Sumitomo Heavy Industries

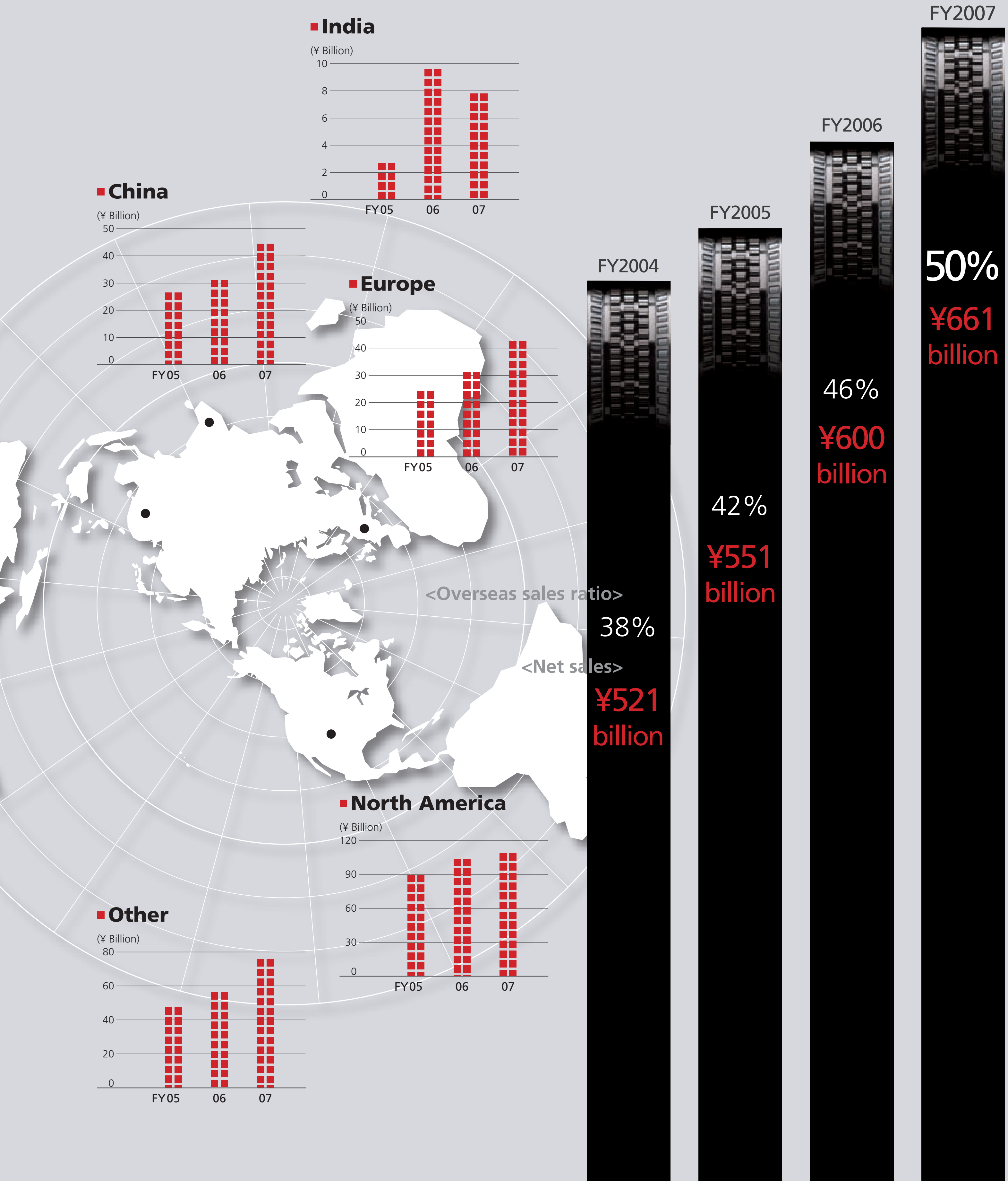
ANNUAL REPORT 2008

Crossing New Boundaries

Sumitomo Heavy Industries, Ltd.

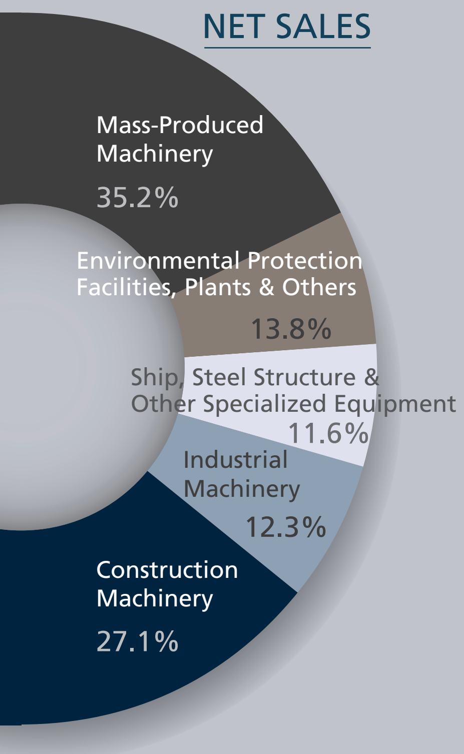
FY2010

Target Sales: ¥850 billion

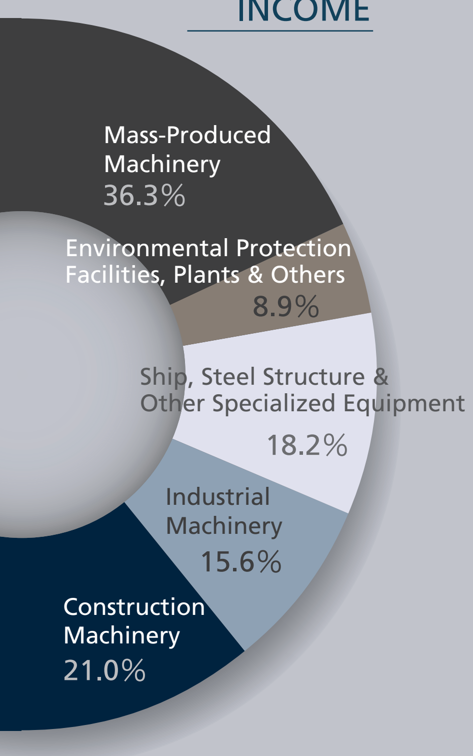


Sumitomo Heavy Industries, Ltd. (the "Company") and its Group companies (the "SHI Group") operate a range of businesses providing a spectrum of first-class products and services. Through a growth strategy focusing on the development and provision of products and services that bring to our customers exceptional value, we are securing substantial global market shares and business profitability while pioneering new markets.

NET SALES



OPERATING INCOME



Mass-Produced Machinery

Main Units

Power transmission and controls, plastics machinery, quantum equipment, laser systems, cryogenic equipment, mechatronics

Growth / Profitability

Net Sales: ¥232.6 billion

Operating Income: ¥28.2 billion

Environmental Protection Facilities, Plants & Others

Main Units

Energy-related plants, water treatment plants

Growth / Profitability

Net Sales: ¥91.3 billion

Operating Income: ¥6.9 billion

Ship, Steel Structure & Other Specialized Equipment

Main Units

Reactor vessels, ships

Growth / Profitability

Net Sales: ¥76.4 billion

Operating Income: ¥14.1 billion

Industrial Machinery

Main Units

Material handling systems, turbines and pumps, forging presses and industrial machinery

Growth / Profitability

Net Sales: ¥81.2 billion

Operating Income: ¥12.1 billion

Construction Machinery

Main Units

Hydraulic excavators and road machinery, mobile cranes

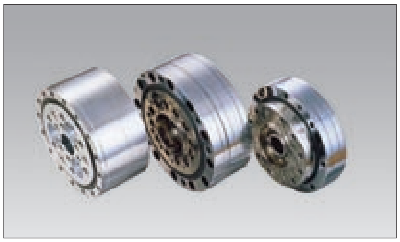
Growth / Profitability

Net Sales: ¥179.4 billion

Operating Income: ¥16.3 billion

Power Transmission Equipment

Advantages



CYCLO® speed reducer for precision control "F4C-D" series

With its proprietary unbreakable gear teeth, our flagship CYCLO® speed reducer is characterized by a high impact load, durability and efficiency. Boasting the top domestic and second-largest global market shares as well as a wide spectrum of applications, this speed reducer is insusceptible to market fluctuations

Applications

Factory automation and material-handling machines, industrial robots, various manufacturing equipment, water and sewage treatment systems, amusement machines and other

Plastics Machinery

Advantages

Fully electric controlled injection molding machine "SE-DU"

With outstanding strength in high-precision, high-cycle and other high-value-added molding operations, our products are without peer in terms of performance. These machines boast state-of-the-art quality recognized by customers and command the top domestic market share. Through the acquisition of the Demag Plastics Group in March 2008, we have reinforced our brand and marketing power to sharpen our competitiveness in the global market.

Applications

Manufacture of parts used in cell phones, personal computers and other IT-related products, automotive components, PET bottles and other beverage containers, optical disks and other

Circulating Fluidized-Bed (CFB) Boilers

Advantages

CFB boiler

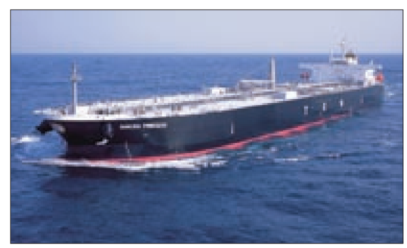
We maintain a close technological alliance with U.S.-based Foster Wheeler Ltd., the world leader in CFB boiler technological capability and market share. Compatible with such renewable energy fuels as biomass-based fuels and waste tires, CFB boilers are gaining increasing recognition as key systems for combating global warming and enabling the more efficient use of resources.

Applications

Industrial power generation (private power generation)

Aframax Tankers

Advantages



105,000MTDW oil tanker

Specializing in medium-sized tankers, we are providing customer value-focused products in the shipbuilding sector. Of particular note, our competitors in the shipbuilding industry also use our proprietary energy-saving products, including propellers and ducts, taking advantage of the significant contribution that SHI products make to tanker operators' cost cutting efforts in an era of expensive fuels.

Applications

Oil tankers

Large Cranes

Advantages

Goliath crane

Through optimal design, we have been able to reduce the overall weight of our cranes. This improvement allows customers to upgrade their crane capacity without reinforcing the operating foundations and thereby enables them to maintain unbroken operations and reduce costs even as they upgrade capacity.

Applications

Shipyards, harbors, steelworks and other

Hydraulic Excavators

Advantages

SH200-5 LEGEST®

Having achieved superior fuel efficiency through the optimal combination of innovative hydraulic and engine systems, our new hydraulic excavator became the first piece of construction machinery to win a prestigious Energy Conservation Grand Prize. Having also received a Good Design Award for its functional beauty, this LEGEST® excavator boasts economic viability and excellent usability.

Applications

Construction, engineering, scrapping, forestry and other

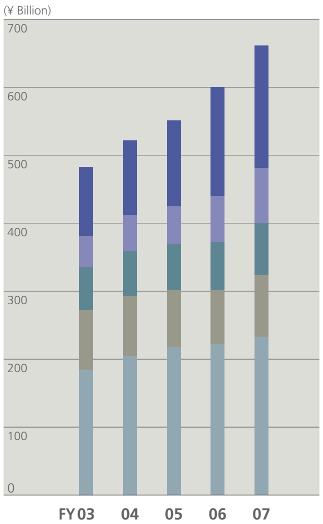
	Millions of yen					Thousands of U.S. dollars (Note 1)
	FY2003	FY2004	FY2005	FY2006	FY2007	FY2007
Summary of Income (for the year):						
Net sales	¥482,765	¥521,310	¥551,339	¥600,256	¥660,769	$6,607,689
Mass-produced machinery	184,489	205,091	218,798	222,906	232,593	2,325,925
Environmental protection facilities, plants & others	87,691	87,937	82,740	79,397	91,250	912,499
Ship, steel structure & other specialized equipment	63,438	65,288	67,372	69,491	76,393	763,934
Industrial machinery	45,988	54,008	56,054	68,286	81,163	811,629
Construction machinery	101,158	108,985	126,375	160,177	179,370	1,793,704
Operating income	40,231	48,773	47,505	64,224	77,790	777,895
Mass-produced machinery	26,046	30,415	29,338	28,844	28,208	282,078
Environmental protection facilities, plants & others	4,567	7,094	4,277	4,494	6,903	69,031
Ship, steel structure & other specialized equipment	1,547	478	(479)	6,714	14,094	140,938
Industrial machinery	2,908	4,834	5,847	9,527	12,118	121,178
Construction machinery	5,150	5,961	8,533	14,396	16,286	162,856
Elimination	13	(9)	(10)	250	181	1,810
Operating Income Margin	8.3	9.4	8.6	10.7	11.8	
EBITDA (Note 2)	50,344	58,055	56,577	74,873	91,578	915,780
Net income	16,262	22,792	29,742	37,352	42,974	429,738
Cash Flows (for the year):						
Cash flows from operating activities	¥ 75,775	¥ 45,451	¥ 50,023	¥ 56,789	¥ 29,096	$ 290,960
Cash flows from investing activities	(7,929)	(6,087)	(7,024)	(12,461)	(41,250)	(412,500)
Free cash flows (Note 3)	67,846	39,364	42,999	44,328	(12,154)	(121,540)
Cash flows from financing activities	(56,666)	(46,490)	(48,812)	(41,193)	(5,238)	(52,385)
Financial Position (at year-end):						
Total assets	¥580,291	¥569,771	¥579,233	¥600,890	¥678,634	$6,786,341
Interest-bearing debt	215,807	169,228	125,504	88,045	89,567	895,674
Stockholders' equity	114,526	137,157	167,740	—	—	—
Total net assets (Note 4)	—	—	—	206,010	246,371	2,463,710
	Yen					U.S. dollars (Note 1)
Amounts Per Share:						
Net income (Note 5)	¥ 27.01	¥ 37.80	¥ 49.45	¥ 61.99	¥ 71.19	$0.71
Stockholders' equity	190.25	227.90	279.02	338.95	392.80	3.93
Cash dividends	—	3.00	5.00	7.00	10.00	0.10
	%					
Financial Indexes:						
EBITDA margin	10.4	11.1	10.3	12.5	13.9	
Stockholders' equity ratio	19.7	24.1	29.0	34.1	34.9	
ROA (Return on assets)	2.8	4.0	5.1	6.2	6.3	
ROE (Return on equity)	14.2	16.6	17.7	24.0	22.4	
Interest-bearing debt ratio	37.2	29.7	21.7	14.7	13.2	
ROIC (Note 6)	6.5	8.5	8.8	12.2	14.0	

Notes:
1. The U.S. dollar amounts have been translated, for convenience only, at ¥100=$1, the prevailing exchange rate on the Tokyo Foreign Exchange Market as of March 31, 2008.
2. EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization) = Operating income + Depreciation and amortization
3. Free cash flows = Cash flows from operating activities + Cash flows from investing activities
4. Net assets are presented following enforcement of the new Japanese Corporate Law in 2006. Net assets comprise stockholders' equity as previously defined, plus minority interests and share subscription rights.
5. Net income per share of common stock is based on the weighted average number of shares outstanding in each year.
6. ROIC (Return on Invested Capital) = $\frac{\text{(Operating income + Interest and dividend received) x 55\% (= 1 - Effective tax rate)}}{\text{(Average of stockholders' equity + Average of interest-bearing debt)}}$

Net Sales

YoY Change
+10.1%

Result
¥660.8 billion

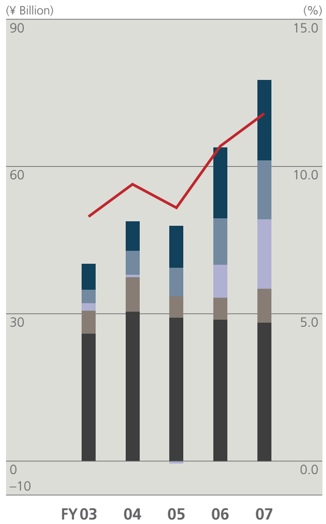


Mass-produced machinery
Environmental protection facilities, plants & others
Ship, steel structure & other specialized equipment
Industrial machinery
Construction machinery

Operating Income / Operating Income Margin

Operating Income YoY Change
+21.1%

Operating Income Margin YoY Change
+1.1 pts.

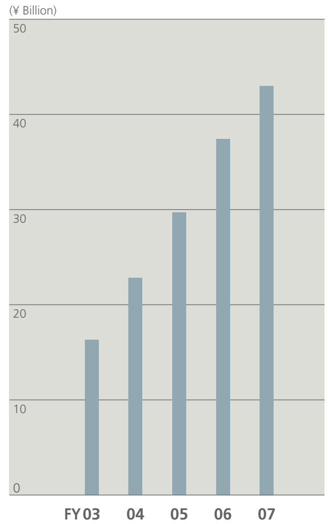


Mass-produced machinery
Environmental protection facilities, plants & others
Ship, steel structure & other specialized equipment
Industrial machinery
Construction machinery
Operating income margin (Right scale)

Net Income

YoY Change
+15.1%

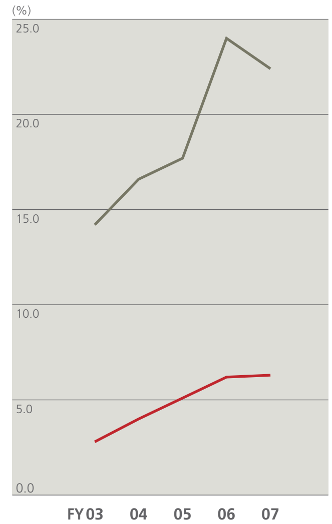
Result
¥43.0 billion



ROA / ROE

ROA YoY Change
+0.1 pts.

ROE YoY Change
–1.6 pts.

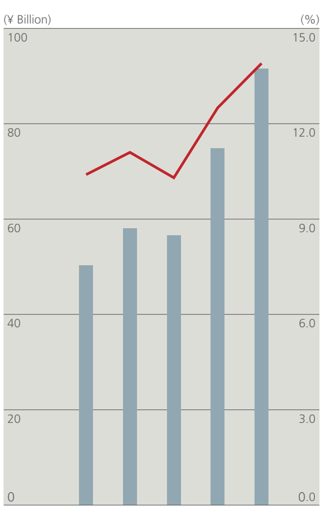


ROA
ROE

EBITDA / EBITDA Margin

EBITDA YoY Change
+22.3%

EBITDA Margin YoY Change
+1.4 pts.

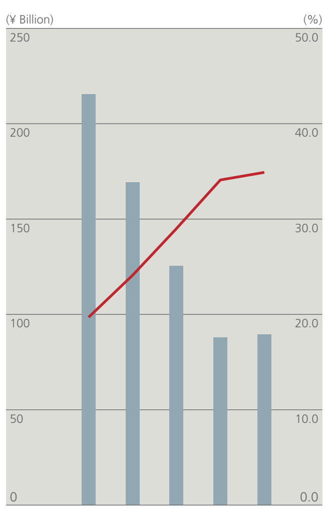


EBITDA
EBITDA margin (Right scale)

Stockholders' Equity Ratio / Interest-Bearing Debt

Stockholders' Equity Ratio YoY Change
+0.8 pts.

Interest-Bearing Debt YoY Change
+1.7%

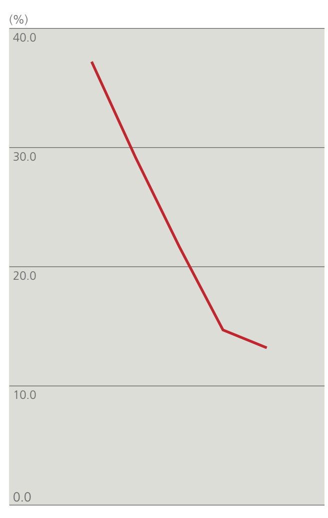


Interest-bearing debt
Stockholders' equity ratio (Right scale)

Interest-Bearing Debt Ratio

YoY Change
–1.5 pts.

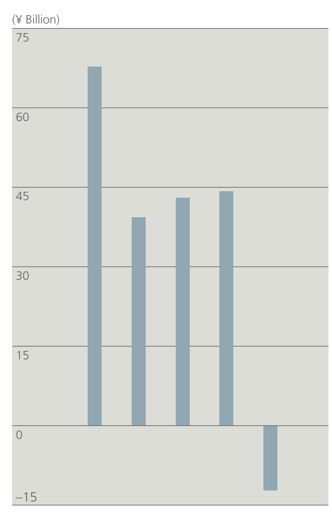
Result
13.2%



Free Cash Flows

YoY Change
–127.4%

Result
–¥12.2 billion



We strive to provide first-class products and make Sumitomo Heavy Industries a world-leading brand

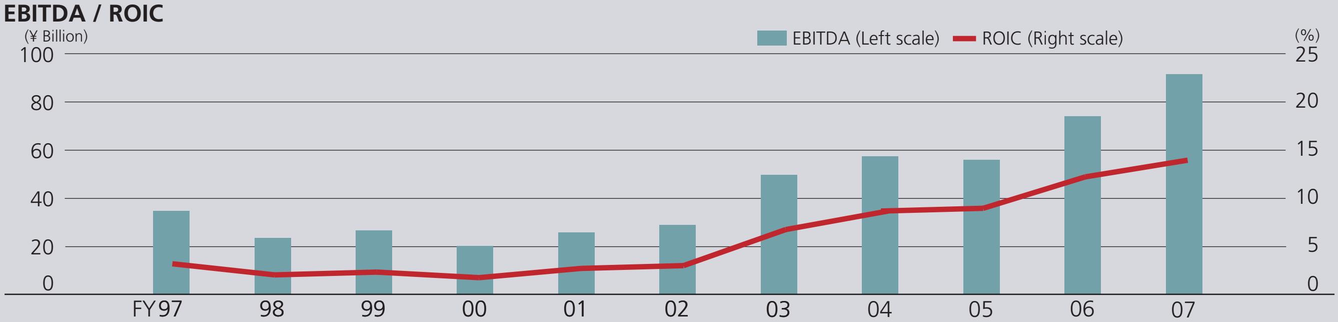
To Our Shareholders, Customers and Employees

We believe that our commitment to the "creation of value for customers," which is aimed at ensuring their enduring confidence, is key to sustainable development and enhanced enterprise value for the Sumitomo Heavy Industries (SHI) Group. This, in turn, enables us to meet the expectations of shareholders, employees and local communities. Customer satisfaction is gained through the supply of competitive high-quality products, and this satisfaction contributes to our development. The ideal that we strive for is to be a company that continues to provide products acknowledged as first-class in world markets in all business areas.

In our previous medium-term management plan "Leap to Excellence '07" (fiscal 2005–2007), we sought stable growth and expansion at a higher level, making a shift in emphasis from bottom-line management to top-line growth. As a result, we attained record orders, sales and profits across the board. For "Global 21," our new medium-term management plan, we have formulated new strategies and set a long-term sales target of ¥1 trillion. SHI seeks to take off as a world-leading brand by continuing to grow and moving aggressively into overseas markets that offer exciting business opportunities that enable us to achieve sustained growth and development.

Our raison d'être is the ability to provide first-class products. We deliver the very best quality products that our customers require. We believe that if any of our businesses cannot gain a competitive edge, it is because the products and services are unattractive and do not fulfill our customers' requirements. We are working hard to strengthen our key components business, develop new products and pioneer markets by consolidating businesses while striving to improve quality and reduce costs through production reforms. Creating products that make our customers happy leads to sales and earnings growth. Products for industries that in Japan have already matured are still in great demand in the rest of the world. The basic principle underlying our growth strategy is to provide first-class products where they are needed in markets worldwide.

EBITDA / ROIC



EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization) = Operating income + Depreciation and amortization

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

Summary of the Previous Medium-Term Management Plan

"Leap to Excellence '07": The Completed Medium-Term Management Plan (April 2005–March 2008)

We were able to reach our initial targets a year early in fiscal 2006 and attained revised, more ambitious targets in fiscal 2007 due to the tireless efforts of all Group employees. One of the goals of "Leap to Excellence '07" was transformation into a "knowledge-intensive company" that systematically provides its customers with first-class products. In fiscal 2007, the final year of the plan, we focused on the following priority measures and put into action programs to achieve our goals.

Results in Fiscal 2007

- Record figures across the board (orders, sales, operating income, net income)
- Sales growth for the fifth consecutive fiscal year
- Record orders and net income for the fifth consecutive fiscal year
- ROIC (after tax) of 14.0%

Strengthened Capability to Supply Markets with First-Class Products

The SHI Group continued to strengthen its capability to create and supply markets with first-class products that compete successfully worldwide by aggressively marketing our most promising products and investing in R&D. We brought to market new power transmission and plastics machinery models during the year under review, and our cryocoolers and medical-use cyclotrons were well received by customers. Moreover, in fiscal 2007 our highly acclaimed hydraulic excavator, SH200-5 LEGEST®, became the first in the business to win two major awards—the Good Design Award and the Energy Conservation Grand Prize presented by Japan's Energy Conservation Center and the Ministry of Economy, Trade and Industry. We also introduced customers to Aframax tankers designed to meet their shipping route-specific needs.

Strengthened Collaboration between Business Segments and Expanded Component Business

In the power transmission and controls segment, we strengthened the motion control and drive business by suggesting products that combine transmissions, motors and control technology to the industrial robot market, where excellent positioning accuracy is a requirement. We also concentrated on growing the key components business, including cryocoolers for medical and semiconductor production equipment, and precision positioning equipment for liquid crystal display (LCD) and semiconductor manufacture.

Accelerated Overseas Expansion

The SHI Group seeks to extend its business worldwide with a view to business expansion. To this end, we are strengthening our overseas network of sales and service bases. We acquired German plastics machinery manufacturer Demag Ergotech GmbH and its U.S. sales and service company Van Dorn Demag Corporation to establish a structure for accelerating business expansion in regions such as Europe and the United States, where our presence had been limited. In the medical-use cyclotron business, which had been centered in Japan, we increased sales in such growth markets as China and India to accelerate overseas expansion.

Increased Production Capacity

Overseas, we provided a global supply chain centered on the Mass-Produced Machinery and Construction Machinery segments, fortifying production bases in China, Vietnam and North America. In Japan, we invested in capacity expansion, particularly in the Industrial Machinery and Ship, Steel Structure & Other Specialized Equipment segments to provide a stable product supply structure.

Taking Steps to Reduce Global Warming

The SHI Group continued to reinforce its "green" logistics systems aimed at reducing global warming in fiscal 2005–2007 by restraining electric power consumption, using less paper, and cutting energy consumed by transportation.

We achieved a 7.6% cut in power consumption in fiscal 2007 compared with fiscal 2004, which translates into a 3.9% reduction of CO_2 emissions.

Commitment to Internal Control

Over the last few years, the SHI Group has taken active steps to strengthen compliance and risk management. In fiscal 2007, we set up an internal control system that meets the requirements of a reporting structure as provided for in the Financial Instruments and Exchange Law.

Sumitomo Heavy Industries as a World-Leading Company—Aiming for Sales of ¥1 trillion

"Global 21": The New Medium-Term Management Plan (April 2008–March 2011)

A healthy company never stops growing and evolving. With its sights set on a long-term goal of ¥1 trillion in sales by 2015, the SHI Group aims to transform itself into a world-leading company by continuing to grow and develop while creating unrivaled technology and products as well as a resilient cost structure. We aim to be a knowledge-intensive company that systematically provides its customers with first-class products. More than ever, we are committed to delivering the best products while strengthening our marketing, product development and manufacturing efficiency. We are continuing to enhance the cross-divisional value chain that we developed under our previous medium-term plan "Leap to Excellence '07" to bring even more first-class products to market.

The "Global 21" Medium-Term Management Plan

We are putting into action the following strategies in pursuit of a long-term sales target of ¥1 trillion in 2015. Having fortified our balance sheet under our previous medium-term plans, we intend to pursue aggressive investment in growth businesses while maintaining a sound financial base. Specifically, we plan capital expenditure of about ¥100 billion and R&D spending of approximately ¥50 billion over the next three years.

1. Accelerating global expansion

We are aggressively expanding our business in overseas markets with substantial potential for growth, such as the BRIC countries. We are focusing on refining established products to create globally competitive, first-class products, strengthening sales networks and marketing, and expanding our production bases to upgrade our global supply chain from the perspectives of cost-competitiveness and logistics.

2. Pushing ahead with innovation

We are improving our marketing and R&D processes to continue creating first-class products that compete successfully in global markets to enhance our capabilities as a systematic knowledge-intensive company. Taking a long-term view, we are actively recruiting and training human resources. We are also considering new M&A opportunities that allow us to improve the quality of established businesses, achieve synergy effects and diversify into new business areas.

3. Seeking synergies through promotion of cross-divisional businesses

We have inherited from the previous medium-term plan the concepts of "Key Components," including power transmission and precision control components, "Appliances," such as plastic injection molding machines and construction machinery, and "Total Systems," which integrate various machinery and equipment. These concepts enable us to enhance the cross-divisional value chain and thereby strengthen our product capability while enhancing enterprise value.

Chairman

Yoshio Hinoh

President and CEO

Y. Nakamura

Previous Medium-Term Management Plan “Leap to Excellence ’07”

(Fiscal 2005–2007)

All original targets met one year ahead of schedule; new, higher targets also met.

Fiscal 2007 Original Targets		Fiscal 2007 Actual Results	
ROIC:	Above 10% (ROIC > WACC)	ROIC:	14%
Operating income:	More than ¥60 billion	Operating income:	¥77.8 billion
Interest-bearing debt:	Less than ¥150 billion	Interest-bearing debt:	¥89.6 billion

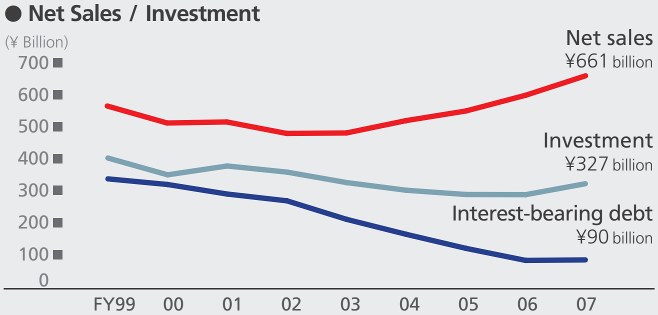
Qualitative Targets

1. To be a “knowledge-intensive company” that systematically supplies markets with first-class products
2. To promote cross-divisional businesses and pursue synergies
3. To strengthen and expand key component businesses

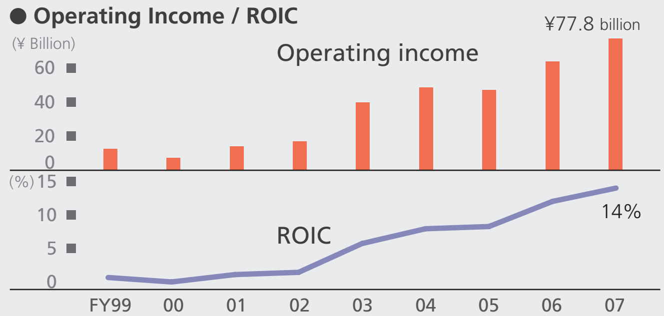
Under the medium-term management plan “Leap to Excellence ’07,” the SHI Group aimed to evolve into a company of global excellence by steering expansion to bring top-line growth. We achieved our original targets one year ahead of schedule and concluded the three-year plan, having greatly surpassed all numerical targets. Great progress was made in non-numerical targets as well, and we were able to build a strong foundation for the new medium-term management plan “Global 21,” that commenced in fiscal 2008.

Each division nominated products that embodied the “Leap to Excellence” spirit, and undertook aggressive development investment and market launches. The results are substantial: we strengthened our power transmission and control equipment lineups as well as our plastic injection molding machines businesses and won both the Energy Conservation Grand Prize and Good Design Award for a hydraulic excavator. Also, through the promotion of alliances between our businesses centering on our precision control technology, an area of specialty, we launched the motion-control drive business.

● **Net Sales / Investment**



● **Operating Income / ROIC**



Acquisition of Demag Plastics Group

In March 2008, the SHI Group acquired injection molding machine production and sales companies Demag Ergotech GmbH of Germany and Van Dorn Demag Corporation of the United States. With this acquisition, we strengthened our brand and sales prowess in the plastics machinery global market. We will work to quickly realize business synergies with these two companies and win the No. 1 market position.

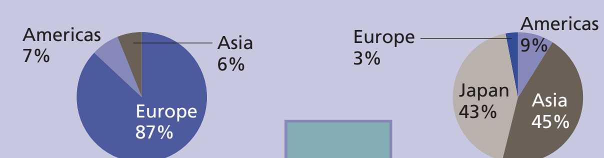
- Reinforcing brand and marketing power in the global market
- Expanding sales in European and BRIC markets
- Attaining the world’s leading business scale

Demag’s Strengths

•Brand power and marketing channels in Europe and Russia
•Hydraulic technologies

SHI’s Strengths

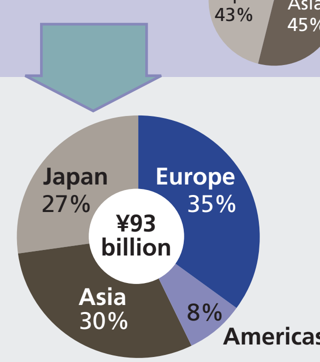
•Marketing power in Asia
•All-electric technologies
•High-precision, high-speed models



● **Product Marketing by Geographic Region**

	SHI	Demag	
	All-electric models for Asia	All-electric models for Europe	Hydraulic models
Europe/Russia		○	○
Japan	○		
East Asia (incl. China)	○		○
Americas	○	○	○
India	○		○

● **Estimated FY08 Plastics Machinery Sales Breakdown by Geographic Region**



New Medium-Term Management Plan "Global 21"

(Fiscal 2008–2010)

The SHI Group has dubbed its new three-year medium-term management plan, which commenced in fiscal 2008, "Global 21." Under this plan we aim to become "a Global SHI."

Fiscal 2010	Financial Targets
Net sales:	¥850 billion
Operating income:	¥100 billion
ROIC:	above 10% (ROIC > WACC)

Long-Term Vision

1. Reach net sales of ¥1 trillion by 2015
2. Reach top three market share in all businesses

We will work toward continued growth and business development. We have set a long-term sales target of ¥1 trillion and will reach this through the building of a business foundation that leverages our global leading technology and resilient cost base and by aggressively pursuing business in high growth potential overseas markets. Also, continuing on from the "Leap to Excellence '07" plan, we will promote the further reinforcement of our cross-divisional value chain and the further creation of first-class products.

Keywords for Growth

- Globalization: Create competitive products and strengthen the global supply chain
- Innovation: Strengthen marketing and R&D processes and develop human resources

Intercorporate competition is moving from the domestic to the international sphere.

- Domestic market maturization
- Entry into a period of global growth
  —Increasing business opportunities in newly emerging nations such as the BRICs—

Rapid economic growth in newly emerging nations is moving towards stable growth.

- The first half of the 21st century will be extremely important for corporate growth
  —Establishment of a competitive edge in the global marketplace—

- Comprehensive sale of current strong product lineup on the global market
  —Use the Company's current products to actively create new markets and grow existing ones—
- Expand the considerable market for mass-produced machinery and construction machinery
  —Fast-paced scale expansion—
- Establish continuous competitive edge by improving first-class products
  —Enhance competitiveness through innovation—

Investment Policy

- Capital expenditure of about ¥100 billion over the three years of the plan, research and development spending of approximately ¥50 billion
- Development of global presence, creating first-class products

Investment in First-Class Products

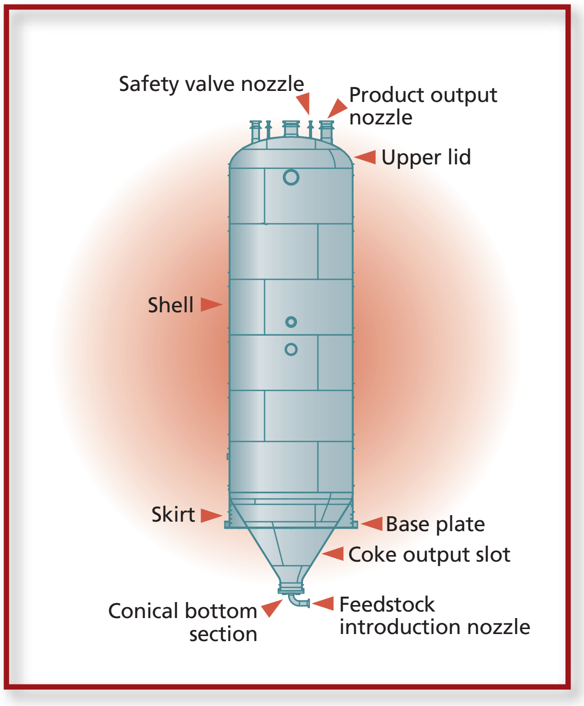
Development of first-class products for the global market through enhanced competitiveness

Special Feature 1:
Reactor Vessels: "Coke Drums" First-Class Products Contributing to Our Next Leap

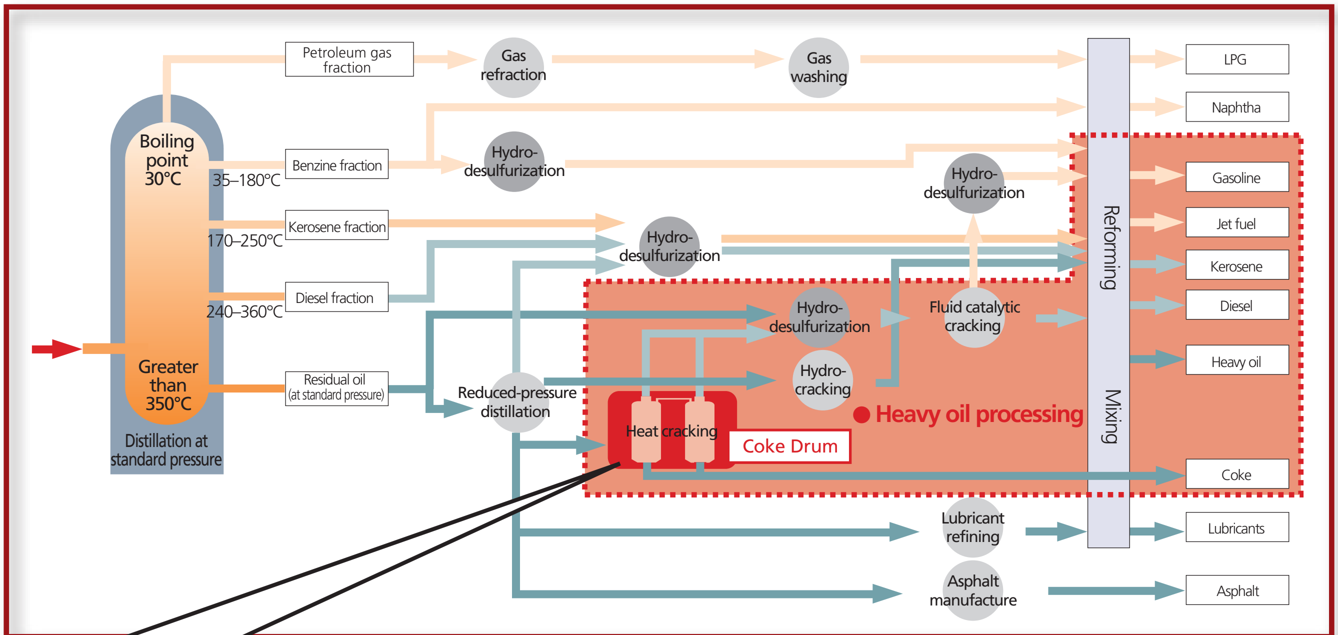
Along with the rise in demand for oil in recent years, crude oil prices have increased sharply. Demand for coking equipment is also rising, particularly for units with a large heavy oil conversion capacity as such units are able to produce greater volumes of light oil. The SHI Group has captured a global top share of the market for such equipment, drawing on its superior product quality and the high reliability is has gained from its many years of technological experience.

Coke Drums

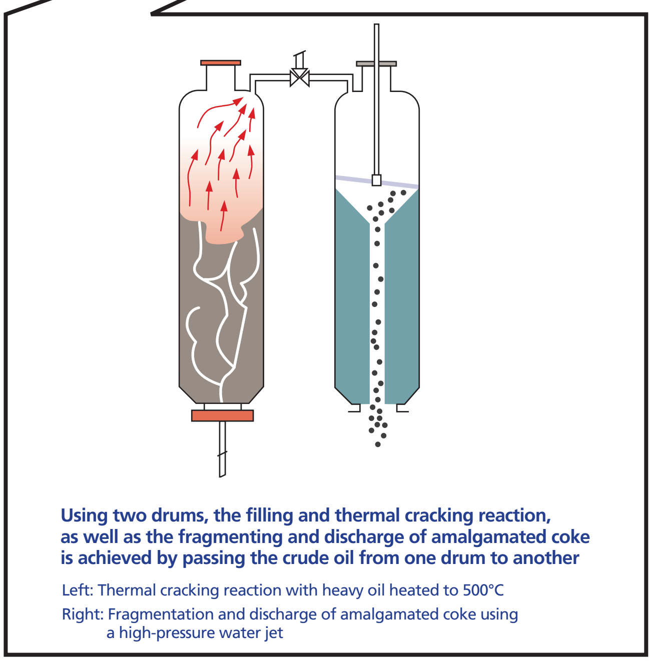
Crude oil is distilled into gas, light oil and heavy oil. Demand for light oil has expanded in recent years. Applications for heavy oil are limited, and it is usually transformed into light oil, which has higher added value. There are several processes used for this transformation. Coke drums are reactor vessels used in delayed coking, a thermal cracking process that is widely used as it is the most efficient. In this process, heavy oil is heated to 500°C and separated into gas and coke inside a coke drum. The amalgamated coke is then finely fragmented and discharged from the bottom of the drum.



Coke drum basic structure



Heavy oil processing as part of oil refining



How coke drums work

Increasing Coke Drum Demand

As crude oil prices continue to rise, the merits of transforming heavy oil, which is limited in its application, into light oil are steadily growing. Moreover, coke drums are becoming more profitable due to the increased processing of tar sands and crude oil with high heavy oil content into light oil as well as due to the high price of crude.

The cost-competitiveness of coke produced by coking for use as a fuel is also on the rise. Depending on the production process, coke can also be converted into high-purity carbon material, for which demand is high.

Due to these factors, the demand for coke drums for use in the delayed coking process is growing due to their ability to produce both coke, a raw material, and light oil, a product.

The Added-Value Features of Coke Drums

Heat-resistant steel (chrome/molybdenum steel) makes coke drums able to withstand temperatures of around 500°C and the pressure accompanying the rise in temperature. In addition, the interior of the drum comprises clad steel plates fitted with stainless steel for corrosion prevention.

The heat treating of heat-resistant steel in welding requires high-level skills and experience. Also, in welding the interior side of the clad steel plates, special treatment is needed to compensate for the stripping of the stainless steel by the welding process itself (using welding techniques to build up melted inconel material). We have these expert skills and are able to create high-quality products.

Because the plate used to build the shell is thin relative to the diameter of the drum, the drum can easily become warped during manufacture. However, our proprietary technologies afford us high assembly precision.

The combination of our manufacturing technologies, plant capacity and continued improvement in functionality has helped us create added-value products and win customers' trust.

Special Feature 2:
Construction Machinery: "Hydraulic Excavator" Product Development Aimed at Customer Satisfaction

Double-Award Winning SH200-5 LEGEST®

In fiscal 2007, the SHI Group's new hydraulic excavator, SH200-5 LEGEST®, has won the Energy Conservation Grand Prize, which has been promoted mainly by the Ministry of Economy, Trade and Industry of Japan. Named LEGEST, connoting the words "Legerity" (agility) and "Strong," our new hydraulic excavator became the first piece of construction machinery to win the prestigious award.

Having also won a Good Design Award, the SH200-5 LEGEST® has achieved the prodigious feat of becoming a double-award winning product.

LEGEST®'s Double-Award Winning Performance

The presentation of the Energy Conservation Grand Prize reflects a recognition of not only the versatility and high-standard functions that the revolutionary hydraulic excavator boasts but also the achievement of a 20% improvement in fuel efficiency and enhanced power output, both of which have been realized through the Company's development of a new hydraulic and engine system.

Under the Energy Conservation Award system, private corporations nominate their energy-saving equipment and systems, which then undergo stringent evaluation and screening processes conducted by the Awards Committee. Consisting of academic experts and other specialists, this committee makes final judgments on award winners. Reflecting increasing calls for technologies that help prevent the further advance of global warming, a total of 19 products were presented with the authoritative award. In the past, the award has been presented for a hybrid car, a tilted-drum washing machine, a non-chlorofluorocarbon (CFC) refrigerator and a number of other products demonstrating high energy-saving performance.

The SH200-5 LEGEST®'s winning of the Good Design Award is testament to the high evaluation its functional design has received. Incorporating an impressive arm and boom design with a state-of-the-art arrangement of hoses and other devices, an improved forward field of vision, seating flexibly adjustable to the operator's physique regardless of gender and size, and an operator-friendly control system, the SH200-5 LEGEST®'s functional design delivers exceptional comfort and enhanced productivity in excavator operations.

* LEGEST is a registered trademark of Sumitomo (S.H.I.) Construction Machinery Co., Ltd.

Advanced Systems for Higher Fuel Efficiency

新型エンジンシステム SPACE 5 + 新油圧システム SIH:S

New Engine System SPACE 5* | New Hydraulic System SIH:S**

20% Improvement in Fuel Efficiency

The new SPACE 5 engine system and the new SIH:S hydraulic system have been key to achieving a 20% improvement in energy efficiency of the SH200-5 LEGEST®.

The SPACE 5 system boasts superior engine performance as well as environmental performance that satisfies the standards defined under the Act on Regulation, etc., of Emissions from Non-road Special Motor Vehicles (Act No. 51 of 2005). To maximize cooling, the SPACE 5 system's engine and fan both operate at a constant low speed, which, in turn, yields a 10% reduction in fuel consumption.

Free of the redundant hydraulic circuits typically found on conventional excavators, the SIH:S hydraulic system enables high-versatility arm movements that prove effective for operations requiring either extra precision or speed and dynamism. Based on our proprietary technologies and showing a clear break from common notions of productivity and fuel consumption, SIH:S is an innovative hydraulic system for next-generation excavators. An electronic system controls hydraulic loss to further reduce fuel consumption 10%.

* SPACE: Sumitomo Powerful and Clean Engine System
** SIH:S: Sumitomo Intelligent Hydraulic System

Excellent Energy-Saving Performance

Statistics show that the annual crude-oil equivalent consumption of energy through automobile usage totals approximately 44.09 million kiloliters in Japan. Similar statistics show that the annual crude oil-equivalent consumption of energy by construction machinery amounts to 4.00 million kiloliters, approximately one-tenth the energy consumption of automobiles. The figure for construction machinery is actually greater than that for household-use refrigerators, which totals 2.94 million kiloliters, and hydraulic excavators are often regarded as a synonym for construction machinery in Japan.

Under normal operating conditions, a hydraulic excavator that is about the same size as the SH200-5 LEGEST® consumes 4.08 kiloliters of diesel oil per year. It is estimated that a total 100,000 hydraulic excavators of this size are in operation in Japan today. Based on these figures, the annual consumption of diesel oil by such hydraulic excavators is roughly estimated to be 4.08 million kiloliters, equivalent to 20.4 million barrels of crude oil. The SHI Group's development of the new fuel-efficient hydraulic excavator centered on the concept of helping reduce diesel oil consumption without affecting productivity.

Hydraulic excavators are the most widely used type of fuel-consuming industrial machinery. In this category, calls are rapidly increasing worldwide for the application of technologies that achieve higher fuel efficiency. With hydraulic excavator-related technologies dominating the world's industrial sphere, the SHI Group's proprietary technological innovations, which have found their culmination in the SH200-5 LEGEST®, will bring a fuel-saving effect on a global scale.

● Comparison of Energy-Saving Effect between SH200-5 LEGEST® (New Model) and SH200-3 LEGEST® (Previous Model)

Time Frame: 1 Month

	Workload	Fuel Used	Fuel Cost
Old Model	4,233 loads	3,400 liters	¥510,000
New Model	4,233 loads	Down 675 liters 2,725 liters	Down ¥101,250 ¥408,750

● Energy-Saving Effect

	One-Year Period	Service Life (8 Yrs)
Fuel Cut	675 ℓ x 12 months 8,100 liters	64,800 liters
Cost Cut	¥1,215,000	¥9,720,000
CO_2 Cut	23.5 tons	188.0 tons

* Premises for comparison: Excavator with 0.8m³ bucket; 10-ton truck with load capacity of 6.0m³; Performing a 90-degree swing-and-dump maneuver from 2m below ground; In operation 8 hrs/day, 25 days/mo at 75% capacity; Using diesel oil at ¥150/liter

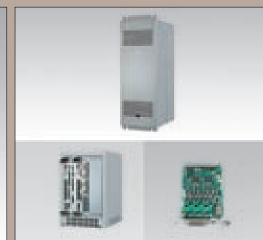
Mass-Produced Machinery

PARAMAX® speed reducer 9000 series

Ultrahigh-speed all-electric injection molding machine "SE-HP"

Super-conductive magnet for silicon monocrystal lifting

Cryopump system SICERA®



Control units

Markets

Business Environment

Capital investment in industrial machinery is increasing overseas, particularly in emerging countries, and overseas demand remained robust, especially for large-scale power transmission equipment. Despite sluggish overall demand in the plastic injection molding machine market, the SHI Group managed to increase its market share in the precision high-cycle molding category. In the market for medical equipment, demand has been expanding steadily overseas, particularly in East Asian countries. In general, the operating environment for this segment has remained favorable.

Main Products

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

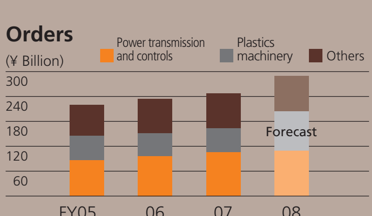
Major Units

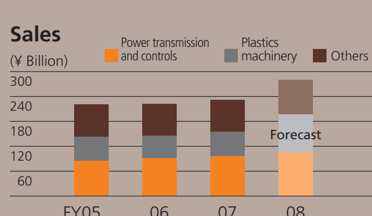
Sumitomo Heavy Industries Mechatronics, Ltd.
SEN Corporation, an SHI and Axcelis Company
Sumitomo NACCO Materials Handling Co., Ltd.
Sumitomo Machinery Corporation of America
Sumitomo (SHI) Cyclo Drive Germany, GmbH
SHI Plastics Machinery, Inc. of America
Sumitomo (SHI) Cryogenics of America, Inc.
SHI Manufacturing & Services (Philippines) Inc.

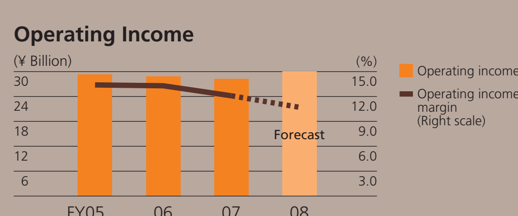
Performance

Review and Analysis of Results for Fiscal 2007

The power transmission and control business saw expansion in both orders received and sales, with results buoyed by growing overseas demand, particularly for large-scale machines used by the natural resource and infrastructure industries. In the plastics machinery business, orders received and sales remained flat year on year in the automotive industry while slightly improving in the electronic component industry. Results for other businesses in this segment showed some improvements across the board over fiscal 2006. As a result, total segment orders rose 5% year on year, to ¥247.4 billion and sales climbed 4% to ¥232.6 billion. Operating income dipped 5% to ¥28.2 billion.







Forecast

Outlook for Fiscal 2008

Market prices for industrial machinery, notably in the automotive field, are expected to stay at a favorable level overseas. In the plastics machinery business, the March 2008 acquisition of the Demag Plastics Group has high potential to yield synergistic effects that will empower the SHI Group to expand sales in Asia, Europe and the Americas. In the IT and other cutting-edge technology fields, we expect to enjoy the benefit of new capital investment driven by spending aimed at increasing production capacity. In the medical equipment field, demand is likely to grow in the emerging economies of Asia.

Power Transmission and Controls

Business Performance for Fiscal 2007

With an economic upturn promoting active capital investment, orders and sales showed steady growth in Japan. Overseas, we enjoyed a surge in orders in China, North America and Southeast Asia, all of which saw robust demand from the natural resource- and infrastructure-related sectors.

By product, orders for large gearboxes for the coal and cement industries continued to expand, while those for small- to medium-sized gearmotors grew across a broad array of sectors, including factory automation and material handling machines for the distribution and logistics industry. Precision speed reducer units attracted a number of orders, particularly for applications in machine tools overseas.

Strategies for Fiscal 2008

Domestic demand is growing sluggish, while emerging economies and resource-rich countries worldwide are increasingly directing investments toward infrastructure development. Bolstering our marketing capabilities with a focus on these countries, we are working toward the creation of value for customers.

Specifically, we are focusing on providing advanced solutions employing our medium-sized to large gearboxes. In small- to medium-sized gear motors, we are boosting efforts to improve the market recognition and share of our new products with enhanced competitiveness, such as PREST® NEO (photo ❶). In addition, we are strengthening our development capabilities for precision speed reducer units to meet ever-advancing customer needs.

Furthermore, we are implementing initiatives to enable the consistent supply of products. These initiatives include the upgrading of production capacity at our plant for motors and small-sized gear motors in Vietnam and the construction of a new gearbox plant in Tangshan, Hobei Province, China, as well as the expansion of our precision speed reducer unit plant in Germany.

PREST® NEO

Plastics Machinery

Business Performance for Fiscal 2007

Despite a slight decline compared with fiscal 2006, during the reporting term domestic manufacturers' shipments of injection molding machines remained strong, reaching approximately 17,500 units. With demand in Europe also vigorous, market growth in such countries as Vietnam, India and Brazil is becoming increasingly apparent.

Under these market conditions, we acquired a 100% equity share in Germany-based Demag Ergotech GmbH and U.S.-based Van Dorn Demag Corporation, both of which manufacture and sell injection molding machines, in March 2008. The aim of these acquisitions was to accelerate the implementation of our global strategy.

In addition, we promoted activities to reinforce the competitiveness of our products in growing industries. Specifically, we released a new "SE-HP" series ultrahigh-speed all-electric injection molding machine used for the manufacture of light-guiding panels, a major component of liquid crystal displays (LCDs). We also expanded our lineup of double-shot injection molding machines, which significantly contribute to improved productivity in the manufacture of automobile and cell phone components.

Strategies for Fiscal 2008

In Europe and the United States, injection molding companies are expected to accelerate their shift from hydraulic to all-electric systems. In these regions, we will aggressively seek to expand sales of our all-electric injection molding machines (photo ❷) by taking advantage of the Demag Plastics Group's marketing and servicing network. In India and South America, where the markets for our products are forecast to grow further, we will reinforce our marketing structures. As these various markets continue on the course of globalization, we will keep sharpening both our product and marketing competitiveness to become the global leader in the plastic injection molding machinery industry.

Fully electric controlled injection molding machine "SE-DU"

Quantum Equipment

Business Performance for Fiscal 2007

Fiscal 2007 was the second consecutive year of record orders for the Quantum Equipment Division.

We enjoyed a significant increase in orders for specialty magnets used for single crystal silicon ingot manufacturing equipment due to aggressive investment undertaken in relevant sectors, both in Japan and overseas.

Demand for small cyclotrons for use in position emission tomography (PET)* (photo ❸) remained firm in China. In addition, we secured orders for small cyclotrons in India and Southeast Asia, becoming the first Japanese manufacturer to do so.

* PET (position emission tomography) is a highly effective screening test for cancer. The cyclotrons are used to produce the diagnostic agent.

Strategies for Fiscal 2008

In small cyclotrons for use with PET—an area in which we are a pioneer among Japanese makers in winning orders from customers in India and Southeast Asia—we will bolster our marketing activities to reestablish their brand image in Japan and other Asian countries.

The photovoltaic product market is continually expanding on a global scale. In such an environment, we will strive to win increased orders for equipment capable of manufacturing larger panels with higher power generation efficiency.

We expect to achieve continued growth in our business related to specialty magnets for single crystal silicon ingot manufacturing equipment, a field that is increasingly attracting investment in Japan and abroad.

Cryogenic Equipment

Business Performance for Fiscal 2007

Cryopumps (ultra-high vacuum pumps) and chiller units used in semiconductor fabrication and inspection equipment saw sales weaken, negatively affected by the overall semiconductor market undergoing a period of investment cutbacks. However, due to steady sales of 4KGM cryocoolers* (photo ❹)—a mainstay life science product used in magnetic resonance imaging (MRI) and nuclear magnetic resonance (NMR) systems—this business achieved year-on-year growth in both revenues and profits.

Our cryopumps are gaining increasing market recognition for their excellent energy-saving performance and eco-friendliness. This is attributable to the unique control technologies incorporated into their development.

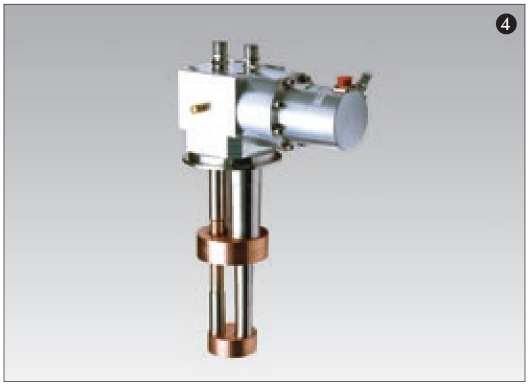
* 4KGM cryocoolers can cool materials to 4 degrees Kelvin (i.e., 4 degrees above absolute zero), or minus 269 degrees Celsius.

Strategies for Fiscal 2008

The operating environment surrounding this business is forecast to remain severe. With the exception of limited large-scale investment mainly in Asia, activity within the semiconductor market is anticipated to soften. Furthermore, downward pressure on worldwide medical expenses is projected to negatively impact the healthcare market despite growth in emerging economies.

We will continue to expand our cryogenic business by accurately seizing investment opportunities. To this end, we will keep upgrading our cryopumps while strengthening our global marketing activities. At the same time, we will work to further the fundamental technologies applied to components of our flagship cryocoolers, thereby attaining overwhelming product competitiveness in terms of reliability, quality and cost.

PET radio-tracer production system "HM-12S"



4KGM cryocooler

Mechatronics

Business Performance for Fiscal 2007

In the liquid crystal display (LCD) market—this division's principal market—the supply-demand balance worsened during the reporting term. This unfavorable situation drove market players to limit their capital investment, which fell below the fiscal 2006 level, leading to a year-on-year decrease in orders and sales.

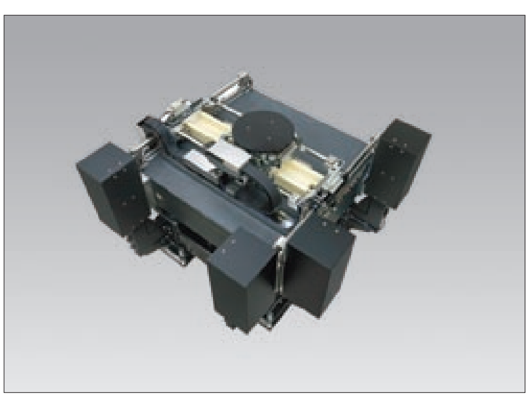
Despite these conditions, we continued to steadily expand operations in new and existing markets and to pursue new product development. Specifically, we further diversified our business portfolio, which had been focused mainly on specialty high-end products, to include mid-range products, thereby extending our operations beyond Japan and into overseas markets and accelerating the development of control components based on our extensive control platforms. These measures have started to yield tangible results. In addition, we recorded steady sales of control components to other appliance-related business units within the Group.

Strategies for Fiscal 2008

The former Electro-Mechanical Division was joined with the current Mechatronics Division in April 2008 with the aim of reinforcing organizational strengths and thus enabling further expansion and growth in line with the new "Global 21" medium-term management plan. Leveraging the synergies yielded by this vertical integration and flexibly and effectively allocating our human resources, we will enhance our business functions.

The semiconductor and FPD markets are forecast to sustain stable growth in fiscal 2008. Underlying this favorable forecast are improving market conditions fueled by surging demand for large-screen FPDs as the number of terrestrial digital broadcasting viewers expands and growth is seen in replacement demand for personal computers and mobile terminals, which are increasingly providing ever-more-advanced functions.

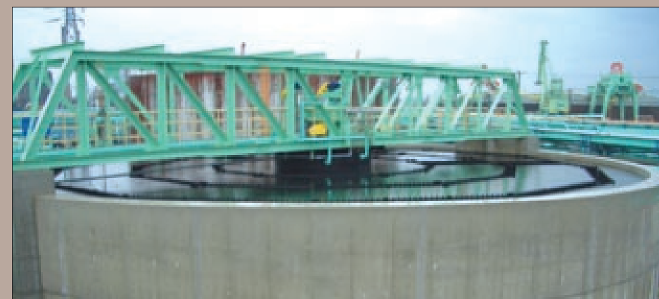
We seek to attain synergies between our mechatronics technology, which fuses mechanical and electric control systems, and the former Electro-Mechanical Division's expertise in laser processing and other systems. Such synergies will facilitate business expansion in new and existing markets as well as new product development.



Precision positioning stage SL series "SL-500G"

Environmental Protection Facilities, Plants & Others


CFB boiler


Smi-thickener

Markets

■ Business Environment

This segment serves customers in both the public and private sectors. As public-sector demand continues to contract, we are transforming the structure of this business to focus on the private sector. Demand from the private sector centers on the segment's main product line, CFB boilers, as the drive to reduce CO_2 emissions gathers momentum. Accordingly, sales of such products are trending favorably, especially in overseas markets. In the water-related environmental sector, we are concentrating greater marketing efforts on our wastewater treatment facilities for private-sector customers, and we have solid indications that this will grow into a promising new business area.

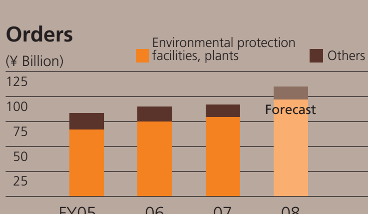
Main Products
Power Generation Systems
Industrial Wastewater Treatment Systems
Water and Sewage Treatment Systems
Landfill Leachate Treatment System
Air Pollution Control Plants
Chemical Process Equipment & Plants
Food Machinery
Software

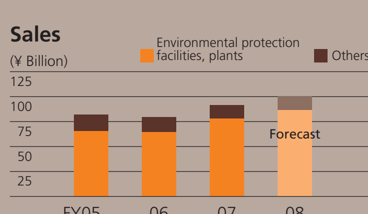
Major Units
Sumitomo Heavy Industries Environment Co., Ltd.
Sumiju Environmental Engineering, Inc.
Sumiju Plant Engineering Co., Ltd.
Nihon Spindle Mfg. Co., Ltd.
Izumi Food Machinery Co., Ltd.
Lightwell Co., Ltd.

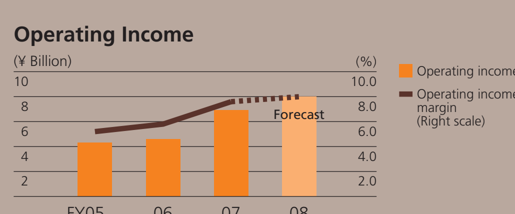
Performance

■ Review and Analysis of Results for Fiscal 2007

Orders received in the energy plant business dropped year on year mainly due to slowing domestic investment in industrial power-generation boilers. In contrast, sales showed healthy growth, positively affected by increased orders in fiscal 2006. The water treatment plant business expanded steadily thanks to successful business restructuring aimed at shifting our focus from the public sector to the private sector. However, sales in this business were stagnant, impacted by decreased orders in the previous fiscal year. As a result, orders received by this segment as a whole increased 2% to ¥91.8 billion while sales leapt 15% to ¥91.2 billion. Operating income surged 49% to ¥6.9 billion.







Forecast

■ Outlook for Fiscal 2008

Rapidly rising concern over the need to protect the global environment is causing constant growth in the market for biomass-related products, and the Company's energy plant business, centered on biomass boilers for electric power generation, is expected to enjoy a continuously strong inflow of orders. With regard to our water-treatment business, we are steadily advancing our business restructuring to enhance our focus on the private sector. In this way, we aim to stabilize and reinforce our earnings power.

Energy-Related Plants

Business Performance for Fiscal 2007

The entire world is experiencing increases in the cost of fuel for power generation due to the recent surge in crude oil prices while witnessing global efforts to reduce CO_2 emissions in step with a growing consensus that global warming must be prevented. These conditions are heightening calls for the accelerated shift to cheaper, environment-friendly renewable energy. In this environment, our CFB boiler (photo ❶) is attracting worldwide attention for its superior multi-fuel combustion technology that enables the co-combustion of non-fossil fuels, coal and renewable energy. Accordingly, inquiries are increasing for boilers compatible with new energy sources, particularly in North America and Asia. Further supporting this trend is the adoption in many countries worldwide of environmental regulations, such as the Kyoto Protocol and Renewable Portfolio Standards of the United States, which generally mandate that renewable energy sources be used to provide an increasing share of electricity generated. Our market trend-focused activities are steadily yielding tangible results, reinforcing our overseas marketing capabilities and empowering us to effectively implement our region-specific product strategies.

Strategies for Fiscal 2008

Because the domestic chemical industry is seeing an accelerating shift to alternative fuels, we expect the industry to become an important segment for us. In the United States as well, the construction of thermal power plants that can run on fuels other than fossil fuels, with the aim of promoting RPS compliance, is picking up. In Southeast Asia, demand is booming for small power plants that use residual agricultural substances from plantations as fuel. In this region's promising markets, we are aggressively working to expand sales of our CFB boilers compatible with renewable energy fuels.

Water Treatment Plants

Sumitomo Heavy Industries Environment Co., Ltd.

Business Performance for Fiscal 2007

Following a spin-off of the SHI Group's water treatment business, Sumitomo Heavy Industries Environment was incorporated on January 1, 2007. Having achieved steady business growth since then, we were able to record better-than-planned orders and profits in both the private and public sectors in fiscal 2007.

In the private sector, we received a number of orders from players in the steel, food and other industries where SHI boasts strengths. In the public sector, we secured orders through the full-fledged marketing of our flagship component equipment.

Strategies for Fiscal 2008

Amid growing uncertainties in the business environment, we aim to stabilize our business and improve profitability through the effective implementation of sector-specific initiatives. Our first initiative in the private sector calls for increasing orders by expanding existing market shares, penetrating the electric and electronics industries and improving product performance. Our second initiative involves the strengthening of our product-innovation capabilities and the accelerated development of new products and technologies. The third private-sector initiative entails the reinforcement of our services to better contribute to the improved performance of customers' facilities. In the public sector, we will further boost component equipment marketing—one of our core profit drivers.

The MICRUS® superfine-bubble membrane tube diffuser (photo ❷) is one of our mainstay products. Boasting excellent energy-saving performance, high durability and superior maintainability while being economical to install, the MICRUS® diffuser has been granted a public technical certificate by the Japan Institute of Wastewater Engineering Technology. MICRUS® is a registered trademark of Sumitomo Heavy Industries Environment.

CFB boiler

Superfine-bubble membrane tube dffuser MICRUS®

Ship, Steel Structure & Other Specialized Equipment

Coke drum

105,200MTDW oil tanker

Markets

■ Business Environment

Amid rising demand for oil, the market for petroleum refinery construction is showing increased vigor. Against a backdrop of high oil prices, petroleum companies are taking an aggressive stance on investment in the construction of new refineries and the expansion of existing facilities. Orders for ships are flowing in at a brisk pace due to the active shipping market. Demand for new shipbuilding is projected to remain strong for the foreseeable future.

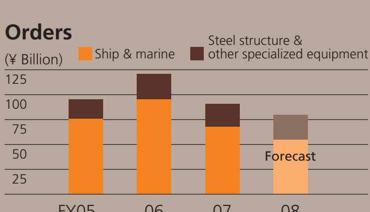
Main Products
Bridge & Steel Structures
Pressure Vessels
Mixing Vessels
Mixing Reactors
Coke Oven Machines
Ships
Marine Structures
Marine Equipment

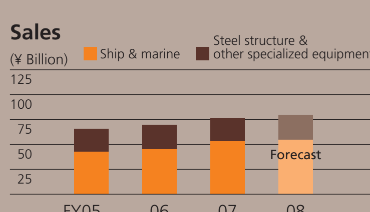
Major Units
Sumitomo Heavy Industries Marine & Engineering Co., Ltd.
SHI Mechanical & Equipment, Inc.
SHI Examination & Inspection, Ltd.

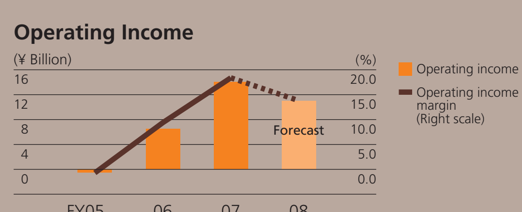
Performance

■ Review and Analysis of Results for Fiscal 2007

In the shipbuilding business, we bolstered our marketing activities in line with our differentiation and concentration strategies focusing on Aframax tankers and maintaining the backlog of existing orders at an appropriate level. These strategies have borne fruit, enabling us to win orders for eight tankers. On the sales side, the Company delivered seven tankers. Our steel structure and other specialized equipment business trended favorably, remaining on par with the strong performance in fiscal 2006. As a result, although segment orders as a whole declined 25% from the previous term to ¥90.7 billion, sales jumped 10% to ¥76.4 billion. Operating income soared 115% to ¥14.1 billion.







Forecast

■ Outlook for Fiscal 2008

Demand for oil continues to grow; consequently, investment in new petroleum refining facilities is likely to maintain a favorable pace for some time to come. Reactor vessels for use in refining heavy oil are a specialty of the SHI Group, which expects a steady inflow of inquiries. As for ships, we have decided to restrict our order acceptance to medium-sized Aframax tankers, and, in view of the strong demand for freight shipping, we expect ship prices to remain high.

Reactor Vessels

Business Performance for Fiscal 2007

Crude oil prices continued to soar during the reporting term, gaining momentum and breaking the $100 per barrel ceiling. In this volatile environment, our petroleum coke drums (photo ❶) for extracting gasoline and related liquids from heavy oil continued to enjoy healthy orders. In addition, oil refineries worldwide are upping their treatment capacity by installing multiple and larger equipment. This trend has driven up prices on an individual order basis. Looking ahead, we are shaping our strategies to reflect customer needs and enhancing our production capabilities, including our large equipment manufacturing capacity. Through these initiatives, we aim to make another leap forward.

Strategies for Fiscal 2008

Buoyed by rising oil demand attributable to economic growth in emerging countries, the petroleum coke drum market is expected to continue to expand amid sustained high crude oil prices and the likelihood of an increase in heavy crude oil production. Accordingly, we expect to enjoy a favorable operating environment with robust orders during fiscal 2008. Saudi Arabia and other oil-producing countries are increasingly channeling their considerable capital resources into not only crude oil exporting-related areas but also oil refineries. In response, we are developing differentiated products with improved durability and other superior characteristics, aiming to win orders for large-scale projects involving petroleum coke drums. At the same time, we are looking to stimulate replacement demand and to cultivate new needs focusing mainly on longstanding users.

* For coke drum details, please refer to the special feature section on page 12.

Coke drum

Ships

Sumitomo Heavy Industries Marine & Engineering Co., Ltd.

Business Performance for Fiscal 2007

Advanced countries experienced ballooning economic uncertainties due to the subprime loan crisis in the United States, soaring crude oil prices and the persistent decline in the value of the dollar. The marine transport market, however, enjoyed favorable conditions overall thanks to global logistics expansion, driven primarily by economic growth in the BRICs. Despite stagnation in the tanker market, the bulker and containership markets remained robust. As a result, new shipbuilding orders worldwide in 2007 reached 165 million tons, topping 2006's all-time record by 65%.

In this environment, we have concentrated on the medium-sized tanker market in order to differentiate ourselves from competitors. Our Aframax tankers (photo ❷) have surpassed customer expectations to win the very highest acclaim. We took orders for eight of these tankers, which is on par with our annual Aframax building capacity, and delivered seven.

Strategies for Fiscal 2008

The global economy is expected to suffer from a credit crunch brought on by subprime loan problems and a continuous rise in the prices of such natural resources as crude oil, coal and iron ore. Nevertheless, we expect the marine transport market to remain firm due to the steady economic growth of the BRICs and oil-producing countries. The robust marine transport market is expected to support strong conditions in the shipbuilding market. In response, we will continue to develop and launch excellent ships that maximize each customer's value. At the same time, we will take steps to further improve our performance in fiscal 2008 through the improvement of product quality and production innovation.

105,000MTDW oil tanker

Industrial Machinery


Goliath crane


Multistage steam turbine (Model: C11)


Vertically suspended multistage pump (Model: CZ)


3,500t forging press

Markets

Business Environment

Supported by the strength of economies around the world, demand for heavy machinery is brisk. Our sales of material handling systems have benefited from Japanese shipyards' vigorous investment in production facilities expansion as well as continued high-capacity utilization. In steam turbines for power generation, investment in new power plants is particularly brisk in India. Also, global demand for metal forging presses from makers of automotive components is growing. Overall, the business environment for this segment is favorable.

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

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

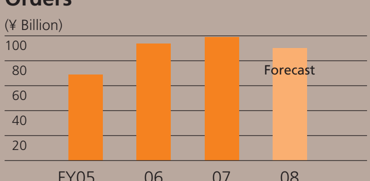
Performance

Review and Analysis of Results for Fiscal 2007

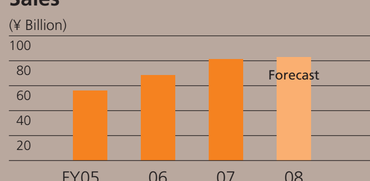
Both orders received and sales expanded in our material handling systems business. These favorable results were attributable to our effective initiatives to increase orders for large cranes from domestic shipbuilding and steel companies, as well as to our strategic capital investment to enhance our production capacity.

The turbine and pump market is gaining momentum, fueled by tight supply-demand conditions for electricity in emerging countries and aggressive investment to upgrade oil refining facilities in oil-producing countries. Given such market conditions, the Company strengthened overseas marketing activities and was rewarded with increased orders received. As a result, segment orders improved 6% year on year to ¥98.8 billion, while sales surged 19% to ¥81.2 billion. Operating income expanded 28% to ¥12.1 billion.

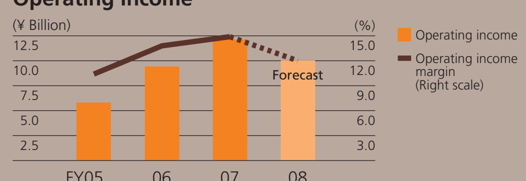
Orders



Sales



Operating Income



Forecast

Outlook for Fiscal 2008

Against a backdrop of vigorous capital investment by shipbuilders and steelmakers, demand for material handling systems is expected to remain strong. Sales of turbines and pumps will benefit from growing demand for equipment used in biomass power generation and in petroleum plants, and the market scale as a whole is projected to expand. We anticipate continued brisk orders for forging presses in view of the strong business situation of the automotive industry.

Material Handling Systems

Sumitomo Heavy Industries Engineering & Services Co., Ltd.

Business Performance for Fiscal 2007

Shipbuilders—a primary market for the material handling machinery and systems business unit—remained active, stepping up capital investment. Aimed at increasing the productivity of docking facilities, this investment mainly concentrated on the construction of larger ship blocks and the renewal of facilities. Thanks to our customer needs-focused marketing, we won substantial orders for Goliath cranes (photo ❶) and jib cranes. This effective marketing approach also bore fruit in Taiwan, the Philippines and China.

Steel manufacturers also expanded their capital investment to upgrade productivity and capacity, particularly in the area of high-grade and special steel production. As a result, we received many orders for overhead traveling and other cranes.

Strategies for Fiscal 2008

We expect capital investment in the shipbuilding and steel industries to slow due to the persistent surge in raw material prices. In line with our basic stance of "seeking the leading position in customer services with first-class products and lifecycle solutions," we will aggressively expand our marketing activities in Japan and the East Asian region and work to create added value for customers, aiming to steadily increase orders for our products and services.

At the same time, we will establish new platforms and modules to achieve a more flexible supply chain, thereby sharpening our quality, cost and delivery (QCD) competitiveness in the face of an ever-fluctuating procurement environment. Meanwhile, we will strengthen the competitiveness of our overhead traveling and other cranes to become the QCD leader in this market sector.

Turbines and Pumps

Shin Nippon Machinery Co., Ltd.

Business Performance for Fiscal 2007

We enjoyed healthy orders for turbines (photo ❷) overseas, especially in Asia, North America and South America. Behind this trend was the increased demand for electric power in the emerging economies of the aforementioned regions, an increased drive for investment in power generating projects using biomass and other renewable energy and flourishing waste heat recovery cogeneration businesses in developed countries.

Orders for pumps (photo ❸) were also robust, particularly in the Middle East and Southeast Asia, on the back of growing demand for petrochemical products in emerging countries and high oil prices. Specifically, accelerated capital investment in upstream heavy oil reformers and downstream ethylene production facilities drove up pump orders.

Strategies for Fiscal 2008

We expect our turbine and pump businesses to remain favorable. In emerging countries, the construction of decentralized and independent generation plants is expected to speed up, which will consequently benefit our turbine business. Oil and gas refinery construction, along with the expansion of existing facilities, is forecast to boom, particularly in the Middle East and Africa. This is expected to contribute to pump business profitability.

We will focus on expanding our sales volume in the global market by enhancing the competitiveness of our products and reinforcing our overseas sales network. Through these initiatives, we will aim to achieve further growth.

Our operations are subject to a myriad of risks, including a possible surge in the prices of plant construction materials, delay in delivery times or any appreciation of the yen. To better prepare for these risks, we are stepping up activities to gather market information, cut costs and shorten lead times by strengthening our marketing/sales capabilities and improving our productivity.

Forging Presses and Industrial Machinery

Sumitomo Heavy Industries Techno-Fort Co., Ltd.

Business Performance for Fiscal 2007

Domestic automobile production remained strong in fiscal 2007, supported by robust export demand. Reflecting these favorable conditions, we recorded a large volume of orders for new forging presses (photo ❹) as well as for automation and other modifications to existing forging lines from automakers and forging companies.

In the shipbuilding industry, which continued to enjoy significant activity, we also won an order for a large-scale hydraulic press.

The domestic steel industry continued to operate at full capacity to meet healthy demand from domestic manufacturers and for exports to Asia. In this strong market, we received orders for the renewal of large-scale rolling mills as well as for modifications to existing production lines.

Strategies for Fiscal 2008

The domestic automobile and steel industries are facing increasingly difficult operating conditions due to the negative impact of the economic slowdown in North America, soaring crude oil prices and advancing environmental problems. However, both industries are expected to overcome current difficulties and go on to achieve further expansion through aggressive penetration into emerging economies and countries with ample natural resources and the application of sophisticated technologies. Meanwhile, major forgers overseas are expected to bolster their capital investment in order to meet strong demand from automakers and energy industry players.

Taking full advantage of market conditions, we will continue to provide detailed marketing services to our domestic customers while placing greater emphasis on reinforcing our team of overseas marketing professionals. In strengthening our overall marketing capabilities in the press business, we will more proactively approach customers both in Japan and abroad. In addition, we will pay closer attention to customer satisfaction in our industrial machinery business. We aim to achieve unparalleled customer satisfaction by leveraging our technologies and expertise, which have been nurtured through our long history of providing services to modify and upgrade customers' existing facilities.

Construction Machinery

Hydraulic excavator SH200-5 LEGEST®

New mobile cranes RTC-80130 and HTC-3140

Markets

■ Business Environment

This segment is fielding a large number of inquiries, particularly from Europe and China, as a result of strong demand for building construction. Our launch of a new-model hydraulic excavator that conforms to Phase III exhaust gas emission regulations has been a significant factor in boosting our earnings. Brisk activity in North America in plant and expressway construction has led to strong growth in orders for mobile cranes.

Main Products
Hydraulic Excavators
Mobile Cranes
Road Machinery

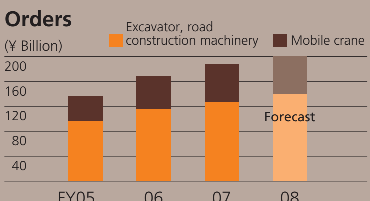
Major Units
Sutmitomo (S.H.I.) Construction Machinery Co., Ltd.
Link-Belt Construction Equipment Company
LBX Company, LLC

Performance

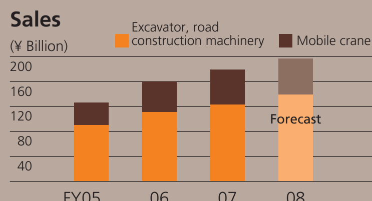
■ Review and Analysis of Results for Fiscal 2007

In the hydraulic excavator business, we bolstered our production capacity to capitalize on increased global demand and developed and launched a series of new-model hydraulic excavators. These activities resulted in increased orders and sales. Particularly notable were robust sales in Europe and China that more than offset a slump in North America. Amid continually strong demand for infrastructure development in North America, our mobile crane business achieved substantial increases in both orders received and sales. Behind this growth were effective launches of our new-model mobile cranes and enhanced capacity at our U.S. production bases. As a result, orders received by the segment as a whole rose 12% year on year to ¥187.7 billion, while sales jumped 12% to ¥179.4 billion. Operating income leaped 13% to ¥16.3 billion.

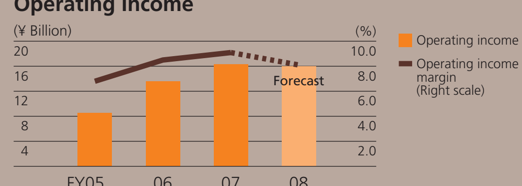
Orders



Sales



Operating Income



Forecast

■ Outlook for Fiscal 2008

In the current term, business in this segment is likely to remain favorable overseas. We plan to concentrate our marketing efforts in Europe and East Asia on hydraulic excavators and in North America on mobile cranes. We will be investing in increased production capacity and launching new models in response to the rising level of demand, with the aim of realizing higher sales and a stable earnings structure.

Hydraulic Excavators and Road Machinery

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

Business Performance for Fiscal 2007

Global demand for hydraulic excavators expanded more than 20% year on year, with a significant drop in the North American construction machinery market being offset by substantial growth in the emerging economies of China and certain European countries. Given this environment, we undertook capital investment to increase our Chiba Works' annual production capacity to 10,000 units. This investment proved successful—we produced a record number of units and, consequently, both revenues and profits improved.

Of particular note during fiscal 2007, we won the prestigious Energy Conservation Grand Prize, which is bestowed jointly by Japan's Ministry of Economy, Trade and Industry and the Energy Conservation Center as well as a Good Design Award for our new hydraulic excavator, SH200-5 LEGEST® (photo ❶). These awards reflect the recognition the SH200-5 LEGEST® has enjoyed in domestic and overseas markets for its economic viability and functional design.

With regard to our road machinery business, we are sustaining a high market share and steadily increasing the number of new vehicles sold.

Strategies for Fiscal 2008

We expect global demand for hydraulic excavators and road machinery to expand further, with China and other emerging economies as core drivers. Making the most of the favorable conditions, we will boost the Chiba Works' annual production capacity to 12,000 units. In China, which is forecast to show further demand expansion, we will construct our first overseas hydraulic excavator production base. Production at this base in Tangshan, Hebei Province, is scheduled to commence in February 2009. In addition, we will establish a subsidiary in India. Coordinating sales and after-sales services, this new overseas arm will aim to establish our sales network in that country, boost sales and upgrade our field engineering capability.

At the same time, we intend to enhance the lineup of our LEGEST® series hydraulic excavators, the latest model of which has been well received by the market, while undertaking the simultaneous global release of a new asphalt finisher capable of paving a road nine meters wide in a single pass.

* For SH200-5 LEGEST® hydraulic excavator details, please refer to the special feature section on page 14.

Crane Business

Link-Belt Construction Equipment Company

Business Performance for Fiscal 2007

The North American mobile telescopic and crawler crane markets continued to grow at double-digit rates during the year, with overall market demand continuing to exceed supply. Link-Belt benefited from strong demand, recording an approximate 20% increase in sales compared with the same period in fiscal 2006. As part of its long-term strategy of global expansion, Link-Belt worked to increase sales outside of North America. The decline in the U.S. housing market and subsequent financial credit crisis began to negatively impact the smaller tonnage classes of the mobile telescopic truck crane market in the second half of the reporting term; however, Link-Belt is not active in this market, and its operations in the smaller rough terrain crane market were unaffected.

In June 2007, Link-Belt announced that it would invest $24 million in the expansion of its Lexington facility. Scheduled for completion in late 2008, this expansion will add 90,000 square feet of manufacturing space for boom production, assembly and painting.

Strategies for Fiscal 2008

Link-Belt's continuing goal is to be the leader in customer service and satisfaction. In this endeavor, it is backed by its unsurpassed ability to introduce new models (photo ❷) that not only meet but exceed customer requirements and expectations. Three new models in its lineup were introduced to high acclaim at Con-Expo, the largest construction equipment show in North America, in March 2008.

The fiscal 2008 outlook for the North American crane market is for continued growth in the markets for crawler cranes and mobile telescopic cranes, particularly in the rough terrain crane market. In contrast, the market for the smaller tonnage classes of mobile telescopic truck cranes is expected to soften further. Against this backdrop, the ability to increase selling prices to offset the impact of rising commodity prices and the weak U.S. dollar remains a concern as the U.S. economy weakens.

Link-Belt will continue to pursue strategic initiatives, including the expansion of its presence in the global market and the strengthening of partnerships with its North American distributor network through increased product offerings and service support as well as the promotion of the Lean Sigma® program, which is aimed at improving product QCD. Through the Lean Sigma® program, Link-Belt has made significant improvements in manufacturing and its approach to the design of new products.

1. R&D Strategy

The SHI Group adheres to a basic R&D policy of developing first-class products that provide value to its customers and delivering them to markets.

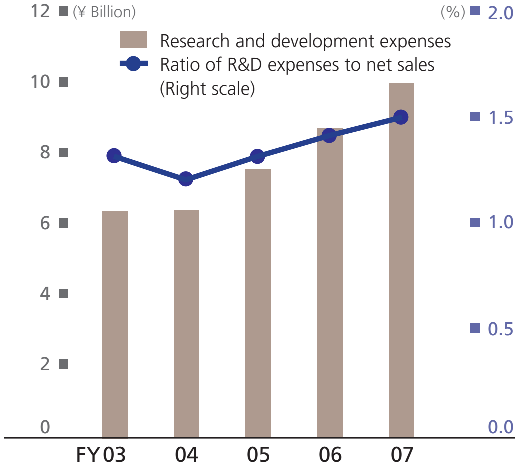
Promoting R&D from a Groupwide perspective, SHI is concentrating investments in growth areas and continues to enhance the portfolio of its proprietary products.

Our leading-edge R&D Center undertakes a spectrum of activities, from basic technology development through new product creation. In addition, we are leveraging synergies generated through cross-divisional collaboration to maximize the value of our R&D outcomes.

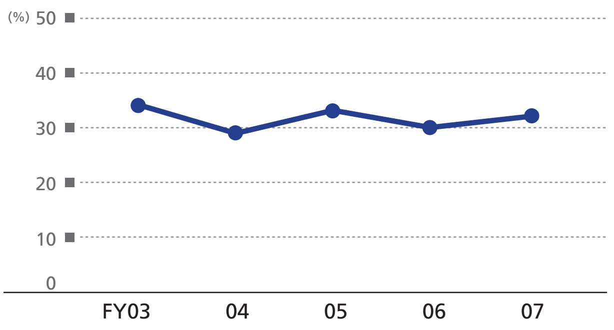
The Group plans to invest approximately ¥50.0 billion in R&D over three-year period from fiscal 2008 through fiscal 2010.

Sales of new products accounted for approximately 30% of total sales on a non-consolidated basis, indicating our R&D efficiency to be almost on par with fiscal 2006. We will continue to create new products to further improve efficiency.

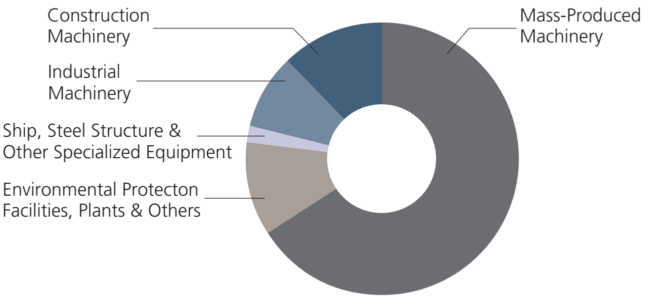
Research and Development Expenses



Proportion of New Products in Total Sales



R&D Expenses by Business Segment (FY07)



2. Main R&D Milestones

(1) Growth Areas

Semiconductor and Liquid Crystal Production Equipment and Information Technology-Related Equipment

The Group provides a number of products in these categories, which demonstrate high potential for further growth.

Based on in-house developed cryogenic technology, our newly developed SICERA® cryopump system* is now poised for use in such applications as semiconductor fabrication equipment, the operation of which requires a clean, ultrahigh-vacuum environment. Semiconductor manufacturers also use precision positioning stages capable of nano-level positioning. In this category, we launched the simple-to-use and yet highly functional new SA and SL series precision positioning stages under the XY Stage brand in fiscal 2007. In the area of semiconductor molding systems, we provide the distinctive COMP series of compression molding technologies. Recent R&D achievements include the development of a molding machine boasting a four-fold improvement in productivity compared with current machines.

In the FPD production equipment business, we developed a new large-capacity, multipurpose, separable gantry stage. Our clean transportation equipment, which is used to transport high-performance film for LCD manufacturing lines, is capable of automatically delivering and retrieving film rolls from and to production equipment and automated guided vehicles (AGVs). This automatic function was made possible by proprietary SHI technology that has won acclaim throughout the industry.

In businesses related to general IT, automotive IT and cell phones, our wide range of competitive plastic injection molding machines are providing solutions for a myriad of customer needs. Including all-electric machines, which enable high-speed, high-precision molding, and large-capacity plasticizing modules, which allow for the configuration of compact molding facilities, as well as optimal control systems, our products are serving as the vehicle by which we are disseminating the benefits of cutting-edge technologies.

* SICERA is a registered trademark of Sumitomo Heavy Industries, Ltd.

Medical Equipment

In the business of positron emission tomography (PET) for cancer diagnostics, we provide cyclotron systems and radio-pharmaceutical synthesis equipment, both of which are used for synthesizing clinical agents. Also, in the field of proton therapy, which is attracting increased attention as a highly sophisticated medical treatment option, we have developed a proton therapy system capable of advanced three-dimensional irradiation. We are accelerating efforts to realize this system's practical application.

Actuators

In our core competence of motion control and drive products, we are developing precision speed reducers for industrial robot applications. In particular, we have released precision speed reducers for the basic axis of industrial robots. Compatible with various types of robots, these speed reducers also have machine tool applications. In the motor business, we are advancing the development of direct-drive (DD) servo motors, which boast superior power efficiency. Having completed the development of large-diameter, hollow-shaft, high-torque DD servo motors, these products are ready for practical applications on machine tools. Concerning speed reducers for industrial applications—one of our core products—we have positioned our competitive CYCLO® speed reducer* as the mainstay of our operations. In addition, we are enhancing our lineup of small right-angle gearmotors and small parallel-shaft gearmotors. Our ultimate goal is to create highly reliable, user-friendly products that contribute to noise reduction and improved productivity.

* CYCLO and CYCLO speed reducer are registered trademarks of Sumitomo Heavy Industries, Ltd.

Construction Machinery

Capitalizing on the robust global demand for building construction, we provide a diverse range of construction machinery, including hydraulic excavators, mobile construction cranes and road-paving equipment. With a design that brings together IT systems, user- and environment-friendly features and energy-saving performance, in fiscal 2007 our new SH200-5 LEGEST® hydraulic excavator* won the prestigious Energy Conservation Grand Prize, which is bestowed jointly by Japan's Ministry of Economy, Trade and Industry and the Energy Conservation Center. This award was granted in recognition of the high evaluation the excavator received for its economic viability and fuel efficiency, which shows a 20% improvement compared with conventional excavators.

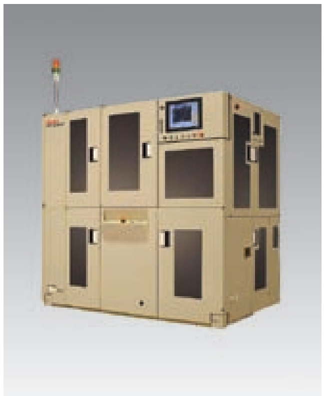
* LEGEST is a registered trademark of Sumitomo (S.H.I.) Construction Machinery Co., Ltd.

(2) Other Businesses

In the energy and environmental plant business, we are exploring new technologies that enable our circulating fluidized-bed (CFB) boilers to use such recycled fuels as waste tires and biomass fuels. To accurately accommodate varying customer needs, we operate a large-scale combustion test furnace at the Niihama Factory within our Ehime Works. The extensive testing carried out at this facility ensures the reliability of our equipment design.

In the shipbuilding department, we continue to develop high-efficiency hull forms and enery-saving devices. We are also developing environment-friendly, medium-sized tankers that provide exceptional value and enhanced safety for customers.

SHI's R&D activities also cover such other businesses areas as forging presses, large cranes for material handling, industrial power-generation turbines, automated parking systems, water treatment equipment and laser systems. In every field, we continuously strive to create innovative and distinctive products.



Semiconductor encapsulation machine COMP-3

AGV

Energy-conserving propelling device

Turbine fan blade

Intellectual Property

As the Sumitomo Heavy Industries Group is oriented towards growth driven by distinctive proprietary technologies, intellectual property is the most important of the cornerstones of the Group brand and the wellspring of the Group's competitive advantage. Throughout Sumitomo Heavy Industries, the core company of the Group, we devote our energies to the active protection, management, and creation of this Group "property." The principal focus of our efforts is directed at the four elements of intellectual property activity, namely: utilizing exclusive rights; respecting other companies' rights; ensuring that rights to intellectual property are secured; and ensuring that such rights are utilized with optimum timing and all due speed.

Intellectual Property

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

Management Structure

1. Intellectual Property Inspection Activities

We have formed an Inspection Committee composed principally of CIPOs and use mechanisms for the regular evaluation of inventive proposals. In this way, we foster the efficient and systematic filing of patent applications ultimately intended for commercialization.

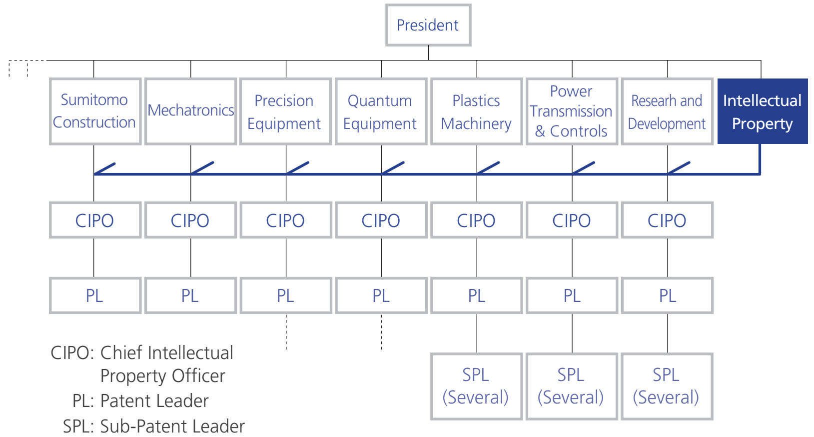
2. Special Cross-Departmental Meetings

At our training center, we hold two-day gatherings for staff involved in planning, marketing, technology and intellectual property, primarily the CIPOs. The members concentrate on formulating the priority domains for inventive activity and on devising measures to respond to other companies' patents in line with our business strategies. This kind of support structure that cuts across our organization is effective in stimulating activities for the creation and use of intellectual property that tend to atrophy if confined to individual sections.

3. Emphasis on Overseas Patent Applications

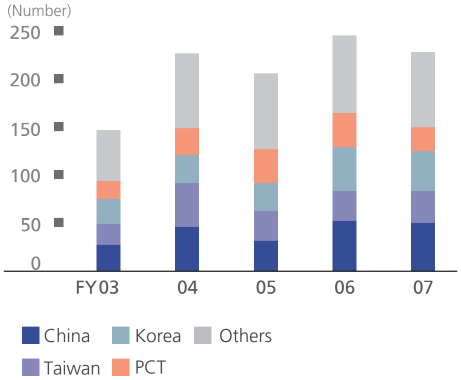
In tandem with the internationalization of the business activities of the Sumitomo Heavy Industries Group, we have been calling on all operating divisions and other relevant divisions to take active steps to file patent applications overseas. As a result, as of April 2008 as many as 1,250, or 35.4%, of the total of 3,528 patents held by Sumitomo Heavy Industries were held overseas. It is noteworthy that during the past five years we have increased the number of overseas patent applications under the Patent Cooperation Treaty (PCT). We have been stepping up the use of these PCT applications because of the advantages they offer in terms of cost savings, higher efficiency and greater rapidity. For example, they eliminate certain duplications in the examination procedures that are conducted by each individual country. Also, the date of filing within Japan is also deemed to be the date of filing in other designated countries if certain conditions are satisfied.

●CIPO System



CIPO: Chief Intellectual Property Officer
PL: Patent Leader
SPL: Sub-Patent Leader

●Overseas Patent Applications by SHI



*PCT indicates states that are party to the Patent Cooperation Treaty

Corporate Governance and Compliance

Our Definition of Corporate Governance

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

1. The Current State of Corporate Governance at SHI

The Company employs the conventional Japanese management system, known as the "corporate auditor system," and, within this governance framework, it has introduced an executive officer system. We ensure a proper separation of executive functions carried out by executive officers and supervisory functions performed by the Board of Directors.

The Company's Board of Directors consists of 10 directors, including one external director. The Board of Directors works to maintain, and, when necessary, improve the transparency of the Company's management and to fulfill its function of supervising the Company's business on a daily basis. In addition to its mandatory duty of stipulating the Company's rules for matters designated under Japan's Corporation Law, the Board of Directors also discusses important management issues and matters that are of both an urgent and long-term nature. The Company's Articles of Incorporation specify that the Board of Directors shall consist of no more than 12 directors.

The Company's Executive Officers Committee consists of 15 executive officers, including seven concurrently appointed as directors of the Company. This committee supervises the progress of business performance on a consolidated basis and ensures that Group companies are effectively implementing the management policies formulated by the Board of Directors.

The Company has also established the Management Strategy Committee, which is composed of executive officers who are stationed at the Company's Head Office. Acting as an advisory body to the Company's president, this committee deliberates on important matters, including those to be submitted to the Board of Directors for further deliberation, and reports directly to the president on conclusions of its deliberations.

The Board of Corporate Auditors, which comprises four corporate auditors including two external corporate auditors, is responsible for monitoring the execution of duties by the Company's directors and executive officers from the perspectives of legal and ethical appropriateness. In addition, comprising corporate auditors of the Company and of the Group's subsidiaries and affiliates, the Group Corporate Auditing Committee meets regularly to allow the members to exchange information, which, in turn, facilitates efficient and effective auditing on a Groupwide scale. The external corporate auditors are chosen from among lawyers and certified public accountants and tasked with reinforcing the system for ensuring strict compliance within the Group and monitoring the whole range of accounting procedures.

Furthermore, we have established the Corporate Auditor's Department under the direct control of the Board of Corporate Auditors. This department serves as a secretariat body to assist the Board of Corporate Auditors.

We have formed a Directors Recommendation Committee responsible for selecting candidates for new members of the Board of Directors. This committee also selects candidates for directors with specific responsibility for particular business operations and representative directors.

2. The Company's Internal Control System and Basic Internal Control Policies

The Company has formulated the following policies to ensure that business operations are conducted in an appropriate manner.

(1) Objectives

The Company regards a properly functioning internal control system as an indispensable precondition for the improvement of the Group's enterprise value and the sustainable expansion of its business scale and operational reach. The basic principles relating to the Company's internal control system, including the administration of the system, are described below.

(2) Basic Principles

A. Systems for ensuring compliance with laws, regulations and the Articles of Incorporation in the directors' execution of duties
- i. The Board of Directors shall formulate basic policies regarding an internal control system, which, in turn, shall underpin the Company's corporate governance while continuously verifying and improving the system for higher effectiveness.
- ii. The Board of Directors shall include external directors who can introduce a more objective, third-party perspective on matters under deliberation.
- iii. The corporate auditors shall monitor the directors' execution of duties relating to the establishment and administration of the internal control system.

B. Systems for ensuring the effective execution of duties
- i. System for managing information relating to the directors' execution of duties
  Information relating to the directors' execution of duties shall be recorded and stored in a safe place in accordance with the document and electronic file safekeeping standards and the confidential information handling regulations formulated by the Company. Such documents and electronic files shall be available for perusal at any time by any director(s) or corporate auditor(s).
- ii. Guidelines and system for managing risks
  - a. The Company shall promote effective risk management based on a Groupwide internal control system.
  - b. Individual business units shall formulate their own guidelines for handling environment-related, legal, disaster-related, IT-related, export control-related and other risks. In addition, they shall take a professional approach in their risk management, providing employee education and training programs and through other means.
  - c. In accordance with the Company's *Emergency Reporting Procedures*, staff involved in an emergency shall immediately report to the top management and take appropriate countermeasures.
- iii. Systems for ensuring the directors' efficient execution of duties
  - a. In accordance with the Company's executive officer system, along with relevant in-house organizational and authority transfer guidelines, authorities on certain management matters shall be transferred to executive officers. Executive officers, in turn, shall efficiently execute their duties.
  - b. At monthly Executive Officers Committee meetings, responsible executive officers shall report on progress made under the applicable medium-term management plan and annual budget, both approved by the Board of Directors. In this way, the committee shall always work to be comprehensively aware of the precise status of Groupwide business operations.

c. Established as an advisory body to the president, the Management Strategy Committee shall strive to facilitate swift and effective decision-making for important management matters through multifaceted examinations and deliberations.

iv. Systems for ensuring compliance with laws, regulations and the Articles of Incorporation in the execution of duties by the executive officers and general employees

a. The Ethics Committee, chaired by the president, formulates the Company's basic compliance policies. At the same time, the Internal Control Group shall work to ensure the effective administration and implementation of the policies through collaboration with internal control sections within every department of the Company.

b. Copies of the Company's *Ethics Regulations* and *Compliance Manual* shall be distributed to all directors, executive officers and general employees, while special seminars shall be held regularly to keep all staff up to date with requirements related to ethical practices and legal compliance. When necessary, directors, executive officers and managerial employees shall submit agreements in writing to observe specific compliance requirements.

c. The Company shall maintain a resolute stance against individuals and organizations that pose threats to order and security of civil society and engage in no relations whatsoever with these individuals and organizations.

d. Through the proactive use of an in-house whistle-blower hotline, all members of the Company shall report any suspected illegal, non-compliant or unethical acts and help the management to identify problems at an early stage.

v. Systems for ensuring appropriate Groupwide operations

a. Pursuant to the Group Management Principles, the Company shall strive to become a corporate group capable of constantly improving corporate governance and operational efficiency.

b. The Board of Directors shall be responsible for the resolution and implementation of the Company's medium-term management plans and annual budgets. In addition, responsible executive officers shall report to the Executive Officers Committee and other meetings on the implementation status for the plans and budgets to facilitate the effective monitoring of Groupwide operations.

c. Established at all principal Group companies, internal control sections shall work to ensure appropriate Groupwide operations through the promotion of activities to reinforce internal control. At the same time, the Internal Control Group shall coordinate the internal control sections' activities to achieve effective Groupwide internal control.

d. The Company shall have the authority of appointing directors and/or corporate auditors at its principal Group companies while working to constantly strengthen its Groupwide auditing system through audit by its Internal Control Group.

e. In accordance with the Company's *Emergency Reporting Procedures*, staff involved in an emergency at Group companies shall immediately report to the Company's top management and take appropriate countermeasures.

C. Matters relating to the Company's corporate auditor audit system

i. Matters relating to corporate auditors' assistants

The Company shall operate the Corporate Auditors' Department in charge of assisting the corporate auditors' execution of duties.

ii. System for securing the independence of corporate auditors' assistants from the Company's directors

Corporate auditors, directors and executive officers shall conduct deliberations prior to making decisions on personnel transfers and evaluations for the Corporate Auditor's Department.

iii. System for assisting corporate auditors in their execution of duties

a. Corporate auditors shall attend important meetings of the Board of Directors, the Executive Officers Committee and other organizations to closely monitor the execution of duty by directors and executive officers. In addition, they shall be allowed to peruse internal memos and other important documents related to business operations.

b. Directors, executive officers and general employees shall, in a timely manner, report to corporate auditors any acts within the Group that go against laws, regulations and/or the Articles of Incorporation, any incidence of an event that may result in significant loss for the Company or any other materially irregular matters.

iv. Other systems for ensuring effective audits by corporate auditors

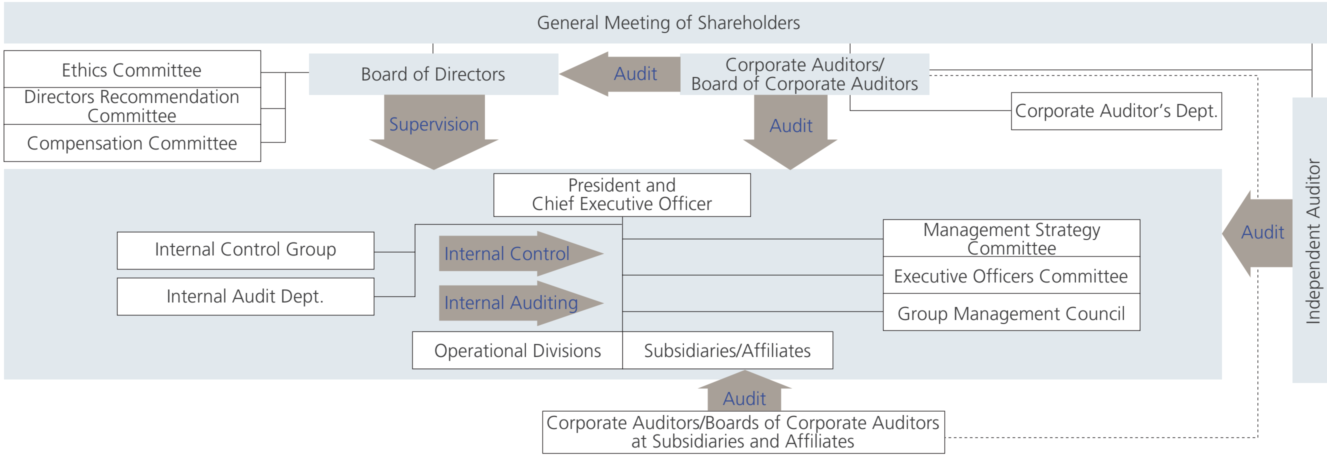
a. Directors and executive officers shall contribute to efficient and effective audit operations conducted by corporate auditors, who closely collaborate with the Company's Internal Control Group, internal control sections and corporate auditors at Group companies, as well as with the independent auditor.

b. Boards of corporate auditors at Group companies shall immediately report to the Company's corporate auditors any acts within the Group that go against laws, regulations and/or the Articles of Incorporation, any incidence of an event that may result in significant loss for the Company and other materially irregular matters.

(3) Revisions to the Above Policies

The basic internal control policies described above shall be revised on an as-required basis only after the approval of the Company's Board of Directors.

SHI's Corporate Governance System



Measures for Environmental Preservation

To contribute to regional development, a better environment and safety is paramount to the SHI Group. The Group as a whole is seriously tackling the issue of environmental preservation, based on our understanding that the protection of the global and regional environment and the promotion of a recycling economy are part of the social responsibilities of an enterprise. Especially since fiscal 2005, we have pursued activities that to help prevent further global warming. Defined as the first phase of a never-ending project, these Group-wide measures include the reduction of electricity consumption and paper usage and the active utilization of "green" logistics systems. From fiscal 2008, the Group will work to reduce CO_2 emissions, identified as a new focus, in accordance with new medium-term environmental objectives consistent with the new "Global 21" plan.

Environmental Management

Management Organization: The Environmental Management Department within the General Affairs Group looks into various matters related to environmental management activities within the Company and the Group. Each of the Works and the Group companies outside of the regions covered by the Works has created and is operating environmental management systems in compliance with ISO14001, the international standard for environmental management systems, in line with the environmental policies established by each president or plant manager. Elements listed as having a potential impact on the environment are assessed, and environmental management programs and targets for activities are being set up based on the assessment results.

Reducing Environmental Load

The Group is working on initiatives to contribute to the prevention of global warming. To help reduce CO_2 emissions, which are the major cause of global warming, the Group set a goal for fiscal 2007 of cutting electricity consumption by 10% from the fiscal 2004 level. For fiscal 2007, we achieved a reduction in electricity consumption of 7.6% from the fiscal 2004 level while reducing CO_2 emissions by 15.7% from the fiscal 1990 level. In fiscal 2008, we aim to further reduce CO_2 emissions from our operations by cutting back the use of city gas and heavy oil and substituting other types of energy with electricity. We have also set higher targets and taken initiatives for the reduction of paper usage and the promotion of green logistics. In addition, to prevent environmental pollution, we are working on initiatives to reduce emissions of organic chlorine compounds and volatile organic compounds (VOCs).

Activities Geared to a Recycling-Based Society: We aim to reduce the generation of substances that are a burden on the environment in two steps: first, by cutting overall waste from our business activities, and second, by reducing waste disposal. Waste is being managed in three categories, namely: waste for disposal, i.e. for landfills or incineration; recycling of waste as resource materials, which enables reuse; and valuable resources, which are reused or placed on a route for reuse in the Company. Provided below are figures on the amount of waste the Sumitomo Heavy Industries Group produced and disposed of in fiscal 2007. These figures show that there has been a significant reduction in the waste produced and disposed of compared to fiscal 2001 levels.

Volume of waste produced in FY 2007	33,881 tons (up 10% from the FY2001 level)
Volume of waste disposed of in FY 2007	1,931 tons (down 78% from the FY2001 level)

Developing Environment-Friendly Products

It is one of the missions of manufacturers to help preserve the quality of the environment in a broader sense through their products and services, in addition to reducing the burden on the environment caused by emissions. The Group helps its customers to reduce the environmental burden of their activities and reduce their operating costs, while also contributing to the realization of a society capable of sustainable development, through the reduction in the size and weight of its products, the development and supply of products that help conserve energy, and the construction and operation of environmental facilities, including our recycling plazas and biomass power-generation facilities.

Environmental Accounting: Environmental accounting—complying with the Environmental Accounting Guidelines established by the Ministry of the Environment—has been implemented to clarify the money spent and amounts invested by the Company in environmental activities and to achieve greater efficiency in environmental preservation. The total amount of environmental preservation costs for fiscal 2007 was about ¥5.0 billion, of which approximately ¥2.92 billion was spent on capital investments in facilities and equipment to decrease the volume of materials with a heavy environmental burden and to save energy. Expenses for environmental preservation have increased with each passing year. For the reporting term, total environmental preservation costs and capital investments increased ¥2.1 billion and ¥1.67 billion, respectively, over the previous year.

● Format of Voluntary Environmental Preservation Costs

(¥ Million)

Category	Major Measures and Their Effects	Investment Amounts	Cost
(1) Costs in manufacturing field	Appropriate measures for water quality, air quality, noise, vibration, chemical substances, waste, etc. Reduction of energy use and resource usage and recycling	2,563	679
Breakdown: (1)-1 Preventing pollution	Improvement and management of discharge treatment facilities, measures for dust collection and against VOCs, examination of trace PCB content, measurement of water quality and emitted gases	1,469	379
Breakdown: (1)-2 Environmental preservation	Monitoring of electricity demand, investment in energy conservation, temperature management	970	117
Breakdown: (1)-3 Resource recycling	Recycling of industrial waste, provision of waste disposal sites, recycling of thinners, collection, transport, treatment and disposal of waste	123	183
(2) Upstream and downstream manufacturing processes	Use of low-sulfur heavy oil, "green purchasing" of office goods	86	1
(3) Environmental management	Maintenance and management for ISO14001 certification, staff training (general, specific, examiner, in-house supervisor), periodical inspection, expansion of green areas, maintenance and management of green areas	11	130
(4) R&D	Incineration and gasification of household garbage and industrial waste, development of emitted gas treatment systems, development of ash-melting furnace systems, development of water supply and sewerage facilities, development of methods of reducing noise from CYCLO® speed reducers, development of new tube heat exchangers	259	697
(5) Compensation for environmental damage	Maintenance and management	0	546

(¥ Million)

Item	Description	Amount
Total investments for the term	Improvement of discharge treatment facilities, development of dust collection systems, installation of VOC treatment facilities, investment in energy conservation	2,919
Total R&D costs for the term	Incineration and gasification of household garbage and industrial waste, development of emitted gas treatment systems, development of ash-melting furnace systems, development of water supply and sewerage facilities, development of methods of reducing noise from CYCLO® speed reducers, development of new tube heat exchangers	956
Amount of sales of valuable articles related to (1)-3	Metal scrap left over after the effective use of remnant materials	484

	FY1997	FY1998	FY1999	FY2000
Summary of Income (for the year):				
Net sales	¥556,786	¥554,488	¥566,668	¥513,753
Cost of sales	460,254	464,286	473,798	434,544
Selling, general and administrative expenses	75,743	80,572	80,162	71,724
Research and development expenses	8,121	8,983	12,206	8,688
Operating income	20,789	9,630	12,709	7,485
EBITDA (Note 2)	35,128	23,800	26,910	20,402
Net income (loss)	4,613	(12,298)	(6,328)	(28,612)
Cash Flows (for the year):				
Cash flows from operating activities	¥ 516	¥ 11,348	¥ 39,117	¥ (16,957)
Cash flows from investing activities	(4,198)	(9,050)	(1,969)	29,560
Free cash flows (Note 3)	(3,682)	2,298	37,148	12,603
Cash flows from financing activities	(1,933)	19,709	(48,765)	(21,403)
Cash and cash equivalents at the end of year	35,403	57,410	45,173	36,496
Financial Position (at year-end):				
Total assets	¥748,017	¥723,673	¥657,149	¥579,772
Total current assets	566,559	542,689	474,059	394,252
Property, plant and equipment	128,757	124,757	128,784	119,135
Interest-bearing debt	365,923	387,199	341,912	324,324
Net interest-bearing debt	330,520	329,789	298,617	287,609
Stockholders' equity	78,909	72,975	64,829	30,049
Total net assets (Note 4)	—	—	—	—
Amounts per Share of Common Stock:				
Net income (loss) (Note 5)	¥ 7.83	¥ (20.88)	¥ (10.74)	¥ (48.60)
Stockholders' equity	134.04	123.96	110.12	51.04
Cash dividends	3.00	—	3.00	—
Financial Indexes:				
Operating income margin	3.7	1.7	2.2	1.5
EBITDA margin	6.3	4.3	4.7	4.0
R&D expenses ratio to net sales	1.5	1.6	2.2	1.7
Return on assets (ROA)	0.6	(1.7)	(1.0)	(4.9)
Return on equity (ROE)	5.8	(16.9)	(9.8)	(95.2)
Stockholders' equity ratio	10.5	10.1	9.9	5.2
Interest-bearing debt ratio	48.9	53.5	52.0	55.9
D/E ratio (Times)	4.6	5.3	5.3	10.8
ROIC (Note 6)	2.8	1.6	1.9	1.3
Investment in Plant and Equipment, and Others:				
Capital expenditures	¥ 16,208	¥ 14,763	¥ 12,606	¥ 14,305
Depreciation and amortization	15,805	14,170	14,201	12,916
Number of employees	14,357	13,840	13,748	12,411

Notes:
1. The U.S. dollar amounts have been translated, for convenience only, at ¥100=$1, the prevailing exchange rate on the Tokyo Foreign Exchange Market as of March 31, 2008.
2. EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization) = Operating income + Depreciation and amortization
3. Free cash flows = Cash flows from operating activities + Cash flows from investing activities
4. Net assets are presented following enforcement of the new Japanese Corporate Law in 2006. Net assets comprise Stockholders' equity as previously defined, plus minority interests and share subscription rights.
5. Net income per share of common stock is based on the weighted average number of shares outstanding in each year.
6. $$\text{ROIC (Return on Invested Capital)} = \frac{\text{(Operating income + Interest and dividend received) x 55\% (= 1 – Effective tax rate)}}{\text{(Average of stockholders' equity + Average of interest-bearing debt)}}$$

						Millions of yen	Thousands of U.S. dollars (Note 1)
FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2007
¥517,138	¥481,289	¥482,765	¥521,310	¥551,339	¥600,256	¥660,769	$6,607,689
430,399	400,460	378,422	407,512	434,904	464,071	505,366	5,053,659
72,564	63,616	64,112	65,025	68,930	71,961	77,613	776,135
6,777	5,800	6,263	6,317	7,441	8,599	9,858	98,580
14,175	17,213	40,231	48,773	47,505	64,224	77,790	777,895
26,078	29,322	50,344	58,055	56,577	74,873	91,578	915,780
1,650	2,688	16,262	22,792	29,742	37,352	42,974	429,738
¥ 38,808	¥ 29,499	¥ 75,775	¥ 45,451	¥ 50,023	¥ 56,789	¥ 29,096	$ 290,960
(3,343)	(1,074)	(7,929)	(6,087)	(7,024)	(12,461)	(41,250)	(412,500)
35,465	28,425	67,846	39,364	42,999	44,328	(12,154)	(121,540)
(32,785)	(22,116)	(56,666)	(46,490)	(48,812)	(41,193)	(5,238)	(52,385)
40,846	47,661	57,678	49,108	43,644	47,523	29,879	298,787
¥634,904	¥588,010	¥580,291	¥569,771	¥579,233	¥600,890	¥678,634	$6,786,341
371,049	329,231	321,400	316,166	317,813	332,509	381,946	3,819,462
199,758	196,104	258,891	253,605	261,421	268,381	296,688	2,966,879
294,552	273,544	215,807	169,228	125,504	88,045	89,567	895,674
254,402	225,571	157,353	119,592	81,587	39,890	59,311	593,110
87,494	89,331	114,526	137,157	167,740	—	—	—
—	—	—	—	—	206,010	246,371	2,463,710
						Yen	U.S. dollars (Note 1)
¥ 2.80	¥ 4.57	¥ 27.01	¥ 37.80	¥ 49.45	¥ 61.99	¥ 71.19	$ 0.71
148.63	151.86	190.25	227.90	279.02	338.95	392.80	3.92
—	—	—	3.00	5.00	7.00	10.00	0.10
						%	
2.7	3.6	8.3	9.4	8.6	10.7	11.8	
5.0	6.1	10.4	11.1	10.3	12.5	13.9	
1.3	1.2	1.3	1.2	1.3	1.4	1.5	
0.3	0.5	2.8	4.0	5.1	6.2	6.3	
1.9	3.0	14.2	16.6	17.7	24.0	22.4	
13.8	15.2	19.7	24.1	29.0	34.1	34.9	
46.4	46.5	37.2	29.7	21.7	14.7	13.2	
3.4	3.1	1.9	1.2	0.7	0.4	0.4	
2.3	2.6	6.5	8.5	8.8	12.2	14.0	
						Millions of yen	Thousands of U.S. dollars (Note 1)
¥ 15,549	¥ 14,406	¥ 10,562	¥ 8,175	¥ 10,285	¥ 17,257	¥ 28,180	$ 281,797
11,902	12,118	10,112	9,282	9,072	10,649	13,788	137,885
12,457	11,777	11,282	11,149	11,319	12,561	14,408	

1. Discussion and analysis of operating results for this fiscal year (consolidated basis)

(i) Sales

Sales were 660.8 billion yen, up 60.5 billion yen from the previous fiscal year. This increase was the result of the increases in sales in all segments including an increase in sales of 19.2 billion yen for the construction machinery group and of 12.9 billion yen for the industrial machinery group.

Referring to sales by region, domestic sales were 329.0 billion yen, up 4.8 billion yen from the previous fiscal year due to increases in sales in the forging machines business and the material handling systems business, both businesses being included in the industrial machinery group. Sales in North America were 120.4 billion yen, up 8.1 billion yen from the previous fiscal year due to an increase in sales in the crane business included in the construction machinery group. Sales in Asia were 108.4 billion yen, up 24.6 billion yen from the previous fiscal year due to an increase in sales in the excavator business included in the construction machinery group. Sales in other regions were 103.0 billion yen, up 23.0 billion yen from the previous fiscal year due to an increase in sales in Central and South America in the new shipbuilding included in the steel structures and other specialized equipment group.

(ii) Cost of sales

Cost of sales was 505.4 billion yen, up 41.3 billion yen from the previous fiscal year due to the increase in sales. The cost of sales ratio was 76.5%, an improvement of 0.8 points from the previous fiscal year due to improvements in the ratios of the ships, steel structures and other specialized equipment group and the industrial machinery group.

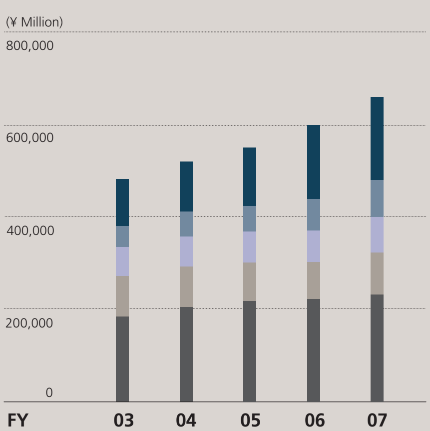
(iii) Selling, general and administrative expenses

Selling, general and administrative expenses were 77.6 billion yen, up 5.7 billion yen from the previous fiscal year. The main increases were recorded under the items of labor costs and research and development costs.

(iv) Non-operating profit and loss

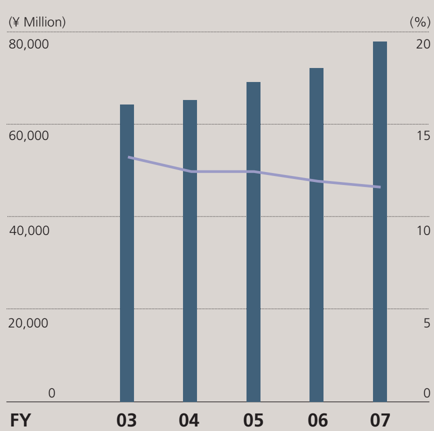
Non-operating profit and loss recorded a loss of 2.3 billion yen, a deterioration of 3.4 billion yen from the previous fiscal year. Non-operating income decreased by 1.7 billion yen from the previous fiscal year due to a decrease in equity in earnings of unconsolidated subsidiaries and affiliated companies to 2.4 billion yen, down 2.1 billion yen from the previous fiscal year and other factors. On the other hand, non-operating expenses increased by 1.8 billion yen from the previous fiscal year due to an increase in exchange loss to 1.6 billion yen, up 1.0 billion from the previous fiscal year and other factors.

Net Sales



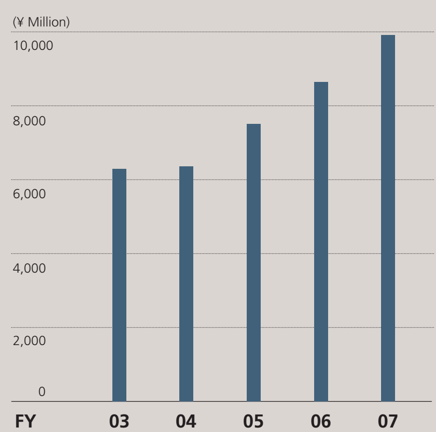
- Mass-produced machinery
- Environmental protection facilities, plants & others
- Ship, steel structure & other specialized equipment
- Industrial machinery
- Construction machinery

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



- Selling, general and administrative expenses
- SG&A expenses ratio (Right scale)

R&D Expenses



(v) Special gains and losses

Special gains and losses recorded a loss of 3.0 billion yen, a deterioration of 0.6 billion yen from the previous fiscal year. Special gains were 0.7 billion yen, down 1.0 billion yen from the previous fiscal year due to a decrease in the gain on the sale of securities by 0.7 billion yen from the previous fiscal year and other factors. Special losses were 3.6 billion yen, a decrease of 0.5 billion yen from the previous fiscal year although a settlement expense of 1.2 billion yen was recorded.

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

Income tax was 28.8 billion yen, up 3.8 billion yen from the previous fiscal year due to an increase in income before income taxes of each consolidated company.

(vii) Minority interests

Minority interests were 0.7 billion yen, up 0.1 billion yen from the previous fiscal year reflecting the favorable operational results of each consolidated company.

(viii) Net income

Net income was 43.0 billion yen, up 5.6 billion yen from the previous fiscal year.

2. Discussion and analysis of financial conditions for this fiscal year (consolidated basis)

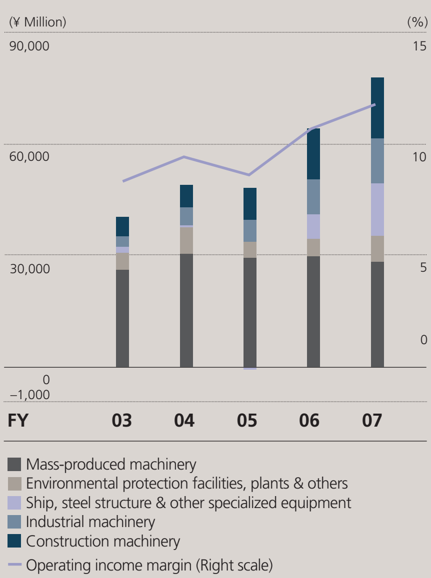
(i) Capital resources and liquidity

The Company Group has allocated funds through debt and internal financing for the working capital and capital spending. As for the debt financing, the total amount of interest-bearing debts as of the end of this fiscal year was 89.6 billion yen, up 1.5 billion yen from the end of the previous fiscal year. In addition, the Company Group has introduced the CMS (Cash Management System) to centralize the financing operation for subsidiaries and affiliated companies in the Company, thereby promoting efficient management and use of funds in the Company Group as a whole.

Cash and deposits as of the end of this fiscal year were 30.3 billion yen, which was at a level where the efficiency of management and use of funds was enhanced and at the same time appropriate liquidity was secured. In addition, the Company has entered into commitment line agreements totaling 43.0 billion yen with multiple financial institutions including domestic and overseas financial institutions and thereby has secured very ample liquidity.

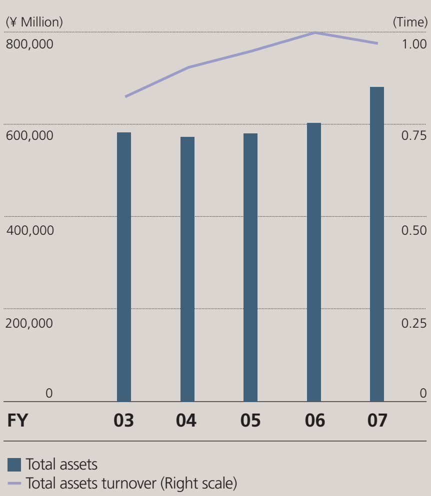
In order to secure stable provision of necessary funding, the Company Group has adopted the current basic policy to maintain well-balanced long-term financing. Under this basic policy, the ratio of long-term interest-bearing debt among the interest-bearing debt as of the end of this fiscal year was 61%, an increase of 3 points from the end of the previous fiscal year.

Operating Income, Operation Income Margin



Net Income, Net Income Margin, ROE

Total Assets, Total Assets Turnover



(ii) Conditions of assets, liabilities and net assets

Net assets were 678.6 billion yen, up 77.7 billion from the previous fiscal year due to the fact that Nihon Spindle Manufacturing Co., Ltd. and Demag Plastics Group were made Company subsidiaries, respectively. Cash and deposits were 30.3 billion yen, down 17.9 billion yen from the previous fiscal year, which was the result of promoting the collection of receivables. Notes and accounts receivable were 185.9 billion yen, up 27.5 billion yen from the previous fiscal year, reflecting the increase in sales. Property, plant and equipment were 204.5 billion yen, up 19.3 billion yen from the previous fiscal year, which was the result of promoting capital spending. Investment securities were 53.9 billion yen, down 6.9 billion yen from the previous fiscal year reflecting a decrease in the market value thereof.

Notes and accounts payable were 167.0 billion yen, up 16.1 billion yen from the previous fiscal year. Interest-bearing debt was 89.6 billion yen, up 1.5 billion yen from the previous fiscal year, which was the result of advancing the repayment of interest-bearing debt to improve financial strength and at the same time conducting active capital spending. Advance payments received on contracts were 48.6 billion yen, up 8.1 billion yen from the previous fiscal year due to an increase in such items recorded for the ships business and other increases.

Net assets were 246.4 billion yen, up 40.4 billion yen from the previous fiscal year due to capitalizing net income of 43.0 billion yen. As a result, shareholders' equity ratio as of the end of this fiscal year was 34.9%, an improvement of 0.9 points from the previous fiscal year.

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

All statements below regarding future events represent judgments made by the management of the Group as of March 31, 2008.

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

2. Exchange-Rate Fluctuation
The Group's business includes the production and marketing of products in countries all around the world. Yen translations are applied in the consolidated financial statements for transactions (involving overseas sales, expenses, assets and liabilities) undertaken in local currencies. Due to exchange rate effects, the Group may suffer adverse impact on transaction values after yen translation even if there is no such change in local currency terms. As of March 31, 2008, the Group had an order backlog, chiefly in its shipbuilding business, of US$1.2 billion. To minimize the impact of exchange-rate fluctuations on our business performance, the Company uses forward exchange contracts to hedge against risk. However, it is not possible to eliminate all risk using this method. For this reason, the Company could suffer adverse impact on its business performance from exchange-rate fluctuations.

3. Raw Materials Price Rises and Availability
Prices surges for such raw materials as steel, non-ferrous metals and crude oil on a global scale are significantly affecting the Group's manufacturing costs. The Company is continuously working to reduce costs while passing unavoidable cost rises on to its product prices. However, the potential for ongoing expansion in raw material prices may negatively affect the Company's business performance. In addition, the Company is working to procure stable supplies of raw materials through close cooperation with its suppliers. Nevertheless, further worsening in the raw materials supply-demand balance, as well as potential disruptions in raw material supplies, could adversely affect the Company's business performance.

4. Overseas Businesses
The Group conducts its business on a global scale, with a focus on mass-produced machinery and construction machinery for markets in North America, Asia and Europe. To meet expanding overseas demand, the Company is upgrading its marketing networks and production facilities. However, wherever we operate, markets are subject to political change and unpredictable legal and regulatory change. This could have adverse impact on the business performance of our overseas units.

5. Product Quality
The Group manufactures a wide range of products in line with very strict quality control standards. However, total defect elimination is impossible, and we cannot rule out having to undertake repair work under guarantee at our own expense in the event of product flaws. The Group has taken out insurance to cover product-defect liability, but we cannot guarantee that these policies will cover the full sums of compensation that may become payable in liability settlements. Repairs performed under guarantee and product compensation payments can generate significant costs for the Group, and this can adversely affect the business performance and financial position of the Group.

6. Impact of Impairment Accounting
Based on the Law Concerning Revaluation of Land (Ordinance No. 34, issued March 31, 1998) and the Law to Partially Modify the Law Concerning Revaluation of Land (Ordinance No. 19, March 31, 2001), the Company revalued land used by its businesses on March 31, 2002. The difference between the market and book values of the revalued land as of March 31, 2008 was ¥21.8 billion, a decline of 21%. If land values continue to fall, we may have to recognize impairment losses on fixed assets. Such a situation could adversely affect the business performance and financial position of the Group.

7. Environmental Protection Measures
Under the Group's environmental policy, we take a range of measures to reduce our environmental footprint such as avoiding environmental risk factors and minimizing waste. We have taken every measure to prevent environmental pollution, but cannot rule out responsibility for instances of environmental pollution due to unforeseen events. Should we be responsible for an incidence of environmental pollution, significant costs could be generated, negatively affecting the business performance and financial position of the Group.

8. Natural and Other Disasters
The Group has in place inspection, training and communications mechanisms for minimizing the occurrence and fallout of disasters such as fires, earthquakes, typhoons and other wind and flooding damage. However, the Group's business activities could be adversely affected if such disasters cause material damage to our operations or injury to our staff. We cannot guarantee that our casualty insurance would be sufficient to cover all such events.

ASSETS	Millions of yen 2008	Millions of yen 2007	Thousands of U.S. dollars (Note 1) 2008
Current assets:			
Cash and deposits (Notes 2 and 5)	¥ 30,256	¥ 48,155	$ 302,560
Trade receivables (Note 5):			
Notes receivable	15,588	17,553	155,884
Accounts receivable	170,324	140,823	1,703,239
Allowance for doubtful receivables	(836)	(776)	(8,359)
Inventories (Note 3)	130,450	100,519	1,304,501
Deferred tax assets (Note 6)	8,501	10,342	85,007
Prepaid expenses and other current assets	27,663	15,893	276,630
Total current assets	381,946	332,509	3,819,462
Property, plant and equipment:			
Land (Note 5)	116,536	111,468	1,165,361
Buildings and structure (Note 5)	125,272	116,568	1,252,715
Machinery and equipment (Note 5)	126,042	114,186	1,260,424
Construction in progress	5,407	3,714	54,065
	373,257	345,936	3,732,565
Accumulated depreciation	(168,803)	(160,791)	(1,688,025)
Net property, plant and equipment	204,454	185,145	2,044,540
Investments, long-term loans and other assets:			
Investments in unconsolidated subsidiaries and affiliated companies	27,297	26,714	272,971
Long-term loans receivable and Investment securities (Note 11)	26,706	34,115	267,064
Deferred tax assets (Note 6)	10,346	7,288	103,463
Other assets	29,445	16,712	294,446
Allowance for doubtful receivables	(1,560)	(1,593)	(15,605)
Total Investments, long-term loans and other assets	92,234	83,236	922,339
	¥ 678,634	¥ 600,890	$ 6,786,341

See accompanying notes.

LIABILITIES AND NET ASSETS	Millions of yen 2008	Millions of yen 2007	Thousands of U.S. dollars (Note 1) 2008
Current liabilities:			
Short-term bank loans (Note 5)	¥ 16,932	¥ 21,711	$ 169,318
Long-term debt due within one year (Note 5)	2,724	14,285	27,244
Commercial paper (Note 5)	18,000	15,000	180,000
Trade payable:			
Notes payable	49,297	53,515	492,973
Accounts payable	117,711	97,359	1,177,107
Advance payments received on contracts	48,600	40,502	486,001
Accrued income taxes	14,523	15,264	145,231
Allowance for loss on reorganization of business	—	596	—
Allowance for loss on business transfer	161	161	1,607
Accrued expenses and other current liabilities (Note 6)	42,233	38,820	422,330
Total current liabilities	310,181	297,213	3,101,811
Long-term liabilities:			
Long-term debt due after one year (Note 5)	51,911	37,049	519,114
Employees' severance and retirement benefits (Note 13)	32,748	24,110	327,481
Allowance for loss on product liability	285	262	2,854
Deferred tax liabilities on revaluation difference on land	32,306	32,306	323,059
Other long-term liabilities (Note 6)	4,832	3,940	48,312
Total long-term liabilities	122,082	97,667	1,220,820
Contingent liabilities (Note 8)			
Net assets (Note 7):			
Common stock:	30,872	30,872	308,720
Number of shares authorized 1,200,000 thousand shares			
Number of shares issued 605,726 thousand shares			
Capital surplus	20,524	20,518	205,240
Retained earnings	142,053	104,950	1,420,530
Treasury stock at cost, 2,144,702 shares in 2008 and 1,832,402 shares in 2007	(1,425)	(996)	(14,250)
Total owners' equity	192,024	155,344	1,920,240
Unrealized gains on securities, net of income taxes	4,224	11,195	42,240
Unrealized gains (losses) on hedging derivatives, net of income taxes	2,459	(1,652)	24,590
Adjustment regarding pension obligations of consolidated overseas subsidiaries	(999)	(772)	(9,990)
Revaluation difference on land	40,477	40,411	404,770
Foreign currency translation adjustments	(1,101)	166	(11,010)
Total valuation and translation adjustments	45,060	49,347	450,600
Minority interests	9,287	1,318	92,870
Total net assets	246,371	206,010	2,463,710
Total liabilities and net assets	¥678,634	¥600,890	$6,786,341

Consolidated Statements of Income Years ended March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Net sales (Note 9)	¥660,769	¥600,256	$6,607,689
Costs and expenses (Note 9):			
Cost of sales	505,366	464,071	5,053,659
Selling, general and administrative expenses	77,613	71,961	776,135
	582,979	536,032	5,829,794
Operating income (Note 9)	77,790	64,224	777,895
Other income (expenses):			
Income			
Interest and dividend income	1,190	866	11,904
Equity in net income of unconsolidated subsidiaries and affiliated companies	2,436	4,584	24,362
Other—net	2,920	2,775	29,204
Expenses			
Interest expense	(1,194)	(1,666)	(11,944)
Loss on disposal of property, plant, equipment	(853)	(1,012)	(8,532)
Other—net	(6,820)	(4,429)	(68,195)
Special gains (losses):			
Gains			
Gain on sale of securities	689	1,398	6,886
Gain on business transfer	—	294	—
Losses			
Settlement expense	(1,204)	—	(12,040)
Amortization of unrecognized net transition obligation of severance and retirement benefit of newly consolidated subsidiary	(980)	—	(9,803)
Head office relocation expenses	(759)	—	(7,590)
Impairment losses of fixed assets (Note 4)	(700)	(208)	(6,999)
Loss from reorganization of business	—	(1,870)	—
Loss on business transfer	—	(1,270)	—
Loss on breach of antimonopoly law	—	(746)	—
Income before income taxes and minority interests	72,515	62,940	725,148
Income taxes (Note 6):			
Current	28,870	26,463	288,705
Deferred	(58)	(1,493)	(583)
Total	28,812	24,970	288,122
Minority interests in net income	(729)	(618)	(7,288)
Net income	¥ 42,974	¥ 37,352	$ 429,738

	Yen		U.S. dollars (Note 1)
	2008	2007	2008
Amounts per share of common stock:			
Net income	¥71.19	¥61.99	$0.71
Diluted net income	—	—	—
Cash dividends applicable to the year	¥10.00	¥ 7.00	$0.10

See accompanying notes.

Consolidated Statement of Changes in Net Assets

Year ended March 31, 2007

	Millions of yen					
		Owners' Equity				
	Number of shares of common stock (Thousand)	Common stock	Capital surplus	Retained earnings	Treasury stock	Sub-total
Stockholders' equity at March 31, 2006 as previously reported	602,626	¥30,872	¥16,808	¥ 68,848	¥(544)	¥115,984
Reclassification due to adoption of new accounting standards at April 1, 2006						
Net assets at April 1, 2006	602,626	¥30,872	¥16,808	¥ 68,848	¥(544)	¥115,984
Dividends (*Note)				(1,503)		(1,503)
Dividends				(2,104)		(2,104)
Net income				37,352		37,352
Acquisition of treasury stock					(457)	(457)
Disposal of treasury stock			182		78	260
Increase due to transfer of revaluation difference on land				1,731		1,731
Stock exchange with consolidated subsidiaries	3,100		3,521		(73)	3,448
Increase from increase of consolidated subsidiaries with change in scope of consolidation				633		633
Correction of capital allotment after merger of parent company and consolidated subsidiaries			7	(7)		—
Changes in items other than owners' equity in the period (net)						
Total changes in the period	3,100	—	3,710	36,102	(452)	39,360
Balance at March 31, 2007	605,726	¥30,872	¥20,518	¥104,950	¥(996)	¥155,344

	Millions of yen							
	Valuation and translation adjustments							
	Unrealized holding gains on other securities	Gains/ Losses on deferred hedge	Adjustment of pension obligation of overseas subsidiaries	Revalua-tion difference on land	Foreign exchange translation adjustments	Sub-total	Minority interests	Total
Stockholders' equity at March 31, 2006 as previously reported	¥10,269	—	—	¥42,142	¥(654)	¥51,757	—	¥167,741
Reclassification due to adoption of new accounting standards at April 1, 2006							¥3,752	¥3,752
Net assets at April 1, 2006	¥10,269	—	—	¥42,142	¥(654)	¥51,757	¥3,752	¥171,493
Dividends (*Note)								(1,503)
Dividends								(2,104)
Net income								37,352
Acquisition of treasury stock								(457)
Disposal of treasury stock								260
Increase due to transfer of revaluation difference on land								1,731
Stock exchange with consolidated subsidiaries								3,448
Increase from increase of consolidated subsidiaries with change in scope of consolidation								634
Correction of capital allotment after merger of parent company and consolidated subsidiaries								—
Changes in items other than owners' equity in the period (net)	926	(1,652)	(772)	(1,731)	820	(2,409)	(2,434)	(4,843)
Total changes in the period	926	(1,652)	(772)	(1,731)	820	(2,409)	(2,434)	34,517
Balance at March 31, 2007	¥11,195	¥(1,652)	¥(772)	¥40,411	¥ 165	¥49,347	¥1,318	¥206,010

*Note: The dividends were made with the approval of the general stockholders' meeting held on June 29, 2006.

See accompanying notes.

Consolidated Statement of Changes in Net Assets Year ended March 31, 2008

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

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

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

		Thousands of U.S. dollars (Note 1)				
		Owners' Equity				
	Number of shares of common stock (Thousand)	Common stock	Capital surplus	Retained earnings	Treasury stock	Sub-total
Net assets at March 31, 2007	605,726	$308,720	$205,180	$1,049,500	$ (9,960)	$1,553,440
Dividends				(51,320)		(51,320)
Net income				429,740		429,740
Acquisition of treasury stock					(4,420)	(4,420)
Disposal of treasury stock			60		130	190
Decrease due to transfer of revaluation difference on land				(660)		(660)
Cumulative effect of application of FIN No. 48 to U.S. subsidiaries (*Note)				(2,020)		(2,020)
Increase from increase of consolidated subsidiaries with change in scope of consolidation				670		670
Decrease due to exclusion of consolidated subsidiaries from the scope of consolidation				(4,490)		(4,490)
Decrease due to exclusion of equity method affiliates from the scope of consolidation				(900)		(900)
Increase due to merger				10		10
Changes in items other than owners' equity in the period (net)						
Total changes in the period	—	—	60	371,030	(4,290)	366,800
Balance at March 31, 2008	605,726	$308,720	$205,240	$1,420,530	$(14,250)	$1,920,240

	Thousands of U.S. dollars (Note 1)							
	Valuation and translation adjustments							
	Unrealized holding gains on other securities	Gains/ Losses on deferred hedge	Adjustment of pension obligation of overseas subsidiaries	Revalua-tion difference on land	Foreign exchange translation adjustments	Sub-total	Minority interests	Total
Net assets at March 31, 2007	$111,950	$(16,520)	$(7,720)	$404,110	$ 1,660	$493,480	$13,190	$2,060,100
Dividends								(51,320)
Net income								429,740
Acquisition of treasury stock								(4,420)
Disposal of treasury stock								(190)
Decrease due to transfer of revaluation difference on land								(660)
Cumulative effect of application of FIN No. 48 to U.S. subsidiaries (*Note)								(2,020)
Increase from increase of consolidated subsidiaries with change in scope of consolidation								670
Decrease due to exclusion of consolidated subsidiaries from the scope of consolidation								(4,490)
Decrease due to exclusion of equity method affiliates from the scope of consolidation								(900)
Increase due to merger								10
Changes in items other than owners' equity in the period (net)	(69,700)	41,110	(2,270)	660	(12,670)	(42,870)	79,680	36,810
Total changes in the period	(69,700)	41,110	(2,270)	660	(12,670)	(42,870)	79,680	403,610
Balance at March 31, 2008	$ 42,240	$ 24,590	$(9,990)	$404,770	$(11,010)	$450,600	$92,870	$2,463,710

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

See accompanying notes.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 72,515	¥ 62,940	$ 725,148
Adjustments to reconcile net income before income taxes to net cash provided by operating activities:			
Depreciation	13,788	10,649	137,885
Impairment losses of fixed assets	700	208	6,999
Gain on sale of property, plant and equipment	(197)	(227)	(1,975)
Loss on sale of property, plant and equipment	103	68	1,028
Loss on disposal of property, plant and equipment	853	1,012	8,534
Gain on sale of investment securities	(689)	(1,398)	(6,886)
Loss on sale of investment securities	—	3	—
Loss from write-down of investment securities	84	136	835
Loss from reorganization of business	—	1,870	—
Gain on business transfer	—	(294)	—
Loss on business transfer	—	1,270	—
Loss on breach of antimonopoly law	—	746	—
Settlement expense	1,204	—	12,040
Amortization of unrecognized net transition obligation of severance and retirement benefit of newly consolidated subsidiaries	980	—	9,803
Head office relocation expenses	759	—	7,591
Increase (decrease) in employee’ severance and retirement benefits	1,960	(329)	19,596
Equity in earnings of unconsolidated subsidiaries and affiliated companies	(2,436)	(4,584)	(24,362)
(Increase) decrease in allowance	(171)	616	(1,707)
Interest and dividend income	(1,190)	(866)	(11,900)
Interest expenses	1,194	1,666	11,944
Changes in operating assets and liabilities:			
(Increase) decrease in notes and accounts receivable	(9,522)	10,394	(95,225)
Increase in inventories	(21,758)	(7,213)	(217,582)
Increase in notes and accounts payable	5,755	7,106	57,548
Decrease in deposits received	—	(4,119)	—
Other—net	(6,242)	(3,049)	(62,418)
Sub-total	57,690	76,605	576,896
Interest and dividend received	2,499	1,617	24,991
Interest expenses	(1,303)	(1,535)	(13,032)
Payment for income taxes	(29,790)	(19,898)	(297,895)
Net cash provided by operating activities	¥ 29,096	¥ 56,789	$ 290,960

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Cash flows from investing activities:			
Net increase (decrease) in time deposits	¥ 140	¥ (10)	$ 1,399
Payments for securities	(5,283)	(5,577)	(52,826)
Payment for purchase of consolidated subsidiaries with change in scope of consolidation (Note 2)	(11,944)	—	(119,444)
Proceeds from sale of securities	769	4,017	7,692
Payment for purchase of investment in affiliated company	(3,465)	—	(34,650)
Receipt due to stock exchange of affiliate (Note 2)	1,390	—	13,899
Payments for purchases of property, plant and equipment	(24,243)	(16,657)	(242,433)
Proceeds from sale of property, plant and equipment	1,429	1,769	14,286
Payments for long-term loans receivable	(68)	(43)	(680)
Collection of long-term loans receivable	77	148	774
Proceeds from business transfer (Note 2)	—	5,895	—
Other—net	(52)	(2,003)	(517)
Net cash used in investing activities	(41,250)	(12,461)	(412,500)
Cash flows from financing activities:			
Net decrease in short-term loans	(5,742)	(6,516)	(57,425)
Net increase (decrease) in commercial paper	3,000	(5,000)	30,000
Proceeds from long-term debt	17,500	4,500	175,000
Payments for long-term debt	(14,443)	(30,482)	(144,427)
Proceeds from sale of treasury stock	19	379	193
Disbursement for acquisition of treasury stock	(442)	(454)	(4,421)
Cash dividends paid	(5,115)	(3,607)	(51,153)
Payment of dividends for minority stockholders	(15)	(13)	(152)
Net cash used in financing activities	(5,238)	(41,193)	(52,385)
Effect of exchange rate changes on cash and cash equivalents	(143)	259	(1,427)
Net (decrease) increase in cash and cash equivalents	(17,535)	3,394	(175,352)
Cash and cash equivalents at beginning of year	47,523	43,644	475,233
Increase due to new consolidated company	161	485	1,607
Decrease from the change in consolidation scope	(292)	—	(2,923)
Increase due to merger of non consolidated subsidiary to a consolidated subsidiary	22	—	222
Cash and cash equivalents at the end of year (Note 2)	¥ 29,879	¥ 47,523	$ 298,787

See accompanying notes.

1. Significant accounting policies

Basis of presenting consolidated financial statements

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

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

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2008, which was ¥100 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 consolidated subsidiaries ("the Companies"). All significant inter-company balance and transaction have been eliminated in consolidation.

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

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

Consolidated statements of cash flows

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

Marketable and investment securities

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

Inventories

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

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

Depreciatiopd Amortization

Tangible assets: Buildings acquired between April 1, 1998 and March 31, 2007 are depreciated using the former straight-line method. Buildings acquired after April 1, 2007 are depreciated primarily by using the revised straight-line method. Other tangible assets acquired on or before March 31, 2007 are depreciated primarily by using the former declining-balance method and those acquired after April 1, 2007 are depreciated primarily by using the revised declining-balance method.

Following the amendments of the Corporation Tax Law of Japan, the method of depreciation applied to the tangible assets acquired by the Company and domestic consolidated subsidiary after April 1, 2007 was changed. Due to this change, the gross profit was ¥681 million ($6,805 thousand) less, the operating income and income before income taxes and minority interests were ¥681 million ($6,805 thousand) less respectively compare to the figures if the accounting prior to the change had been applied.

Also, due to the amendment of the Corporation Tax Law of Japan, effective April 1, 2007, when tangible fixed assets acquired by the Company and consolidated subsidiaries before March 31 2007 are depreciated to their allowable depreciation limits, amounts of such depreciation limits are recognized as depreciation expense equally over five years commencing from the year immediately after the year in which the allowable depreciation limits have been reached.

This resulted in a decrease in the gross profit in the amount of ¥689 million ($6,891 thousand) and a decrease in the operating income and income before income taxes and minority interests in the amount of ¥689 million ($6,891 thousand), respectively.

Allowance for doubtful receivables

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

Revaluation difference on land

The Company revaluated land used for business operations on march 31, 2002 in accordance with Enforcement Ordinance for the Law Concerning Revaluation Reserve for Land effective March 31, 1998. As a result of the revaluation, the land, which previously had a book value of ¥32,412 million, was revaluated at ¥109,349 million, which is determined primarily based on real estate tax value. The Company recorded ¥44,585 million as revaluation reserve for land in net assets section, after reflecting deferred income tax effects of ¥32,352 million which were recorded as long-term liabilities.

The current value of the land on March 31, 2008 fell ¥21,798 million ($217,983 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 prior service cost will be recognized in expenses as incurred by the Company, and will be recognized in expenses in equal amounts over a period within the average remaining service year of employees (mainly 12 years) by consolidated subsidiaries.

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.

Retirement benefits for directors, corporate auditors and executive officers (collectively, "officers")

The Company and certain of the Company's consolidated subsidiaries resolved to abolish their retirement benefit plans for directors, corporate auditors and executive officers (collectively, "officers"), and provided liabilities for such benefits at the amounts corresponding to the considerations for the service period until the plan abolishment.

The company reclassified this liability to other non-current liabilities pursuant to "Auditing Treatment Relating to Reserve Defined under the Special Tax measurement Law, Reserve Defined under the Special Law and Reserve for Director and Corporate Auditor Retirement Benefits" (The Japanese Institute of Certifies Public Accountants (JICPA) Auditing and Assurance Practice Committee Report No. 42 revised on April 13, 2007). The amount for 2007 (¥896 million), which was presented separately as Allowance for retirement benefits for directors, corporate auditors and executive officers in the consolidated balance sheet, has been reclassified and included in Other non-current liabilities to conform to the 2008 presentation.

Allowance for warranty

In order to provide for expenditure for repair work to be performed free of charge after delivery of products, this amount is stated based on the past experience of such repair work actually performed.

Allowance for losses on construction contract

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

Allowance for losses from business reorganization

Allowance for losses from business reorganization is provided at an estimated amount to be incurred in the future with regard to reorganization of an overseas subsidiary.

Allowance for losses from business transfer

Allowance for losses from business transfer is provided at an estimated amount to be incurred in the future in connection with the resort development business transferred in 2007.

Allowance for losses from product liabilities

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

Accounting Standard for Statement of Changes in Net Assets

Effective from the year ended March 31, 2007, companies are required to adopt the new accounting standard, "Accounting Standard for Statement of Changes in Net Assets" (Statement No. 6 issued by the Accounting Standards Board of Japan on December 27, 2005), and the implementation guidance for the accounting standard for statement of changes in net assets (the Financial Accounting Standard Implementation Guidance No. 9 issued by the Accounting Standards Board of Japan on December 27, 2005), (collectively, "the New Accounting Standards").

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.

Software costs

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

Research and development costs

Research and development costs included in production cost, and selling, general and administrative expenses were ¥9,960 million ($99,600 thousand) and ¥8,599 million for the years ended March 31, 2008 and 2007, respectively.

Income taxes

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

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

Foreign currency translation

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

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

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

Information for Certain leases as Lessee

The Company and consolidated domestic subsidiaries account for finance leases which do not transfer ownership of leased assets to lessees as operating leases.

Matters Related to Amortization of Goodwill

Goodwill is amortized based on the straight-line method over the 5-year period that the effect of investment is expected to appear.

However, where goodwill is in a small amount, all such amount is amortized at the time of generation.

Derivatives and hedge accounting

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

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

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

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

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

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

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

Amounts per share

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

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

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

Reclassifications

Certain amounts in the consolidated financial statements for the year ended March 31, 2007 have been reclassified to conform to the 2008 presentation.

Change in accounting policies

(a) Accounting standard for presentation of net assets in the balance sheet

Effective from the year ended March 31, 2007, the Company and its consolidated subsidiaries adopted the new accounting standard, "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Statement No.5 issued by the Accounting Standards Board of Japan on December 9, 2005), and the implementation guidance for the accounting standard for presentation of net assets in the balance sheet (the Financial Accounting Standard Implementation Guidance No. 8 issued by the Accounting Standards Board of Japan on December 9, 2005), (collectively, "the New Accounting Standards").

The consolidated balance sheet as of March 31, 2008 and 2007 are prepared in accordance with the New Accounting Standards comprises three sections, which are the assets, liabilities and net assets sections.

(b) Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures

From the year ended March 31, 2007, the Company adopted "accounting standards concerning business combination" (issued by the business accounting deliberation council on October 31, 2003), "Accounting standards concerning business separation, etc., "(ASBJ statement No.7 December 27, 2005) and "the accounting standards implementation Guide concerning business combination and bushiness separation, etc." (ASBJ statement implementation guide No. 10, finally amended on December 22, 2006).

There were no effects on the consolidated statements of income for the year ended March 31, 2007.

Business combinations

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

1. General information

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

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

2. Business of the entity combined

Nihon Spindle manufactures and sells environmental equipment, air-conditioning equipment, industrial equipment and construction materials.

3. Overview of the transaction including its purpose

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

4. The ratio for the stock exchange

	Stock exchange ratio
Nihon Spindle	1.0
Izumi Food	3.2
SNM	2,000

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

2. Method of calculation and basis of calculation by a third-party institution
Nihon Spindle requested Nomura Securities Co., Ltd. ("Nomura Securities") to calculate the ratio for the stock exchange, while Izumi Food and SNM engaged Sumitomo Mitsui Banking Corporation ("SMBC"). Nomura Securities conducted an analysis with respect to Nihon Spindle, based on the historical stock price analysis method, the discounted cash flow (DCF) method and the comparable company analysis method. Nomura Securities also conducted an analysis on Izumi Food and SNM using the DCF method and the comparable company analysis method.

Izumi Food and SNM are not publicly listed companies. Therefore, the results of the historical stock price analysis of Nihon Spindle and the comparable company analysis of Izumi Food and SNM were considered and examined prior to the actual application of the historical stock price analysis method.

SMBC conducted an analysis of Nihon Spindle based on the historical stock price analysis method, the DCF method and the net assets at fair value method. SMBC also conducted an analysis with regard to Izumi Food and SNM, based on the comparable company analysis method, the DCF method and the net assets at fair value method.

With reference to proposals submitted by the aforementioned third-party institutions on the stock exchange ratio and with due consideration given to their own financial standing, performances and stock price trends, Nihon Spindle, Izumi Food and SNM agreed and made decisions on the stock exchange ratio at their individual board of directors meetings held on May 8, 2007.

5. Number of shares delivered and estimated value

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

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

6. Results of operations of Nippon Spindle for the following period are included in the consolidated financial statements
October 1, 2007 to March 31, 2008

7. Acquisition costs

	Acquisition price
Nihon Spindle stocks	3,332 million yen
Acquisition costs	3,332 million yen

8. Goodwill
(1) Amount of goodwil ....(313) million yen

(2) Reason that the goodwill arose
The goodwill was recognized as a difference between Nihon Spindle's net asset and the value of acquired Nihon Spindle's share.

(3) Amortization of goodwill
Goodwill is fully amortized when generated.

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

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

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

2. Business of the entities combined
Demag Ergotech GmbH ("Demag Ergotech") and two other Demag Group companies manufacture, sell and provide services relating to plastics machinery.

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

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

4. Acquired companies' financial results for 2008

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

5. Acquisition costs

Acquisition price	12,083 million yen
Actual expenses in connection with the acquisition	696 million yen
Acquisition costs	12,779 million yen

6. Goodwill

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

(2) Reason that the goodwill arose

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

(3) Amortization of goodwill

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

(C) Stock exchange

1.General information

As of October 1, 2006, the Company executed a stock exchange with SEISA Gear, Ltd. ("SEISA Gear"), a consolidated subsidiary of the Company, with SEISA Gear being the acquired company of the transaction. The stock exchange was recognized as a transaction with minority shareholders.

2. Business of the entity combined

Business of SEISA Gear is manufacture and sales of gear, gear transmission, various reduction gears and various coupling.

3. Overview of the transaction including its purpose

With the stock exchange, SEISA Gear expects to construct a system for utilization of the technology and human resources of the Company in order to achieve current targets of the enhanced competitiveness of products that respond to the diversified customers' needs and global sales development.

The stock exchange was implemented as a simplified stock exchange under Article 796 Paragraph 3 of the Corporate Law, and the Company acquired additional 50.8% of the voting rights of SEISA Gear, including 4.8% of indirect ownership. As a result of the stock exchange, the Company owns 100% of SEISA Gear.

4. The ratio for the stock exchange

	Stock exchange ratio
The Company	1.0
SEISA Gear	0.36

Notes: 1. Share exchange ratio
0.36 share of the common stock of the Company was provided in exchange for one share of the common stock of SEISA Gear. However, no shares of the Company have been allotted to the shares of the common stock of SEISA Gear owned by the Company (8,200,000 shares).

2. Method of calculation and basis of calculation by a third party institution
The Company and SEISA Gear asked Daiwa Securities SMBC Co. Ltd. and Nomura Securities Co., Ltd. respectively, to calculate the stock exchange ratio. Daiwa Securities SMBC Co. Ltd. conducted an analysis with respect to both the Company and SEISA Gear, based on the market share-value method as well as the discount cash flow method, and determined the stock exchange ratio by comprehensively considering the results of these analyses. Nomura Securitie Co., Ltd. conducted an analysis of the Company based on the market share-value average method and an analysis of SEISA Gear based on the market stock value average method, the comparison with similar companies method and the discount cash flow method. And then, Nomura Securities Co., Ltd. determined the stock exchange ratio by comprehensively considering the results of the analyses. Based on the above results, the Company and SEISA Gears determined the stock exchange ratio as indicated above through discussions.

5. Number of shares delivered and estimated value

Number of shares delivered to SEISA Gear	3,100,809 shares
Evaluation	3,805 million yen

This amount is the estimated issue price that was calculated based on the average share price during a reasonable period before the main terms and conditions of the stock exchange had been agreed on and announced to the public, multiplied by the number of shares planned to be delivered.

6. Goodwill

(1) Amount of goodwill .... 1,310 million yen

(2) Reason that the goodwill arose

The goodwill represents the difference between the value of the shares delivered to shareholders, excluding the Company's consolidated subsidiary, and the amount of the equity held by minority shareholders.

(3) Amortization of goodwill

Goodwill will be amortized evenly in 5 years.

2. Cash and cash equivalents

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

Cash and cash equivalents as of March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Cash and deposits	¥30,256	¥48,155	$302,560
Time deposits with maturities over three months	(32)	(288)	(320)
Collateral deposits	(345)	(344)	(3,453)
Cash and cash equivalents	¥29,879	¥47,523	$298,787

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

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

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

	Millions of yen	Thousands of U.S. dollars
	2008	2008
Current assets	¥ 9,544	$ 95,443
Non-current assets	8,442	84,424
Goodwill generated	(313)	(3,129)
Current liabilities	(5,202)	(52,021)
Non-current liabilities	(2,710)	(27,103)
Acquisition cost of stock	¥ —	$ —
Cash and cash equivalents	1,390	13,899
Receipt of funds of the subsidiary through the stock exchange	¥ 1,390	$ 13,899

Refer to the Note of Business combination (B), the company acquired Demag Group.

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

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

	Millions of yen	Thousands of U.S. dollars
	2008	2008
Current assets	¥ 17,041	$ 170,405
Non-current assets	5,369	53,695
Goodwill generated	6,663	66,630
Current liabilities	(10,860)	(108,604)
Non-current liabilities	(5,434)	(54,340)
Acquisition cost of stock	¥ 12,779	$ 127,786
Cash and cash equivalents	(293)	(2,925)
Amount to be paid	(542)	(5,417)
Net payment for acquisition of shares of subsidiary resulting in change in scope of consolidation	¥ 11,944	$ 119,444

The Company sold all shares of a consolidated subsidiary in the year ended March 31, 2007. The following table summarizes assets and liabilities of the subsidiary.

SHI Resort Development, Ltd. (as of September 20th, 2006)

	Millions of yen
	2007
Current assets	¥ 323
Non-current assets	2,798
Total assets	¥3,121
Current liabilities	3,853
Non-current liabilities	459
Total liabilities	¥4,312

The proceeds from sale of the shares of SHI Resort Development, Ltd. are included in the proceeds from transfer of resort development business as described below.

Decrease of assets and liabilities caused by business transfer.

The following table summarizes the decreases in assets and liabilities, and the proceeds from transfer of resort development business.

	Millions of yen
	2007
Current assets	¥ 1,481
Non-current assets	6,303
Current liabilities	(340)
Non-current liabilities	(459)
Loss on business transfer	(1,270)
Consideration of business transfer	¥ 5,715
Cash and cash equivalents of SHI Resort Development, Ltd. as of the deconsolidation date	(135)
Net transfer of resort development business	¥ 5,580

The following table summarizes the decrease in assets and the proceeds from transfer of sliding gate business.

	Millions of yen
	2007
Current assets	¥ 21
Gain on business transfer	294
Consideration of business transfer	¥315
Cash and cash equivalents	—
Net transfer of resort development business	¥315

3. Inventories

Inventories as of March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Finished products and semi-finished products	¥ 39,716	¥ 31,348	$ 397,164
Work in process	70,749	53,915	707,491
Raw materials and supplies	19,985	15,256	199,846
Total	¥130,450	¥100,519	$1,304,501

4. Impairment losses of fixed assets

The Company and certain consolidated domestic subsidiary recognized the following impairment losses in the year ended March 31, 2008 and 2007.

2008			Millions of yen	Thousands of U.S. dollars
Application	Category	Location	2008	2008
Business Property	Land, etc.	Shinoyama, Hyogo-pref.	¥459	$4,585
Idle	Equipment	Yokosuka, Kanagawa-pref.	174	1,735
Idle	Building, etc.	Chiba, Chiba-pref.	51	512
Idle	Machinery	Tadaoka, Osaka-pref.	16	167
Total			¥700	$6,999

2007			Millions of yen
Application	Category	Location	2007
Business Property	Building and structures	Miyakonojo, Miyazaki-pref.	¥183
Idle	Machinery and delivery equipment	Yokosuka, Kanagawa-pref.	25
Total			¥208

Reason for recording impairment loss

Due to the decrease in profitability and changes in business plan, it is not expected that invested money can be recovered.

Method of grouping of assets

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

Method of calculation of recoverable amount

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

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

Bank loans at March 31, 2008 and 2007 consisted of short-term loans, bearing interest principally at 1.13% and 1.05% per annum, respectively.

At March 31, 2008 and 2007 commercial paper principally bore an average annual interest rate of 0.66%. Long-term debt at March 31, 2008 and 2007 was follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
1.0 % domestic bonds due in March 2010	¥10,000	¥10,000	$100,000
Loans principally from banks and insurance companies due serially through March 2015 with interest ranging from 1.07% to 2.20% in 2008			
Secured	2,759	3,486	27,590
Unsecured	41,876	37,849	418,768
	¥54,635	¥51,335	$546,358
Amount due within one year	2,724	14,285	27,244
Amount due after one year	51,911	37,049	519,114

Annual maturities of long-term debt as of March 31, 2008 were as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31	2008	2008
2009	¥ 2,724	$ 27,244
2010	11,189	111,888
2011	10,428	104,278
2012	4,095	40,954
2013	18,800	188,000
2014 and thereafter	7,399	73,994

With the aim of ensuring its ability to raise operating funds in a timely manner, the Company has agreements with 12 banks for revolving lines of credit and with four banks for global commitment lines.

At March 31, 2008 and 2007, assets pledged as collateral for loans, long-term loans from banks and insurance companies and domestic mortgage bonds were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Cash and deposits	¥ 368	¥ 344	$ 3,677
Trade receivables	—	112	—
Buildings and structure	2,488	2,127	24,885
Machinery and vehicle transportation tool	362	451	3,615
Land	36,464	36,535	364,644
Other plant and equipment	155	143	1,552
Total	¥ 39,837	¥39,712	$ 398,373

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

At March 31, 2008 and 2007, bank loans unexecuted balance etc. related to revolving lines of credit are as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Limit loan revolving line of credit and global commitment lines	¥46,019	¥26,809	$460,190
The amount of loan	3,046	3,129	30,457
Net unused	¥42,973	¥23,680	$429,733

6. Income Tax

The Companies are subject to a number of income taxes, which, in the aggregate indicate a statutory tax rate in Japan of approximately 41% for the years ended March 31, 2008 and 2007.

Since the effective tax rate for consolidated financial statement purposes for the year ended March 31, 2008 and 2007 differed from the statutory tax rate by less than 5%, disclosure of reconciliation between these tax rates is omitted.

Significant components of deferred tax assets and liabilities as of March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Deferred tax assets:			
Accrued bonuses	¥ 3,724	¥ 3,403	$ 37,241
Allowance for doubtful accounts	776	1,553	7,765
Allowance for warranty	2,112	1,937	21,122
Allowance for employees' severance and retirement benefit	15,652	15,066	156,521
Profit/loss from deferred hedge	—	1,134	—
Unrealized profit on inventories	1,599	1,299	15,991
Devaluation of marketable securities and investments	1,639	1,549	16,390
Excess depreciation	1,067	829	10,665
Operating losses carry forward	3,025	2,840	30,245
Others	6,824	4,123	68,235
Total deferred tax assets	36,418	33,733	364,175
Less-valuation allowance	(7,516)	(5,966)	(75,160)
Deferred tax assets-net	¥ 28,902	¥ 27,767	$ 289,015
Deferred tax liabilities:			
Excess tax depreciation reserve	(97)	(135)	(968)
Net unrealized holding gains on securities	(1,441)	(5,918)	(14,411)
Difference on revaluation of assets and liabilities of subsidiaries	(4,115)	(1,849)	(41,154)
Accelerated depreciation	(471)	(335)	(4,709)
Retained earnings in consolidated subsidiaries overseas	(4,170)	(2,782)	(41,696)
Others	(2,237)	(31)	(22,372)
Deferred tax liabilities	¥(12,531)	¥(11,050)	$(125,310)
Net deferred tax assets	¥ 16,371	¥ 16,717	$ 163,705

7. Net assets

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

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

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

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

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

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

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with Japanese laws and regulations. The maximum amount that the company can distribute as dividends at March 31.2008 amounted to ¥38,924 million ($389,243 thousand).

The shareholders expect to approve cash dividends amounting to ¥3,018 million ($30,179 thousand) on June 27, 2008. Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2008. The appropriations are recognized in the period in which they are approved by the shareholders.

8. Contingent liabilities

Certain consolidated domestic subsidiary is contingently liable as endorsers of trade notes receivable discounted with banks in the amount of ¥3,827 million ($38,270 thousand) and ¥3,201 million at March 31, 2008 and 2007. In addition, at the same date the Company and certain consolidated subsidiaries are contingently liable as guarantors of bank loans or other borrowings by unconsolidated subsidiaries, affiliated companies and employees in the amount of ¥8,193 million ($81,934 thousand) and ¥6,114 million, respectively (net of guarantees by co-guarantors).

9. Segment information

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

A summary of net sales, costs and expenses, and operating income by segment of business activities for the years ended March 31, 2008 and 2007, and a summary of identifiable assets, depreciation expenses and capital expenditures by segment of business activities for the years ended March 31, 2008 and 2007 are presented below:

	Millions of yen						
2008	Mass-produced machinery	Environmental protection facilities, plants & others	Ship, steel structure & other specialized equipment	Industrial machinery	Construction machinery	Elimination and/or corporate	Consolidated
I Sales and operating income							
Sales:							
Outside customers	¥232,593	¥91,250	¥ 76,393	¥81,163	¥179,370	¥ —	¥660,769
Inter-segment	2,887	2,428	1,282	362	7	(6,966)	—
Total	235,479	93,679	77,675	81,525	179,377	(6,966)	660,769
Costs and expenses	207,272	86,775	63,582	69,407	163,091	(7,147)	582,980
Operating income	¥ 28,208	¥ 6,903	¥ 14,094	¥12,118	¥ 16,286	¥ 181	¥ 77,790
II Identifiable assets	¥290,189	¥69,296	¥105,624	¥61,033	¥137,097	¥15,395	¥678,634
Depreciation expenses	7,392	1,056	2,061	1,355	1,924	—	13,788
Impairment losses of fixed assets	632	68	—	—	—	—	700
Capital expenditures	13,911	2,305	5,521	2,577	3,866	—	28,180

	Millions of yen						
2007	Mass-produced machinery	Environmental protection facilities, plants & others	Ship, steel structure & other specialized equipment	Industrial machinery	Construction machinery	Elimination and/or corporate	Consolidated
I Sales and operating income							
Sales:							
Outside customers	¥222,906	¥79,397	¥69,491	¥68,286	¥160,177	¥ —	¥600,256
Inter-segment	2,160	2,490	511	423	31	(5,615)	—
Total	225,066	81,888	70,002	68,709	160,208	(5,615)	600,256
Costs and expenses	196,222	77,393	63,287	59,182	145,812	(5,865)	536,032
Operating income	¥ 28,844	¥ 4,495	¥ 6,715	¥ 9,527	¥ 14,396	¥ 250	¥ 64,224
II Identifiable assets	¥239,031	¥59,213	¥88,760	¥50,451	¥123,991	¥39,444	¥600,890
Depreciation expenses	5,601	892	1,250	1,240	1,666	—	10,649
Impairment losses of fixed assets	—	—	—	25	183	—	208
Capital expenditures	9,188	1,124	1,606	2,497	2,842	—	17,257

2008	Mass-produced machinery	Environmental protection facilities, plants & others	Ship, steel structure & other specialized equipment	Industrial machinery	Construction machinery	Elimination and/or corporate	Consolidated
	Thousands of U.S. dollars						
I Sales and operating income							
Sales:							
Outside customers	$2,325,925	$912,499	$ 763,934	$811,629	$1,793,704	$ —	$6,607,692
Inter-segment	28,868	24,279	12,822	3,620	65	(69,654)	—
Total	2,354,793	936,778	776,756	815,249	1,793,770	(69,654)	6,607,692
Costs and expenses	2,072,715	867,747	635,819	694,071	1,630,914	(71,469)	5,829,797
Operating income	$ 282,078	$ 69,031	$ 140,938	$121,178	$ 162,856	$ 1,814	$ 777,895
II Identifiable assets	$2,901,892	$692,955	$1,056,245	$610,330	$1,370,971	$153,948	$6,786,341
Depreciation expenses	73,924	10,562	20,613	13,546	19,240	—	137,885
Impairment losses of fixed assets	6,322	677	—	—	—	—	6,999
Capital expenditures	139,108	23,049	55,210	25,770	38,660	—	281,797

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

Change in distribution method for costs and expenses

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

In accordance with this change, certain figures included under segment information differ from what they would have been had the previous distribution method been applied. Thus, in the Mass-produced machinery segment, a ¥1,348 million ($13,482 thousand) decrease in costs and expenses resulted in an increase of the same amount in operating income; in the Environmental protection facilities, plants & others segment, a ¥480 million ($4,804 thousand) decrease in costs and expenses resulted in an increase of the same amount in operating income; in the Ship, steel structure & other specialized equipment segment, a ¥265 million ($2,650 thousand) increase in costs and expenses resulted in a decrease of the same amount in operating income; in the Industrial machinery segment, a ¥310 million ($3,097 thousand) increase in costs and expenses resulted in a decrease of the same amount in operating income; and in the Construction machinery segment, a ¥1,254 million ($12,540 thousand) increase in costs and expenses resulted in a decrease of the same amount in operating income.

Change in segment affiliation for the year ended March 31, 2007

Japan Electron Beam Irradiation Service Co., Ltd. and SHI Examination and Inspection Ltd. have been transferred to the Mass-produced Machinery segment from 2007 due to changes in organizational management of the Company. The two companies had formerly been grouped into the Environmental Protection Facilities, Plants and Others segment and the Ship, Steel Structures and Other Specialized Equipment segment, respectively.

Compared to previous method, these changes have resulted in the following increase for the Mass-produced Machinery segment and decreases in the Environment Protection Facilities, Plants and Others segment, and the Ship, Steel Structures and Other Specialized Equipment segment.

Mass-produced Machinery segment: Increase of ¥1,960 million in sales, ¥1,423 million in operating expenses, ¥537 million in operating profit, ¥1,717 million in assets, ¥152 million in depreciation expenses, and ¥572 million in capital expenditures.

Environmental Protection Facilities, Plants and Others segment: Decrease of ¥745 million in sales, ¥593 million in operating expenses, ¥152 million in operating profit, ¥403 million in assets, ¥19 million in depreciation expenses, and ¥72 million in capital expenditures.

Ship, Steel Structures and Other Specialized Equipment segment: Decrease of ¥2,407 million in sales, ¥1,881 million in operating expenses, ¥526 million in operating profit, ¥1,628 million in assets, ¥133 million in depreciation expenses, and ¥500 million in capital expenditures.

(B) Information by geographic area for the years ended March 31, 2008 and 2007 is as follows:

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

	Millions of yen				
2007	Japan	North America	Other areas	Elimination and/or corporate	Consolidated
I Sales and operating income					
Sales:					
Outside customers	¥494,178	¥71,264	¥34,815	¥ —	¥600,256
Inter-segment	31,671	745	12,330	(44,746)	—
Total	525,849	72,008	47,145	(44,746)	600,256
Costs and expenses	472,246	64,054	44,200	(44,468)	536,032
Operating income	¥ 53,603	¥ 7,954	¥ 2,945	¥ (278)	¥ 64,224
II Identifiable assets	¥481,001	¥43,137	¥33,645	¥ 43,107	¥600,890

	Thousands of U.S. dollars				
2008	Japan	North America	Other areas	Elimination and/or corporate	Consolidated
I Sales and operating income					
Sales:					
Outside customers	$5,372,681	$789,627	$445,384	$ —	$6,607,689
Inter-segment	403,507	12,329	137,096	(552,932)	—
Total	5,776,188	801,956	582,480	(552,932)	6,607,689
Costs and expenses	5,133,549	706,836	536,642	(547,230)	5,829,794
Operating income	$ 642,639	$ 95,120	$ 45,838	$ (5,702)	$ 777,895
II Identifiable assets	$5,333,204	$513,593	$814,265	$ 125,279	$6,786,341

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

(C) Overseas sales of the Companies for the years ended March 31, 2008 and 2007 were as follows:

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

2007	Millions of yen To North America	To Asia	To other areas	Total
Overseas Sales	¥112,282	¥83,811	¥80,027	¥276,120
Consolidated Sales				600,256
Overseas sales account for consolidated sales	18.7%	14.0%	13.3%	46.0%

2008	Thousands of U.S. dollars To North America	To Asia	To other areas	Total
Overseas Sales	$1,203,801	$1,084,414	$1,029,887	$3,318,102
Consolidated Sales				6,607,689
Overseas sales account for consolidated sales	18.2%	16.4%	15.6%	50.2%

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

(D) The effect of the change on segment information

Method of depreciation of depreciable assets

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

Under this new depreciation method, in the Mass-produced machinery segment, a ¥802 million ($8,018 thousand) increase in costs and expenses resulted in a decrease of the same amount in operating income; in the Environmental protection facilities, plants & others segment, a ¥76 million ($764 thousand) increase in costs and expenses resulted in a decrease of the same amount in operating income; in the Ship, steel structure & other specialized equipment segment, a ¥247 million ($2,471 thousand) increase in costs and expenses resulted in a decrease of the same amount in operating income; in the Industrial machinery segment, a ¥83 million ($825 thousand) increase in costs and expenses resulted in a ¥83 million ($825 thousand) decrease in operating income; and in the Construction machinery segment, a ¥162 million ($1,624 thousand) increase in costs and expenses resulted in a decrease of the same amount in operating income. In addition, in the geographic area of Japan, a ¥1,370 million ($13,702 thousand) increase in costs and expenses resulted in a decrease of the same amount in operating income.

10. Information for certain leases

The summary of assumed amounts of acquisition cost, accumulated depreciation and net book value with respect to finance leases accounted for in the same manner as operating leases as of March 31, 2008 and 2007 is as follows:

(A) Lessees

2008	Millions of yen Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Net book value
Machinery and equipment	¥27,221	¥10,816	¥—	¥16,405
Others	474	213	—	261
Total	¥27,695	¥11,029	¥—	¥16,666

2007	Millions of yen Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Net book value
Machinery and equipment	¥29,131	¥10,376	¥143	¥18,612
Others	331	183	—	148
Total	¥29,462	¥10,559	¥143	¥18,760

2008	Thousands of U.S. dollars Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Net book value
Machinery and equipment	$272,210	$108,156	$—	$164,054
Others	4,741	2,135	—	2,606
Total	$276,951	$110,291	$—	$166,660

Total lease payments for finance leases which do not transfer ownership to lessees amounted to ¥4,543 million ($45,429 thousand) and ¥4,559 million for the years ended March 31, 2008 and 2007, respectively.

Future lease payments as of March 31, 2008 and 2007, inclusive of interest under such leases were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Due within one year	¥ 5,534	¥ 5,127	$ 55,341
Due after one year	11,132	13,776	111,319
Total	¥16,666	¥18,903	$166,660

Also, future lease payments under operating leases as of March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Future lease payments	¥3,218	¥860	$32,183
Including due within one year	813	665	8,129

(B) Lessors

	Millions of yen		
2008	Acquisition cost	Accumulated depreciation	Net book value
Machinery and equipment	¥74	¥48	¥26
Total	¥74	¥48	¥26

	Millions of yen		
2007	Acquisition cost	Accumulated depreciation	Net book value
Machinery and equipment	¥102	¥70	¥32
Total	¥102	¥70	¥32

	Thousands of U.S. dollars		
2008	Acquisition cost	Accumulated depreciation	Net book value
Machinery and equipment	$740	$477	$263
Total	$740	$477	$263

Total lease payments for finance leases which do not transfer ownership to lessees amounted to ¥8 million ($81 thousand) and ¥21 million for the years ended March 31, 2008 and 2007, respectively.

Future lease payments as of March 31, 2008 and 2007, inclusive of interest under such leases were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Due within one year	¥16	¥14	$156
Due after one year	25	28	252
Total	¥41	¥42	$408

Also, future lease payments under operating leases as of March 31, 2008 and 2007, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Future lease payments	¥815	¥1,362	$8,147
Including due within one year	248	275	2,481

11. Securities

(A) Book values of securities not stated at fair value as of March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Held-to-maturity debt securities:			
Non-listed corporate bonds	¥ 10	¥ 10	$ 100
Available-for-sale securities:			
Non-listed equity securities	2,442	2,394	24,421
Others	1,011	1,011	10,109
Total	¥3,463	¥3,415	$34,630

(B) Acquisition costs and book values of securities with fair value as of March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
Available-for-sale securities	2008	2007	2008
Equity securities			
Acquisition cost	¥17,390	¥13,339	$173,905
Book value	23,106	30,383	231,066
Difference	¥ 5,716	¥17,044	$ 57,161

(C) Total sales amount of available-for-sale securities sold in the year ended March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
Available-for-sale securities	2008	2007	2008
Sale of securities	¥771	¥3,633	$7,710
Net gain	689	1,395	6,886

(D) Maturities of available-for-sale securities and held to maturity securities as of March 31, 2008 and 2007 were as follows:

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

	Millions of yen				
2007	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years	Total
Bonds	¥—	¥10	¥—	¥—	¥10
Total	¥—	¥10	¥—	¥—	¥10

	Thousands of U.S. dollars				
2008	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years	Total
Bonds	$—	$100	$—	$—	$100
Total	$—	$100	$—	$—	$100

12. Derivatives information

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

(A) Forward foreign exchange contracts

The aggregate amounts contracted to be paid/received and the fair values of forward foreign exchange contracts in Japanese yen of the Companies at March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Contracted amount to be paid/received:			
To sell foreign currencies	¥5,785	¥7,478	$57,847
To buy foreign exchange options	205	—	2,050
To sell foreign exchange options	429	—	4,290
Fair value:			
To sell foreign currencies	5,466	7,544	54,655
To buy foreign exchange options	(7)	—	(72)
To sell foreign exchange options	(0)	—	(2)
Net unrealized exchange gain (loss)	¥ 312	¥ (66)	$ 3,118

(B) Interest rate swap contracts

There were no interest rate swap contracts of the Companies at March 31, 2008 and 2007.

13. Information regarding retirement benefits

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

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
(1) Projected benefit obligation	¥(77,050)	¥(66,099)	$(770,500)
(2) Fair value of employee retirement benefit trust	41,325	51,676	413,246
(3) Unfunded projected benefit obligation	(35,725)	(14,423)	(357,254)
(4) Unrecognized actuarial difference	2,761	(10,006)	27,609
(5) Unrecognized prior service cost	229	356	2,293
(6) Prepaid pension benefit expenses	(13)	(37)	(129)
(7) Allowance for severance and pension benefit	(32,748)	(24,110)	(327,481)

(B) Included in the statements of operation for the years ended March 31, 2008 and 2007 are the following severance and pension benefit expenses:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
(1) Service cost	¥3,548	¥3,440	$35,480
(2) Interest cost on projected benefit obligation	1,760	1,522	17,602
(3) Expected return on plan assets	(723)	(557)	(7,231)
(4) Recognized actuarial difference	(572)	(96)	(5,720)
(5) Recognized prior service cost	79	35	790
(6) Unrecognized net transition obligation	980	—	9,803
(7) Severance and pension benefit expense	5,072	4,344	50,724

(C) Included in the statements of operation for the years ended March 31, 2008 and 2007 are the following assumptions for calculating:

	2008	2007
(1) Allocation of the estimated amount of all retirement benefits to be paid at the future retirement date	Equally to each service year using the estimated number of total service years	Equally to each service year using the estimated number of total service years
(2) Assumed discount rate	Mainly 2.0%	Mainly 2.0%
(3) Expected rate of return on plan assets	Mainly 0.0% (Trust assets for retirement benefits: 0.0%)	Mainly 0.0% (Trust assets for retirement benefits: 0.0%)
(4) Amortization period of actuarial differences	Mainly 12 years	Mainly 12 years
(5) Amortization period of prior service cost	Mainly 12 years	Mainly 12 years

14. Subsequent events

There is no subsequent event that is necessary to describe.

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, 2008 and 2007, and the related consolidated statements of income changes in net assets, cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sumitomo Heavy Industries, Ltd. and subsidiaries as of March 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following.
As discussed in Note 1 to the consolidated financial statements, effective April 1, 2006, the Company and its consolidated domestic subsidiaries adopted new accounting standards for the presentation of net assets in the balance sheet.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

Tokyo, Japan
June 20, 2008

Glossary

● Power transmission and control equipment

Power transmission and control equipment raises torque as the rotary speed of a motor is reduced to an optimum level. This kind of equipment has many applications, including elevators, escalators, industrial robots and factory production lines. SHI produces a wide range of power transmission and control devices, from micro-miniature devices with a motor capacity of 6 watts to very large devices of several thousand kilowatts. SHI has the leading share of the Japanese market for this equipment.


PREST® NEO gear motors


RHYTAX® drive

● Plastic injection molding machines

Plastic injection molding machines are used to pour melted plastic into molds. Of the two system types, hydraulic and electromotive, the latter enables greater molding precision. SHI specializes in the precision, high-cycle molding required for manufacturing optical discs and connectors and has the top share in Japan for these devices.


Fully electric controlled injection molding machine "SE-DU"

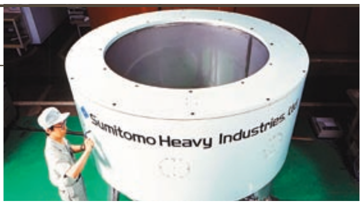
● Cyclotrons

A cyclotron is an accelerator for particles that it ionizes using magnetic force. SHI is the only manufacturer of these devices in Japan and has the top share of the domestic market for cyclotrons for positron emission tomography (PET) applications, which are highly effective in discovering and pinpointing cancer cells.


PET radio-tracer production system "HM-12S"

● Super-conductive magnet for silicon monocrystal lifting

Using a super-conductive magnet, this device generates a powerful magnetic field enabling the formation of large silicon monocrystal ingots. The magnetic field facilitates precise control of the flow of liquid silicon.



Super-conductive magnet for silicon monocrystal lifting

● Laser annealing system

Using a laser beam, this device crystallizes amorphous (noncrystal) silicone membrane. It is used in the manufacture of liquid crystal panels and organic electroluminescent (EL) products.


DPSS laser annealing system "SWA-90GD"

● Cryopumps

This ultrahigh vacuum pump enables impurities to be removed from the air. It removes impurities at the molecular level by condensing and trapping gases and vapors on progressively colder surfaces. It can be used at the molecular level under very low temperature conditions and is a crucial element in the semiconductor manufacturing process.


Cryopump system SICERA®

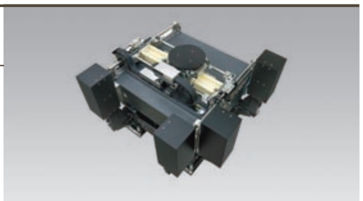
● 4KGM cryocooler

This device is capable of cooling to a temperature of -269°C (4K). Used for the recondensation of helium gas (reliquification of evaporated helium), this product has the top share of the global market for magnetic resonance imaging (MRI) medical applications.


4KGM cryocooler

● Precision positioning stages

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


Precision positioning stage SL series "SL-500G"

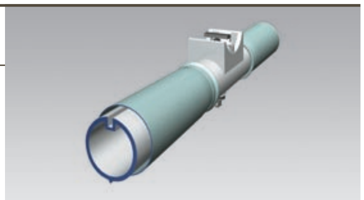
● Circulating fluidized-bed (CFB) boiler

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


CFB boiler

● Superfine-bubble membrane tube diffuser

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


Superfine-bubble membrane tube diffuser MICRUS®

● Aframax tankers

Midsized oil tankers with deadweight freight capacity in the 80,000- to 120,000-MTDW class.


105,000MTDW oil tanker

● Continuous ship unloaders

Continuous ship unloaders are large harbor-installed hoists used for the continuous unloading of iron ore and other bulk raw materials from cargo vessels at dock. SHI has the top share of this market in Japan.


Continuous ship unloader

● Goliath crane

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


Goliath crane

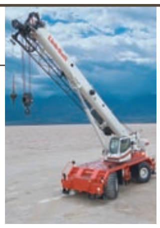
● Jib cranes

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


◀ Jib crane

● Rough terrain cranes

These are self-propelled cranes for construction sites. They are vehicle mounted and can be driven and operated from the cab driving seat.


◀ Rough terrain crane

● Crawler cranes

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


◀ Lattice crawler crane

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Okayama 713-8501, Japan
Tel: 81-86-525-6101

Ehime Works – Niihama Factory
5-2, Sobiraki-cho, Niihama-shi,
Ehime 792-8588, Japan
Tel: 81-897-32-6211

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

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

Major Subsidiaries

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

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

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

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

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

Sumitomo (S.H.I.) Construction Machinery Co., Ltd.
1-1, Osaki 2-chome, Shinagawa-ku,
Tokyo 141-6026, 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: 81-3-6737-2600
URL: http://www.sumitomokenki.co.jp
100% owned subsidiary

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

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

SHI Plastics Machinery, Ltd.
1-1, Osaki 2-chome, Shinagawa-ku,
Tokyo 141-6026, Japan
Principal business: Plastics machinery
Tel: 81-3-6737-2587
100% owned subsidiary

SEN Corporation, an SHI and Axcelis Company
10-1, Yoga 4-chome, Setagaya-ku,
Tokyo 158-0097, Japan
Principal business: Semiconductor equipment, especially ion implantation systems
Tel: 81-3-5491-7800
50% owned subsidiary

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

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

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

Izumi Food Machinery Co., Ltd.
2-18, Awaza 2-chome, Nishi-ku, Osaka-shi,
Osaka 550-0011, Japan
Principal business: Food processing machines and related equipment
Tel: 81-6-6543-3500
URL: http://www.izumifood.shi.co.jp
100% owned subsidiary

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

Sumitomo Heavy Industries Himatex Co., Ltd.
5-2, Sobiraki-cho, Niihama-shi, Ehime 792-8588, Japan
Principal business: Castings, rolls and bimetallic cylinders
Tel: 81-897-32-6484
URL: http://www.shiff.co.jp
100% owned subsidiary

[Overseas Network] Offices

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

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

Major Subsidiaries

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

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

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

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

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

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, He Dan Road,
Waigao Qiao FTZ, Pudong New Area,
Shanghai, 200020, China
Principal business: Plastics machinery
Tel: 86-21-6340-3488
URL: http://www.spm-northasia.com
100% owned subsidiary

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

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

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

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

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

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

LBX Company, LLC
2004 Buck Lane, Lexington,
Kentucky 40511-1074, U.S.A.
Principal business: Construction machinery
Tel: 1-859-245-3900
URL: http://www.lbxco.com/
50% owned subsidiary

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

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

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

Management

As of June 27, 2008

Board of Directors

Yoshio Hinoh*
Chairman

Yoshinobu Nakamura*
President and CEO

Yukio Kinoshita*
Senior Executive
Vice President and CFO

Shinji Nishimura*
Senior Executive
Vice President

Katsuhiko Taniguchi
Executive Vice President

Eitaro Konii
Senior Vice President

Yuji Takaishi
Senior Vice President

Kensuke Shimizu
Director

Mikio Ide
Vice President

Toshiaki Kakimoto
Director

*Director with Representative Rights

Corporate Auditors

Eiichi Fujita	Standing Auditor
Nobuo Kadota	Standing Auditor
Yoshio Kohra	Auditor
Seishiro Tsukada	Auditor

Executive Officers

Yoshio Hinoh
Chairman

Yoshinobu Nakamura
President and CEO

Yukio Kinoshita
Senior Executive Vice President and CFO

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

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

Eitaro Konii
Senior Vice President
General Manager, Corporate Planning & Development Dept.

Yuji Takaishi
Senior Vice President
General Manager, Personnel Group

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

Mikio Ide
Vice President

Toshiaki Kakimoto

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

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

Osamu Sekiya
Senior Vice President
General Manager, Precision Equipment Group

Shigeru Toyosumi
Senior Vice President
General Manager, Internal Control Group

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

Shunsuke Betsukawa
Senior Vice President
General Manager, Corporate Finance, Accounting & Administration Group

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

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

Head Office: Sumitomo Heavy Industries, Ltd.
1-1, Osaki 2-chome, Shinagawa-ku, Tokyo 141-6025, Japan
Tel. +81-3-6737-2331
URL http://www.shi.co.jp

Founded: 1888

Incorporated: November 1, 1934

Paid-in Capital: ¥30,871,651,300

Number of Employees*: 14,408 (Consolidated) 2,848 (Non-consolidated)

Transfer Agent: The Sumitomo Trust and Banking Co., Ltd.

Stock Exchange Listings: Tokyo, Osaka

Shares Outstanding*: 605,726,394

Number of Shareholders*: 59,454

Major Shareholders*:

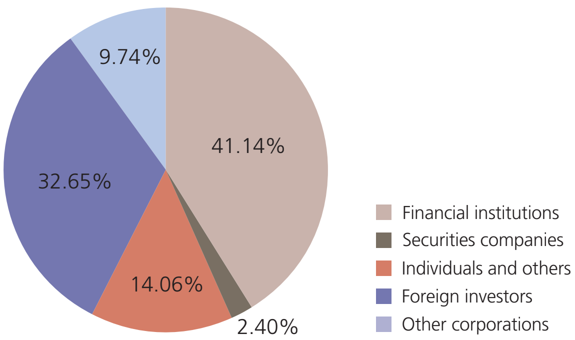
Name of shareholder	Percentage of voting rights
Japan Trustee Services Bank, Ltd.	9.5%
The Master Trust Bank of Japan, Ltd.	8.9%
Trust & Custody Services Bank, Ltd.	4.4%
Sumitomo Life Insurance Company	3.9%
Sumitomo Mitsui Banking Corporation	2.5%
State Street Bank and Trust Company	2.2%
Investors Bank	2.0%
Chase Manhattan Bank	1.8%
The Sumitomo Trust & Banking Co., Ltd.	1.7%
Nippon Life Insurance Company	1.7%

* As of March 31, 2008

Breakdown of Shareholders as of March 31, 2008

Breakdown of shareholders	Number of shares held (unit 1,000)
Financial Institutions	249,185
Securities Companies	14,549
Individuals and Others	85,205
Foreign Investors	197,790
Other Corporations	58,996

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



Additional copies of this annual report and other information may be obtained at the above URL or by contacting:
Corporate Communications Department, Sumitomo Heavy Industries, Ltd.
1-1, Osaki 2-chome, Shinagawa-ku, Tokyo 141-6025, Japan Tel: +81-3-6737-2331

Sumitomo Heavy Industries, Ltd.

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