditing department all collaborate closely, and we are promoting still greater auditing efficiency while further enhancing the auditing function of the Group as a whole.

(3) Ensuring compliance
We developed the Sumitomo Heavy Industries Compliance Guidelines, and have a compliance committee chaired by the president, and also promote activities for securing and enhancing compliance, fairness, and ethics. The committee regularly reports to the Board of Directors. In February 2001, we introduced a comprehensive risk management system and established the Risk Management Group in order to monitor and take preventative measures for risks incurred in business operations.

4) Improvement of disclosure
In fiscal 2003, we are planning to release our business results on a quarterly basis in an effort to enhance our disclosure-related activities.

Special Feature :
Medium-term Management Plan Progress Report

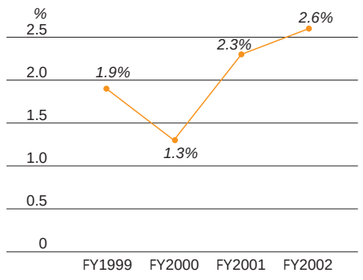
The goal of our three-year medium-term management plan initiated in fiscal 2002 is to create a “Powerful Sumitomo Heavy Industries Group.” Our specific targets are:
(1) Achieve ROIC* greater than WACC**
(2) Achieve consolidated operating income of more than ¥20 billion
(3) Decrease interest-bearing debt 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 2002, we achieved 1) 2.6% ROIC, 2) ¥17.2 billion in consolidated operating income, and 3) reduction of interest-bearing debt to ¥273.5 billion. We estimate we will be able to meet the above targets by fiscal 2003, a year ahead of schedule.

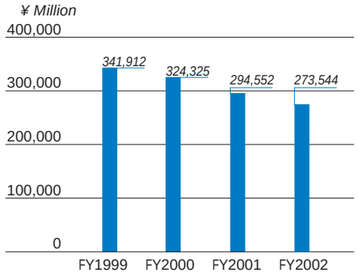
*ROIC (Return on Invested Capital)= $\frac{\text{(Operating income + Interest and dividend received)} \times 55\%(=1\text{-Effective tax rate})}{\text{Average of stockholders' equity + Average of interest bearing debt}}$

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

ROIC

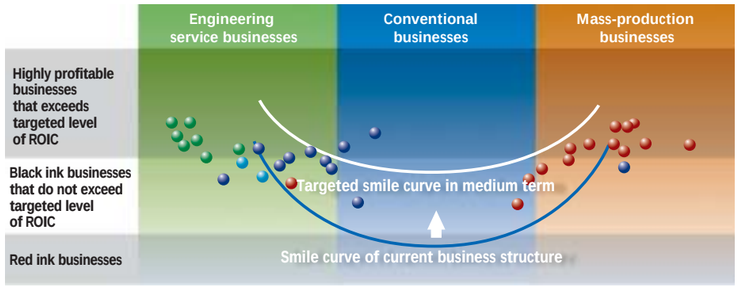


Net Debt



The following chart shows our unique “smile curve.” We first categorized the Group’s business into three types: 1) Mass-production businesses that focus mainly on value-added hardware products, 2) conventional businesses that pursue profits primarily from factory production, and 3) engineering service businesses that pursue profits mainly by providing technology and expertise. We then made the decision to promote growth in two of the three: mass-production businesses and engineering service businesses. In line with this approach, we plan to return red ink businesses to profitability, and for those that are already profitable, we will set and work to achieve ROIC targets.

Through leveraging our synergistic value chain, we are endeavoring to restructure the Group into an assembly of independently profitable, value-creating businesses.

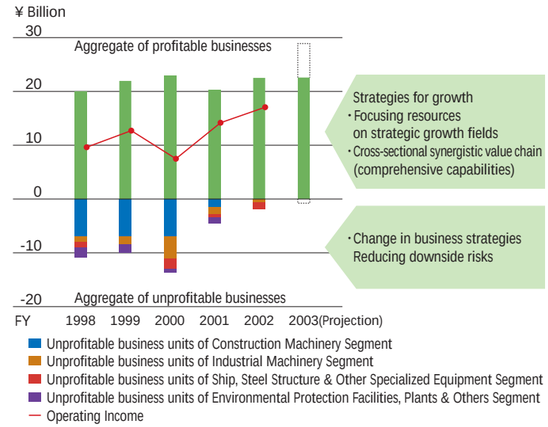


* Colored dots in the chart represent business units

1.Reducing downside risks

The graph at right represents transition of our operating income structure. As shown in the graph, we have consistently maintained more than ¥20 billion in aggregate of profitable businesses in recent years. As for businesses in the red, which were undermining our profit, in the previous medium-term management plan, we promoted restructuring of Construction Machinery, Industrial Machinery and Environmental businesses. In this first year of new medium-term management plan, we launched restructuring of shipbuilding business, and the business is almost certain to recover profitability. Thus, we reduced fundamental elements of downside risks.

Reduction of unprofitable businesses



2.Reorganization of business structure and M&A

The following chart represents major business reorganizations that we have promoted since the introduction of former medium-term management plan.

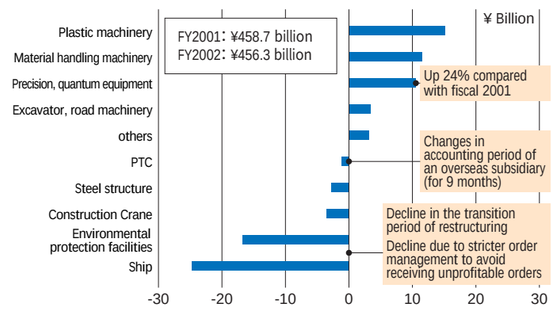
We promoted business acquisition and joint ventures strategically to strengthen each business. Also, we repositioned Yokosuka Works, which used to focus on shipbuilding, as a primary site for cutting-edge businesses, and established precision machinery factory and transferred Environmental Research Laboratory. As for power transmission and controls, and plastic injection molding machine businesses, we established and strengthened overseas business bases to accelerate development in overseas market.

		Acquisition of businesses	Joint ventures and partnerships	Other
Mass-produced machinery	PTC	Osaka Seisa (1999) Seiki-Kogyosho (2000)	Sale of hydraulic products business to Eaton Corporation, U.S., 2000	Enhancement of global supply chain (in China, 2002)
	Plastic machinery	Modern Machinery (2000) Encapsulation equipment (NEC, Shibaura, 2000, 2002)		Enhancement of overseas bases (in Central Europe, Mexico, China, 2002)
	Precision equipment	Optel (Inspection equipment, 2001) APD (Cryocoolers, 2002)	SOPRA, France (Laser optics, 2002)	Establishment of precision machinery factory in Yokosuka (2002) Establishment of laser sales subsidiary (2002)
Environmental protection facilities, plant and others			Foster Wheeler, U.S. (Boilers, 2001)	Transfer of Environmental Research Laboratory to Yokosuka (2002)
Industrial machinery		Shin Nippon Machinery (acquired 100% of its shares, 2003)	Steel works plant and equipment joint venture with NKK, Hitachi Zosen, 2002	Spin-off of press and paper manufacturing machine business (2002) Integration of material-handling system business with a subsidiary (2002)
Construction machinery		Road construction machinery (Niigata Engineering, 2002)	Construction cranes joint venture with Hitachi Construction Machinery, 2002	
Ship, steel structure			Integration of naval shipbuilding business to IHI-MU	Integration of inspection service subsidiary (2002) Spin-off of shipbuilding business (2003)

3. Thorough implementation of business restructuring and order management

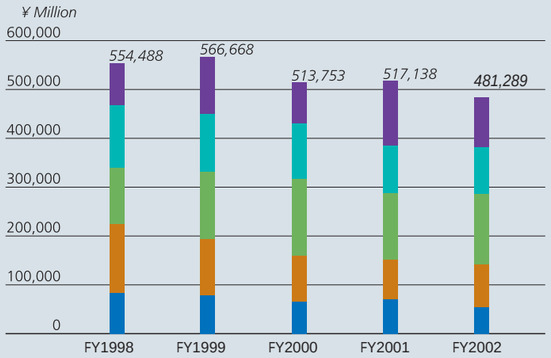
The Group’s order amount leveled out in fiscal 2001 and 2002, both of which are about ¥450 billion. However, as we look at the graph, we see a big change in order structure. We see a significant growth in plastic injection molding machine and precision and quantum equipment on the right side of the “smile curve,” and transportation machinery on the left side, which is categorized in engineering service type business model. Decline in orders in environment and ship segments are due to focus strategy, based on stricter order management on profitability.

Increase or decrease of orders in fiscal 2002 from fiscal 2001

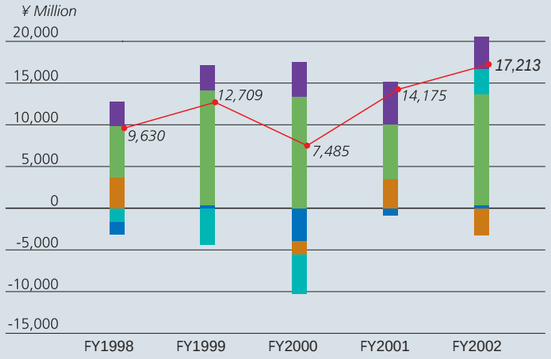


Review of Operations

Net Sales by Segments



Operating Income by Segments



Overview of Business Segments

Orders in fiscal 2002 totaled ¥456.3 billion, almost the same level as the previous fiscal year. Orders decreased in the Environmental Protection Facilities, Plants & Others segment and the Ship, Steel Structure & Other Specialized Equipment segment, as we promoted marketing activities focused on profitability. However, orders increased in the Mass-Produced Machinery segment and the Industrial Machinery segment, due to substantial increases in orders of plastic injection molding machines and accelerators for medical use. Net sales totaled ¥481.3 billion, down 7% year-on-year.

We achieved operating income of ¥17.2 billion, up 21% compared to the previous fiscal year. The Ship, Steel Structure & Other Specialized Equipment segment slipped into the red, but we were able to reduce both variable and fixed expenses including labor costs and increase sales in the Mass-Produced Machinery segment, an area in which we enjoy high profit margins. These were the main reasons why we were able to achieve the double-digit profit increase despite of the decline in net sales.

Looking at performance by segment, sales in the Mass-Produced Machinery segment totaled ¥143.8 billion, up 6% year-on-year, while operating income increased a substantial 106% year-on-year to ¥13.3 billion. These results were due to increased sales of plastic injection molding machines, and in the precision control equipment and components business.

In the Environmental Protection Facilities, Plants & Others segment, sales decreased 23% year-on-year because we did not complete any large-scale projects as we did in the previous fiscal year. This decline in sales pushed operating income down 24% year-on-year to ¥3.8 billion.

Sales increased 8% year-on-year to ¥86.1 billion in the Ship, Steel Structure & Other Specialized Equipment business, as we delivered more large vessels than in the previous fiscal year. However, because the ice-breaking tanker business became unprofitable, we posted an operating loss of ¥3.2 billion, after recording a positive total in the previous fiscal year of ¥3.5 billion.

Due to a drop off in large scale projects, sales in the Industrial Machinery segment declined 23% compared to the previous year to ¥55.7 billion. However, we secured ¥0.3 billion in operating income, recovering from a ¥0.9 billion loss in the previous fiscal year, due to increased sales of accelerators for medical equipment which carries relatively higher profit margin.

In the Construction Machinery segment, sales declined 3% year-on-year to ¥95.4 billion because of a poor performance by our U.S. subsidiary in the crane business. However, thanks to efforts to reduce expenses across the board, we achieved operating income of ¥3 billion, a significant improvement over the previous year's operating income of ¥13 million.

Mass-Produced Machinery

Main Products
Power Transmission Equipment
Plastic Injection Molding Machines
Extrusion Laminators
Cryogenic Equipment
XY Stages
Transfer Molding Press Machines
Laser Processing Systems
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.

Logistics center in Shanghai, China

Orders in this segment totaled ¥151.1 billion, up 17% year-on-year, while sales totaled ¥143.8 billion, an increase of 6% compared to the previous fiscal year.

The Power Transmission and Controls (PTC) business experienced solid demand in fiscal 2002. We continued to improve our competitive positions, with exports to Southeast Asia strong and growing. We embarked on a global initiative to expand the business domain into New Frontier markets and products. Many of these New Frontier initiatives were focused on industries and applications demanding small gear motors with ratings of 90 Watt and below.

In the plastic machinery business, both orders and sales increased dramatically due to strong demand for electric injection molding machines such as those for manufacturing DVD disks, digital cameras and mobile phones. In this business, we newly established sales and service bases in Mexico, Tianjin (China), Poland, and Czecho, with a view to reinforcing our system of support for the globalizing activities of our customers.

The precision control equipment and component business is one of the strategically growing businesses on which we intend to focus. It includes cryocoolers and precision positioning equipment, and it has performed well in both orders and sales. In the area of precision positioning devices, we will promote mass production, and sales and marketing on a global basis, primarily for large liquid crystal panels, a field where growth is expected.

Main Businesses

■ Power Transmission & Controls

Business in fiscal 2002

The Power Transmission and Controls Group continued to strive for success in fiscal 2002. We leveraged new products, logistics development and acquisitions to outperform our global competitors. In spite of the stagnant economy of fiscal 2002, PTC business grew in the domestic Japan markets. Growth was noticeable especially for the industries of semiconductors and plastic injection molding machines, which have recovered forerunning others. In addition, many new markets were developed, creating opportunities for solid business performance for the period. As a result, business performance for 2002 was consistent with the previous fiscal year.

Demand for exports grew in fiscal 2002, especially to Korea and Southeast Asia. Our focus on developing new markets for small gear motors and other products proved successful.

In fiscal 2001, we introduced the Astero gear motor to the global market. This new product formally launched us into the global small gear motor market. The Astero product experienced significant global sales growth in fiscal 2002. This product class is an example of one of the major opportunities shaping the future of the PTC Group. The launch of the new IB series, speed reducers for precision control applications, opened new, high-value markets for us, successfully enhancing our market presence. We recognized the importance to establish global supply chain/logistics, which led to the launch of logistics center in Shanghai, China. It will specialize in distribution, assembly, and procurement for PTC products and components. This effort will continue to enhance the PTC global cost leadership position in the industry. Through the acquisition of Ueda Gear Mfg. Co., Ltd. and Seiki-Kogyosho, Ltd., we continued to strengthen its position as a global leader. These acquisitions created improved utilization of production capacities, rationalization of low-value, redundant product lines, and development of new products by combining advantages of both companies.

Strategies for fiscal 2003

The near term our objective is to attain 20% global market share. The plan is to aggressively promote business in new fron-

tier markets that go beyond conventional product categories. Specifically, PTC and its subsidiaries will accelerate expansion in the small gear motor market, focusing on Astero gear motor. In addition, we plan to provide integrated solution services for the precision control speed reducer market with the new IB Series product.

We will continue to allocate management resources to overseas subsidiaries and markets to strengthen our global network and achieve the target of 20% share of the global market. Finally, we will launch our new corporate brand to strengthen and solidify our global identity. The new corporate brand will provide a powerful image designed to enhance the confidence of customers and project the PTC global network.

■ Injection Molding Machine

Business in fiscal 2002

Supported by strong markets related to the IT industry, mainly in Asia, and the domestic automobile industry, business in injection molding was solid throughout fiscal 2002. Exports of injection molding machines to China grew for the second consecutive year, and were led by active investment in China by these industries. Against this backdrop, demand in the injection molding industry increased 1.5 times compared to fiscal 2001, while orders to the Company doubled.

Launched in fiscal 2001, our SE-D series electric injection molding machines have gained a solid reputation in both domestic and overseas markets, and sales of injection molding machines for DVDs were strong on the back of increased demand for DVDs. We expect these market conditions to continue into the near future.

With customer demand growing for greater diversification and higher added-value, we are reinforcing our lineup of machines for specific purposes, using our most recent model, the SE-D series, as a platform. We are also continuing to develop diverse and innovative application technologies. These approaches generated much enthusiasm at the INTERNATIONAL PLASTIC FAIR 2002, one of three major plastic industry exhibitions.

Strategies for fiscal 2003

In fiscal 2003, we plan to segment our customers by industry, and focus on development and sales of molding machines that are optimized for each segment. Through this approach, we hope to consolidate our leading position as a technological and solutions-oriented provider, capabilities highly valued by customers. We will offer these capabilities through our worldwide network, with a view to becoming a globally-leading integrated manufacturer of plastic machinery in an injection molding industry that is increasingly becoming globalized and borderless. We plan to grow along with our customers by creating a continuously developing "synergistic value chain."

Double-shot electric injection molding machine
"SED-CI series"

■ Cryogenics

Business in fiscal 2002

In fiscal 2002, we began to see the effects of synergies with SHI-APD Cryogenics Inc.(APD) (in the U.S.), which we acquired in the previous fiscal year. Specifically, we have gained over a 90% share on a consolidated basis in the magnetic resonance imaging (MRI) market, and made us a leading company of cryocooler manufacturers. Benefiting from such a position, we were able to establish good relationships with MRI manufacturers to collaborate not only in developing a next-generation cryocooler, but also in growing our global service business.

Despite the adverse effects of the IT recession, total sales in the semiconductor field has increased by more than 50% compared to that of the previous fiscal year because of the customer's business growth in overseas markets. We have introduced new products into the market, such as chiller unit for wafer inspection and a superconducting magnet for silicon single crystal growth, and those products also contributed to such sales increase. As for production, we began operations in the Philippines with a view to achieve global-class cost competitiveness.

Strategies for fiscal 2003

In fiscal 2003, we will grow our business by developing and introducing strategic products, and by leveraging our strengths in the cryogenics business, which includes overseas subsidiaries. Developed jointly with SHI-APD, we will launch a next-generation 4 Kelvin level Pulse Tube Cryocooler and also enter the cryopump market with our newly developed cryopump at an early date.

We will also further expand and strengthen our global sales network, and develop new customers and markets in the fields of research and development, as well as industrial use.

4K Pulse Tube Cryocooler

■ Stage Systems

Business in fiscal 2002

Demand was stagnant in fiscal 2002 in the main market for stages, the semiconductor equipment market. In the market for liquid crystal display (LCD) equipment, however, panel manufacturers have increased their capital expenditure to upsize glass substrate on the back of increased demand for large-screen LCD-TVs. As a result, orders for large-sized precision positioning stages increased, chiefly for resist coaters used in LCD manufacturing equipment.

We believe this increase was the result of our efforts in our solutions-oriented business, which is capable of providing both hardware and software with ultra-precision positioning and control technologies, making us highly valued as a business partner. In February 2003, we developed new photo-resist application equipment jointly with TAZMO Co., Ltd., which enjoys the top share of the market for equipment for color filters, and constructed a new assembly line for this equipment at our Okayama Works. This spin-less photo-resist application equipment, developed by integrating TAZMO's coating technology and SHI's ultra-precision positioning technology, overcomes the drawbacks of conventional methods to enable the large LCD manufactures. It also reduces quantity of photo-resist and cuts down on the space required for manufacturing. The equipment is used by major panel manufacturers.

Strategies for fiscal 2003

We expect an upturn in the investment cycle for semiconductor equipment. Given these expectations, we will likely start mass-production of ultra-precision positioning stages for inspection equipment, our strategic model. We also forecast increases in orders. We plan to develop stages with even higher levels of precision and greater productivity for the next generation of equipment, and we intend to introduce them to overseas markets.

As for the LCD manufacturing equipment market, we expect growth in demand this year, as manufacturers will invest to further upsize glass substrate. We will expand business in large-sized precision positioning stages, mainly for photo-resist application equipment, and inspection and repair equipment.

Large-Travel Gantry XYstage

■ Laser Systems

Business in fiscal 2002

We implemented a strategic plan in fiscal 2002 to expand our laser system business, and launched operations of Sumitomo Heavy Industries Advanced Machinery Co., Ltd., a company formed to develop markets by providing fine-tuned sales and services for domestic users.

In the area of laser systems, we introduced a new series of YAG laser systems with enhanced beam quality in response to the need of the electronics and automotive industries for improved welding and cutting quality. We also launched and began delivery of CO_2 laser drills and UV laser drills for the printed board industry to enhance productivity through higher speeds. Also, in the LCD industry, we delivered multiple laser annealing systems for the mass production lines of major domestic liquid crystal display manufacturers. We also partnered with the French company "SOPRA"(Société de Production et de Recherches Appliquees) in the area of manufacturing and marketing of high-power excimer laser for laser annealing systems, moving ahead of the competition in preparing for the upsizing of liquid crystal display boards.

Strategies for fiscal 2003

Our fundamental strategy in the laser business is to develop applications of appealing laser systems and to create value for customers. We are currently promoting the expansion of our business guided by these objectives. In fiscal 2003, to better meet automotive manufacturers' needs, we plan to provide system that facilitate their advanced processing necessary for environmental preservation and installation of IT devices. For the printed wiring board industry, we will commercialize laser drilling systems with enhanced throughput. In addition, we will provide annealing systems for large-size substrate boards for the LCD display industry, a sector where demand is likely to expand. We will also continue to develop applications for other industries that include the semiconductor, electronics and electronic parts industries.

CO_2 laser drilling machine
for printed circuit board processing "SLR-210T"

Cryocoolers: Boasting the top market share in applications for medical-use MRIs

Cryogenic temperature

This term generally refers to the temperatures below 77 Kelvin, where nitrogen condenses to a liquid. By cooling an object to a cryogenic temperature, useful phenomena, such as superconductivity where there is no electric resistance, can be created.

SHI developed a compact, lightweight cryocooler that makes cryogenic states readily available, with a wide variation of cooling cycles: Gifford-McMahon, Stirling, and pulse tube. Gifford-McMahon cryocoolers are used in cryopumps, and especially 4K type is widely used in MRI equipment. Stirling cooler is mainly used in analytical applications, and pulse tube cryocooler, with its unique cooling theory, is expected as the next-generation cryocoolers.

*K:Kelvin= − 273℃

Applications

-Creates superconductivity: cooling superconducting magnets such as those used in MRIs

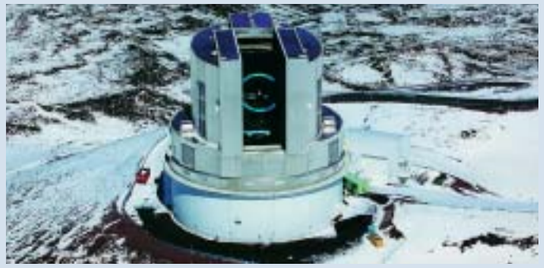
-Achieves ultra-high vacuum through gas absorption: ultrahigh vacuum pump (cryopump) for semiconductor equipment, etc.

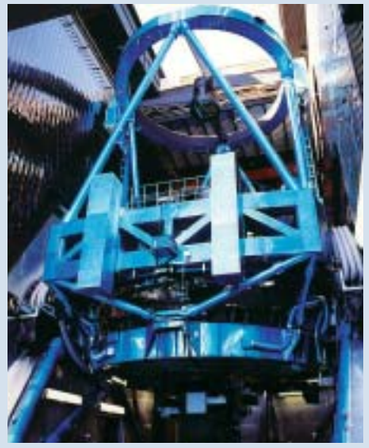
-Cryogenic refrigeration: radio astronomy observatories, cooling X-rays and infrared sensors for inspection purposes in semiconductor and other industries

More recently, applications of superconductivity have extended to protein analysis, superconducting power generators, superconducting magnetic energy storage, superconducting filters for communications, and other areas.

4K Gifford-McMahon Cryocooler

Examples of use of our cryocoolers





Subaru Telescope in Hawaii operated by the National Astronomical Observatory of Japan

MRI for medical use

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.
Sumiju Environmental Designing, Inc.

Orders in the water and sewage treatment business were buoyant, owing to marketing activities focused on profitability. However, due to declines in public-sector investment as well as stagnant orders for municipal waste incineration plants, orders in this segment totaled ¥84.2 billion, down 16% year-on-year. Sales also decreased to ¥100.3 billion, down 23% compared to the previous year. The drop off in sales was due to changes in accounting methods for large-scale projects. In the previous fiscal year, sales of large-scale incineration plants for local governments and large-scale environmental systems were posted using lump-sum recognition on delivery, however, starting from the fiscal year under review, large-scale projects were posted using the percentage-of-completion method, in which recognition of sales is met as construction progresses.

Main Businesses

■ Water and Sewage Engineering

Business in fiscal 2002

The Water and Sewage Engineering business has been developed as a core business, and boasts stable orders, sales and profitability, especially in the field of sewage engineering. However, in fiscal 2002, due to budget cutbacks and intensified competition, both orders and sales fell short of the previous fiscal year. Given these harsh conditions, we reviewed our ordering system and promoted high value-added projects, and as a result, the profit margin of this business increased substantially compared to fiscal 2001.

Further, despite the deteriorating market environment, we were able to expand orders in the field of water engineering, a new area of business, and also successfully received orders for design-build, highly advanced sewage treatment demonstration facility, and integrated maintenance and management services. Through these activities, we worked to develop a new business platform, and expand the scope of our businesses.

We have recently conducted verification experiments in Mihoro, Hokkaido Prefecture on circulating fluidized-bed reactor (which have a throughput of 10 tons per day) to test for sludge reduction performance. The desired results were obtained and we delivered the boilers to Mihoro. The success of this project should prove a stepping stone to increased orders of incinerators in the future.

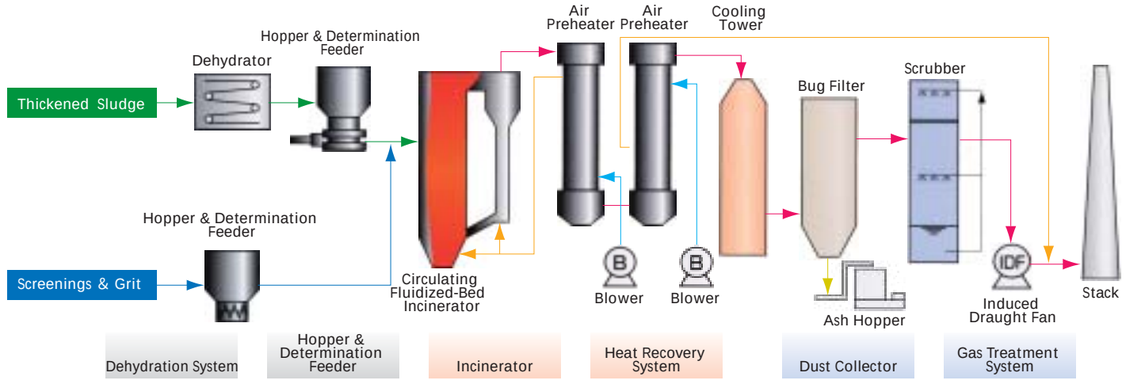
Strategies for fiscal 2003

In fiscal 2003, we will promote the long-term stabilization of our businesses and work to improve performance.

As a step toward stabilization, we will further develop new products that adapt to expected increases in demand for rebuilding and renovation work. As part of these efforts, we will endeavor to quickly launch products onto the market that we have been developing since last year, such as the Sludge Collector and Aeration Equipment.

Furthermore, we have begun developments that will comprise the future base of our plant business, such as technologies for sewage reduction and sewage sludge treatment systems. Even in the water and sewage engineering market, we are now required to have more focus on the needs of private sector, and we are seeing substantial changes in price, quality and delivery time. To adapt to these changes in the market, we plan to more actively

3S system



share technologies and personnel among water treatment-related departments.

■ Environmental Systems

Business in fiscal 2002

Local governments are a source of potentially strong demand for renovation work related to the Municipal organic waste treatment recycling plant business. However, government subsidies are hard to come by and the order environment is less than favorable. In the fields of Livestock excreta and organic waste treatment, key businesses for future growth, we are gearing up to commercialize products in concert with the promotion of the Biomass Nippon Strategy*.

We received an order from SENROKU KANKYO EISEI SHISETSU KUMIAI in fiscal 2002 for a Municipal organic waste treatment recycling plant in Nagano Prefecture. The facility consists of water treatment facilities for human waste, and methane fermentation equipment for raw garbage and sewage dehydration sludge. This is the first case in which a project has been covered by cross-organizational subsidies from the Ministry of the Environment and the Ministry of Land, Infrastructure and Transportation.

Also, cooperating with Yokosuka-city in Kanagawa Prefecture, we succeeded in operating a garbage collection truck with biogas as fuel for the first time ever in Japan. The fuel was produced from household garbage by means of methane fermentation. This was the first trial in Japan.

*Strategies to promote the comprehensive use of biomass

Strategies for fiscal 2003

In fiscal 2003, grant conditions for subsidies are expected to ease. We therefore expect about a 30% increase in subsidies compared to the previous fiscal year, with the forecast market size of sludge recycling facilities at ¥40 to ¥45 billion, an increase of 15 to 30% year-on-year. We hope to achieve a 20% market share in orders of facilities and for new businesses by stepping-up marketing activities.

As for new businesses, we will focus on making profitable the technology for turning raw garbage into methane, which is our key technology for securing future business. We will also strengthen the organic waste treatment field as a whole, including Livestock excreta.

■ Energy-related plants

Business in fiscal 2002

While efforts to prevent global warming have accelerated worldwide, in fiscal 2002, the promotion of new energies has come into full swing, especially the commercialization of biomass and thermal recycling of waste products. The Company has formed an alliance with the Foster Wheeler Power Group in the area of circulating fluidized-bed boiler (CFB) technology. CFB is adaptable to diverse fuels, and we expect to develop promising markets that maximize its advantages.

The Company has promoted its marketing activities by aggressively leveraging the Foster Wheeler Group's vast experience in biomass and Industrial Waste Burn Power Generation, and has worked to expand its power plant business. As a result of these efforts, we received orders for a large-scale biomass power plant facility (50,000 kW) from Summit Myojyo Power Corporation, a first for a Japanese manufacturer.

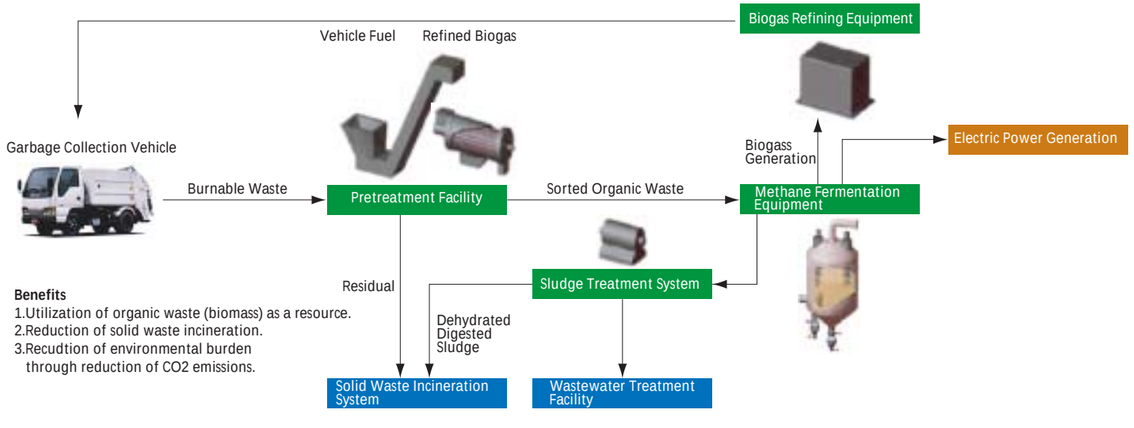
Strategies for fiscal 2003

As laws related to new energy continue to develop and electric power area is further deregulated, we expect increased demand in the domestic market for projects related to biomass and industrial waste burn power generation.

We will work to enhance our business activities to achieve the top position in the domestic market, leveraging our strength in CFB technology and our network dedicated to creating value for customers.

We will also endeavor to further stabilize our businesses in order to secure ¥15 billion in annual sales from combined domestic and overseas markets.

Biogas demonstration plant treatment flowchart



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.

In fiscal 2002, orders in this segment declined 31% on year-on-year basis to ¥58.6 billion, due to our efforts to reduce unprofitable contracts in shipbuilding business and the influence of cutbacks in public investment for bridges and other specialized equipment. Sales in this segment however increased 8% compared to the year previous to ¥86.1 billion, as we successfully delivered a number of large vessels including two ice-breaking Aframax Tankers, five Aframax Tankers, and an destroyer. In the shipbuilding business, we oriented our sales and marketing activities toward profitability rather than expansion in business size. These efforts resulted in orders of a total of six vessels that included Panamax Bulk Carriers. With this, we secured revenue until the end of fiscal 2004.

Main Businesses

■ Bridges

Business in fiscal 2002

Orders have been declined for steel bridge market, a core business of the Steel Structure and Process Equipment Department, due to the Japanese government's restructuring of public works as a whole. The market scale has also contracted still further because of the increasing claims to cut costs due to reduced budgets. Furthermore, the privatization of four Japan Highway Public Corporations has little room for postponement. In this harsh market environment, we have aggressively been promoting solutions-oriented marketing activities.

Specifically, we enacted countermeasures against the customer's need to lower costs. We also participated in the construction projects for large-sized bridges and developed markets for bridge-related businesses by reinforcing our technological capability of creating value-added products. These efforts resulted in orders for the Sakuragi Bridge ordered from the Japan Highway Public Corporation Shikoku Regional Bureau, and the Steel-Concrete Hybrid Caisson in the Ohtsu Area from the Yokosuka City Office in Kanagawa Prefecture, and other projects.

The Sakuragi Bridge is a deck type Lohse bridge featuring a beautiful arch, and we successfully lowered its construction cost by using a cost-saving design. For the Steel-Concrete Hybrid Caisson constructed in the Ohtsu Area, we made the caisson lighter and more durable by employing a hybrid structure that combines the merits of steel and concrete with adding a wave-dissipating function to the caisson itself. This is an exemplary example of our efforts to upgrade our structural products.

Strategies for fiscal 2003

Uncertainty about the future has been increasing, as both size and value of the market continue to shrink and business conditions continue to change dramatically. Responding to this situation, we will acknowledge changes squarely and firmly take appropriate measures ahead of them. We will also promote the creative activity of "synergistic value chain" to strengthen our organization.

In fiscal 2003, we plan to expand the scale of our business by enhancing competitiveness in the area of product and service quality. To achieve this objective, we will step up marketing activities backed by our technological capability, and become a leader in cost competitiveness. We will also differentiate ourselves from the competitors by adapting new technologies and construction methods and further raising the quality of bridge maintenance business, as well as enhancing our market presence through strategic marketing. We will become a leader in cost competitiveness by reducing costs primarily in production and construction, and will pursue a profit business model that is resistant to changes in the marketplace.

■ Ships

Business in fiscal 2002

The shipbuilding market in fiscal 2002 was stagnant for the first half, however, in the second half, orders increased rapidly in line with a recovery in Tanker and Bulk Carrier shipping market. As a result, total orders worldwide in the shipbuilding market for fiscal 2002 exceeded 30 million gross tons, the total volume of ships completed in one year globally. This figure, however, does not quite match the record amounts of 2000 and 2001.

The Company received orders for four Panamax Bulk Carriers and two Panamax Tankers. Eight vessels were completed and delivered: one destroyer, five Aframax Tankers, and two ice-breaking Aframax Tankers. On March 31, 2003, after completing and delivering its last ship, a destroyer, Uraga Shipyard closed its business and fully transferred its naval shipbuilding business to IHI Marine United Inc. Uraga Shipyard built a large number of ships over the years and also handled ship repairing, winning the confidence of customers and leading the modern shipbuilding industry in Japan for over 105 years since its establishment.

Strategies for fiscal 2003

We spun off our merchant ship business on April 1, 2003 and newly established it as Sumitomo Heavy Industries Marine & Engineering Co., Ltd. We promote businesses for growth and profitability with an organization that consists of three divisions and three departments: the Business & Technical Development, Construction Management, and Ship Repair & Reconstruction divisions, and the Marine Engineering, Quality Assurance, and Planning & Administration departments. We are committed to being a company that always exceeds customer expectations and that is bolstered by employees who are devoted to mutually enhancing their capabilities.

To achieve these objectives, we will further enhance our solutions-oriented marketing activities by integrating the capabilities of marketing and technological teams and working to create value for customers.

Industrial Machinery

Main Products

Cyclotrons for Medical Use
Ion Accelerators
Plasma Coating System for FPDs (Flat Panel Displays)
Logistics & Handling Systems
Automated Parking Systems
Moving Sidewalks
Forging Machines
Material Handling Systems
Iron & Steel Manufacturing Machines

Major Units

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

Orders in the Industrial Machinery Segment totaled ¥65 billion, a 38% increase compared to the previous fiscal year. This was partly due to favorable demand from private medical institutions for accelerators for positron emission tomography (PET), an advanced medical system for effective detection of early cancer. We also received orders for shipyard cranes for the domestic market and port cranes for the Asian markets. Sales, however, totaled only ¥55.7 billion, down 23% year-on-year, despite the sales realized by deliveries of shipyard cranes. The sales result was partly due to transferring the transportation system business to one of our subsidiaries.

Main Businesses

■ Quantum and Advanced Equipment

Business in fiscal 2002

Fiscal 2002 was a memorial year for the quantum and advanced equipment business, with orders exceeding ¥10 billion. We especially allocated management resources to the areas of accelerators and FDG synthesis equipment for PET, in which we recognized rapid growth. As a result, orders in the medical field totaled ¥6 billion, among ¥10 billion in total orders. This was because PET examinations using FDG radiopharmaceutical were approved for public health insurance coverage.

PET system requires an expensive investment for medical institutions, and it had been difficult to secure stable revenues from them. Implementation of this system was limited to hospitals involved in advanced medical treatment, mainly national and university hospitals. Being approved for insurance coverage, however, the PET market has rapidly expanded, with private hospitals beginning to install new systems and provide examinations in which payments are covered by the patient for screening and reimbursed by insurance when they are diagnosed to suffer disease.

Small cyclotron for PET "CYPRIS HM-10"

In conjunction with CYPRIS-MINItrace, an accelerator introduced in collaboration with GE Medical Systems in 2001, we have commenced to facilitate in-house production to make the system suitable for the Japanese market. We are also promoting the application of other related equipment to medical devices, and developing associated technologies with maximum efforts.

Strategies for fiscal 2003

In fiscal 2003, the field of medical related business will continue to be the primary focus of our business activities. We will especially devote our efforts to the PET business, an area we expect to continue to grow, and establish systems to respond to diversifying market needs. First, we will enter overseas markets, aiming to become a leading company on a global basis. We are also planning to introduce advanced systems that meet the need for supplies of FDG radiopharmaceutical. We will promote marketing activities to secure orders of proton therapy systems, a product we began developing ahead of the competition, just as we did for the PET business.

In addition, we will organize our businesses into two categories—those from which we expect future growth and those projected to maintain a certain volume of business in order to prioritize areas of focus. Specifically, we will create the module business section by integrating component equipment, such as accelerators for ion plating in semiconductor manufacturing, and plasma coating systems for flat panel display manufacturing. In the category of businesses projected to maintain a certain volume of business, we will place physics-related equipment, such as space related equipment developed using our cryogenics system, large-scale accelerators, and lifting magnets including those for lifting steel plate, an area in which we boast the leading market share. Through this system of categorization, we will be able prioritize businesses for optimal resource allocation.

■ Parking Systems

Business in fiscal 2002

In fiscal 2002, a number of large-scale high-rise condominium projects were planned and launched in central Tokyo, which helped produce favorable results in our mechanical parking facility business for condominiums. We delivered GPS series large-scale puzzle parking system to central Tokyo redevelopment projects in the Roppongi, Shiodome and other areas. These systems feature high levels of efficiency, a large capacity, and expedited vehicle loading and unloading. Of all the redevelopment projects in which we were involved, media exposure was especially significant for ROPPONGI HILLS MORI TOWER developed by Mori Building Co., Ltd., which held its grand opening in April 2003. The 315-car capacity, GPS large-scale mechanical parking systems employed in this project likely indicate the direction technology is heading for regarding mechanical parking systems for these kind of projects.

Strategies for fiscal 2003

Several large-scale high-rise condominium projects and redevelopment projects are planned for urban areas in fiscal 2003, and we expect growth in demand for parking systems that efficiently utilize basement space. We project growth in the efficient, high-capacity GPS series and Sumi-park-Ace puzzle parking system. In addition, we recently introduced the Sumi-park e-PAZL mechanical parking system for semi-basements in residential houses, thereby enhancing our lineup of small-sized systems and expanding the scope of targeted clients and businesses.

■ Material Handling Machinery & Systems

Business in fiscal 2002

In fiscal 2002, investment in material handling systems by domestic manufacturing industries as a whole was almost the same level as the previous fiscal year. However, we received a large number of orders for cranes mainly Goliath cranes and Jib cranes, from the regarding shipbuilding industry, which enjoyed an influx of orders. Orders for indoor handling equipment, such as cranes for steel manufacturing and overhead travelling cranes, were favorable, including those in need of refurbishment because of reduced maintenance or aging due to long-term cutbacks in capital expenditure. Orders for services such as maintenance on existing equipment also increased.

We are moreover developing new businesses where we add value to existing products and services by utilizing our integrated engineering capabilities and IT management technology. In the year under review, we developed s-CATO, a system for optimizing and efficiently integrating container port logistics, and launched this business in April 2003.

The s-CATO is the first case of a system that uses a mobile phone as the port logistics operation terminal, and it is garnering attention overseas for potential use at large-scale container terminals.

Strategies for fiscal 2003

In fiscal 2003, we expect investment in material handling systems to mark time. Investment will mainly be for replacing aging equipment, automation, saving labor, and extending the service lives of existing equipment. Given this situation, we will seek to develop “leading products,” nurture “leading problem solving capabilities” and attain “a top rank in quality, cost and delivery (QCD).” To meet this goal, we will enhance competitiveness in QCD, developing new services and products, promoting technology-related alliances, and collaborating with partners on a global scale. On the whole, we will work to provide value to customers by enhancing synergy between services and products.

e-PAZL mechanical parking system for semi-basement

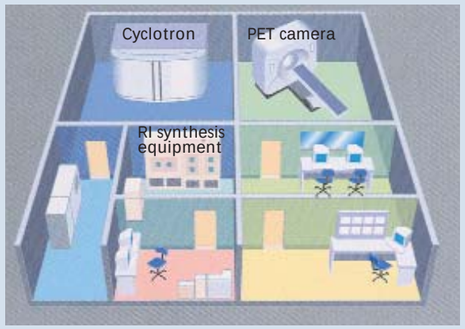
Tire mounted jib crane for Aburatsu Port (Miyazaki Pref.)

Cyclotrons for PET: that contribute to the identification of malignant tumors and the early detection of cancer

What is PET?

Positron Emission Tomography (PET) is an examination method for detecting the cause and condition of diseases by measuring changes in metabolic activity and the flow of blood within the body and capturing movement of the heart and brain in tomographic images.

PET examination is conducted by first administering a positron emitting radioisotope (RI) synthesized pharmaceutical that is taken into a patient's body through injection or inhalation and then taking photographs of the distribution of the pharmaceutical throughout the body with a PET camera. The RI used for PET examination is produced using specialized equipment set up in a hospital, as it has a very short half-life.



Diagnostic range of PET

Cancer diagnosis using PET with FDG was approved for public health insurance coverage in April 2002. A PET examination consists of the following procedures:

⇒Production of a short half-life RI (fluorine) using a cyclotron
⇒Production of a pharmaceutical by labeling* the RI (fluorine) with glucose
⇒Administration of the pharmaceutical through intravenous injection (the patient must stay still for 40 to 60 minutes until the pharmaceutical has spread throughout the body).
⇒Positron emission tomography
⇒Confirmation of FDG anomaly uptake concentrated on malignant tumor.

As the glucose metabolism of cancer cells is more active than that of normal cells, examination is conducted by administering fluoro deoxyglucose (FDG), which is useful in examining glucose metabolism levels, and measuring its distribution. A person's entire body can be examined by PET all at once in diagnosing cancer and it is therefore effective in examining stages of malignant tumor, metastasis and recurrence of tumors and can even detect whether a tumor is malignant or benign. PET examination is finished over a short period of time (about 30 minutes), which enables PET to be used for physically weak patients and the elderly.

PET examination is currently used mainly for clinical diagnosis of cancers, but PET research is being vigorously promoted for the applications of brain-related and heart disease examinations. For the brain, PET is being used to detect brain infarction and diseases such as Alzheimer's at their early stages of development. For heart disease, glucose metabolism and the flow of blood are measured to check the activity of cardiac muscle, a process that helps doctors to select effective treatment methods.

Examples of PET pharmaceuticals

PET pharmaceuticals	Examination purposes	Half-life
18F-fluoro -deoxyglucose	Cardiac function, tumor and brain function	110 minutes
15O-oxygen	Cerebral metabolism rate of oxygen consumption	2 minutes

SHI products related to PET

We manufacture and market a small compact cyclotron CYPRIS, which produces RIs, as well as various synthesis equipment used in the production of PET pharmaceuticals (FDG and oxygen). Among these, FDG synthesis equipment used for cancer diagnosis was approved by the Ministry of Health, Labor and Welfare for manufacturing as a medical device and is now approved for public health insurance coverage. We provide three types of accelerators for PET in response to various needs and hold a domestic market share of about 60%.

*PET: Positron Emission Tomography
*RI: Radio Isotope
*Labeling refers to the incorporation or replacement of a portion of a chemical compound with positrons (electron with positive charge), which serve as markers. The labeled compound emits positrons, which collide with electrons (ordinary electron with a negative charge) and generate radiation. This radiation is detected by the PET equipment.
*FDG: Fluoro-deoxyglucose


Small cyclotron for PET
CYPRIS HM-10


Small cyclotron for PET
CYPRIS HM-18


RI Synthesis Equipment


Small cyclotron for PET
CYPRIS HM-12

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

Domestic demand for construction machinery in fiscal 2002 declined by 15% from the previous year's level for six consecutive years owing to decrease in public and private investment, and also weak investment in the housing sector. Exports of construction machinery, however, increased 34% year-on-year, as demand was buoyant, particularly from China. As a result, shipments surpassed the level of the previous fiscal year for the first time in six years. Orders in fiscal 2002 totaled ¥97.5 billion, up 1% year-on-year, while sales totaled ¥95.4 billion, down 3% from the previous fiscal year.


Link-Belt 800LX
distributed through LBX sales network


CX130 distributed through Case corpration sales network (CNH)

Main Businesses

■ Hydraulic excavator and road machinery business <Sumitomo (S.H.I.) Construction Machinery Co., Ltd.>

Business in fiscal 2002

In the domestic hydraulic excavator business, we added some new models to our lineup of material-handling machines to increase flagging demand for new machines. The material-handling machines were developed based on a standard hydraulic excavator and are targeted at the growing environment- and recycling-related markets. We also introduced new machines including those for scrapping metal, and we positively promoted marketing and sales, exhibiting them throughout Japan. We also worked to increase sales of used machines and secure profits in service-related businesses such as maintenance that have been our focus since the previous fiscal year.

In overseas markets, we strengthen alliances with CNH Global N.V. and LBX Company, which contributed to an increase in exports of excavators to the U.S. and Europe. We also saw favorable results in exports of new excavators to China, an area showing remarkable growth. Further, we introduced large machines, minimum swing radius machines and specially adapted machines as applications of Neo-Power-Pax series excavators in not only U.S. and European, but also Asian and Oceanian markets.

In the road construction machinery business, we took over the Asphalt Finishers (road paving machines) business from Niigata Engineering Co., Ltd. in July 2002. Sales of these machines by Niigata Engineering was considerable, so the takeover has helped Sumitomo (S.H.I.) Construction Machinery strengthen its business platform in the Japanese market, and inheriting Niigata Engineering's customers and after-purchase services has consolidating its top share of the market. Developed combining the two companies' technologies, we launched Japan's first Road Paver with tack coat spreader in March 2003 onto the market to considerable fanfare. The new machine will contribute significantly to increasing the productivity of road construction work.

Strategies for fiscal 2003

We expect sluggish domestic demand to continue throughout fiscal 2003. Given these conditions, we will work to develop and expand sales of specially adapted machines, environment-related machines, and road machinery, while focusing on profitability. We will also expand our customer base by exhibiting new machines in large-scale exhibitions, such as the Energy and Environment Exhibition and the Construction Equipment Exhibition. We will also dedicate ourselves to boosting profitability of rental and used machines, and service-related businesses.

We continue launching to the market not only new models of Asphalt Pavers but also high performance pavers. Responding to the market needs is our mission as a leading company and can reinforce our position as a No.1 market share manufacturer.

Demand is expected to mark time in overseas markets, where contraction in the European market is expected to be offset by growth in China. Accordingly, we will maintain current sales levels in the U.S. and Europe, cooperating with CNH and LBX, while developing and strengthening sales and service networks in China.

Road Paver with tack coat spreader

■ Crane Business <Sumitomo Heavy Industries Construction Crane Co., Ltd.>

Business in fiscal 2002

In the crane business, Sumitomo Heavy Industries Construction Crane Co., Ltd. and Hitachi Construction Machinery Co., Ltd jointly established Hitachi Sumitomo Heavy Industries Construction Crane Co., Ltd. on July 1, 2002, integrating development, production, sales and services related to the crawler cranes and the rest of the crane business, and securing the top slot in the global crane market. The new company promotes marketing and sales under the single brand name "HITACHI SUMITOMO" and through a single distribution channel.

Stagnant demand persisted, however, as total sales in the domestic market declined 20% compared with the previous fiscal year. Despite these harsh economic conditions, though, we were able to achieve a leading market share of 50%. Even with

Crawler crane "SCX900-2"

demand also shrinking in the U.S. market, we gained a 30% market share by introducing machines that meet emissions regulations. In Asia, with demand active for urban infrastructure construction, we saw increases in orders for large machines such as 200t to 250t models.

In the area of production, we implemented a cell production system in order to further advance our production-by-order system as a means of coping with demand fluctuations, to shorten lead times and to boost efficiency.

Strategies for fiscal 2003

We will roll out a new series of crawler cranes in the domestic market, including 90t models, to consolidate our dominant market share. In Asia, we will establish a sales and service base in China to meet urban infrastructure-related demand and introduce cranes optimized to local needs, such as large crawler cranes and wheel cranes. In the U.S., we plan to cooperate with Link-Belt Construction Equipment Company (LBCE) and launch new types of large machines to cultivate demand. We will also further strengthen our alliances with LBCE, Hitachi Construction Machinery Co., Ltd. and Tadano, Ltd. to leverage synergies in the crane business as a whole, including development, sales, production and services.

Research and Development

Research and Development (R&D) Strategies

As strategically growing businesses, the SHI Group devotes its energies to leading-edge technological fields such as semiconductors, liquid crystal, IT and medicine. We emphasize R&D activities and work toward expedited commercialization in these areas, and we are also strengthening the basic technologies that will provide a competitive advantage to our products.

We have transferred R&D bases and business departments that are involved in cutting-edge technology to Yokosuka, in order to further enhance product competitiveness and accelerate development speed. The Research and Development Center was transferred there in 2001, with the Laser System Division and two subsidiaries, SHI Control Systems, Ltd. and Synex Corporation joining it in October 2002. The Environmental Research Laboratory was also moved to Yokosuka from Hiratsuka.

R&D investment in fiscal 2002 totaled ¥10.3 billion, which, as can be seen from the graph, represents a decline from the previous fiscal year. This was due, however, to enhanced efficiency and greater focus in R&D activities. New products produced from these activities, account for 35% of the total sales of the Company.

Yokosuka Works

Superconducting magnet for silicon single crystal growth

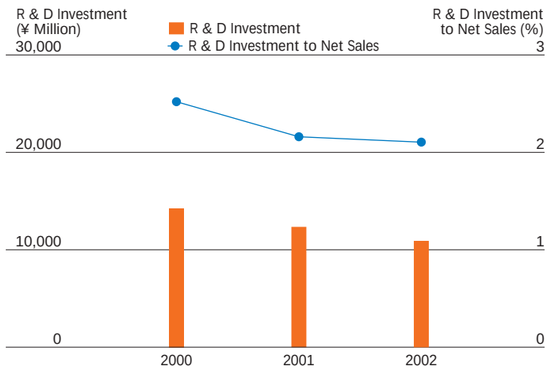
Major Achievements in R&D

(1) Growth business areas

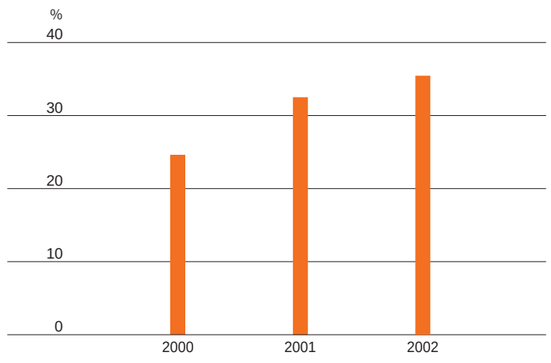
Semiconductors and liquid crystal manufacturing equipment

The Company has been involved in developing cryogenic and superconduction technologies for quite some time, and our efforts have already given rise to an array of products. By utilizing these technologies, we developed a superconducting magnet for growing 300 millimeter silicon single crystals—a material that is becoming the mainstream for semiconductor wafer—and introduced it onto the market. By using our cryocooler, the mag-

Research and Development Investment (Consolidated)



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



FDG systhesis equipment for PET

net's temperature is brought to -269 ℃(–425 ℉), creating a superconducting, strong magnetic field. The silicon single crystal is pulled up in this magnetic field, which generates uniformity in the crystal and thereby enhances its quality.

Additionally, we developed and launched an ultra-precision wafer grinding machine by integrating our exceptional, large machine-tool technology with our precision positioning and control technologies. This grinding machine is capable of creating extremely flat surfaces, allowing it to adapt to increases in wafer diameter and progress in fine devices.

Our precision positioning devices are accurate down to the nano-level, and, in this area, we started full-scale mass production of gantry positioning devices for resist coaters, which are used for manufacturing liquid crystal displays. We also commenced mass production for ultra-precision positioning devices for wafer inspection.

These devices are extremely popular with customers for their high levels of precision, and their high and stable speeds, qualities which bring about enhanced productivity.

Responding to the trend toward increasingly larger flat panel displays, we introduced a new model of excimer laser mounted in an annealing system, a device used in the manufacture of such displays. We also developed a proprietary 300 W laser in response to the need for higher powered lasers. These lasers are used in next-generation manufacturing equipment for liquid crystal displays that are compatible with larger displays sizes. In addition, we entered into a technical tie-up with the French company SOPRA for both manufacturing and sales. SOPRA is an optical equipment manufacturer that produces high-power excimer lasers. SOPRA's lasers help enhance the quality of large displays and reduce maintenance and other operating costs for manufacturing equipment.

Information Technology

In the area of IT, we developed specialized molding machines for focused processing targets, enhancing our lineup in response to diversifying customer needs. The new machines are based on electric injection molding machines that excel in both cleanliness and productivity. They include machines for processing DVDs and other disks, those for processing lenses for digital cameras and other applications, and double-shot injection molding machines that are able to simultaneously handle two different plastic materials of two different colors. Other than plastic injection molding machines, in the area of lens processing, we also developed a glass-molding machine for optical devices.

Medical Field

The Company manufactures and sells accelerator and drug synthesis equipment for positron emission tomography (PET), a technology used to diagnose diseases such as cancer. Our equipment that automatically synthesizes 18-fluorodeoxyglucoseis (FDG), a substance used primarily to diagnose cancer, gained approval as a medical device in March 2002, the first such approval awarded to FDG synthesis equipment developed in Japan. We also more recently developed cassette-type FDG synthesis equipment, and approval for its medical use is now pending.

Further, with the expected implementation of the plan to create local supply centers, demand for large supplies of FDG is expected to rise. Anticipating these changes, we are now developing high current cyclotrons and high yield targets that are capable of generating large amounts of drug synthesis.

(2) Other businesses

Environmental Protection Facilities, Plants & Other

The lack of dumping yards for waste disposal is becoming a grave problem in Japan, and it is essential that technology to reduce the volume of waste be quickly established. The Company is responding to this situation by developing technologies for waste reduction systems for general and industrial waste, and sewage sludge. In the area of sewage sludge reduction, we have completed experiments on circulating fluidized bed furnaces, and we will further expedite development to ensure commercialization in the near future. Also, we will continue to focus on developing technologies for converting biomass into energy. Biomass from waste is garnering attention as a promising new source of energy.

In addition to the above projects, we are developing various basic technologies for next-generation products. The Research and Development Center is taking the lead in developing an array of cutting-edge technologies, including femtosecond lasers, which are a joint project with NEDO, nano-scale fabrication, and technologies for various high-precision processing devices.

FINANCIAL STATEMENTS

Contents

Consolidated Balance Sheets

Years ended March 31, 2003 and 2002

ASSETS

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Current assets:			
Cash and deposits (Note 2)	¥ 47,973	¥ 40,150	$ 399,777
Marketable securities (Note 2)	3	1,195	28
Trade receivable:			
Notes receivable	29,537	41,427	246,136
Account receivable	132,630	152,522	1,105,251
Allowance for doubtful accounts	(3,198)	(3,807)	(26,652)
Inventories (Note 3)	92,428	109,921	770,229
Deferred income taxes (Note 5)	6,493	6,488	54,110
Prepaid expenses and other current assets	23,365	23,153	194,707
Total current assets	329,231	371,049	2,743,586
Property, plant and equipment:			
Land	118,621	118,165	988,506
Buildings and yards	117,508	117,997	979,235
Machinery and equipment	133,526	139,167	1,112,721
Construction in progress	3,161	4,660	26,338
	372,816	379,989	3,106,800
Less accumulated depreciation	176,712	180,231	1,472,597
Total property, plant and equipment	196,104	199,758	1,634,203
Investment, long-term loans and other assets:			
Unconsolidated subsidiaries and affiliated companies	13,633	13,840	113,609
Long-term loans receivable and investments (Note 10)	17,124	19,536	142,699
Deferred income taxes (Note 5)	11,388	11,283	94,900
Other assets	28,233	27,382	235,274
Allowance for doubtful accounts	(7,703)	(7,944)	(64,190)
Total investments, long-term loans and other assets	62,675	64,097	522,292
	¥588,010	¥634,904	$4,900,081

See accompanying notes.

LIABILITIES AND STOCKHOLDERS' EQUITY

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Current liabilities:			
Bank loans (Note 4)	¥124,008	¥147,048	$1,033,404
Long-term debt due within one year (Note 4)	38,215	21,876	318,457
Commercial paper (Note 4)	8,000	9,296	66,667
Trade payable:			
Notes payable	46,017	54,233	383,471
Accounts payable	70,300	73,375	585,833
Advance payments received on contracts	21,318	32,706	177,651
Accrued income taxes	5,147	3,616	42,893
Accrued expenses and other current liabilities	29,762	35,049	248,012
Total current liabilities	342,767	377,199	2,856,388
Long-term debt due after one year (Note 4)	103,321	116,332	861,006
Employees' severance and retirement benefits (Note 12)	9,666	9,732	80,551
Deferred income taxes on revaluation reserve for land	31,297	32,352	260,808
Other long-term liabilities	3,675	4,027	30,627
Minority interests	7,953	7,768	66,275
Contingent liabilities (Note 7)			
Stockholders' equity (Note 6):			
Common stock:			
Authorized-1,200,000 thousand shares Issued-588,697 thousands shares	30,872	30,872	257,264
Capital surplus	15,712	26,752	130,936
Retained earnings (accumulated deficit)	3,493	(10,327)	29,111
Revaluation reserve for land, net of income taxes (Note 1)	45,619	44,585	380,155
	95,696	91,882	797,466
Unrealized losses on securities, net of income taxes	(398)	(319)	(3,319)
Foreign currency translation adjustment	(5,929)	(4,065)	(49,404)
Less treasury stock at cost, 482,829 shares (46,811 shares in 2002)	(38)	(4)	(317)
Total stockholders' equity	89,331	87,494	744,426
	¥588,010	¥634,904	$4,900,081

See accompanying notes.

Consolidated Statements of Operations

Years ended March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Net sales (Note 8)	¥481,289	¥517,138	$4,010,743
Costs and expenses (Note 8):			
Cost of sales	400,460	430,399	3,337,168
Selling, general and administrative expenses	63,616	72,564	530,133
	464,076	502,963	3,867,301
Operating income (Note 8)	17,213	14,175	143,442
Other income (expenses):			
Interest and dividend income	462	1,128	3,850
Interest expense	(4,476)	(4,978)	(37,302)
Loss on devaluation of securities	(4,379)	(1,715)	(36,492)
Gain on sale of securities-net	199	756	1,654
Gain on sale of property, plant and equipment-net	8,571	5,658	71,421
Gain on securities contributed to employee retirement benefit trust	782	1,225	6,521
Foreign currency exchange gains (losses), net	(280)	180	(2,336)
Amortization of net transition obligation of severance and retirement benefits	(5,523)	(5,980)	(46,022)
Equity in earnings of unconsolidated subsidiaries and affiliated companies	363	1,394	3,023
Other-net	(4,907)	(6,941)	(40,883)
	(9,188)	(9,273)	(76,566)
Income before income taxes	8,025	4,902	66,876
Income taxes (Note 5)			
Current	7,019	4,354	58,492
Deferred	(1,527)	(1,567)	(12,726)
Total	5,492	2,787	45,766
Minority interests in consolidated subsidiaries	155	(465)	1,288
Net income	¥ 2,688	¥ 1,650	$ 22,398

	Yen		U.S. dollars (Note 1)
	2003	2002	2003
Amounts per share of common stock:			
Net income	¥ 4.57	¥ 2.80	$ 0.04
Diluted net income	—	—	—
Cash dividends applicable to the year	—	—	—

See accompanying notes.

Consolidated Statements of Stockholders' Equity

Years ended March 31, 2003 and 2002

	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 adjustment	Treasury stock
Balance at March 31, 2001	588,697	¥30,872	¥26,752	¥(23,407)	¥ —	¥2,049	¥(6,216)	¥ (1)
Increase due to change in numbers of consolidated subsidiaries and companies accounted for by the equity method	—	—	—	1,143	—	—	—	—
Increase due to adjustment for the adoption of the law concerning revaluation reserve for land	—	—	—	11,020	—	—	—	—
Decrease due to change in numbers of consolidated subsidiaries and companies accounted for by the equity method	—	—	—	(721)	—	—	—	—
Revaluation of land used for business	—	—	—	—	44,585	—	—	—
Net income	—	—	—	1,650	—	—	—	—
Adjustment for translation of foreign currency financial statements	—	—	—	—	—	—	2,151	—
Adjustment for unrealized losses on securities	—	—	—	—	—	(2,368)	—	—
Treasury stock	—	—	—	—	—	—	—	(3)
Bonuses to directors and corporate auditors	—	—	—	(12)	—	—	—	—
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 for 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)

	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 adjustment	Treasury stock
Balance at March 31, 2002	588,697	$257,264	$222,931	$(86,055)	$371,541	$(2,661)	$(33,872)	$ (36)
Increase due to change in numbers of consolidated subsidiaries and companies accounted for by the equity method	—	—	—	6,582	—	—	—	—
Decrease due to change in numbers of consolidated subsidiaries and companies accounted for by the equity method	—	—	—	(5,909)	—	—	—	—
Transfer from revaluation reserve for land, net of income taxes to retained earnings	—	—	—	103	(103)	—	—	—
Transfer from capital surplus to retained earnings	—	—	(91,995)	91,995	—	—	—	—
Net income	—	—	—	22,398	—	—	—	—
Adjustment for revaluation reserve for land, net of income taxes	—	—	—	—	8,717	—	—	—
Adjustment from translation of foreign currency financial statements	—	—	—	—	—	—	(15,532)	—
Adjustment for unrealized losses on securities	—	—	—	—	—	(658)	—	—
Treasury stock	—	—	—	—	—	—	—	(281)
Bonuses to directors and corporate auditors	—	—	—	(3)	—	—	—	—
Balance at March 31, 2003	588,697	$257,264	$130,936	$ 29,111	$380,155	$(3,319)	$(49,404)	$(317)

See accompanying notes.

Consolidated Statements of Cash Flows

Years ended March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Cash flows from operating activities:			
Income before income taxes	¥ 8,025	¥ 4,902	$ 66,876
Adjustments to reconcile net income before income taxes to net cash provided by (used in) operating activities:			
Depreciation	12,119	11,902	100,989
Gain on sale of property, plant and equipment	(8,571)	(5,658)	(71,421)
Loss on disposal of property, plant and equipment	732	627	6,100
Gain on sale of securities	(199)	(756)	(1,654)
Loss on devaluation of securities	4,379	1,715	36,492
Gain on securities contributed to employee retirement benefit trust	(782)	(1,225)	(6,521)
Increase in employees' severance and retirement benefits	673	4,692	5,608
Equity in earnings of unconsolidated subsidiaries and affiliated companies	(363)	(1,394)	(3,023)
Decrease in allowance for doubtful accounts and other allowances	(975)	(8,311)	(8,123)
Interest and dividend income	(462)	(1,128)	(3,850)
Interest expense	4,476	4,978	37,302
Changes in operating assets and liabilities:			
Decrease in notes and accounts receivable	20,567	3,785	171,392
Decrease in inventories	15,884	31,752	132,369
Increase (decrease) in notes and accounts payable	(11,222)	424	(93,515)
Other – net	(1,943)	563	(16,201)
Sub-total	42,338	46,868	352,820
Interest and dividend received	562	1,197	4,685
Payments for interest	(4,668)	(4,994)	(38,901)
Payments for income taxes	(5,605)	(3,235)	(46,706)
Other – net	(3,128)	(1,028)	(26,070)
Net cash provided by operating activities	29,499	38,808	245,828
Cash flows from investing activities:			
Decrease in time deposits	¥ 183	¥ 50	$ 1,528
Payments for securities	(4,114)	(1,363)	(34,287)
Proceeds from sale of securities	2,186	4,846	18,213
Payments for purchase of property, plant and equipment	(12,111)	(16,223)	(100,929)
Proceeds from sale of property, plant and equipment	14,690	12,850	122,415
Payments for purchase of securities which increased the number of consolidated subsidiaries	—	(1,382)	—
Payments for long-term loans receivables	(801)	(1,374)	(6,671)
Collection of long-term loans receivables	205	394	1,712
Other – net	(1,312)	(1,141)	(10,930)
Net cash used in investing activities	(1,074)	(3,343)	(8,949)
Cash flows from financing activities:			
Increase (decrease) in short –term loans	(21,925)	12,360	(182,705)
Decrease in commercial paper	(1,296)	(40,224)	(10,800)
Proceeds from long-term debt	34,921	37,702	291,010
Payments for long-term debt	(25,570)	(32,236)	(213,087)
Payments for redemption of bonds	(8,180)	(10,566)	(68,166)
Other-net	(66)	179	(551)
Net cash used in financing activities	(22,116)	(32,785)	(184,299)
Effect of exchange rate changes on cash and cash equivalents	(343)	271	(2,859)
Net increase in cash and cash equivalents	5,966	2,951	49,721
Cash and cash equivalents at beginning of year	40,846	36,496	340,383
Net increase from the change in consolidated companies	849	1,399	7,074
Cash and cash equivalents at end of year (Note 2)	¥47,661	¥40,846	$397,178

See accompanying notes.

See accompanying notes.

Notes to Consolidated Financial Statements

1. Significant accounting policies

Basis of presenting Consolidated Financial Statements – Sumitomo Heavy Industries, Ltd. (the "Company") and its domestic subsidiaries maintain their accounts and records in accordance with the provisions set forth in the Japanese Commercial Code and the Securities and Exchange Law, and in conformity with accounting principles and practices generally accepted in Japan ("Japanese GAAP"). The accounts of overseas-consolidated subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries of domicile. Certain accounting principles and practices generally accepted in Japan are different from International Accounting Standards and standards in other countries in certain respects as to application and disclosure requirements. Accordingly, the accompanying consolidated financial statements are intended for use by those who are informed about Japanese accounting principles and practices.

The accompanying consolidated financial statements are a translation of the audited consolidated financial statements of the Company which were prepared in accordance with Japanese GAAP and were filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

The consolidated statements of stockholders' equity have been prepared for the purpose of inclusion in the accompanying consolidated financial statements, although such statements were not required for domestic purposes and were not filed with the regulatory authorities.

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers, using the prevailing exchange rate at March 31, 2003, which was ¥120 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 and accounts 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.

Cash flow statement – 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, 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, 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 ¥32,412 million ($270,102 thousand), was revaluated at ¥109,349 million ($911,242 thousand), which is determined primarily based on real estate tax value. The Company recorded ¥44,585 million ($371,541 thousand) as revaluation reserve for land in the stockholders' equity section, after reflecting deferred income tax effects of ¥32,352 million ($296,600 thousand) which were recognized as long-term liabilities.

The current value of the land on March 31 2003 fell ¥12,155 million ($101,292 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 ¥51,949 million ($432,911 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 ¥27,902 million ($232,513 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 – The Company allocates 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.

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 – Research and development costs are charged to income when incurred.

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

Under the new accounting standard, the provision for income taxes is computed based on the pretax income included in the consolidated statement of operations. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences.

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.

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.

Net incomes per share — Effective April 1, 2002, the Company adopted the new accounting standard for net income per share and related guidance (Accounting Standards Board Statement No.2, "Accounting Standard for Earnings Per Share" and Financial Standards Implementation Guidance No.4, "Implementation Guidance for Accounting Standard for Earnings Per Share", issued by the Accounting Standards Board of Japan on September 25, 2002).

The effect on net income per share of the adoption of the new accounting standard is immaterial.

Accounting standard for treasury stock and reversal of statutory reserves — Effective April 1, 2002, the Company adopted the new accounting standard for treasury stock and reversal of statutory reserves (Accounting Standards Board Statement No.1, "Accounting Standard for Treasury Stock and Reduction of Statutory Reserves", issued by the Accounting Standards Board of Japan on February 21, 2002).

The effect on net income of adopting the new standard is insignificant.

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, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Cash and deposits	¥47,973	¥40,150	$399,777
Marketable securities	3	1,195	28
Time deposit over three months	(315)	(499)	(2,627)
Cash and cash equivalents	¥47,661	¥40,846	$397,178

3. Inventories

Inventories as of March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Finished products and semi-finished products	¥29,563	¥ 30,395	$246,355
Work in process	51,483	68,148	429,024
Raw materials and supplies	11,382	11,378	94,850
	¥92,428	¥109,921	$770,229

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

Bank loans at March 31, 2003 and 2002 consisted of short-term loans, bearing interest principally at 0.9% and 0.6% per annum. At March 31,2003 and 2002, commercial paper principally bore an average annual interest rate of 0.90% and 0.29%, respectively. Long-term debt at March 31, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
3.0 % domestic bonds due in January 2005	¥ 3,000	¥ 3,000	$ 25,000
3.9 % domestic bonds due in February 2004	—	8,000	—
U.S. dollar variable rate industrial development revenue bonds due in January 2008	—	200	—
U.S. dollar variable rate industrial development revenue bonds due in May 2008	600	660	4,998
1.7 % domestic mortgage bonds due in November 2005	1,000	1,000	8,333
2.3 % domestic mortgage bonds due in January 2006	1,000	1,000	8,333
Loans principally from banks and insurance companies due serially through March 2015 with interest ranging from 0.84% to 9.32% in 2003			
Secured	6,660	4,365	55,496
Unsecured	129,276	119,983	1,077,303
	141,536	138,208	1,179,463
Less amount due within one year	38,215	21,876	318,457
Amount due after one year	¥103,321	¥116,332	$ 861,006

3.9% domestic bonds due in February 2004 and U.S. dollar variable rate industrial development revenue bonds due in May 2008 have been redeemed before their scheduled maturity.

Annual maturities of long-term debt as of March 31, 2003 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars (Note 1)
2004	¥38,215	$318,457
2005	27,639	230,327
2006	45,615	380,120
2007	16,246	135,387
2008	10,816	90,130
Thereafter	3,005	25,042

At March 31, 2003, 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 deposits	¥ 300	$ 2,501
Notes receivables	49	407
Land	36,283	302,359
Other property, plant and equipment, at cost less accumulated depreciation	5,335	44,455
	¥41,967	$349,722

5. Income Tax

The Company is 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, 2003 and 2002, 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, 2003.

	2003	2002
Statutory tax rate	42.05%	42.05%
Increase (decrease) in tax rates resulting from:		
Expenses not deductible for tax purposes	15.27%	17.83%
Per capita inhabitant tax	2.35%	2.52%
Income not counted for tax purpose	(0.73%)	(2.25%)
Elimination of dividend received	3.61%	4.30%
Equity in earnings of affiliated companies	2.12%	(11.68%)
Adjustment of gain on sales of stock of affiliated company	1.55%	9.70%
Amortization of consolidation adjustment	(0.90%)	(3.71%)
Effects of the change on statutory tax rate	4.00%	—
Operating losses of subsidiaries not recognizing deferred income tax accounting	—	(3.76%)
Others	(0.85%)	1.85%
Effective tax rate	68.47%	56.85%

The effective tax rate used for calculation of deferred taxes assets and liabilities was 42.05% for the year ended March 31, 2002. Effective for the year commencing on April 1, 2004 or later, according to the revised local tax law, income tax rates for enterprise taxes will be reduced as a result of introducing the assessment by estimation on the basis of the size of business.
As a result of the change in the effective tax rates, deferred taxes assets decreased by ¥315 million ($2,629 thousand), income taxes-deferred and revaluation reserve for land increased by ¥321 million ($2,673 thousand) and ¥1,046 million ($8,716 thousand) respectively compared with what would have been recorded under the previous local tax law.

Significant components of deferred tax assets and liabilities as of March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Deferred tax assets:			
Excess bonuses accrued	¥ 2,002	¥ 1,147	$ 16,681
Allowance for doubtful accounts	3,028	3,187	25,234
Allowance for warranty	1,350	1,336	11,250
Allowance for employees' severance and retirement benefits	8,288	8,261	69,071
Inventories	2,802	2,849	23,355
Unrealized profit on inventories	920	673	7,666
Devaluation of marketable securities and investments	2,826	1,004	23,549
Excess depreciation	923	1,163	7,694
Operating losses carry forward	7,421	6,800	61,838
Allowance for loss on restructuring	—	973	—
Net unrealized holding gain on securities	11	942	91
Others	2,324	3,959	19,363
Total deferred tax assets	31,895	32,294	265,792
Less-valuation allowance	(12,884)	(12,933)	(107,368)
Deferred tax assets-net	19,011	19,361	158,424
Deferred tax liabilities:			
Difference on revaluation of assets and liabilities of subsidiaries	(1,391)	(1,911)	(11,592)
Accelerated depreciation	(927)	(932)	(7,725)
Excess tax depreciation reserve	(178)	(121)	(1,485)
Net unrealized holding gains on securities	(210)	(676)	(1,749)
Others	(5)	(28)	(38)
Deferred tax liabilities	(2,711)	(3,668)	(22,589)
Net deferred tax assets	¥16,300	¥15,693	$135,835

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 stated capital. The portion which is to be designated as stated capital is determined by resolution of the Board of directors are credited to capital surplus. 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 amounts 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 reserve until the total amount of additional paid in capital and legal reserve equals 25% of common stock. The reserve is not available for dividends but may be used to reduce a deficit by resolution of the stockholders or may be capitalized by resolution of the Board of Directors. The legal reserve is included in the retained earnings. As a result of the legal reserve requirement, the retained earnings of the Company is not available for cash dividends at March 31, 2003.

7. Contingent liabilities

The Companies were contingently liable as endorsers of trade notes receivable discounted with banks in the amount of ¥657 million ($5,472 thousand) at March 31, 2003. 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 ¥13,980 million ($116,503 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, 2003 and 2002, and a summary of identifiable assets, depreciation expense and capital expenditures by segment of business activities for the years ended March 31, 2003 and 2002 are presented below:

Millions of yen

	Mass-produced machinery	Environmental protection facilities, plants & others	Ship, steel structure & other specialized equipment	Industrial machinery	Construction machinery	Elimination and/or corporate	Consolidated
2003							
Ⅰ Sales and operating income							
Sales:							
Unaffiliated customers	¥143,841	¥100,310	¥ 86,054	¥55,691	¥ 95,393	¥ —	¥481,289
Intersegment	549	2,332	283	403	155	(3,722)	—
Total	144,390	102,642	86,337	56,094	95,548	(3,722)	481,289
Costs and expenses	131,051	98,823	89,549	55,765	92,578	(3,690)	464,076
Operating income	¥ 13,339	¥ 3,819	¥ (3,212)	¥ 329	¥ 2,970	¥ (32)	¥ 17,213
Ⅱ Identifiable assets	¥186,201	¥105,206	¥100,336	¥47,569	¥110,741	¥37,957	¥588,010
Depreciation expenses	5,236	982	1,678	935	3,288	—	12,119
Capital expenditures	6,157	2,252	2,235	495	3,268	—	14,407
2002							
Ⅰ Sales and operating income							
Sales:							
Unaffiliated customers	¥135,602	¥131,019	¥ 79,714	¥72,161	¥ 98,642	¥ —	¥517,138
Intersegment	717	2,237	116	354	167	(3,591)	—
Total	136,319	133,256	79,830	72,515	98,809	(3,591)	517,138
Costs and expenses	129,856	128,222	76,292	73,417	98,795	(3,619)	502,963
Operating income	¥ 6,463	¥ 5,034	¥ 3,538	¥ (902)	¥ 14	¥ 28	¥ 14,175
Ⅱ Identifiable assets	¥175,629	¥122,348	¥125,405	¥57,557	¥123,605	¥30,360	¥634,904
Depreciation expenses	4,811	1,446	1,772	1,126	2,747	—	11,902
Capital expenditures	6,470	1,393	1,566	1,703	4,418	—	15,550

Thousands of U.S. dollars (Note 1)

	Mass-produced machinery	Environmental protection facilities, plants & others	Ship, steel structure & other specialized equipment	Industrial machinery	Construction machinery	Elimination and/or corporate	Consolidated
2003							
Ⅰ Sales and operating income							
Sales:							
Unaffiliated customers	$1,198,673	$835,919	$717,115	$464,092	$794,944	$ —	$4,010,743
Intersegment	4,580	19,430	2,360	3,355	1,295	(31,020)	—
Total	1,203,253	855,349	719,475	467,447	796,239	(31,020)	4,010,743
Costs and expenses	1,092,091	823,521	746,241	464,706	771,492	(30,750)	3,867,301
Operating income	$ 111,162	$ 31,828	$ (26,766)	$ 2,741	$ 24,747	$ (270)	$ 143,442
Ⅱ Identifiable assets	$1,551,674	$876,714	$836,133	$396,407	$922,840	$316,313	$4,900,081
Depreciation expenses	43,637	8,187	13,981	7,789	27,395	—	100,989
Capital expenditures	51,307	18,766	18,628	4,126	27,230	—	120,057

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, 2003 and 2002 is as follows:

2003	Japan	North America	Other areas	Elimination and / or corporate	Consolidated
					Millions of yen
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
2002					
Ⅰ Sales and operating income					
Sales:					
Unaffiliated customers	¥459,807	¥43,790	¥13,541	¥ —	¥517,138
Intersegment	16,012	618	1,078	(17,708)	—
Total	475,819	44,408	14,619	(17,708)	517,138
Costs and expenses	460,669	45,858	14,127	(17,691)	502,963
Operating income	¥15,150	¥ (1,450)	¥ 492	¥ (17)	¥ 14,175
Ⅱ Identifiable assets	¥539,916	¥44,249	¥15,201	¥35,538	¥634,904

2003	Japan	North America	Other areas	Elimination and / or corporate	Consolidated
					Thousands of U.S. dollars (Note 1)
Ⅰ Sales and operating income					
Sales:					
Unaffiliated customers	$3,571,584	$310,714	$128,445	$ —	$4,010,743
Intersegment	149,800	8,737	8,333	(166,870)	—
Total	3,721,384	319,451	136,778	(166,870)	4,010,743
Costs and expenses	3,588,757	313,144	132,322	(166,922)	3,867,301
Operating income	$ 132,627	$ 6,307	$ 4,456	$ 52	$ 143,442
Ⅱ Identifiable assets	$4,078,804	$314,692	$128,963	$377,622	$4,900,081

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, 2003 and 2002 were as follows.

2003	To North America	To Asia	To Other areas	Total
				Millions of yen
Overseas Sales	¥62,373	¥37,535	¥72,723	¥172,631
	13.0%	7.8%	15.1%	35.9%
				Thousands of U.S. dollars (Note 1)
Overseas Sales	$519,771	$312,791	$606,030	$1,438,592

Other areas include mostly the United Kingdom, Germany, and Singapore.
Overseas sales of the Companies for the year ended March 31, 2002 were ¥149,358 million ($1,244,651 thousand) and accounted for 28.9% 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.

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, 2003 is as follows:

	Acquisition cost	Accumulated depreciation	Net book value
			Millions of yen
Machinery and equipment	¥24,144	¥11,036	¥13,108
Others	254	166	88
Total	¥24,398	¥11,202	¥13,196

	Acquisition cost	Accumulated depreciation	Net book value
			Thousands of U.S. dollars (Note 1)
Machinery and equipment	$201,196	$91,964	$109,232
Others	2,119	1,384	735
Total	$203,315	$93,348	$109,967

Total lease payments for finance leases which do not transfer ownership to lessees amounted to ¥4,788 million ($39,899 thousand) and ¥4,846 million ($40,380 thousand) for the years ended March 31, 2003 and 2002, respectively.

Future lease payments as of March 31, 2003 and 2002, inclusive of interest under such leases were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Due within one year	¥ 4,483	¥ 4,184	$ 37,359
Due after one year	8,713	9,465	72,608
Total	¥13,196	¥13,649	$109,967

10. Securities

(A) The following tables summarize book values of securities not stated at fair value as of March 31, 2003 and 2002:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Acquisition value:			
Non-listed corporate bonds	¥ 2,000	¥2,000	$16,667
Non-listed equity securities	7,353	4,857	61,274
Others	1,030	1,046	8,581
Total	¥10,383	¥7,903	$86,522

(B) The following tables summarize acquisition costs, book values and fair values of securities with fair value as of March 31, 2003 and 2002:

	Millions of yen		Thousands of U.S. dollars (Note 1)
Available-for-sale securities	2003	2002	2003
Acquisition value:			
Equity securities	¥5,843	¥11,498	$48,696
Bonds	15	15	127
Others	49	99	407
Total	5,907	11,612	49,230
Book value:			
Equity securities	5,632	10,853	46,937
Bonds	21	17	176
Others	36	97	298
Total	¥5,689	¥10,967	$47,411
Differences:			
Equity securities	(211)	(645)	(1,759)
Bonds	6	2	49
Others	(13)	(2)	(109)
Total	¥ (218)	¥ (645)	$ (1,819)

(C) Total sales amounts of available for sale securities sold in the year ended March 31, 2003 amounted to ¥1,506 million ($12,550 thousand) and the net losses ammounted to ¥73 million ($612 thousand).

(D) The following tables summarize maturities of available-for-sale securities and held to maturity securities with maturities as of March 31, 2003

	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	—	¥21	¥2,000	—	¥2,021
Total	—	¥21	¥2,000	—	¥2,021

	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	—	$176	$16,667	—	$16,843
Total	—	$176	$16,667	—	$16,843

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 obtain a stabilized profit. Interest rate swap transactions are made in order to minimize the risk of interest rate hike on borrowings. The Companies deal with international financial institutions with higher credit ratings as counter-parties of transactions to avoid credit risk exposure. Details of transactions are reviewed and approved by responsible officials of the Companies in accordance with the Companies' internal regulations, which include allowed transactions and maximum amounts thereof. Counter-parties of derivative transactions are creditworthy financial institutions, and the Companies believe that the risk of default by the counter-parties is minimal.

(A) Forward foreign exchange contracts

The aggregate amounts contracted to be paid/received and the fair values of forward foreign exchange contracts in Japanese yen of the Companies at March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Contracted amount to be paid/received:			
To sell foreign currencies	¥2,968	¥2,397	$24,733
Fair value			
To sell foreign currencies	2,893	2,480	24,109
Net unrealized exchange gain (loss)	¥75	¥ (83)	$624

(B) Interest rate swap agreements

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

			Millions of yen
Year ended March 31, 2002	Contract amount	Fair value	Unrealized loss
Interest rate swaps:			
Receive float/Pay fix	600	(19)	(19)
	¥600	¥(19)	¥(19)

			Thousands of U.S. dollars (Note 1)
Year ended March 31, 2003	Contract amount	Fair value	Unrealized loss
Interest rate swaps:			
Receive float/Pay fix	4,167	(97)	(97)
	$4,167	$(97)	$(97)

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)
	2003	2002	2003
(1) Projected benefit obligation	¥(67,047)	¥(76,884)	$(558,728)
(2) Fair value of pension assets	23,457	31,576	195,474
(3) Unfunded projected benefit obligation	(43,590)	(45,308)	(363,254)
(4) Unrecognized net transition obligation	11,045	17,011	92,044
(5) Unrecognized actuarial difference	21,647	16,996	180,397
(6) Unrecognized prior service cost	1,277	1,578	10,639
(7) Prepaid pension benefit expenses	(45)	(9)	(377)
(8) Allowance for severance and pension benefit	(9,666)	(9,732)	(80,551)

2.Included in the statements of operation for the years ended March 31, 2003 and 2002 are the following severance and pension benefit expenses:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
(1) Service costs	¥ 4,084	¥ 4,303	$ 34,038
(2) Interest cost on projected benefit obligation	2,017	2,527	16,811
(3) Expected return on plan assets	(594)	(1,002)	(4,949)
(4) Amortization of net transition obligation	5,523	5,980	46,022
(5) Recognized actuarial differences	1,466	489	12,218
(6) Recognized prior service cost	201	195	1,672
(7) Severance and pension benefit expense	12,697	12,492	105,812

3.Assumptions for calculating:

	2003	2002
(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	2.5%	2.5%
(3) Expected rate of return on plan assets	4.0%	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

13. Sabsequent events

It was resolved at the Board of Directors meeting held December 3, 2002 that the Company should enter into an agreement with Shin Nippon Machinery Co., Ltd. to exchange shares, and Shin Nippon Machinery Co., Ltd. became a wholly-owned subsidiary of the Company on April 1, 2003.
As a result of this exchange of shares the number of shares issued increased by 13,928,905 and additional paid-in capital increased by ¥1,086 million ($9,054 thousand).

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, 2003 and 2002, and the related consolidated statements of operations, stockholders' equity and cash flows for the years then ended, all expressed in yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards, generally accepted in Japan. Those standards require that we 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 consolidated subsidiaries as of March 31, 2003 and 2002, 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 as described in Note 1 to the consolidated financial statements.

The consolidated financial statements as of and for the year ended March 31, 2003 have been translated into United States dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the consolidated financial statements expressed in yen have been translated into United States dollars on the basis set forth in Note 1 to the consolidated financial statements.

Asahi & Co.

Tokyo, Japan
June 27, 2003

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
5-33, Kitahama 4-chome, Chuo-ku, Osaka-shi,
Osaka 541-0041, Japan
Tel: 81-6-6223-7111

Kansai Office will be relocated to the following address in October 14, 2003:
7-28, Kitahama 4-chome, Chuo-ku, Osaka-shi, Osaka 541-0041, Japan

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: 81-468-69-1842

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: 81-468-69-2300

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.
1-28, Shiba 2-Chome, Minato-ku,
Tokyo 105-0014, Japan
Principal business: Steam turbines, pumps and fasteners
Tel: 81-3-3454-1211
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: Spinning machinery and environmental protection equipment
Tel: 81-6-6499-5551
URL: http://www.spindle.co.jp
23.4% owned subsidiary

Sumitomo Eaton Nova Corporation
4-15, Yato-cho 2-chome, Nishitokyo-shi,
Tokyo 188-0001, Japan
Principal business: Semiconductor equipment, especially ion implantation systems
Tel: 81-424-68-3216
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://www5.mediagalaxy.co.jp/sumito-monacco
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
240 Nagatake Tsukui-machi, Tsukui-gun,
Kanagawa 220-0204, Japan
Principal business: Automold system for semi-conductor devices and its mold die-set
Tel: 81-42-784-7512
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
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 general industrial machinery, 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: Manufacturing, refurbishing, modification and parts supply for paper machinery and forging press. Refurbishing, modification and parts supply for steel making equipment
Tel: 81-897-32-6397
100% owned subsidiary

SHI Control Systems, Ltd.
826 Naganumahara-machi, Inage-ku,
Chiba-shi, Chiba 263-0001, Japan
Principal business: Design, production and distribution of various industrial regulating systems
Tel: 81-43-420-1363
URL: http://www.shi.co.jp/scs
100% owned subsidiary

Seisa Gear, Ltd.
16-1, Wakihama 4-chome, Kaizuka-shi,
Osaka 597-0073, Japan
Principal business: Power transmission equipment
Tel: 81-724-31-3021
URL: http://www.seisa.co.jp
53.53% 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 Suite 1002,
New York, N.Y. 10103-1099, 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

Shanghai Office
14-F Xin Hua Lian Mansion (East), No. 755,
Huai Hai Road, Shanghai 200020, China
Tel: 86-21-6445-0966

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, Hull HU9 5RA, U.K.
Principal business: Power transmission equipment
Tel: 44-1482-788022
URL: http://www.smcyceuro.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: 65-863-2238
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: 86-21-6445-0405
URL: http://www.spm-northasia.com
100% owned subsidiary

SHI Plastics Machinery (Malaysia) Sdn.Bhd.
9th Floor Menara PKNS, Blok A PJ Jalan Yong Shook Lin 46050, Petaling Jaya, Selangor, 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.
870 Cambridge Drive, Elk Grove Village,
Il 60007, U.S.A.
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 27, 2003)*

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 Planning & Development Group
Corporate Operation & Service Group
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, Coporate Finance, Accounting & Administration Group
General Manager, Purchasing Dept.

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

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

Shigeru Nisugi
Senior Vice President
General Manager, Sales Div.,
Engineering & Environment Group

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

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

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,
Defence Systems Coordination Dept.
General Manager, Tanashi Works

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

Junai Saito
Vice President
CEO, Shin Nippon Machinery Co., Ltd.

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

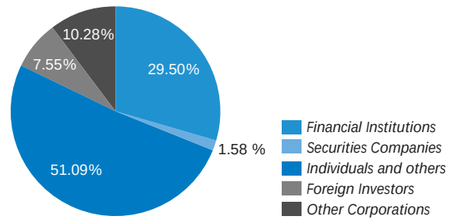
Corporate Data

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*1	:	11,777 (Consolidated) 3,389 (Non-consolidated)
Transfer Agent	:	The Sumitomo Trust and Banking Co., Ltd.
Stock Exchange Listings	:	Tokyo, Osaka
Shares Outstanding*1	:	588,696,680*2
Number of Shareholders*1	:	94,525
Major Shareholders	:	Sumitomo Life Insurance Company 4.12% Sumitomo Mitsui Banking Corporation 3.90% Nippon Life Insurance Company 2.80% UFJ Trust Bank Ltd. 2.48% The Master Trust Bank of Japan, Ltd. 2.30% Stock Sharing Group consisting of Trade Partners 2.16% The Sumitomo Trust and Banking Co., Ltd. 1.67% Sumitomo Corporation 1.44% Mitsui Asset Trust and Banking Company, Ltd. 1.25% Trust & Custody Services Bank, Ltd. 1.20%

*1 As of March 31, 2003
*2 As a result of share exchange with Shin Nippon Machinery Co., Ltd., allotting 1.6 shares of SHI to each outstanding share of Shin Nippon Machinery, the total number of shares issued and outstanding increased by 13,928,905 to 602,625,585 on April 2003.

Breakdown of Shareholders as of March 31, 2003

Types of shareholders	Number of shares (unit 1,000)
Financial Institutions	173,635
Securities Companies	9,286
Individuals and others	300,787
Foreign Investors	44,425
Other Corporations	60,562



"Other Corporations" category also includes treasury stock and government institution.
Number of shares 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
Tel: +81-3-5488-8336 Fax: +81-3-5488-8056