Creating Superior Products

Sumitomo Heavy Industries

Annual Report 2010

For the year ended March 31, 2010

Contents

Cautionary Note Concerning Forward-Looking Statements

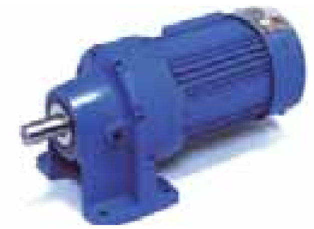
This annual report includes forward-looking statements regarding the future performance of Sumitomo Heavy Industries, Ltd. These forward-looking statements are based on information currently available to the Company and determined subjectively. Future performance is not guaranteed and all information related to future performance contained herein is subject to changes in the business environment.

Superior Products Create Customer Value

Since its establishment in 1888 as a machinery production and repair shop for the Besshi Copper Mine, Sumitomo Heavy Industries, Ltd. has continued to develop in step with the growth of Japanese society and industries. Today, the SHI Group is working to grow further through operations in wide-ranging fields, such as Mass-Produced Machinery, which includes power transmission and control equipment and injection molding machines, Environmental Protection Facilities, Plants & Others, Industrial Machinery and Construction Machinery. In its various business fields, the Group provides a number of superior products that command leading shares in their respective categories.

Adhering to the principle of continuing to create added value for customers, the SHI Group is committed to keep offering superior products and services to markets throughout the world. This is the SHI way of achieving sustainable growth.

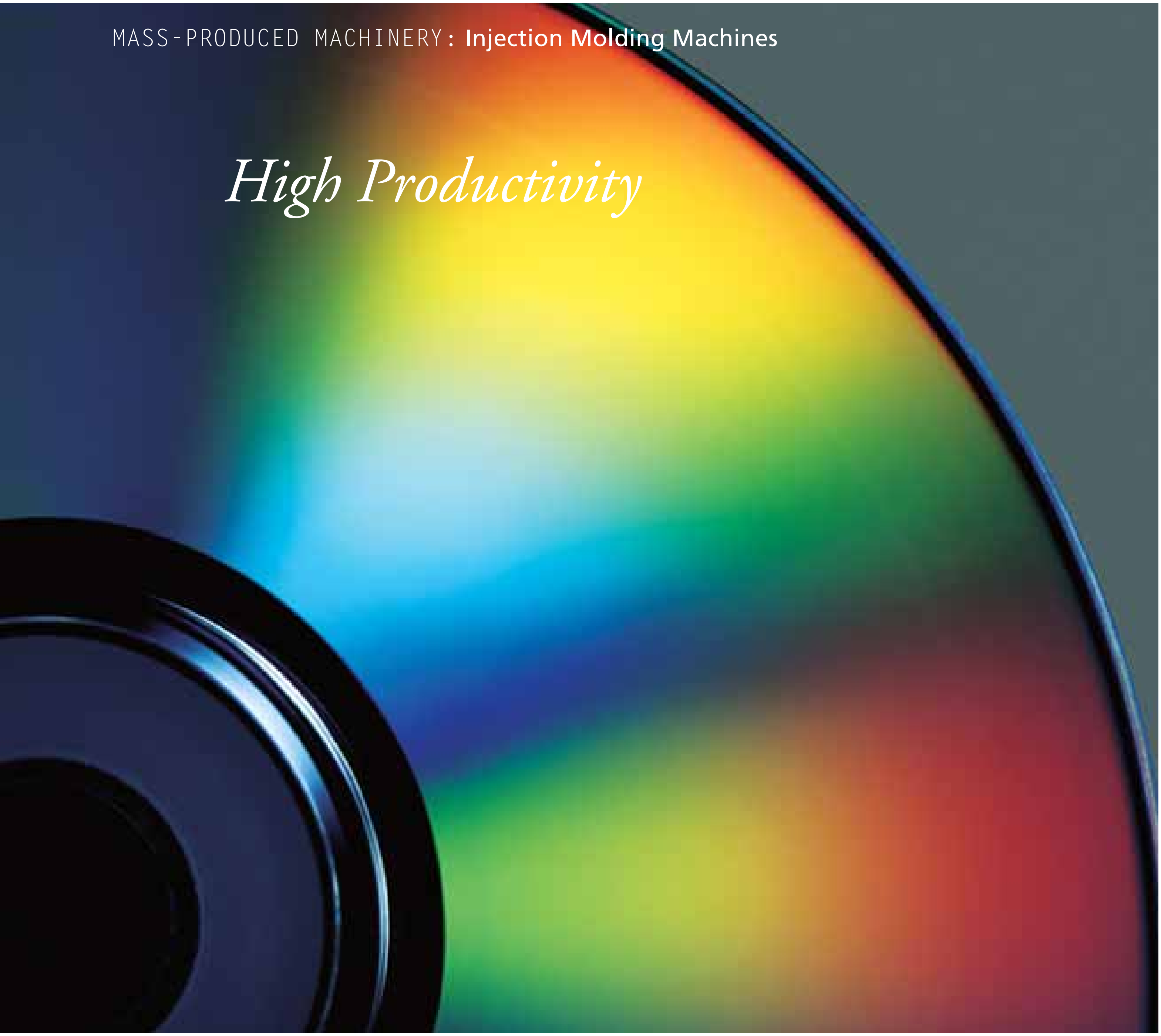
Long Service Life



CYCLO® Speed Reducers: A speed reducer raises the torque caused by rotary speed of a motor, reducing it to an optimum running level for secondary devices. CYCLO® speed reducers incorporate SHI's proprietary unbreakable gear teeth. They have been used in many types of industrial machinery, and principal applications include factory automation and material-handling machines, industrial robots, water and sewage treatment systems and amusement machines.

SHI's flagship CYCLO® speed reducers have a history of over **70 years**, and to date the Company has sold more than **10 million** units worldwide. Recognized by customers for their high durability and efficiency and long service life thanks to their unique architecture, they have been applied in a broad range of fields. In recent years, the introduction of wind power generation is accelerating on a global scale as the awareness toward environmental protection is heightening. Their highly evaluated performance has made CYCLO® speed reducers the component of choice for windmills for power generation.

High Productivity



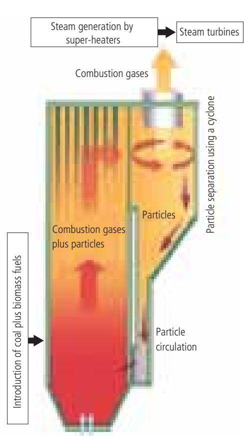
Injection Molding Machines: These machines are used to pour melted plastic into molds and produce plastic products. SHI's injection molding machines are specialized for the high-precision, high-cycle molding required for manufacturing optical discs, connectors and such IT-related products as cell phones and personal computers as well as thin packaging for food.

Having shipped more than **50 thousand** injection molding machine units to date, SHI has maintained the status of being the leading Japanese manufacturer in the global market for such machines since 2003. In addition, the Company is steadily expanding sales of its injection molding machines in Asia, including China. In March 2008, SHI acquired the Germany-based Demag Plastics Group. Through this wholly owned subsidiary, the Company is working aggressively to expand injection molding machine sales in Europe, where the replacement of hydraulic systems with full-electric systems is promoted. By strengthening both its product competitiveness and marketing capabilities, SHI aims to become the global leader in the injection molding machine industry.

ENVIRONMENTAL PROTECTION FACILITIES, PLANTS & OTHERS:

Circulating Fluidized-Bed (CFB) Boilers

Low Environmental Burden



CFB Boilers: These boilers are compatible with low-grade coal (with high moisture content, low calorific value, etc.) and many other energy fuels that could not previously be burnt efficiently and stably in conventional boilers. The latest CFB boilers can handle even tires and other waste-based fuels as well as biomass-based fuels, both of which are being increasingly used in the place of fossil-based fuels. Accordingly, CFB boiler systems are gaining increasing recognition as key ways of combating global warming and enabling the more efficient use of resources.

The SHI Group's CFB boilers are produced through a close technological alliance with U.S.-based Foster Wheeler Ltd. The SHI Group and Foster Wheeler together boast the leading global share of the market for CFB boilers compatible with biomass-based fuels. All around the world, concerns are ballooning toward environmental issues, leading to CFB boilers drawing significant attention in Japan and overseas. More recently, fuels based on palm shells and other tropical biomass resources found in Southeast Asia and other regions have increasingly come under the spotlight as renewable energy resources. SHI has secured an order for the **largest scale** CFB boiler ever made, one designed to burn fuels that use tropical biomass in combination with coal.

High Efficiency

Turbines: Steam turbines efficiently convert the thermal energy of the steam generated by boilers into rotary energy, which is used to drive generators. Leveraging an extensive menu of methods for analyzing optimal design values, the SHI Group accommodates ever-diversifying customer requirements. The Group's turbines are primarily used for private power generation at industrial plants.

The SHI Group has had an eye on biomass power generation from early on and today commands an overwhelming share of the global market for turbines used in this sector. In fact, the Group has delivered more than 6,500 turbines in 80 countries. As the most recent example, in 2009, the Group delivered one of the world's largest turbines for a biomass power generation facility. The SHI Group will keep focusing on this market on the back of the growing awareness toward environmental protection. At the same time, the Group will accelerate marketing activities overseas, particularly in Southeast Asia and North America.

Improved Fuel Efficiency

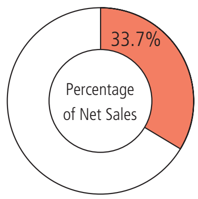
Hydraulic Excavators: The SHI Group's LEGEST®-brand hydraulic excavator won both an Energy Conservation Grand Prize and a Good Design Award in fiscal 2007. The LEGEST® series of hydraulic excavators has earned high acclaim in Japan and overseas for superior engine performance, economic viability and functional beauty. The series offers a variety of customized models, including those with hybrid engines and for forestry and demolition applications.

The points of demand for hydraulic excavators have moved to emerging markets in Asia and other regions. Reflecting this trend, the SHI Group's export of hydraulic excavators now accounts for approximately 80% of the total output. Also, in order to meet robustly expanding demand in China, the Group has established its first hydraulic excavator production plant overseas in Tangshan City, Hebei Province, and this new plant commenced production in June 2009. With the aim of capitalizing on expected further market growth in Asia including China, the Group will bolster the capacity of the Tangshan plant and advance the construction of a new plant in Indonesia.

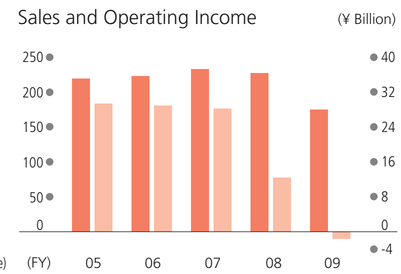
At a Glance:

Superior Products Create Strong Portfolio

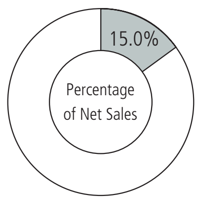
Mass-Produced Machinery



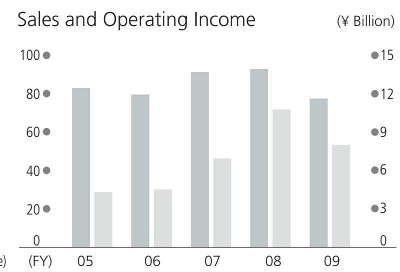
- Power Transmission Equipment
- Plastic Injection Molding Machines
- Cyclotrons for Medical Use
- Ion Accelerators
- Plasma Coating System for FPDs (Flat Panel Displays)
- Laser Processing Systems
- Cryogenic Equipment
- XY Stages
- Transfer Molding Press Machines
- Precision Forgings
- Defense Equipment



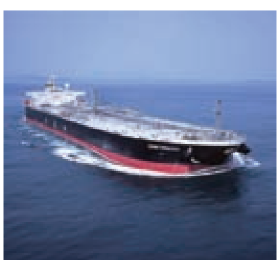
Environmental Protection Facilities, Plants & Others

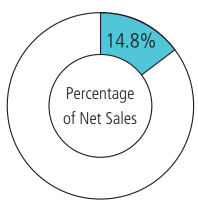


- Power Generation Systems
- Industrial Wastewater Treatment Systems
- Water and Sewage Treatment Systems
- Landfill Leachate Treatment System
- Air Pollution Control Plants
- Chemical Process Equipment & Plants
- Food Machinery
- Software

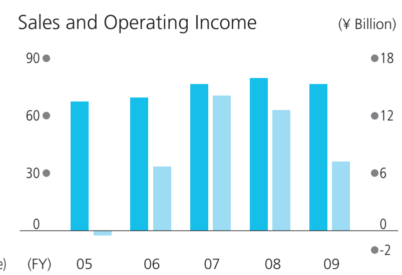


Ship, Steel Structure & Other Specialized Equipment

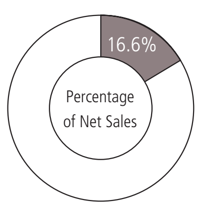




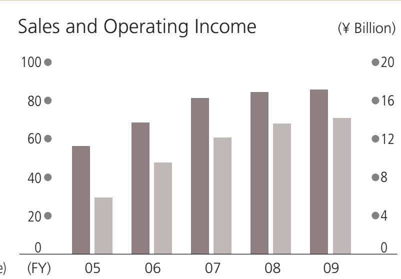
- Pressure Vessels
- Mixing Vessels
- Mixing Reactors
- Coke Oven Machines
- Steel Structures
- Ships
- Marine Structures
- Marine Equipment



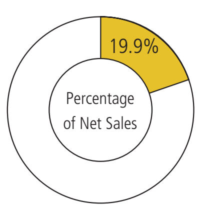
Industrial Machinery



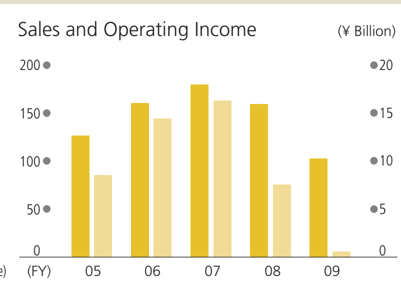
- Logistics & Handling Systems
- Automated Parking Systems
- Forging Machines
- Material Handling Systems
- Turbines
- Pumps



Construction Machinery



- Hydraulic Excavators
- Mobile Cranes
- Road Machinery



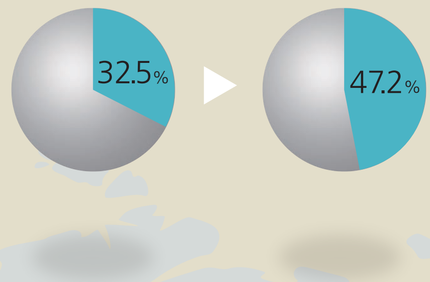
Superior Products Create Global Growth

Under its current medium-term management plan, “Global 21,” the SHI Group upholds “globalization” as one of the keywords for achieving growth. During fiscal 2009, ended March 31, 2010, the SHI Group’s business performance showed a temporary deterioration, adversely affected by the ongoing economic recession that started in 2008. Nevertheless, the Group has steadily expanded its overseas sales and, consequently, its presence in the global market over the past 10 years.

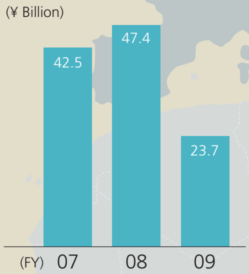
In the emerging markets of China, India and other countries, demand is expected to grow further for the SHI Group’s products, especially in the Mass-Produced Machinery and Construction Machinery segments.

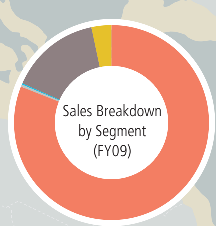
Maintaining a forward-looking business stance, in all of its businesses the SHI Group will continue to provide superior products—products that will win acclaim worldwide—and through these products we aim to leap forward toward making SHI a world-leading brand.

	FY1999	FY2009
Overseas sales	¥184.2 billion	¥243.5 billion
Overseas sales ratio	32.5%	47.2%



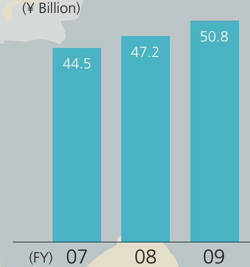
Europe

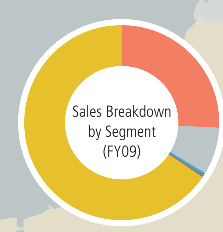




- Mass-Produced Machinery
- Environmental Protection Facilities, Plants & Others
- Ship, Steel Structure & Other Specialized Equipment
- Industrial Machinery
- Construction Machinery

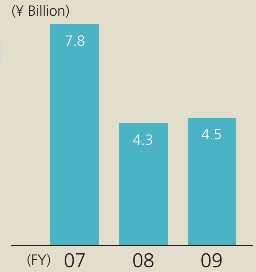
China (excluding Taiwan and Hong Kong)

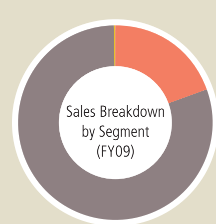




- Mass-Produced Machinery
- Environmental Protection Facilities, Plants & Others
- Ship, Steel Structure & Other Specialized Equipment
- Industrial Machinery
- Construction Machinery

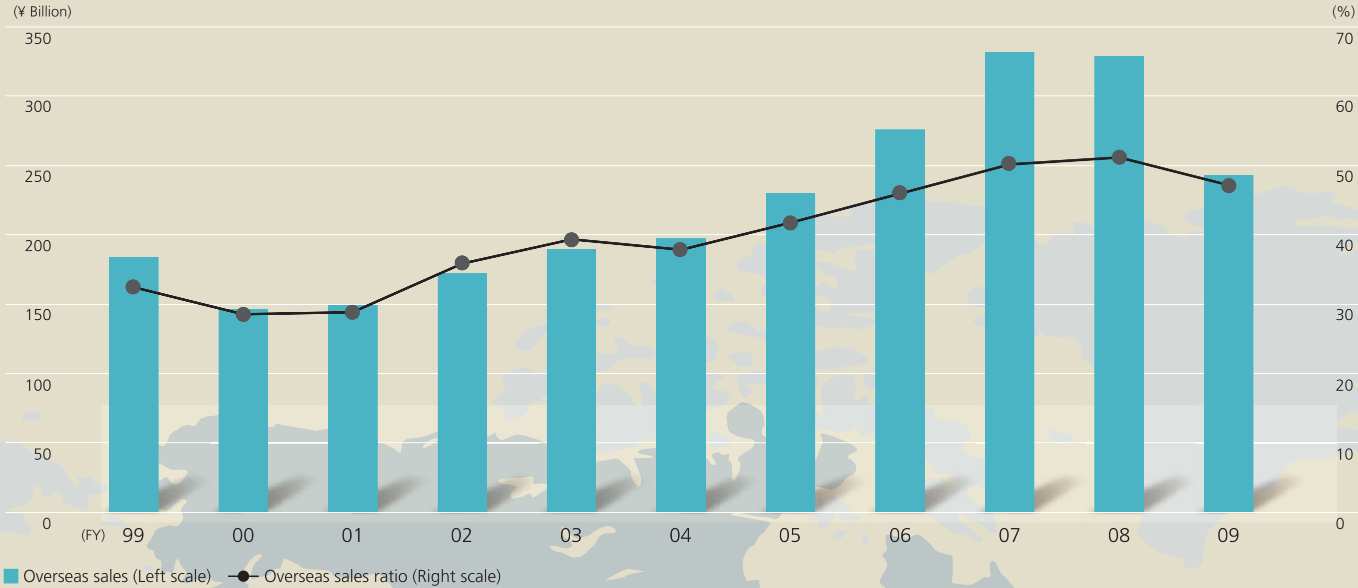
India



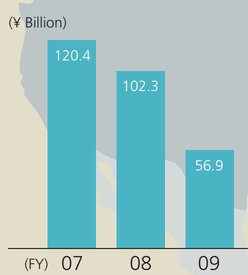


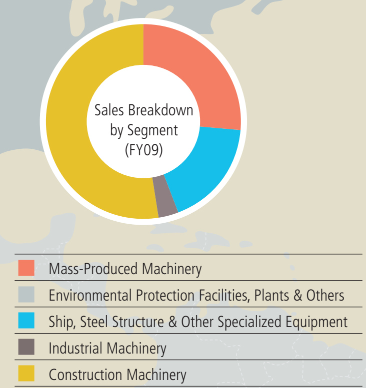
- Mass-Produced Machinery
- Environmental Protection Facilities, Plants & Others
- Ship, Steel Structure & Other Specialized Equipment
- Industrial Machinery
- Construction Machinery

Overseas Sales and Overseas Sales Ratio

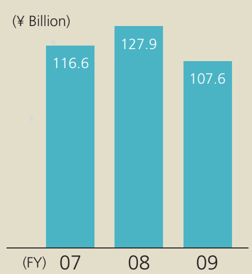


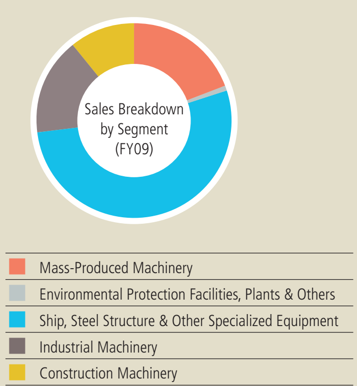
North America





Others





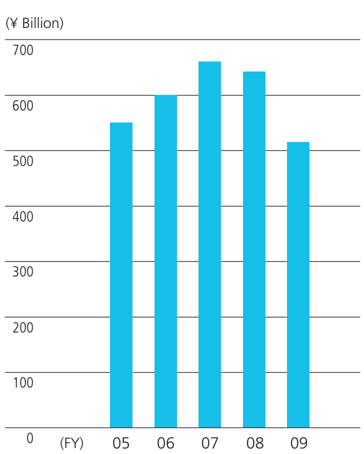
Financial Highlights

Sumitomo Heavy Industries, Ltd. and Consolidated Subsidiaries

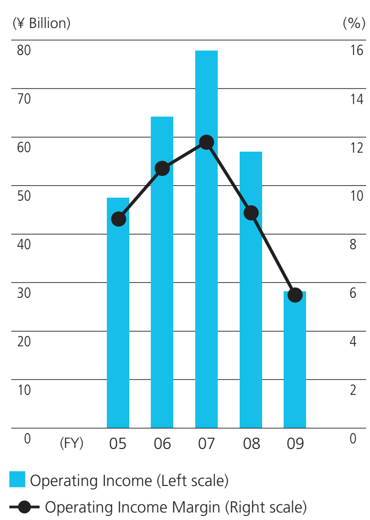
	Millions of yen					Thousands of U.S. dollars (Note 1)
	FY2005	FY2006	FY2007	FY2008	FY2009	FY2009
Summary of Income (for the year):						
Net sales	¥551,339	¥600,256	¥660,769	¥642,918	¥516,165	$5,550,162
Mass-produced machinery	218,798	222,906	232,593	227,226	174,231	1,873,454
Environmental protection facilities, plants & others	82,740	79,397	91,250	92,625	77,195	830,049
Ship, steel structure & other specialized equipment	67,372	69,491	76,393	79,602	76,452	822,061
Industrial machinery	56,054	68,286	81,163	84,310	85,637	920,833
Construction machinery	126,375	160,177	179,370	159,154	102,650	1,103,765
Operating income	47,505	64,224	77,790	56,940	28,254	303,804
Mass-produced machinery	29,338	28,844	28,208	12,334	(1,700)	(18,279)
Environmental protection facilities, plants & others	4,277	4,494	6,903	10,719	7,947	85,448
Ship, steel structure & other specialized equipment	(479)	6,714	14,094	12,562	7,202	77,445
Industrial machinery	5,847	9,527	12,118	13,585	14,167	152,337
Construction machinery	8,533	14,396	16,286	7,543	571	6,138
Elimination and/or corporate	(10)	250	181	197	67	715
EBITDA (Note 2)	56,577	74,873	91,578	75,260	47,979	515,901
Net income	29,742	37,352	42,974	13,649	13,280	142,798
Capital expenditure	10,285	17,257	28,180	31,753	24,465	263,068
R&D expenses	7,434	8,581	9,908	10,047	8,187	88,035
Depreciation and amortization	9,072	10,649	13,788	18,320	19,725	212,097
Cash f ows from operating activities	50,023	56,789	29,096	34,676	57,513	618,419
Cash f ows from investing activities	(7,024)	(12,461)	(41,250)	(35,924)	(13,954)	(150,041)
Free cash f ows (Note 3)	42,999	44,328	(12,154)	(1,248)	43,559	468,378
Cash f ows from financing activities	(48,812)	(41,193)	(5,238)	15,625	(26,686)	(286,942)

Notes:
1. The U.S. dollar amounts have been translated, for convenience only, at ¥93=$1, the prevailing exchange rate on the Tokyo Foreign Exchange Market as of March 31, 2010.
2. EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization) = Operating income + Depreciation and amortization
3. Free cash flows = Cash flows from operating activities + Cash flows from investing activities

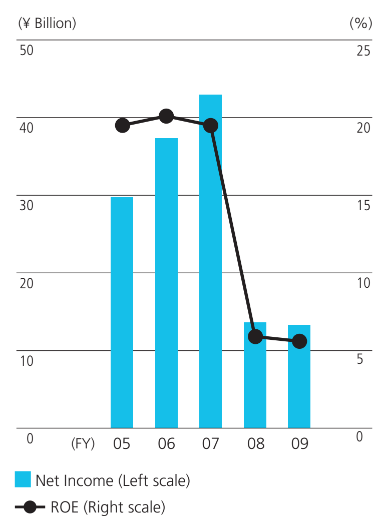
Net Sales



Operating Income and Operating Income Margin



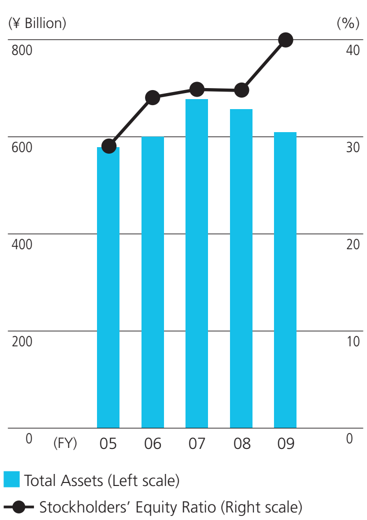
Net Income and ROE



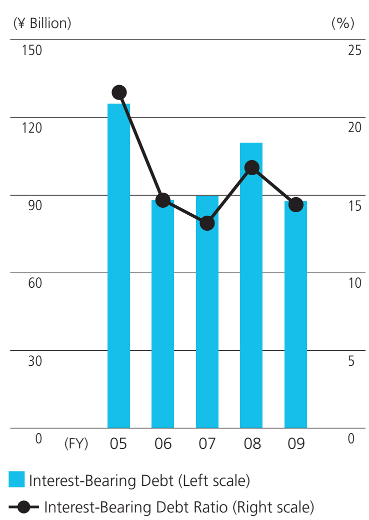
	FY2005	FY2006	FY2007	FY2008	FY2009	FY2009
			Millions of yen			Thousands of U.S. dollars (Note 1)
Financial Position (at year-end):						
Total assets	¥579,233	¥600,890	¥678,634	¥657,436	**¥610,087**	**$6,560,080**
Interest-bearing debt	125,504	88,045	89,567	110,339	**87,660**	**942,581**
Stockholders' equity	167,740	—	—	—	**—**	**—**
Total net assets (Note 4)	—	206,010	246,371	238,697	**254,153**	**2,732,826**
Amounts per Share of Common Stock:			Yen			U.S. dollars (Note 1)
Net income (Note 5)	¥ 49.45	¥ 61.99	¥ 71.19	¥ 22.62	**¥ 22.01**	**$0.24**
Stockholders' equity	279.02	338.95	392.80	378.78	**404.73**	**4.35**
Cash dividends	5.00	7.00	10.00	6.00	**4.00**	**0.04**
Financial Indexes:			%			
ROIC (Note 6)	8.8	12.2	14.0	9.6	**4.8**	
Operating income margin	8.6	10.7	11.8	8.9	**5.5**	
EBITDA margin	10.3	12.5	13.9	11.7	**9.3**	
Stockholders' equity ratio	29.0	34.1	34.9	34.8	**40.0**	
ROA (Return on assets)	5.2	6.3	6.7	2.0	**2.1**	
ROE (Return on equity)	19.5	20.1	19.5	5.9	**5.6**	
Interest-bearing debt ratio	21.7	14.7	13.2	16.8	**14.4**	
			Yen			
US$/Yen exchange rate (at year-end)	¥117	¥118	¥100	¥98	**¥93**	

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

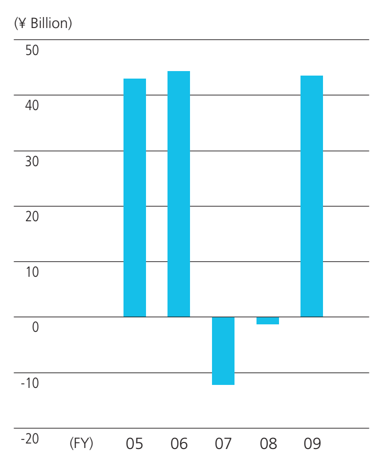
Total Assets and Stockholders' Equity Ratio



Interest-Bearing Debt and Interest-Bearing Debt Ratio



Free Cash Flows



To Our Shareholders, Customers and Employees

We are well on our way to developing into a company with a strong global presence backed by a commitment to providing superior products and services.

Right:
Yoshio Hinoh
Chairman

Left:
Yoshinobu Nakamura
President and CEO

The global economy has seen a persistent and significant decline since the onset of the global financial crisis in September 2008. Economies in Japan, North America and Europe as well as in other developed countries are still facing severe economic conditions. It is expected that market conditions in these countries and regions will require more time to recover to the levels they enjoyed prior to the current global recession. Ref ecting the operating conditions, the SHI Group's business performance on a consolidated basis for fiscal 2009, ended March 31, 2010, showed substantial deterioration from fiscal 2008. Nevertheless, the Group has steadily expanded its operations in China and other emerging countries that have achieved rapid economic recovery. Expanded operations in these countries have led to improvements in orders and sales for the Mass-Produced Machinery and Construction Machinery segments in the second half of the period under review.

Confronting the extremely harsh conditions of fiscal 2009, the SHI Group worked aggressively to secure profitability through cost reductions and the promotion of business restructuring centered on such initiatives as the optimization of management resource allocation. At the same time, the Group is accelerating the implementation of bold initiatives aimed at achieving additional growth in Asia, including China, and other regions where economies are briskly expanding.

Fiscal 2010, ending March 31, 2011, is the final year of the current "Global 21" medium-term management plan, which was launched in fiscal 2008. We have to admit that accomplishing our initial "Global 21" performance targets in this final year will be unrealistic. However, our keywords for growth—namely, "globalization" and "innovation"—remain unchanged, and we will stay true to the principle of further developing our businesses in markets all around the world. So, for the plan's final year, the SHI Group will steadily advance restructuring efforts aimed at turning critical situations into opportunities and thereby once again transition to a renewed growth mode.

In the course of such endeavors, the SHI Group will continue to embrace its basic policy of "Creation of value for customers." In other words, the Group is committed to developing and offering superior products and services that always take into consideration the customer's viewpoint. In line with this commitment, we closely analyze region- and market-specific trends on a global scale and, consequently, work to adapt our business structure so that we can f exibly and agilely respond to changes in demand structure. This approach empowers the SHI Group to strategically promote on a global scale superior products packed with technological and other advantages. We will strive to offer products that win acclaim worldwide while working to make SHI a world-leading brand.

The SHI Group has always tried to contribute to the development of society through the provision of superior products and services. This is our corporate mission. Winning the enduring confidence of customers worldwide is key to realizing sustainable growth and enhancing corporate value, which will, in turn, enable us to better meet the expectations of shareholders, customers and employees as well as the local communities in which we operate.

As the entire SHI Group takes strides toward attaining a global presence, we thank all shareholders, customers and employees for their understanding and support.

Yoshio Hinoh

Yoshio Hinoh
Chairman

Y. Nakamura

Yoshinobu Nakamura
President and CEO

Yoshinobu Nakamura, President and CEO

Fiscal 2009 Results

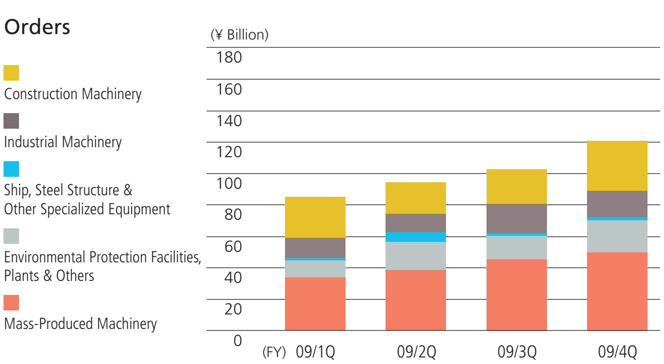
Q Can you provide readers with an overview of the fiscal 2009 results?

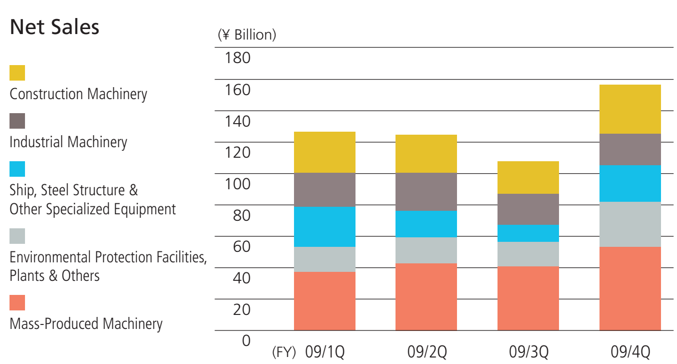
A Despite declines in both orders and sales, net income was about level with fiscal 2008, owing to restructuring efforts throughout the SHI Group.

For the first time since the beginning of the ongoing global recession, the Japanese economy began showing signs of gradual recovery in fiscal 2009, supported by the government's economic stimulus policies and an increase in the export to emerging countries. Overall market conditions, however, remained weak throughout the year. Overseas, markets in North America, Europe and other regions with advanced economies suffered similarly harsh economic conditions. On the other hand, China and other emerging economies where government policies are producing tangible outcomes have been seeing rapid recovery. Under these conditions, the SHI Group's fiscal 2009 orders received totaled ¥403.4 billion, down 33% from fiscal 2008. Consolidated net sales amounted to ¥516.2 billion, down 20% year on year. On the earnings front, operating income plunged 50% to ¥28.3 billion. However, the decline in net income, which totaled ¥13.3 billion, was held to a slight 3%, thanks to the substantial decline or absence of a substantial number of special losses recorded in the previous year that included business restructuring costs and impairment losses on fixed assets.

By business segment, the Mass-Produced Machinery segment experienced significant declines in both orders and sales, negatively impacted by cutbacks in capital investments in such industries as automobile, electric appliance and semiconductor. This segment posted an operating loss totaling ¥1.7 billion, mainly due to the decline in sales. In the three segments of Environmental Protection Facilities, Plants & Others, Ship, Steel Structure & Other Specialized Equipment and Industrial Machinery, despite increases in sales owing to extensive order backlogs in certain businesses, overall orders and sales fell year on year. In the Construction Machinery segment, the hydraulic excavator business enjoyed market recovery in China in the second half of the period under review. In other countries and regions, however, demand remained stagnant. Also,

Fiscal 2009 Quarterly Results





the mobile crane business was adversely affected by lagging recovery in the North American market. As a result, segment orders and sales deteriorated compared with fiscal 2008.

These order and sales results fell short of the SHI Group's fiscal 2009 targets. Nevertheless, the Group managed to surpass its targets for operating income and net income through cost-reduction and other restructuring efforts. We will keep focusing on the reinforcement of our business and earnings structure.

Q What kind of initiatives did the SHI Group implement in fiscal 2009 to improve profitability?

A The Group focused on reducing costs and accelerating operations in emerging countries.

The SHI Group expected that economic recovery in advanced countries would lag even further behind in fiscal 2009. Therefore, the Group reviewed—and suspended where appropriate—its large-scale capital investment plans and aggressively promoted cost-reduction measures during the period under review, placing utmost priority on securing profitability.

The Group also anticipated that China and certain other countries in Asia would move to strengthen their global presence in line with their fast economic recovery and expansion. Accordingly, we accelerated operations in these countries. For example, we established a new plant for manufacturing medium- and large-sized speed reducers and hydraulic excavators in Tangshan City, Hebei Province, China. This plant started operations in June 2009 and has been steadily increasing its output.

Also, we have confirmed that orders for speed reducers, injection molding machines and construction machinery have rapidly recovered since the second half of fiscal 2009, particularly in China. This is definitely a bright sign for our business and promises to support improvement in our revenues and earnings.

Strategies for Fiscal 2010

Q What is your forecast regarding the Group's business environment and performance in fiscal 2010, ending March 31, 2011?

A We aim to achieve growth in both revenues and profits amid the persistently severe business environment.

Driven by demand recovery in emerging countries, advanced countries seem to be nearing the end of the tunnel, and their economies are showing some positive indications. However, it is premature to take the optimistic view that the global economy will be able to sustain the current momentum of recovery and move completely past the recessionary phase.

Looking at Group performance in fiscal 2010 by segment, the Mass-Produced Machinery and Construction Machinery segments are expected to enjoy steady recovery in orders and sales, buoyed by the dynamism of the economic booms sweeping emerging countries. On the other hand, in the remaining segments—namely, Environmental Protection Facilities, Plants & Others, Ship, Steel Structure & Other Specialized Equipment and Industrial Machinery—severe market conditions are slated to persist through fiscal 2010. Taking these factors into consideration, the SHI Group anticipates that its fiscal 2010 performance will outstrip that of fiscal 2009, with orders, net sales and operating income totaling ¥490.0 billion, ¥540.0 billion and ¥36.0 billion, respectively.

Q Given the current operating conditions, what management issues is the SHI Group prioritizing?

A We will move aggressively into emerging countries while further bolstering our cost-competitiveness.

In response to the ongoing global recession, the SHI Group has agilely and strategically implemented cost-reduction and

Fiscal 2010 Performance Forecasts

(¥billion, unless otherwise stated)

	FY10 1H (Forecast)	FY10 2H (Forecast)	FY10 (Forecast)	FY09
Orders	230.0	260.0	490.0	403.4
Net sales	245.0	295.0	540.0	516.2
Operating income	11.0	25.0	36.0	28.3
Operating income margin	4.5%	8.5%	6.7%	5.5%
Ordinary income	8.5	23.5	32.0	26.3
Ordinary income margin (%)	3.5%	8.0%	5.9%	5.1%
Extraordinary gains or losses	(1.5)	(1.0)	(2.5)	(0.3)
Net income	3.0	13.5	16.5	13.3
Profit margin (%)	1.2%	4.6%	3.1%	2.6%
Dividends (¥)	0	5	5	4
Payout ratio (%)			18.3%	18.2%
ROIC (after tax) (%)			6.0%	4.8%
Exchange rate (¥ to US$1.00)			90	95

business-restructuring initiatives. We know, however, that mere survival in the face of adversity is not the same as success. Rather, it is the ability to identify and capitalize on the opportunities for growth that adversity puts in our way that will enable us to prevail. Specifically, the SHI Group must keep upgrading its products and services and working to expand markets through these improved products and services.

Therefore, the SHI Group has planned a program of aggressive investment in emerging countries for fiscal 2010, concentrating efforts where additional market growth is highly anticipated. For example, the Group will construct a new hydraulic excavator plant in Indonesia in expectation of significant demand expansion in Southeast Asia. This will further enhance the cost-competitiveness of its hydraulic excavators and thereby help the Group to expand sales in the region. In addition, we will bolster our operations in Brazil, another promising market in South America.

"Global 21" Medium-Term Management Plan

Q In SHI's *Annual Report 2009*, it was stated that "Achieving the numerical targets for Global 21 will be extremely difficult." What is your view on the current situation?

A Although conditions remain difficult, we will keep adhering to the concepts of "globalization" and "innovation," our keywords for growth.

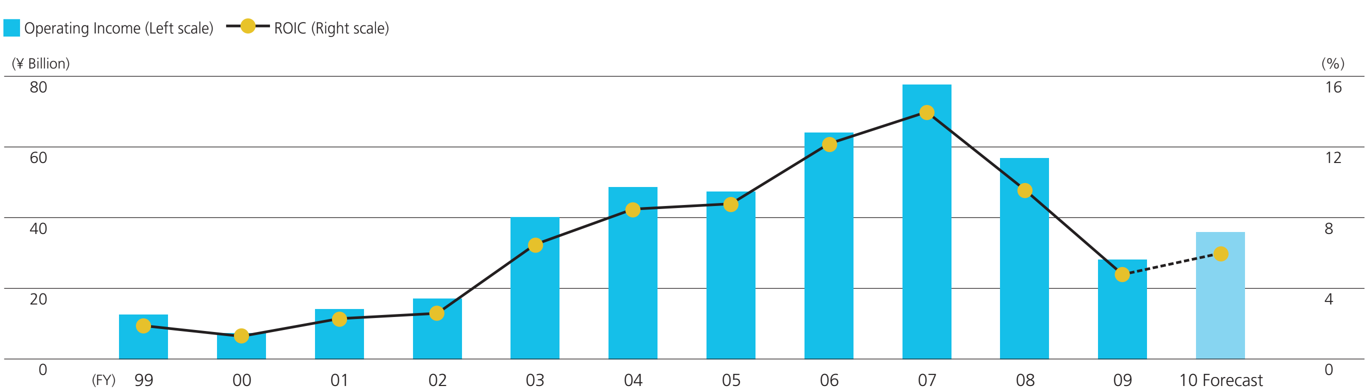
Under its "Global 21" medium-term management plan, which was launched in fiscal 2008, the SHI Group set its net sales and operating income targets—¥850.0 billion and ¥100.0 billion, respectively—for fiscal 2010, the plan's final year. We know that achieving these targets will be extremely difficult; however, we also know that it is important for us to now switch over to a renewed growth mode based on an accurate grasp of the opportunities that arise when market conditions are in recovery. The Group's keywords for growth, "globalization" and "innovation," still stand. Accordingly, we will target significant business opportunities in overseas markets and selectively penetrate these markets with superior products that are not only innovative but meticulously crafted. In this way, the SHI Group aims to resume and sustain its corporate growth.

Q What is the SHI Group's current globalization status?

A The Group is promoting globalization as scheduled, especially in Asia.

As mentioned, the SHI Group's new Tangshan plant in China began the full-scale production of medium- and large-sized speed reducers and hydraulic excavators in June 2009. The production volume at this plant is steadily growing. In India, the Group has established a framework to promote sales of hydraulic excavators and injection molding machines, in effect pioneering the Indian market for these products. These are only two examples of how we are advancing the establishment of production and marketing frameworks in Asia, in addition to those already established in Europe and North America. These Asian frameworks will provide a foothold on a new world economic map, one in which economies of emerging countries are the global economic growth drivers.

Operating Income and ROIC



Q Can you elaborate on the keyword "innovation"?

A We are stepping up the development of products for which market demand is rising.

Superior products underpin the SHI Group's success. The Group has in place the framework required to develop innovative new technologies and create outstanding products and is working to strengthen its development, design, production and marketing processes, the components that constitute this framework. Our superior products include coating systems used in the manufacture of photovoltaic solar cells, hybrid hydraulic excavators and biomass power generation facilities. Also, in the advanced medical equipment field—one of the most innovation-driven sectors today—the SHI Group handles proton therapy systems, cyclotrons for positron emission tomography (PET), an inspection method used in cancer diagnosis and many other sophisticated products. We are promoting advanced medical equipment businesses not only in Japan, but also in Asia and North America.

Capital Policy and Returning Profits to Shareholders

Q Can you tell readers about the Group's financial status?

A We will continue to maintain sound financial standing.

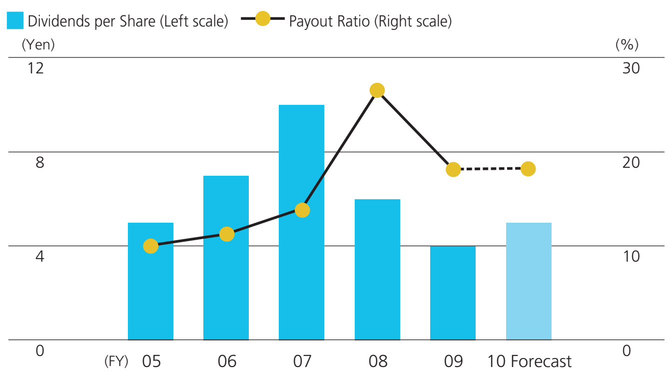
As of March 31, 2010, the SHI Group's interest-bearing debt totaled ¥87.7 billion, down ¥22.7 billion from March 31, 2009. Cash and time deposits increased ¥17.8 billion year on year to ¥62.5 billion. As a result, net interest-bearing debt amounted to ¥25.1 billion, a ¥40.5 billion contraction compared with March 31, 2009.
To facilitate future corporate growth through judicious investment, we are working to maintain sound financial standing by strategically coordinating debt financing and effectively managing internal reserves.

Q Finally, what is SHI's policy on distributing profits to shareholders?

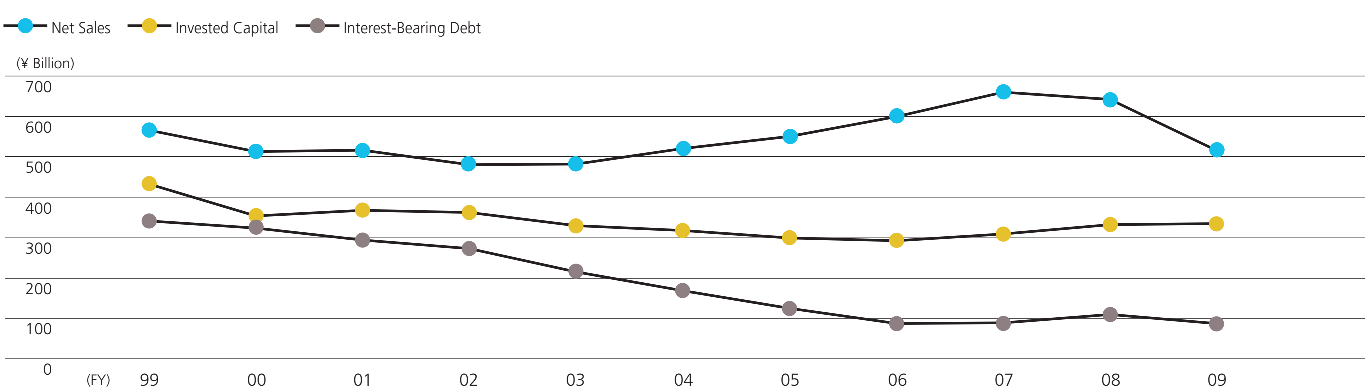
A We constantly strive to achieve corporate growth and enhance our corporate value. This allows us to consistently increase dividends.

Our success in reducing costs resulted in better-than-expected profitability in fiscal 2009. SHI's initial cash dividend forecasts for the period under review were announced as "undetermined." During the second quarter, however, the Company released a statement that it planned to pay out an annual cash dividend of ¥3 per share. In the end, the Company actually declared an annual per-share cash dividend of ¥4. For fiscal 2010, the Company plans to pay out an annual per-share cash dividend of ¥5. SHI is endeavoring to achieve business growth and enhance its corporate value and thereby ensure its continuing ability to increase dividends. Our ultimate goal is to steadily enhance the common interests of our shareholders.

Dividends per Share and Payout Ratio



Net Sales, Invested Capital and Interest-Bearing Debt



Special Feature: SHI Group's Strategies in China

Superior Products Create Opportunities in China

Despite widespread stagnation around the globe, emerging markets are driving a recovery of the worldwide economy. In particular, China is expanding its presence at an unprecedented pace, leading the world's economic growth. Success, or otherwise, in capturing demand in China will be the factor determining many companies' ability to achieve future growth. This special feature introduces the SHI Group's strategies and activities in China.

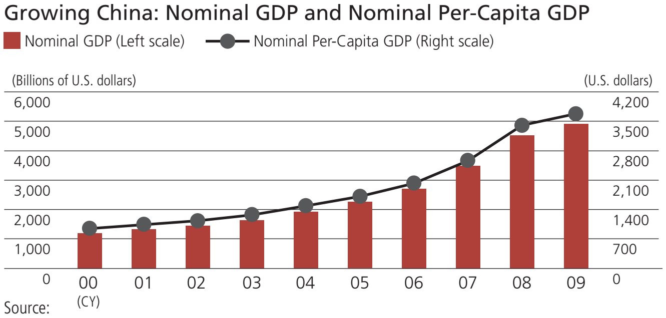
Full-Fledged Operations Start at New Tangshan Plant

In June 2009, an opening ceremony for a new plant constructed in Tangshan City, Hebei Province, was held, and the Tangshan plant commenced full-f edged production operations. At the plant, the SHI Group is manufacturing medium- and large-sized speed reducers and hydraulic excavators. In China, demand for industrial and construction machinery is expanding on the back of accelerating mining and other development projects and the SHI Group aims to capture some of this demand with this new plant as its core business driver.

The Group has locally produced medium- and small-sized speed reducers in Tianjin City for more than 10 years while gradually bolstering the scale of its Chinese operations. SHI's speed reducers have a long service life, are compact and operate relatively quietly. These and other advantageous features have been highly evaluated by customers worldwide, enabling SHI to command the world's second largest market share and the top domestic market share in this product category.

Meanwhile, the SHI Group's hydraulic excavators include a model that became the first construction machines to win the Energy Conservation Grand Prize of the Energy Conservation Center, Japan (ECCJ). These and other models demonstrate superior fuel efficiency. Due to such environment-friendly performance, repeat orders for the Group's hydraulic excavators are increasing in China. By reducing costs through local production and shortening the time required for supplying hydraulic excavators, the SHI Group is aggressively penetrating the Chinese market.

Growing China: Nominal GDP and Nominal Per-Capita GDP



Source:
Nominal GDP: *China Statistical Abstract 2010*, National Bureau of Statistics of China
Nominal per-capita GDP: World Economic Outlook Database, IMF

Accelerating Environmental Businesses

In line with the expansion of the Chinese economy, the consumption of industrial-use electricity and demand for environment-friendly products are rapidly rising in China. The SHI Group manufactures circulating f uidized-bed (CFB) boilers for use in private power generation. Because the Group's CFB boilers are compatible with low-grade coal, waste materials and biomass fuels, they help reduce fuel costs. Accordingly, these environment-friendly CFB boilers have drawn significant attention and won the Group steady orders.

In the meantime, calls are heightening for plants to appropriately treat the gasses they generate. Often such treatment requires a substantial amount of water; however, the SHI Group has established a technology that enables the water-free treatment of plants' gaseous byproducts. This technology provides the Group with an advantage, particularly in those Chinese regions where access to water is limited, and has won it a number of orders for its gas treatment plants. The SHI Group will continue to expand the presence of its environmental businesses in China, thereby securing new orders for its products and broadening its customer base.

Capitalizing on the Rapid Growth of the Injection Molding Machine Market

In step with improvements in living standards throughout China, the use of cell phones and personal computers is spreading. Boasting exceptional high-precision, high-speed capabilities, SHI's injection molding machines are highly competitive with regard to manufacturing applications related to these and other IT products. The once slumping Chinese market for injection molding machines started to pick up and today demand outstrips supply. By quickly establishing an efficient and effective production structure, SHI will respond to and capitalize on this favorable situation.

Promoting Other Businesses

The SHI Group is working to develop many other businesses in East Asia, including in China. In the medical equipment field, SHI is seeing a gradual increase in orders received for cyclotrons for positron emission tomography (PET), an inspection method used in cancer diagnosis. Also,

CFB boiler

Proton therapy system

China

Tangshan Plant

Above: Opening ceremony
Below: External view

Gearbox for conveyors

in fiscal 2008, the Company received an order from Taiwan for a proton therapy system for cancer treatment. East Asia is expected to step up the practical use of advanced medical treatment using these and other medical systems, which, in turn, will provide the SHI Group with ample business opportunities.

In the area of material handling systems, the SHI Group secured an order from Hong Kong for 15 hybrid power supply units for transfer cranes in fiscal 2008. The SHI Group will keep launching products that are similarly differentiated from those manufactured by local companies, thereby accurately grasping new business opportunities in East Asia.

Targeting High-Growth Emerging Markets

Following in China's footsteps, emerging markets in India, Southeast Asia, Brazil and other countries and regions are expected to achieve further growth. SHI has decided to build a new construction machinery plant in Indonesia and a new speed reducer plant in Brazil. In India, the SHI Group has promoted sales activities for its steam turbines for private power generation from the dawn of the country's economic boom and has steadily advanced the establishment of the SHI brand. By gaining footholds in neighboring and other regions with its powerful product portfolio, the SHI Group will strive to expand strongly in the global market.

Hydraulic excavator "SH210"

Mass-Produced Machinery

Main Products

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

Major Units

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

Business Environment

In this segment, the SHI Group provides a number of key components used in a wide-range of industries as well as advanced equipment used in frontier industries. The segment is characterized by its flexibility and agility in responding to changes in market conditions. Because the power transmission and control equipment business has served a broad range of customers in many industries, it has traditionally been considered to be unsusceptible to abrupt market changes. However, the across-the-board deterioration in market conditions for almost all industries during fiscal 2009 has placed negative impact on the performance of this business. From the second half, most markets seemed to have exited the worst period, and the markets for semiconductors and other electronics-related products also started to show some signs of recovery. Meanwhile, the markets for food-related equipment as well as medical equipment showed stable trends without being affected by external conditions.

Outlook for Fiscal 2010

Domestic demand is expected to remain weak; however, overseas demand, particularly in China and other Asian nations, is anticipated to recover. In addition to the environment and infrastructure sectors, the resources and energy sectors have begun showing an increased drive toward investment in power transmission and control equipment. The number of inquiries is expanding for plastic injection molding machines for use in the manufacture of cell phones, personal computers, home electronics and other finished products. In addition, demand for semiconductor-related equipment is recovering, while that for medical and LCD-related equipment is showing a steady upward trend, particularly in Asia.

Medium-sized, right-angle-shaft gear motor "Bevel Buddybox®"

Power Transmission and Controls

Business Environment and Topics in Fiscal 2009

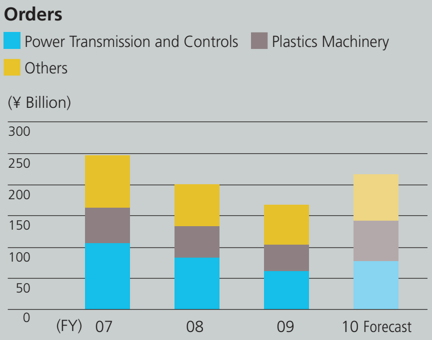
Conditions in the power transmission and control equipment market began to rapidly recover in the fourth quarter. In such an environment, the SHI Group released a number of new products in July 2009, including fully remodeled Bevel Buddybox® medium-sized, right-angle-shaft gear motors with a built-in CYCLO® speed reducer as well as the single-phase series of PREST® NEO small-sized, parallel-shaft gear motors.

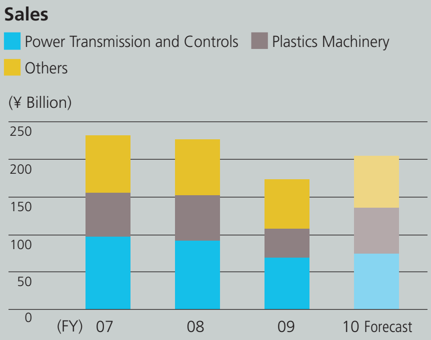
Strategies and Initiatives for Fiscal 2010

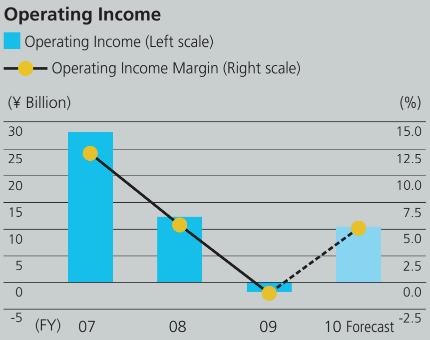
SHI will enhance the production capacity of a new plant located in Tangshan City, China, at which Sumitomo Heavy Industries (Tangshan), Ltd. started operating in February 2009. Based on the strengthened capacity, we will work to expand sales of speed reducers in the Chinese market. Also, with an eye on the rapidly recovering global market, SHI will further bolster the capacity of its manufacturing bases in Vietnam and Japan, thereby supporting domestic and overseas sales activities and accommodating wide-ranging customer needs.

Review and Analysis of Results for Fiscal 2009

Both orders for and sales of nearly all machines in power transmission and controls declined year on year due to the stagnation of the entire industrial machinery market. Also, both orders for and sales of plastic injection molding machines dropped year on year despite some recovery in shipments particularly to emerging markets during the second half, reflecting slower recovery in the European market. In other businesses in this segment, overall orders and sales fell year on year, mainly due to the deteriorated performance of the semiconductor-related business. As a result, total segment orders decreased 17% year on year to ¥167.5 billion, and total segment sales plunged 23% to ¥174.2 billion. The segment posted an operating loss totaling ¥1.7 billion, compared with operating income totaling ¥12.3 billion recorded in fiscal 2008.







Full-electric injection molding machine "SE75DUZ"

Compact cyclotron for PET "HM-12S"

Plastic Injection Molding Machines

Business Environment and Topics in Fiscal 2009

The volume of orders received has gradually recovered in the markets of China and other Asian nations. Most of these orders came from customers in the personal computer and other IT-related fields. With the aim of creating added value for a broader customer base through wider market coverage, the SHI Group has enhanced the functionality of the new-concept "Zero Molding®" systems,* which it released in 2007.

Strategies and Initiatives for Fiscal 2010

Underpinned by demand for its full-electric injection molding machines, SHI will work to enhance its lineup of products optimally tailored to customer needs in specific product sectors. At the same time, we will accelerate the promotion of a global market strategy through the strengthening of both product competitiveness and marketing capabilities. Through these initiatives, we aim to become the world's top manufacturer of plastic injection molding machines.

* Zero Molding® systems realize innovative molding processes using less clamp force than conventional injection molding systems thanks to their optimized filling and mold-clamping functions. These systems also contribute to the reduction of defects, losses and faults in molded products.

Precision Positioning Equipment and Others

Business Environment and Topics in Fiscal 2009

The SHI Group continued to suffer the effects of a severe operating environment due to deteriorated conditions in the semiconductor market. However, through the launch of new models of ion-implantation devices and precision positioning stages, SHI laid the groundwork for capturing opportunities expected to arise in line with slowly recovering market conditions. In medical equipment, we aggressively promoted overseas sales expansion, particularly in Asia and North America.

Strategies and Initiatives for Fiscal 2010

The SHI Group will focus on the medical equipment and other robust fields while striving to increase the volume of orders received for products in these fields, particularly in overseas markets. Also, in light of the gradual recovery in the semiconductor market, the Group will accelerate the overseas expansion of semiconductor production equipment and other related products. Furthermore, by reinforcing our product advantages in terms of quality and costs, we aim to bolster our business competitiveness in growth markets.

Note: Buddybox, CYCLO, PREST and Zero Molding are registered trademarks of SHI.

Environmental Protection Facilities, Plants & Others

Main Products

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

Major Units

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

Business Environment

This segment serves customers in both the public and private sectors. As public-sector demand continues to contract, we are transforming the structure of this segment to focus on the private sector. As environmental conservation activities gain momentum throughout the world, such environmental products as biomass boilers are sparking keen interest in Japan and overseas. Overall market conditions have yet to experience full-fledged recovery as cutbacks in investment in large-scale projects persist. In the water treatment business, while the private-sector market has stagnated, we are working to secure orders from the food processing and other markets that are showing relatively robust performances. Demand in the public sector, specifically for water and sewage treatment systems, remains stable.

Outlook for Fiscal 2010

Rising concern over the need to protect the global environment is expected to drive constant growth in the market for biomass-related products. With interest in biomass boilers surging most notably in Southeast Asia, the SHI Group expects that capital investment in related fields will accelerate. Market conditions are anticipated to remain severe in the water treatment plant business. However, we are steadily advancing business restructuring to enhance our focus on the private sector, with the aim of stabilizing business performance and reinforcing earnings power.

CFB boiler

Energy-Related Plants

Business Environment and Topics in Fiscal 2009

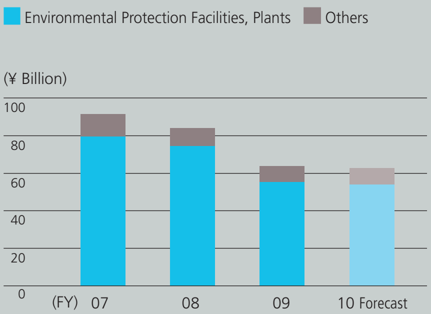
Despite severe market conditions in fiscal 2009, the SHI Group received an order from a chemicals company in Japan for a combined heat and power plant using circulating f uidized-bed (CFB) boilers.* Overseas, SHI secured an order from a major power producer in Singapore for the largest scale CFB boiler ever made. This boiler is designed to burn fuels that combine tropical biomass** with coal.

Also, because this CFB boiler is compatible with a variety of biomass fuels, it helps to reduce the CO_2 emission volume and, therefore, to prevent the further advance of global warming. In Southeast Asia, where economies are steadily recovering, the need to investigate the viability of installing power generation facilities that use biomass-based fuels and/or lower-grade coal has heightened. We anticipate that the inf ow of inquiries about CFB boilers will increase to ref ecting this need.

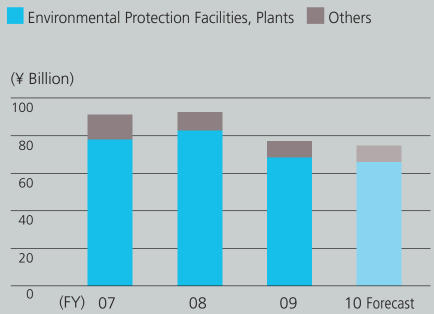
Review and Analysis of Results for Fiscal 2009

Both orders and sales in the energy-related plant business declined year on year, reflecting weak conditions in the industrial power-generation boiler markets both in Japan and overseas. In the water treatment plant business, strong performance in the public sector was offset by weak performance in the private sector, resulting in a drop in orders received. Sales increased year on year in this business, however, due to the execution of the extensive backlog of orders. As a result, total segment orders decreased 24% year on year to ¥64.0 billion, and total segment sales deteriorated 17% to ¥77.2 billion. Segment operating income slid 26% to ¥7.9 billion.

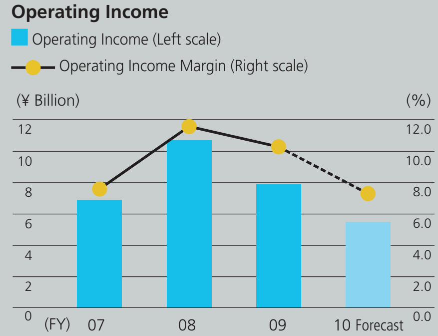
Orders



Sales



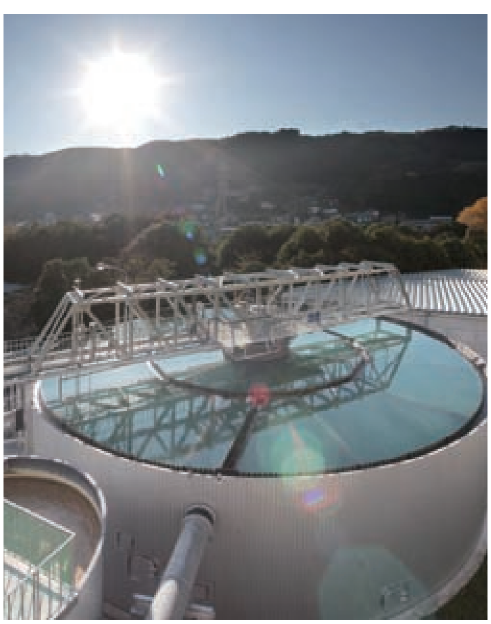
Operating Income



Strategies and Initiatives for Fiscal 2010

In Japan, the business environment is expected to remain harsh. Accepting the strong possibility that no new capital investments will be undertaken across industries, SHI will bolster its service and maintenance business. Specifically, we will work to identify potential projects, such as repairs and modifications aimed at guarding customers' existing facilities against age-related deterioration and extending the useful lives of facilities. Overseas, we will take an aggressive stance in expanding sales of CFB boilers, with particular emphasis placed on the Southeast Asian market.

*A type of plant that supplies both electricity and steam for on-site use
**A collective term referring to a variety of plant waste, such as palm shells



Coagulation sedimentation system "SUMI-THICKNER"

Water and Wastewater Treatment Plants
Sumitomo Heavy Industries Environment Co., Ltd.

Business Environment and Topics in Fiscal 2009

Despite an adverse market climate, orders from new customers in the private sector increased steadily. Also, public sector demand for remodeling and renovation has been expanding in recent years. Strategically accommodating such needs through sales activities that concentrate on its unique, competitive component products, the SHI Group has recorded a steady increase in orders received.

Strategies and Initiatives for Fiscal 2010

The SHI Group will continue to aggressively implement initiatives aimed at achieving business stability supported by a highly profitable earnings structure. Specifically, for the private sector, we will accelerate sales activities—particularly in the food, beverage and steel industries, sectors where we now boast advantages—while continuing to provide high-value-added products. In addition, the SHI Group will reinforce its services business to more effectively capture opportunities arising in line with increased capital investments related to aging facility remodeling and renovation as well as to energy saving. Through such services business, we aim to contribute to the improved functionality of customers' existing facilities. In the public sector, as the adoption of energy-saving equipment gains momentum, the SHI Group will strengthen sales activities for the SUMIRATOR vertical aerator, MICRAS® superfine-bubble membrane tube diffuser and other products developed with market differentiation in mind.

Ship, Steel Structure & Other Specialized Equipment

Main Products

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

Major Units

Sumitomo Heavy Industries Marine & Engineering Co., Ltd.
Sumitomo Heavy Industries Process Equipment Co., Ltd.

Business Environment

The market for new shipbuilding has remained sluggish since the second half of fiscal 2008. However, tangible signs of market recovery have started to emerge, including a South Korean shipbuilder winning an order for a large-scale tanker at the end of fiscal 2009. The steel structure and other specialized equipment business—which targets the petrochemical plant market—is witnessing a decrease in plans for new oil refinery construction. This unfavorable trend is mainly attributable to increasing difficulty in fund procurement. On the other hand, petrochemical plant operators are accelerating initiatives aimed at improving profitability by enhancing the efficiency of their existing facilities and equipment.

Outlook for Fiscal 2010

Despite the challenging conditions in the shipbuilding market, the SHI Group retains a healthy order backlog and will most likely be able to minimize the impact of these conditions on its sales performance. In addition, as the market for new shipbuilding has begun showing some favorable trends, it is expected that the second half of fiscal 2010 will see steadier trends toward full-scale market recovery. In steel structure and other specialized equipment, market conditions for our flagship coke drums* are expected to remain severe.

*Equipment for extracting high-value-added light oil from heavy oil

Coke drums

Reactor Vessels

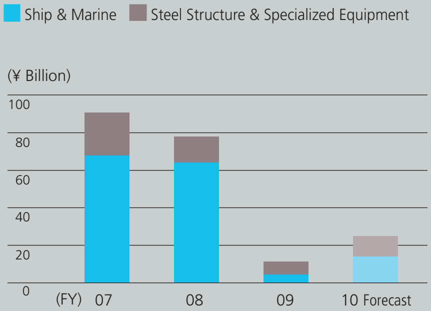
Business Environment and Topics in Fiscal 2009

Orders were stagnant in the petroleum coke drum market. The unfavorable situation was attributable to a series of cancellations and postponements with regard to planned capital investment due to problems related to profitability and financing—conditions similar to those witnessed in the second half of fiscal 2008. Even so, the SHI Group won an order from an oil refinery in Yanbu, Saudi Arabia, for six large-scale coke drums. During the fiscal year under review, the Group focused on the development of high-durability coke drum architecture that accurately meets customer requirements and on the reestablishment of the repair and services business model. Through these activities, we are now better positioned to target and capture future replacement demand from customers who are currently using aging coke drums.

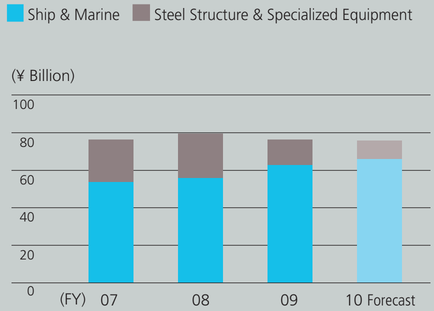
Review and Analysis of Results for Fiscal 2009

The shipbuilding market has not shown any sign of recovery. Unlike fiscal 2008, when the SHI Group received orders for seven medium-sized tankers, in fiscal 2009 no orders for new ships came in. Nevertheless, we delivered a total of nine ships during the reporting term, compared with the eight ships in fiscal 2008. Our improved productivity contributed to this positive delivery record. In steel structure and other specialized equipment, both orders for and sales of reactor vessels for use in petrochemical plants declined year on year. As a result, total segment orders took an 85% year-on-year plunge to ¥11.5 billion, and total segment sales edged down 4% to ¥76.5 billion. Segment operating income totaled ¥7.2 billion, a decrease of 43% year on year.

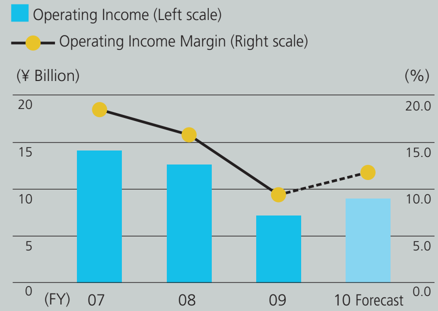
Orders



Sales



Operating Income



Strategies and Initiatives for Fiscal 2010

Fiscal 2010 is expected to witness general economic recovery, especially in emerging economies. Previously, the construction of plants that use coke drums or for additional coke drum installation has been heavily concentrated in North America. However, it is anticipated that this long-standing industry practice will change; plans for new plants will appear in many countries and regions, including those acknowledged as emerging markets. Acting on this expectation, SHI will work to penetrate emerging markets, which are showing significant potential for future growth, by accurately grasping customer needs in these new markets. To this end, we will promote innovative changes in sales and manufacturing processes. Through these changes, we aim to establish an overwhelming, competitive position in emerging markets.

Shipyard

105,000MTDW oil tanker

Ships

Sumitomo Heavy Industries Marine & Engineering Co., Ltd.

Business Environment and Topics in Fiscal 2009

The SHI Group continued to promote a ship strategy focused on greater differentiation while stepping up efforts to win orders for Aframax and Suezmax tankers. New orders did not come in, however, due to customers' extremely weak purchasing drive. Nevertheless, we delivered a total of nine Aframax tankers to customers, accomplishing our original plan for fiscal 2009.

Strategies and Initiatives for Fiscal 2010

Some believe that the shipbuilding market has bottomed out; however, market conditions are expected to remain severe for the time being. The SHI Group currently has adequate shipbuilding volume on hand and, therefore, has been able to secure sales over the short term. Looking ahead, we will strive to develop differentiated products, improve product quality and realize production process reforms. Through these initiatives, we will promote strategic activities aimed at gaining shipbuilding orders, thereby continuing to improve our business performance.

Industrial Machinery

Main Products	Major Units
Logistics & Handling Systems	Sumitomo Heavy Industries Engineering & Services Co., Ltd.
Automated Parking Systems	Sumitomo Heavy Industries Techno-Fort Co., Ltd.
Forging Machines	Shin Nippon Machinery Co., Ltd.
Material Handling Systems	SHI Machinery Service Hong Kong Ltd.
Turbines	
Pumps	

Business Environment

In this segment, the SHI Group primarily provides large cranes and other heavy machinery products. On the domestic front, although new large-scale capital investment has been somewhat curtailed, investments aimed at improving productivity have remained robust. At the same time, in line with the increased attention being given to energy-efficiency in facilities and equipment, market expectations are rising for the provision of products with lower running costs. Infrastructure-related investment overseas remains firm, especially in emerging economies.

Outlook for Fiscal 2010

The overall order environment is expected to remain severe; however, despite the harsh conditions, the volume of inquiries for our material handling systems is increasing, particularly from overseas steel companies. In turbines, we aim to secure orders by focusing on the biomass power-generation market, which has begun showing inner stirrings toward demand growth. Amid accelerated cutbacks in new capital investment across industries, the SHI Group is also focusing on cultivating aftermarket demand associated with the remodeling and renovation of existing facilities and equipment.

Continuous ship unloader

Material Handling Systems
Sumitomo Heavy Industries Engineering & Services Co., Ltd.

Business Environment and Topics in Fiscal 2009

Many principal customers continued to postpone or cancel their capital investments in fiscal 2009, reducing orders received by the SHI Group on a year on year basis. However, despite these difficult conditions, we have worked to cultivate new markets through forward-looking activities, such as securing an order in Shandong Province, China, for two electrolysis cranes for use in the nonferrous metal industry.

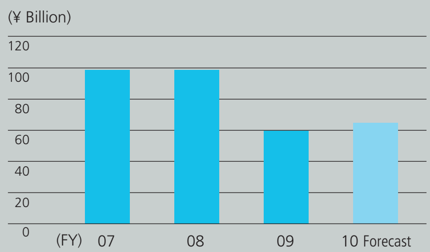
Strategies and Initiatives for Fiscal 2010

Capital investment in the material handling sector is expected to increase year on year in fiscal 2010. In this favorable environment, the SHI Group will actively promote continuous ship unloaders and other products as well as models that make significant contributions to environmental protection. In addition, through these products and models, the Group will accommodate customer needs for new installations and the renewal and renovation of aging facilities and equipment. At the same time, we will accelerate our services business in such areas as preventive maintenance. Based on these initiatives, we will advance sales activities that create added value for customers throughout East Asia and Japan.

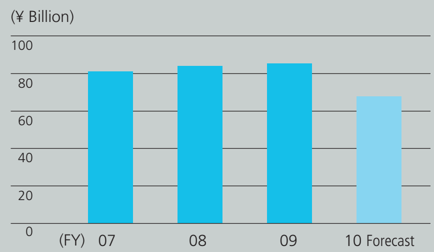
Review and Analysis of Results for Fiscal 2009

In material handling systems, orders declined, particularly those from shipbuilders and steel companies. In contrast, sales increased year on year thanks to our healthy order backlog. In turbines and pumps, although demand has recovered for turbines for use in power-generation facilities, particularly in emerging markets, customers in the resources and energy fields have remained hesitant to invest capital. Accordingly, both orders and sales decreased year on year. As a result, total segment orders dropped 39% year on year to ¥59.8 billion, but total segment sales edged up 2% to ¥85.6 billion. Segment operating income also edged up 4% to ¥14.2 billion.

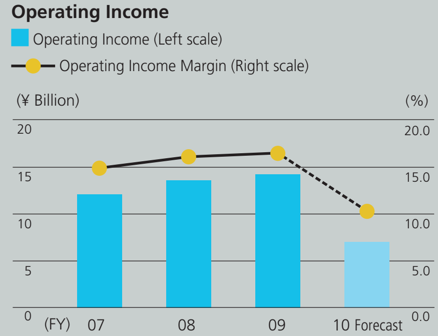
Orders

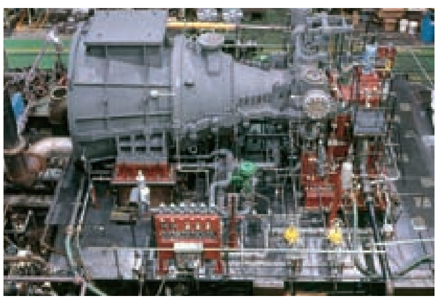


Sales



Operating Income





Steam turbine for power generation

Turbines and Pumps
Shin Nippon Machinery Co., Ltd.

Business Environment and Topics in Fiscal 2009

Orders for both turbines and pumps, which had been stagnant since fiscal 2008, showed a mild recovery from the second quarter of fiscal 2009. Ref ecting a recovery in market conditions in India and Southeast Asia, orders for turbines were received from sugar factory and other projects. Meanwhile, demand for pumps is increasing in emerging markets. By accurately capturing business opportunities, the SHI Group won an order for pumps to be used in a large-scale petrochemical plant project in India.

Strategies and Initiatives for Fiscal 2010

The SHI Group will strive to further enhance its cost-competitiveness through the promotion of overseas procurement. For turbines, the Group will focus on such fields as biomass power generation and gas turbine combined cycle (GTCC) power generation* in the markets of Southeast Asia and renewable energy power generation in North America. As for pumps, we will endeavor to secure orders from a South Korean engineering company that is performing robustly due to its winning of an order for a large-scale plant in the Middle East.

*GTCC power generation uses the combination of gas and steam turbines to improve generation efficiency.

Hot forging press

Forging Presses and Industrial Machinery
Sumitomo Heavy Industries Techno-Fort Co., Ltd.

Business Environment and Topics in Fiscal 2009

The automobile industry—the SHI Group's main customer base in this sector—is suffering from excessive production capacity. Accordingly, orders for new forging presses were weak during fiscal 2009. Despite the unfavorable environment, we were able to secure orders for a large-scale hydraulic press, a newly launched forging press and other products. Overall, the total amount of orders received by the SHI Group in this sector did not reach our original target for fiscal 2009, although we worked to cover our weak performance in the forging press business with relatively strong performances in other industries, including the winning of an order for a continuous caster.

Strategies and Initiatives for Fiscal 2010

In both the forging press and industrial machinery businesses, the SHI Group will continue to value the principle of "Quality First." Based on this principle, we will aggressively accelerate the provision of services aimed at upgrading the performance of existing products and proposing new products, thereby maximizing customer satisfaction in terms of safety and reliability. In addition, in forging presses, our product lineup—now complemented by the new forging press launched during fiscal 2009—is expected to contribute to technological innovation in the automobile industry. Furthermore, we will closely monitor trends in capital investment overseas, and when improvement begins to take hold, we will work strategically to accurately capture the opportunities that emerge.

Construction Machinery

Main Products	Major Units
Hydraulic Excavators	Sumitomo (S.H.I.) Construction Machinery Co., Ltd.
Mobile Cranes	Sumitomo (S.H.I.) Construction Machinery Sales Co., Ltd.
Road Machinery	Sumitomo (S.H.I.) Construction Machinery (Tangshan) Co., Ltd.
	Link-Belt Construction Equipment Company
	LBX Company, LLC

Business Environment

Markets in Japan and Western nations continue to face harsh conditions, mainly attributable to persistent cutbacks in infrastructure-related investment. On the other hand, the emerging markets of China, Southeast Asia, India and other countries and regions are experiencing a rapid recovery. These countries and regions are driving a recovery in worldwide market conditions.

Outlook for Fiscal 2010

The domestic hydraulic excavator market is expected to continue facing severe conditions. In contrast, China and other emerging markets are showing robust demand for hydraulic excavators. Rising demand also seen in Southeast Asia and other regions is boosting a recovery in overall market conditions. Although the SHI Group anticipates a mild recovery of the North American mobile crane market in the second half, the market is slated to remain weak.

Asphalt paver "HA60W"

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

Business Environment and Topics in Fiscal 2009

The points of demand for hydraulic excavators have largely moved to emerging markets, and the export of hydraulic excavators now accounts for approximately 80% of the Chiba Works' output. In June 2009, the second production plant newly constructed in Tangshan City, China, began operations, supplying two f agship models exclusively developed for the Chinese market. In the road machinery business, the SHI Group has completed the development of a European-model asphalt paver and presented it at an international exhibition held in Paris in April 2009. Through these and other activities, we worked strategically to penetrate new road machinery markets overseas, using our success in the Chinese market as a model.

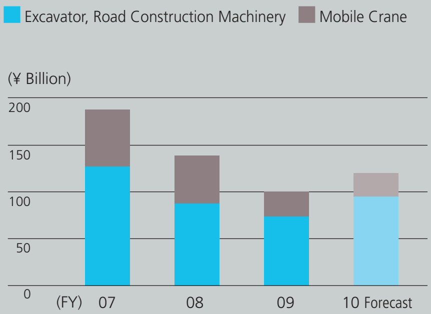
Strategies and Initiatives for Fiscal 2010

The Chinese market continues to grow. To take full advantage of the opportunities presented by this promising market, the SHI Group will speed up the boosting of production capacity at the

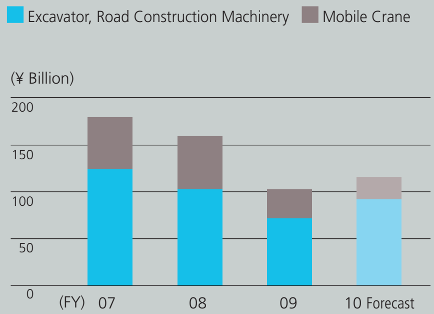
Review and Analysis of Results for Fiscal 2009

In hydraulic excavators, the Chinese market showed some recovery in the second half. However, demand remained stagnant in other countries and regions. Due to these conditions, both orders and sales deteriorated year on year. In mobile cranes for construction, overall market conditions remained weak, negatively affected by a lagging recovery in the North American market, which experienced a sudden slowdown during fiscal 2008. Accordingly, both orders and sales decreased year on year. As a result, total segment orders dropped 28% year on year to ¥100.5 billion, and total segment sales fell 36% to ¥102.7 billion. Segment operating income took a 92% year-on-year nosedive to ¥0.6 billion.

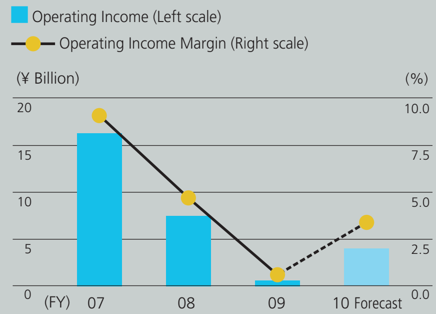
Orders



Sales



Operating Income



Tangshan plant and diversification of the lineup of products manufactured there. These initiatives will enable the Group to improve the timeliness of its product supply. Also, in view of further market growth in Southeast Asia, we plan to construct our third hydraulic excavator production plant in Indonesia, which will start supplying products from the second half of 2011.

In Japan, the SHI Group aims to expand the sale of hydraulic excavators to the equipment leasing industry and to the forestry industry, which is currently promoting the use of machinery. In its efforts toward achieving this goal, the Group will strive to secure a sufficient level of orders.

In road machinery, we will accelerate the establishment of overseas sales channels for our asphalt pavers.

Crane Business

Link-Belt Construction Equipment Company

Business Environment and Topics in Fiscal 2009

Link-Belt Construction Equipment Company ("Link-Belt") recorded a 46% decrease in sales in 2009 as a result of the global economic downturn and credit crisis. The North American mobile telescopic and crawler crane markets declined approximately 70% from 2008 levels, with certain segments hitting their lowest levels in twenty years. Link-Belt implemented strategic initiatives to align production volume with demand and reduce inventory, while focusing on cost reduction activities to maximize profitability. Link-Belt continued the Lean Sigma® initiatives and the development of new products to support future sales.

Strategies and Initiatives for Fiscal 2010

The North American mobile telescopic and crawler crane markets continue to decline in certain segments. The economic recovery in North America appears to be occurring at a very slow and measured pace. Link-Belt is being proactive in its plans and actions to minimize the impact of volatile market conditions during these difficult economic times. The strategic objectives will focus on continued cost reduction activities, f exible production schedules to meet market demand, maintaining new product development timelines and further expanding in international markets. These strategic initiatives and Lean Sigma® activities will position Link-Belt to take advantage of future market recovery.

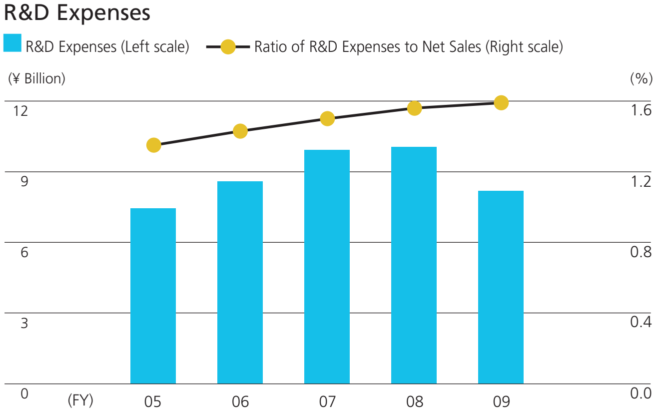
Mobile telescopic crane "TCC-750"

Research and Development

R&D Strategy

Under its "Global 21" medium-term management plan covering the three-year period ending March 31, 2011, the SHI Group is continuing to pursue efforts in line with its keywords for growth, namely, "globalization" and "innovation." As it does so, the Group is placing priority on reinforcing its global competitiveness and developing innovative products. To this end, we are aggressively promoting R&D based on a vertically integrated synergistic value chain model. Specifically, we are strengthening our fundamental technologies and developing groundbreaking components, thereby strategically enhancing the value of the equipment and systems we create.

R&D Expenses

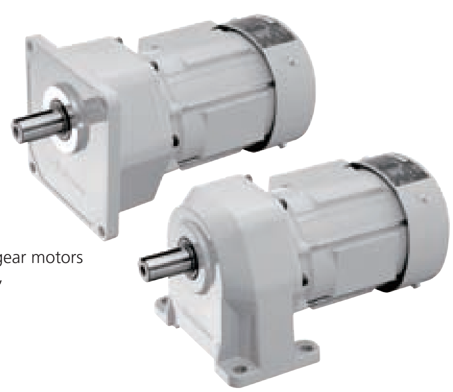


Major R&D Results by Business Segment

Mass-Produced Machinery

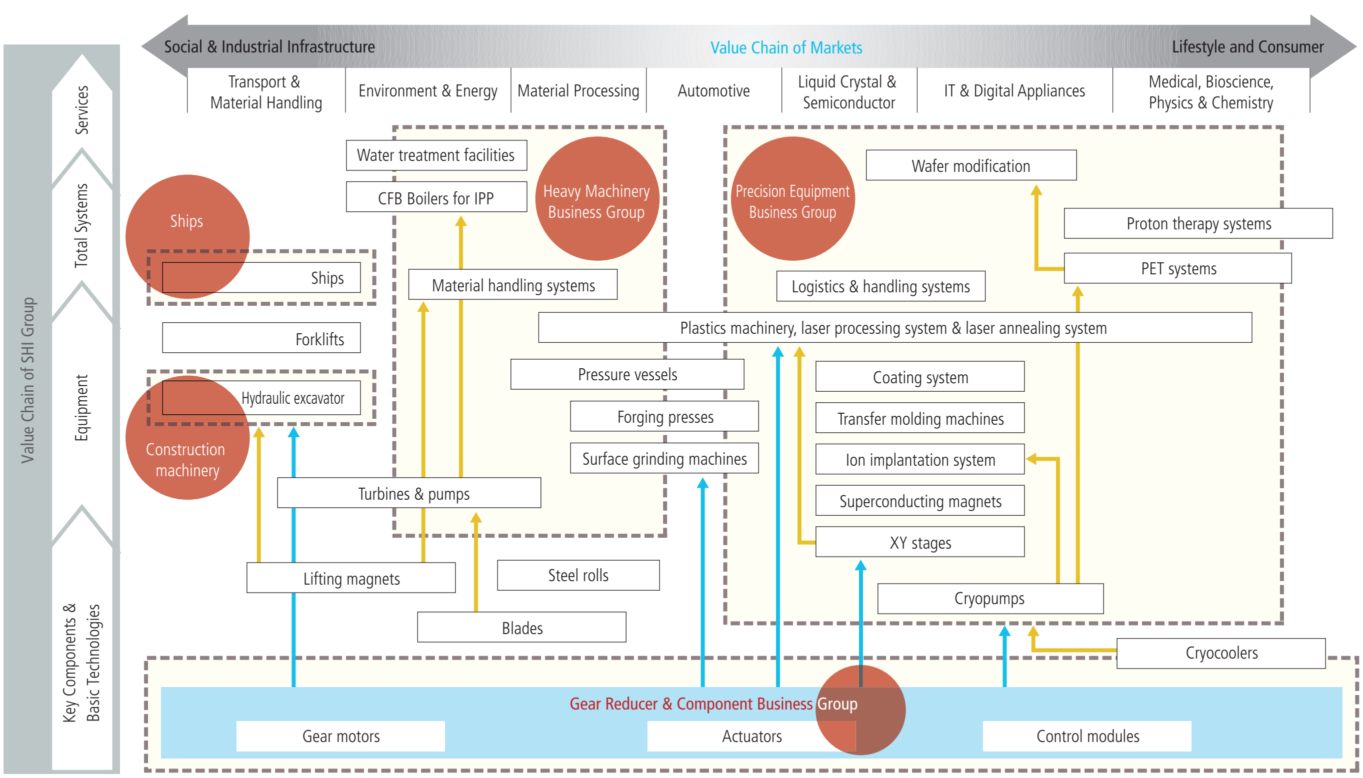
In power transmission equipment, the SHI Group released a new series of right-angle-shaft gear motors with built-in CYCLO® speed reducers for application in such industrial machinery as conveyors and cranes. For application in food processing and agricultural machinery, we launched a new single-phase series of parallel-shaft gear motors. This new series realizes quiet operations and a high starting torque.

In plastics machinery, we reinforced our proprietary Zero Molding® systems, which are based on the concept of minimizing defects, losses and faults in molded products and feature a filling control function. Also, with the addition of an energy-saving mode, we have further reduced the power consumption of Zero Molding® systems.



Parallel-shaft gear motors
"PREST® NEO"

Business Portfolio and Value Chain of SHI Group



In quantum equipment, the Group developed a small-sized gantry for use with proton therapy systems, contributing to substantial space savings. In addition, we are continuing to perform verification tests on an advanced three-dimensional irradiation system.

In precision positioning equipment, we modified a small-sized precision positioning stage. Also, we released a new large-sized positioning stage for which an air-f oating glass substrate transport system has been adopted.

In semiconductor production equipment, we developed a new product based on our ion-implantation devices, which boast high ion-beam quality and precision. Integrating a built-in wafer transport system featuring high-speed wafer control and enhanced ion-beam current density, this new product was released during fiscal 2009.

Environmental Protection Facilities, Plants & Others

In its water treatment business targeting private-sector customers, the SHI Group promoted the development of new facilities and systems that take into account increasingly stringent environmental regulations. In the water and sewage business, the Group launched energy-saving unit-type equipment that helps reduce facility lifecycle costs and prevent the further advance of global warming.

In energy and environmental plants, while we are strengthening sales activities for circulating f uidized-bed (CFB) boilers in Southeast Asia, we conducted verification tests on the combustibility of biomass resources and low-grade coal and accelerated the development of constituent technologies regarding various fuels.

Ship, Steel Structure & Other Specialized Equipment

In ships, the SHI Group undertook R&D into advanced energy-saving technologies to be applied in hull forms and propulsion systems, thereby continuing to develop and build ships that are compliant with anticipated environmental regulations and help realize outstanding customer value. Also, in the area of production technology development, the Group is promoting the introduction of automated facilities and equipment and the establishment of a training support system. Through these activities, we are working vigorously to achieve continuous improvements in the quality of our ships.

Industrial Machinery

In logistics and automated parking systems, the SHI Group developed and released a clean roll stocker for use in the secondary cell industry. This new roll stocker is characterized by its high-precision roll handling capability. For application in the same industry, the Group developed and released a compact automated guided vehicle (AGV) compatible with narrow rolls.

In turbines, the Group pursued further R&D aimed at optimizing medium- and high-pressure blade configurations, with the aim of improving power generation efficiency. The results of this R&D have been applied to our turbine products.

Construction Machinery

In hydraulic excavators, the Group focused on the development of a next-generation f agship model that will comply with interim Tier 4 emissions requirements. At the same time, we worked to expand the application of our existing hydraulic excavators—particularly those compliant with Tier 3 emissions requirements—to cover such specialized fields as advanced forestry machinery. Furthermore, we are bolstering research on hybrid technologies, building on our success in the development of LEGEST® HIBRID in fiscal 2008.

Note: CYCLO and Zero Molding are registered trademarks of SHI. LEGEST is a registered trademark of Sumitomo (S.H.I.) Construction Machinery Co., Ltd.

Ion-implantation device “SHX-III”

Automated guided vehicle (AGV) for films

XY stage for inspection and repair system “TL Series”

Intellectual Property

The SHI Group is oriented towards growth driven by distinctive technologies. As such, intellectual property is an issue of the utmost importance and the wellspring of the Group's competitive advantage. The principal focus of our efforts is directed at the three elements of intellectual property activity, namely, ensuring that rights to intellectual property are secured, utilizing exclusive rights and respecting other companies' rights. In this way, we devote our Groupwide energies to the active creation, management and protection of SHI Group's invaluable "property."

Promotion Structure

To link the senior management of SHI Group divisions directly with intellectual property activities, the Group has appointed chief intellectual property officers (CIPOs) to the same rank as the general managers of technology and development divisions, a position immediately below and reporting directly to officers in charge of groups or divisional businesses.

The CIPOs prepare optimal intellectual property strategies for each division, make all members of those divisions thoroughly acquainted with these strategies and create the mechanisms to put those strategies into practice. In addition, the Intellectual Property Division, which reports directly to the president, participates fully in reform activities implemented by the CIPOs.

Major Activities and Achievements

Intellectual Property Inspection Activities

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

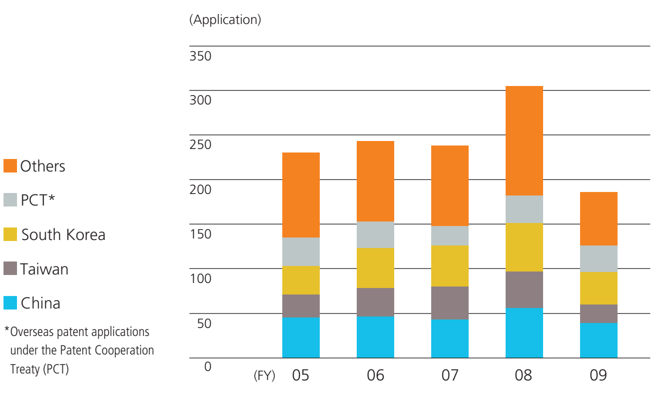
Intellectual Property Evaluation Activities

The SHI Group evaluates the strength of individual patents held by the Group and strategically manages the processes for improving this strength. In addition to enhancing the quality of the Group's intellectual property portfolio, such evaluation and management processes enable the Group to keep reinforcing the competitive superiority of its products through the appropriate maintenance of its intellectual property.

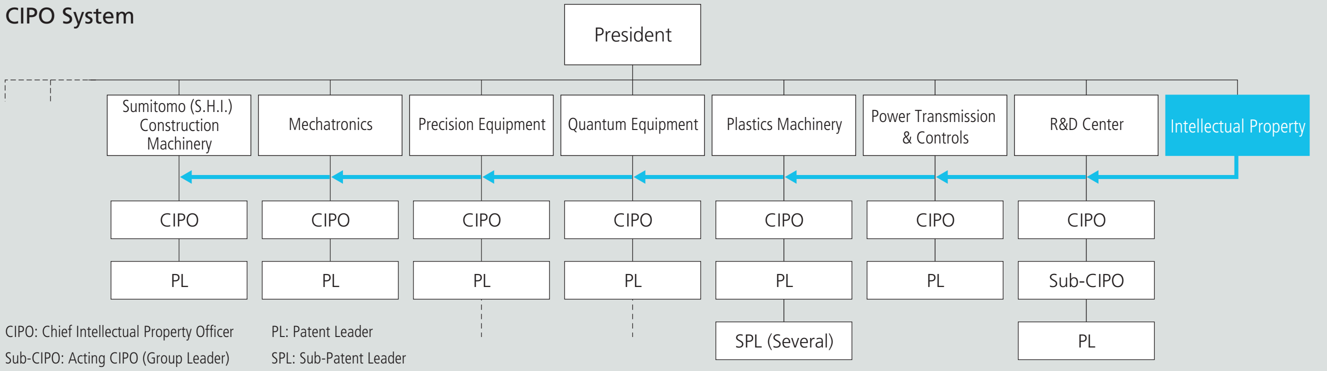
Accelerating Overseas Patent Applications

In tandem with the globalization of the business activities of the SHI Group, we have been calling on all operating divisions and other relevant divisions to take active steps to file patent applications overseas. As a result, as of April 2010, as many as 1,098, or 33.4%, of the total of 3,287 patents held by the Group were held overseas. The Group is placing particular emphasis on patent applications in China, South Korea and Taiwan.

SHI Group's Overseas Patent Applications



CIPO System



CIPO: Chief Intellectual Property Officer
Sub-CIPO: Acting CIPO (Group Leader)
PL: Patent Leader
SPL: Sub-Patent Leader

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 Group achieve higher enterprise value and win the trust of all its stakeholders, including shareholders, customers, employees and the community as a whole.

Corporate Governance System

SHI has adopted the corporate auditor system and, within this framework, has introduced an executive officer system to separate the business execution and supervision functions of corporate management.

The Company has a Board of Directors, comprising 10 directors, and a Board of Corporate Auditors, comprising 4 corporate auditors. The Board of Corporate Auditors, including two external corporate auditors, and the Board of Directors, including one external director, collaborate with executive officers in charge of internal auditing and internal control in auditing and supervising the execution of duties by the Company's directors. The Board of Directors deliberates not only on matters stipulated under the Japanese Corporate Law, but also on important management issues in a preemptive manner. Also, the Company's Articles of Incorporation stipulate that the Company must have no more than 12 directors.

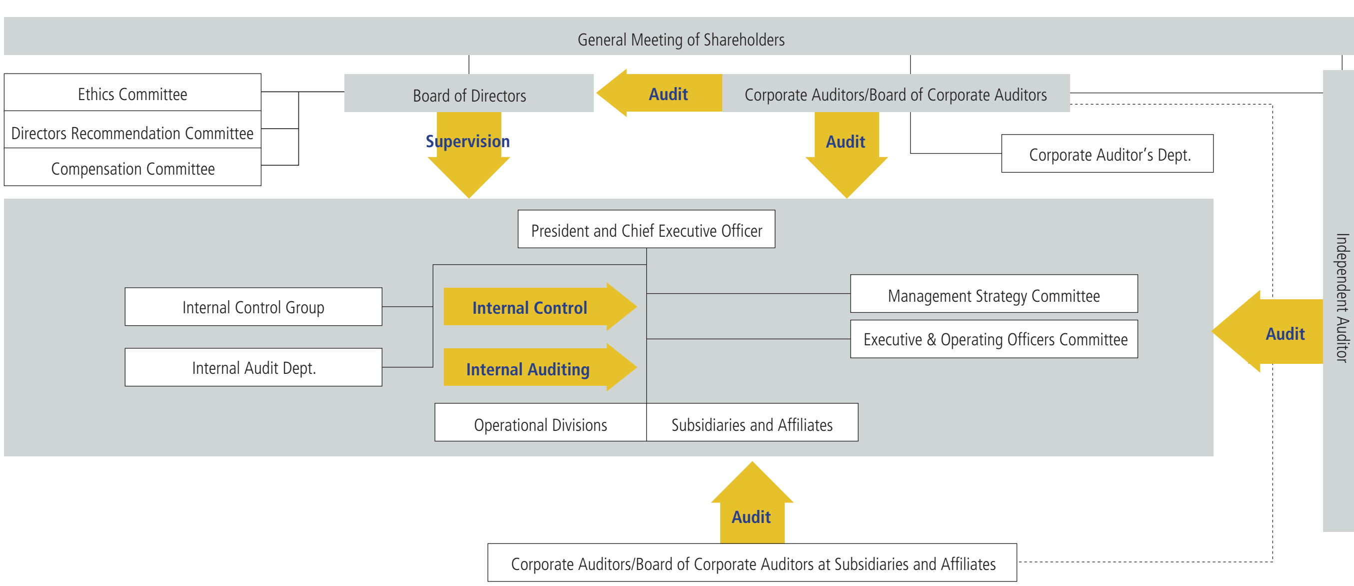
The Executive & Operating Officers Committee comprises 15 executive officers, who execute the Company's business, including 6 who concurrently serve as directors of the Company, as well as 12 operating officers. The Committee manages consolidated business results and ensures the implementation of management policies.

The Company has also established the Management Strategy Committee, comprising executive officers assigned to the Company's Head Office, as an advisory body to the president. This Committee deliberates on important matters, including those to be submitted to the Board of Directors, and, consequently, reports deliberation results to the Company's president.

The Company's corporate auditors audit the execution of duties by directors and executive officers from the perspectives of legality and appropriateness. At the same time, corporate auditors of the Company and its subsidiaries and affiliates jointly hold regular meetings to exchange audit-related information and reinforce auditing functions covering the entire SHI Group. The Company has appointed a lawyer and a certified public accountant as its external corporate auditors to reinforce the overall system for checking compliance and corporate accounting.

The Directors Recommendation Committee makes recommendations to the Board of Directors with regard to candidates for new members of the Board of Directors and representative directors. Meanwhile, director remuneration is determined by the Compensation Committee. Half of the current Compensation Committee members have been externally appointed. More specifically, as an advisory body to the Board of Directors, the Compensation Committee determines the level of director remuneration that ref ects the Company's business performance while

SHI's Corporate Governance System



ensuring transparency and ethical appropriateness in remuneration decision processes.

Internal Auditing, Auditing by Corporate Auditors, Independent Audits

The Company has established the Internal Audit Department (with a full-time staff of 8) as an internal auditing organization that reports directly to the president. The Internal Audit Department periodically conducts audits of business execution at the Company's internal organizations and at subsidiaries and affiliates in Japan and overseas, provides advice on operational improvements and follows up on the implementation of improvements. The Department undertakes the reinforcement of the internal control functions in coordination with self-audits by the operational divisions. The Company has appointed KPMG AZSA & Co. as its independent auditor, has entered into an audit contract and undergoes rigorous audits. The corporate auditors, the Board of Corporate Auditors, Internal Audit Department and independent auditor closely collaborate with each other and exchange information about audit results, thereby developing and implementing an efficient audit system.

The Corporate Auditor Audit System

The Company established the Corporate Auditor's Department as a staff organization to support the Board of Corporate Auditors. The corporate auditors discuss in advance with the directors and executive officers on personnel transfers and performance evaluation of members of the Corporate Auditor's Department. To audit the execution of duties by the Company's directors and executive officers, the corporate auditors attend meetings of the Board of Directors and the Executive & Operating Officers Committee as well as other important meetings and examine, at will, important approval requests and other important documents concerning the conduct of business. The directors and executive officers, along with staff under the direct control of the directors and executive officers, report, in a timely manner, to the corporate auditors any matter within the Company or Group companies that violates or may violate laws, ordinances, or the Articles of Incorporation, any matter that causes or may cause significant damage to the Company, or any materially improper matter. The directors and executive officers cooperate to enable the corporate auditors to perform effective audits through collaboration with the Internal Audit Department, the Internal Control Group, the corporate auditors of Group companies and the independent auditor. Corporate auditors of Group companies immediately report to the Company's corporate auditors if they have discovered any matter that violates or may violate laws, ordinances, or the Articles of Incorporation, any matter that causes or may cause significant damage to a Group company or the Group as a whole, or any materially improper matter.

External Director and External Corporate Auditors

As discussed above, the Company has appointed one external director and two external corporate auditors. The Company has appointed them in their respective posts in the belief that none of them is in the position to impose excessive control over the Company's management and that they can supervise the management of the Company from an objective standpoint.

External director Toshiaki Kakimoto has extensive experience and expertise as an economist. External corporate auditor Yoshio Kohra has ample experience as a certified public accountant and tax accountant. External corporate auditor Seishiro Tsukada boasts abundant experience as a lawyer. Based on their expertise and experience, the external director and external corporate auditors provide invaluable and candid opinions and advice on the Company's management from a third-party perspective.

None of them has personal, capital, business or any other type of significant relationship whatsoever with the Company.

Internal Control System

The SHI Group considers the internal control system to be an important management foundation for increasing its enterprise value and ensuring its sustainable development. The Board of Directors decides the basic policy for the development of the internal control system, which is the foundation of corporate governance. The Board appropriately verifies the effectiveness of the internal control system and undertakes constant enhancement and improvement. The Company appoints external directors to bring an outside perspective to the decisions of the Board of Directors. The corporate auditors conduct audits to ensure the appropriate execution of duties by the Company's directors with respect to the development and administration of the internal control system. Also, the Company works to strengthen its internal control over financial reporting. With the organization in charge conducting audits of the status of internal control system administration, the Company is striving to secure the reliability of its financial reporting.

Compliance Activities

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

Risk Management

The Company engages in risk management using the group-wide internal control system. The Company takes a specialized approach to minimize risk. Through this approach, the business units in charge prepare regulations governing individual risks—such as environmental, legal, disaster, IT, and export control risk—while providing education and guidance and conducting audits. In the event of emergency, in accordance with the Company's Emergency Reporting Procedures, the involved employees immediately report to executive management and take appropriate measures.

Takeover Defense Measures

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

Message from an External Director

Toshiaki Kakimoto

For more than half of my forty years as a businessperson I have been involved with macroeconomic studies. In my capacity as a member of the Japan Association of Corporate Executives and the Kansai Association of Corporate Executives, I have continuously engaged in research into and made proposals on various corporate management issues.

Sumitomo Heavy Industries, Ltd.'s strengths are underpinned by its effective corporate governance system, which has been realized through the clear separation of its executive function from its supervisory function. What is more, supported by the strategic implementation of its internal control system and compliance activities, SHI has established a highly effective, transparent corporate management system.

As an external director of SHI, I am committed to providing advice and guidance from a comprehensive and objective perspective. In this way, I will help the Company maximize its enterprise value over the long term.

Directors, Corporate Auditors and Executive Officers

(As of June 29, 2010)

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

Mikio Ide
Senior Executive Vice President

Yuji Takaishi
Executive Vice President

Shunsuke Betsukawa
Executive Vice President

Kensuke Shimizu
Director

Kohei Takase
Director

Toshiaki Kakimoto
Director

Corporate Auditors

Eiichi Fujita
Standing Auditor

Nobuo Kadota
Standing Auditor

Yoshio Kohra
Auditor

Seishiro Tsukada
Auditor

Executive Officers

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

Mikio Ide
Senior Executive Vice President

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

Katsuhiko Taniguchi
Executive Vice President
General Manager, Corporate Technology Operations Group
General Manager, Intellectual Property Div.
General Manager, Information Systems Development Group

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

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

Yuji Takaishi
Executive Vice President
General Manager, Plastics Machinery Div.

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

Osamu Sekiya
Senior Vice President
General Manager, Precision Equipment Group

Shigeru Toyosumi
Senior Vice President
General Manager, Internal Control Group

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

Mamoru Mishima
Senior Vice President
President and CEO, Sumitomo Heavy Industries Process Equipment Co., Ltd.

Katsuhide Yokota
Senior Vice President
President and CEO, Sumitomo Heavy Industries Engineering & Services Co., Ltd.

*A director with representative rights

Environmental and Social Contribution Initiatives

SHI Group Environmental Policy

- Consider the impact on the environment around the facilities
- Prevent environmental pollution
- Reduce waste
- Save energy and resources and promote recycling

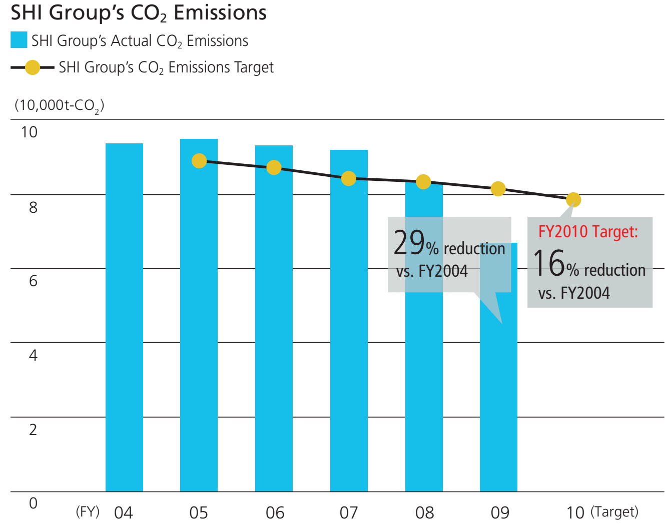
The SHI Group recognizes that protecting the global and local environment and promoting recycling-oriented economic activities are important to its corporate mission. In line with this recognition, the Company established the SHI Environmental Policy in 1997. This was followed by the 1999 formulation of the SHI Group Environmental Policy. Under this Groupwide policy, all SHI Group companies are working together to promote environmental initiatives and management.

Efforts to Prevent Global Warming

As part of its efforts to help prevent the further advance of global warming, the SHI Group is taking steps to curb CO_2 emissions and reduce paper usage as well as to promote "green" logistics operations—in other words, reduce CO_2 emissions in logistics operations. In all its efforts, the Group places the greatest emphasis on encouraging the participation of all employees and making processes and results tangible, thereby eliminating wasteful practices and improving related administrative procedures. The Group reached its fiscal 2009 targets in all categories, as shown below.

	FY2009 Target	Result
Reduce CO_2 emissions:	13% reduction vs. FY2004	29% reduction
Reduce paper usage:	35% reduction vs. FY2005	52% reduction
Green logistics (reduce CO_2 emissions in logistics operations):	10% reduction vs. FY2006	11% reduction

SHI Group's CO_2 Emissions



Reducing Environmental Load

The SHI Group is contributing to global environment preservation through the minimization of the environmental load of its products and production activities. More specifically, the Group is not only working to develop energy-efficient products, but also to reduce electric power consumption and waste generation at its plants.

During fiscal 2009, SHI's Yokosuka Works received a Director General's Award from the Environmental Management Bureau under the Ministry of the Environment (MOE) in recognition of activities aimed at preserving the aerial environment. The Yokosuka Works also received an FY2009 Award for Implementation of Measures to Reduce Volatile Organic Compounds (VOCs) from the MOE. Specific activities commended by the MOE included the construction of a painting plant extension and the installation of VOC removal equipment and paint recovery equipment. The painting plant extension involved the transfer of all outdoor onshore painting processes conducted within the shipyard of the Yokosuka Works to indoor facilities. This enables the easier collection of VOCs, which constitute part of the volatile emissions of paint. As a result of this initiative, along with the installation of the VOC removal equipment boasting a 95% removal rate and paint recovery equipment, the Yokosuka Works has reduced the ratio of VOCs discharged into the air to the total volume of paint used from 82% to 74%. In addition, the Yokosuka Works was able to reduce CO_2 emissions attributable to shipbuilding by approximately 15% year on year, despite an increase in the total volume of paint used due to an increase in the number of ships built.

Awards ceremony for the FY2009 Award for Implementation of Measures to Reduce VOCs

VOC removal equipment

Social Contribution Activities

Aiming to maintain sound relationships not just with the communities in which it operates but also with the global community, the SHI Group conducts wide-ranging social contribution activities. These activities include supporting social welfare institutions, providing work experience programs for students and implementing local cleanup and disaster prevention activities.

Currently, the SHI Group is placing particular emphasis on biodiversity preservation. For example, the Company is maintaining a forest located on the grounds of its Tanashi Works in Nishitokyo City, Tokyo. Dubbed the "Forest of Inspiration," this forest is home to more than 40 species of trees and plants that attract a significant number of birds and insects. A section of the Forest of Inspiration is open to the public and serves as a place of relaxation and exchange for local residents, thanks to walking trails and benches. The Forest of Inspiration is approximately 13,000 square meters. Past research conducted in the forest confirmed the presence of a rare foreign butterf y species, which had previously not been found in Eastern Japan, as well as a butterf y species that previously had been seen in the warmer regions of Western Japan. The Forest of Inspiration is accordingly believed to be an invaluable natural asset also for academic researchers.

Forest of Inspiration

Financial Section

Eleven-Year Summary

Sumitomo Heavy Industries, Ltd. and Consolidated Subsidiaries

	FY1999	FY2000	FY2001	FY2002	FY2003
Summary of Income (for the year):					
Net sales	¥566,668	¥513,753	¥517,138	¥481,289	¥482,765
Cost of sales	473,798	434,544	430,399	400,460	378,422
Selling, general and administrative expenses	80,162	71,724	72,564	63,616	64,112
R&D expenses	12,206	8,688	6,777	5,800	6,263
Operating income	12,709	7,485	14,175	17,213	40,231
EBITDA (Note 2)	26,910	20,402	26,078	29,322	50,344
Net income (loss)	(6,328)	(28,612)	1,650	2,688	16,262
Cash Flows (for the year):					
Cash flows from operating activities	¥ 39,117	¥ (16,957)	¥ 38,808	¥ 29,499	¥ 75,775
Cash flows from investing activities	(1,969)	29,560	(3,343)	(1,074)	(7,929)
Free cash flows (Note 3)	37,148	12,603	35,465	28,425	67,846
Cash flows from financing activities	(48,765)	(21,403)	(32,785)	(22,116)	(56,666)
Cash and cash equivalents at the end of year	45,173	36,496	40,846	47,661	57,678
Financial Position (at year-end):					
Total assets	¥657,149	¥579,772	¥634,904	¥588,010	¥580,291
Total current assets	474,059	394,252	371,049	329,231	321,400
Property, plant and equipment	128,784	119,135	199,758	196,104	258,891
Interest-bearing debt	341,912	324,324	294,552	273,544	215,807
Net interest-bearing debt	298,617	287,609	254,402	225,571	157,353
Stockholders' equity	64,829	30,049	87,494	89,331	114,526
Total net assets (Note 4)	—	—	—	—	—
Amounts per Share of Common Stock:					
Net income (loss) (Note 5)	¥ (10.74)	¥ (48.60)	¥ 2.80	¥ 4.57	¥ 27.01
Stockholders' equity	110.12	51.04	148.63	151.86	190.25
Cash dividends	3.00	—	—	—	—
Financial Indexes:					
Operating income margin	2.2	1.5	2.7	3.6	8.3
EBITDA margin	4.7	4.0	5.0	6.1	10.4
R&D expenses ratio to net sales	2.2	1.7	1.3	1.2	1.3
Return on assets (ROA)	(0.9)	(4.6)	0.3	0.4	2.8
Return on equity (ROE)	(9.2)	(60.3)	2.8	3.0	16.0
Stockholders' equity ratio	9.9	5.2	13.8	15.2	19.7
Interest-bearing debt ratio	52.0	55.9	46.4	46.5	37.2
D/E ratio (Times)	5.3	10.8	3.4	3.1	1.9
ROIC (Note 6)	1.9	1.3	2.3	2.6	6.5
Investment in Plant and Equipment, and Others:					
Capital expenditures	¥ 12,606	¥ 14,305	¥ 15,549	¥ 14,406	¥ 10,562
Depreciation and amortization	14,201	12,916	11,902	12,118	10,112
Number of employees	13,748	12,411	12,457	11,777	11,282

Notes: 1. The U.S. dollar amounts have been translated, for convenience only, at ¥93=$1, the prevailing exchange rate on the Tokyo Foreign Exchange Market as of March 31, 2010.

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

Millions of yen						Thousands of U.S. dollars (Note 1)
FY2004	FY2005	FY2006	FY2007	FY2008	**FY2009**	**FY2009**
¥521,310	¥551,339	¥600,256	¥660,769	¥642,918	**¥516,165**	**$5,550,162**
407,512	434,904	464,071	505,366	503,072	**412,751**	**4,438,182**
65,025	68,930	71,961	77,613	82,906	**75,160**	**808,176**
6,317	7,434	8,581	9,908	10,047	**8,187**	**88,035**
48,773	47,505	64,224	77,790	56,940	**28,254**	**303,804**
58,055	56,577	74,873	91,578	75,260	**47,979**	**515,901**
22,792	29,742	37,352	42,974	13,649	**13,280**	**142,798**
¥ 45,451	¥ 50,023	¥ 56,789	¥ 29,096	¥ 34,676	**¥ 57,513**	**$ 618,419**
(6,087)	(7,024)	(12,461)	(41,250)	(35,924)	**(13,954)**	**(150,041)**
39,364	42,999	44,328	(12,154)	(1,248)	**43,559**	**468,378**
(46,490)	(48,812)	(41,193)	(5,238)	15,625	**(26,686)**	**(286,942)**
49,108	43,644	47,523	29,879	42,414	**61,452**	**660,778**
¥569,771	¥579,233	¥600,890	¥678,634	¥657,436	**¥610,087**	**$6,560,080**
316,166	317,813	332,509	381,946	380,293	**339,780**	**3,653,543**
253,605	261,421	268,381	296,688	277,143	**270,308**	**2,906,537**
169,228	125,504	88,045	89,567	110,339	**87,660**	**942,581**
119,592	81,587	39,890	59,311	65,654	**25,149**	**270,415**
137,157	167,740	—	—	—	**—**	**—**
—	—	206,010	246,371	238,697	**254,153**	**2,732,826**
Yen						U.S. dollars (Note 1)
¥ 37.80	¥ 49.45	¥ 61.99	¥ 71.19	¥ 22.62	**¥ 22.01**	**$ 0.24**
227.90	279.02	338.95	392.80	378.78	**404.73**	**4.35**
3.00	5.00	7.00	10.00	6.00	**4.00**	**0.04**
%						
9.4	8.6	10.7	11.8	8.9	**5.5**	
11.1	10.3	12.5	13.9	11.7	**9.3**	
1.2	1.3	1.4	1.5	1.6	**1.6**	
4.0	5.2	6.3	6.7	2.0	**2.1**	
18.1	19.5	20.1	19.5	5.9	**5.6**	
24.1	29.0	34.1	34.9	34.8	**40.0**	
29.7	21.7	14.7	13.2	16.8	**14.4**	
1.2	0.7	0.4	0.4	0.4	**0.4**	
8.5	8.8	12.2	14.0	9.6	**4.8**	
Millions of yen						Thousands of U.S. dollars (Note 1)
¥ 8,175	¥ 10,285	¥ 17,257	¥ 28,180	¥ 31,753	**¥ 24,465**	**$ 263,068**
9,282	9,072	10,649	13,788	18,320	**19,725**	**212,097**
11,149	11,319	12,561	14,408	14,984	**15,463**	

Management's Discussion and Analysis of Financial Conditions and Operating Results

1. Discussion and Analysis of Operating Results for Fiscal 2009

(1) Orders

Orders received during fiscal 2009, ended March 31, 2010, totaled ¥403.4 billion, a decline of ¥197.2 billion from fiscal 2008. This outcome was attributable to a year-on-year decline in orders received by all segments. In particular, orders in the Ship, Steel Structure & Other Specialized Equipment segment decreased ¥66.5 billion year on year to ¥11.5 billion. Similarly, orders in the Industrial Machinery and Construction Machinery segments dropped ¥38.9 billion and ¥38.3 billion to ¥59.8 billion and ¥100.5 billion, respectively.

(2) Net Sales

Net sales fell ¥126.8 billion year on year to ¥516.2 billion, mainly due to a significant year-on-year decline in sales in the Mass-Produced Machinery and Construction Machinery segments. On the other hand, the Industrial Machinery segment recorded year-on-year sales expansion due to an extensive backlog of orders.

Overseas sales declined ¥85.7 billion year on year to ¥243.5 billion. The ratio of overseas sales to consolidated net sales sank 4.0 percentage points to 47.2%.

By region, domestic sales slid ¥41.0 billion to ¥272.7 billion due to a decrease in sales in the Mass-Produced Machinery and Construction Machinery segments. In North America, sales deteriorated ¥45.5 billion to ¥56.9 billion, reflecting a decline in sales in the Mass-Produced Machinery and Construction Machinery segments. Sales in Asia contracted ¥17.1 billion to ¥92.7 billion, with expanded sales in the Construction Machinery segment offset by a shrinking in sales in the Mass-Produced Machinery and Ship, Steel Structure & Other Specialized Equipment segments. In other regions, sales dropped ¥23.1 billion to ¥93.9 billion, primarily due to decreased sales in Europe.

(3) Cost of Sales

In line with the decline in net sales, cost of sales decreased ¥90.3 billion year on year to ¥412.8 billion. The cost to sales ratio rose 1.8 percentage points to 80.0%, owing to deterioration in the cost of sales ratios of the Ship, Steel Structure & Other Specialized Equipment and Mass-Produced Machinery segments.

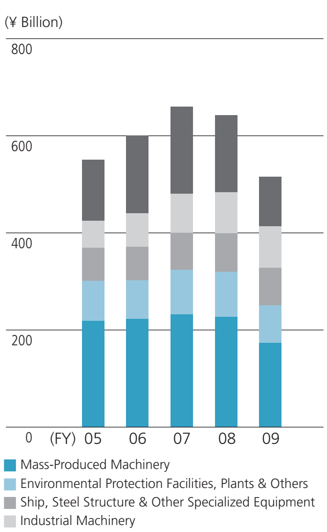
(4) Selling, General and Administrative (SG&A) Expenses

SG&A expenses declined ¥7.7 billion to ¥75.2 billion. Major decreases were recorded under R&D expenses and the amortization of goodwill. The SG&A expense ratio climbed 1.7 percentage points to 14.6%.

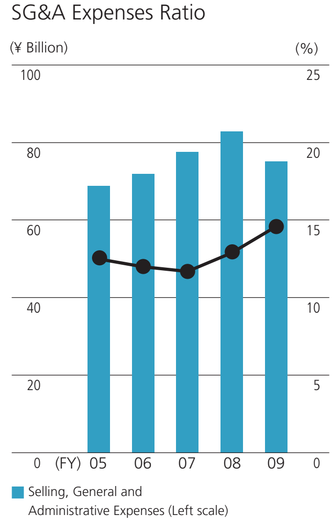
(5) Operating Income

Operating income dropped ¥28.7 billion to ¥28.3 billion, reflecting a fall in operating income across all segments except the Industrial Machinery segment attributable to the decline in net sales. In particular, the Mass-Produced Machinery segment posted an operating loss totaling ¥1.7 billion. The operating income margin decreased 3.4 percentage points to 5.5%.

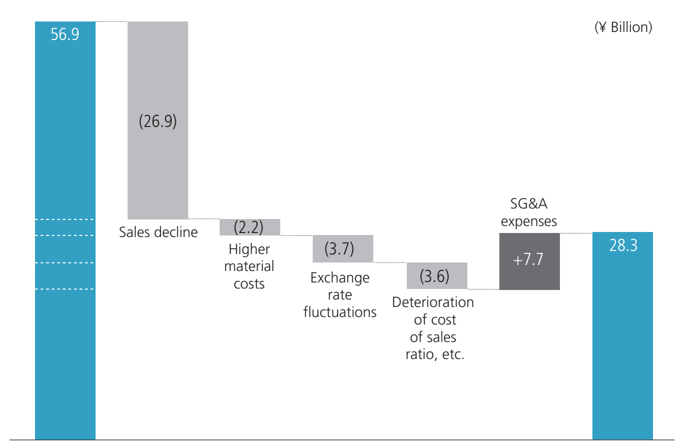
Net Sales



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



Breakdown of Variation in Operating Income (Fiscal 2008–Fiscal 2009)



(6) Other Income and Expenses

Other income and expenses amounted to net expenses of ¥1.7 billion, an improvement of ¥5.0 billion from fiscal 2008. Other income rose ¥0.7 billion year on year due mainly to the recording of foreign exchange gains. Other expenses contracted ¥4.0 billion, primarily owing to the absence of foreign exchange losses.

(7) Special Gains and Losses

Special gains and losses amounted to net losses of ¥0.3 billion, an improvement of ¥16.3 billion from fiscal 2008. Special gains were ¥2.4 billion mainly due to the posting of a gain on sale of securities, totaling ¥1.6 billion, in the period under review. Special losses declined ¥13.8 billion to ¥2.7 billion, largely owing to a ¥5.0 billion decrease in loss on valuation of investment securities and the absence of a number of losses recorded in the previous fiscal year.

(8) Income Taxes (Total of Income Tax, Local Inhabitant Tax, Business Tax and Deferred Income Tax)

Income taxes decreased ¥6.8 billion year on year to ¥11.9 billion due to a decline in income before income taxes of each consolidated subsidiary.

(9) Minority Interests in Net Income

Minority interests in net income amounted to ¥1.1 billion, down ¥0.3 billion from fiscal 2008, reflecting the weak performances of consolidated subsidiaries.

(10) Net Income

Net income edged down ¥0.4 billion year on year to ¥13.3 billion.

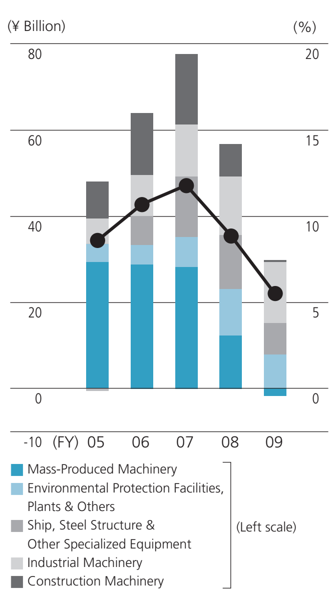
2. Discussion and Analysis of Financial Condition as of the Fiscal 2009 Year-End

(1) Assets, Liabilities and Net Assets

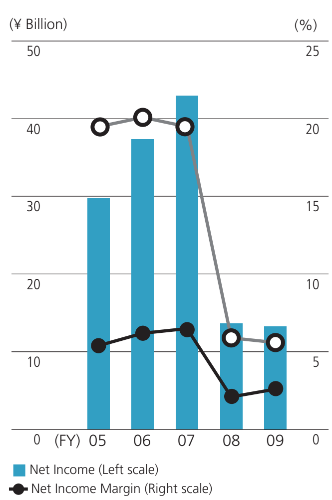
As of March 31, 2010, total assets stood at ¥610.1 billion, down ¥47.3 billion from March 31, 2009. An increase due to the inclusion of Sumitomo Heavy Industries (Tangshan), Ltd. in consolidation was offset by decreases in trade receivables due to their collection as well as a contraction in inventories. Cash and time deposits increased ¥17.8 billion to ¥62.5 billion as a result of the collection of trade receivables, which consequently decreased ¥23.8 billion to ¥131.9 billion. Property, plant and equipment expanded ¥2.4 billion to ¥216.5 billion, owing to the aforementioned new inclusion of a subsidiary in consolidation. Investment securities increased ¥2.2 billion to ¥30.4 billion, primarily due to a recovery in their market value.

Under liabilities, notes and accounts payable decreased ¥28.1 billion from the previous year-end to ¥108.0 billion. Reflecting the Group's efforts to accelerate debt repayment in order to reinforce its financial strength, interest-bearing debt was reduced ¥22.7 billion to ¥87.7 billion. Factoring in the aforementioned ¥17.8 billion increase in cash and time deposits to ¥62.5 billion, net interest-bearing debt contracted ¥40.5 billion from March 31, 2009 to ¥25.1 billion. The

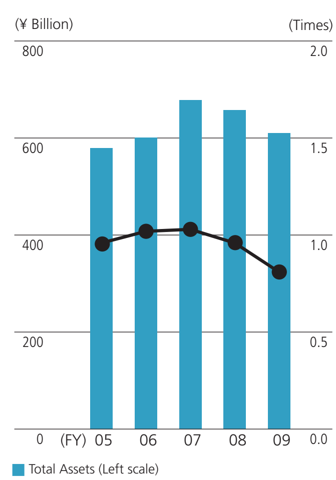
Operating Income,
Operating Income Margin



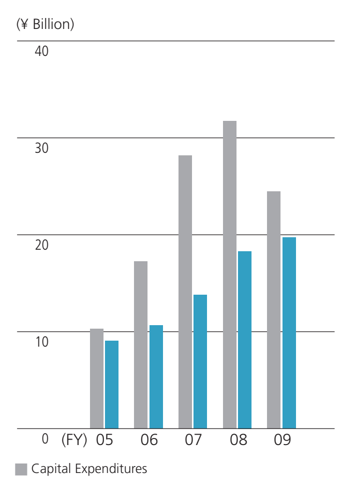
Net Income,
Net Income Margin, ROE



Total Assets,
Total Asset Turnover



Capital Expenditures,
Depreciation and Amortization



ratio of net interest-bearing debt to total assets improved 5.9 percentage points to 4.1%.

Advance payments received on contracts dropped ¥9.0 billion year on year to ¥41.0 billion, primarily owing to the transfer of these payments to the sales account, which resulted in increases in sales in the energy and environmental plant and ships businesses.

Net assets totaled ¥254.2 billion, up ¥15.5 billion from March 31, 2009, mainly due to an increase in total owners' equity, reflecting the posting of net income in the period under review, and unrealized gains on securities, net of income taxes. As a result, the stockholders' equity ratio as of March 31, 2010 rose 5.2 percentage points year on year to 40.0%.

(2) Cash Flows

The SHI Group uses internal funds and funds procured through debt financing as working capital and to fund capital spending.

Net cash provided by operating activities totaled ¥57.5 billion, up ¥22.8 billion year on year. The ¥7.5 billion decrease in income before income taxes and minority interests was more than offset by such cash inflows as depreciation and decreases in inventories as well as notes and accounts receivable in addition to a much lower payment for income taxes.

Net cash used in investing activities totaled ¥14.0 billion, down ¥22.0 billion year on year. This decline was largely attributable to a decrease in payments for purchases of property, plant and equipment in line with the Company's efforts to reduce capital expenditure and to the absence of the payment for purchase of consolidated subsidiary with change in scope of consolidation in fiscal 2009.

Net cash used in financing activities totaled ¥26.7 billion. In fiscal 2008, the Company worked to secure capital liquidity in expectation of a deterioration in the fund procurement environment, particularly through commercial paper and corporate bonds. In contrast, in fiscal 2009, the Company worked to compress its interest-bearing debt, which resulted in a ¥5.8 billion net decrease in short-term loans and a ¥24.0 billion decrease in commercial paper.

Accounting for these factors, cash and cash equivalents as of March 31, 2010 stood at ¥61.5 billion, up ¥19.0 billion from March 31, 2009.

(3) Capital Expenditure and Depreciation and Amortization

The SHI Group invested a total of ¥24.5 billion during fiscal 2009, with the primary goal of reinforcing its global supply chain.

In the Mass-Produced Machinery segment, the Company invested totaling ¥8.9 billion in line with the said goal. More specifically, this investment was aimed at strengthening the cost-competitiveness of the Group's production bases in China and other countries. In the Environmental Protection Facilities, Plants & Others segment, the SHI Group invested a total of ¥0.8 billion in projects to streamline business processes and improve operational efficiency. In the Ship, Steel Structure & Other Specialized Equipment segment, the Group invested a total of ¥4.5 billion for upgrading and relocating existing facilities and equipment—an initiative aimed at boosting production capacity and productivity. In the Industrial Machinery segment, the SHI Group used a total of ¥1.8 billion to enhance productivity in order to meet increased demand for such products as material handling systems, turbines and pumps. In the Construction Machinery segment, the Group invested a total of ¥8.5 billion, focusing on bolstering the cost-competitiveness of its production bases in China and other countries, with the aim of establishing a global supply chain.

Depreciation and amortization for the period under review totaled ¥19.7 billion, down ¥1.4 billion year on year.

3. Policy on Distribution of Profits

SHI adheres to a basic profit distribution policy of paying out dividends commensurate to the net income earned during the period and striving to increase dividend amounts. At the same time, the Company works to maintain retained earnings at a level sufficient to ensuring sustainable business growth over the long term.

With due consideration given to such factors as deterioration in the SHI Group's performance, the Company decided to pay out an annual dividend of ¥4 per share, a ¥2 reduction from fiscal 2008.

Business Risks

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

All statements below regarding future events represent judgments made by the management of the Group as of March 31, 2010.

1. Macroeconomic Factors

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

2. Exchange-Rate Fluctuations

The Group's business includes the production and marketing of products in countries all around the world. Yen translations are applied in the consolidated financial statements for transactions (involving overseas sales, expenses, assets and liabilities) undertaken in local currencies. Due to exchange rate effects, the Group may be adversely impacted by transaction values after yen translation even if there is no such change in local currency terms. As of March 31, 2010, the Group had an order backlog, chiefly in its shipbuilding business, of US$0.5 billion. To minimize the impact of exchange-rate fluctuations on our business performance, the SHI Group uses forward exchange contracts to hedge against risk. However, it is not possible to eliminate all risk using this method. For this reason, the Group could suffer an adverse impact on its business performance from exchange-rate fluctuations.

3. New Influenza Strain

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

4. Overseas Businesses

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

5. Product Quality

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

6. Impact of Impairment Accounting

Based on the Law Concerning Revaluation of Land (Ordinance No. 34, issued March 31, 1998) and the Law to Partially Modify the Law Concerning Revaluation of Land (Ordinance No. 19, March 31, 2001), the Company revalued land used by its businesses on March 31, 2002. The difference between the market and book values of the revalued land as of March 31, 2010 was ¥21.1 billion, a decline of 21%. If land values continue to fall, we may have to recognize impairment losses on fixed assets, which could adversely affect the business performance and financial position of the Group.

7. Environmental Protection Measures

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

8. Natural and Other Disasters

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

Consolidated Balance Sheets

March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	2010	2009	2010
Current assets:			
Cash and time deposits (Notes 2 and 5)	¥ 62,511	¥ 44,685	$ 672,167
Trade receivables:			
Notes receivable	9,900	14,303	106,450
Accounts receivable	121,993	141,361	1,311,756
Allowance for doubtful accounts	(1,073)	(1,012)	(11,540)
Inventories (Note 3)	123,416	149,380	1,327,059
Deferred tax assets (Note 6)	8,632	7,631	92,814
Prepaid expenses and other current assets (Notes 2 and 5)	14,401	23,945	154,837
Total current assets	339,780	380,293	3,653,543
Property, plant and equipment:			
Land (Note 5)	115,971	115,909	1,247,000
Buildings and structure (Note 5)	139,711	133,721	1,502,274
Machinery and other tangible fixed assets (Note 5)	145,800	138,063	1,567,733
Construction in progress	1,450	3,864	15,593
	402,932	391,557	4,332,600
Accumulated depreciation	(186,455)	(177,529)	(2,004,892)
Net property, plant and equipment	216,477	214,028	2,327,708
Investments, long-term loans and other assets:			
Investments in unconsolidated subsidiaries and affiliated companies	13,509	14,790	145,259
Long-term loans receivable and investment securities (Note 12)	16,968	13,582	182,450
Deferred tax assets (Note 6)	9,886	11,940	106,303
Other assets	15,041	24,267	161,739
Allowance for doubtful accounts	(1,574)	(1,464)	(16,922)
Total investments, long-term loans and other assets	53,830	63,115	578,829
Total assets	¥610,087	¥657,436	$6,560,080

LIABILITIES AND NET ASSETS	Millions of yen 2010	Millions of yen 2009	Thousands of U.S. dollars (Note 1) 2010
Current liabilities:			
Short-term bank loans (Note 5)	¥ 30,524	¥ 34,176	$ 328,218
Long-term debt due within one year (Note 5)	10,438	1,136	112,232
Current portion of bonds (Note 5)	—	10,000	—
Commercial paper (Note 5)	—	24,000	—
Trade payable:			
Notes payable	26,211	37,652	281,844
Accounts payable	81,806	98,438	879,636
Advance payments received on contracts	40,971	49,977	440,546
Accrued income taxes	6,759	4,810	72,680
Allowance for warranty	5,218	5,661	56,107
Allowance for losses on construction contracts	754	274	8,104
Allowance for losses on business restructuring	1,530	1,842	16,450
Accrued expenses and other current liabilities (Notes 5 and 6)	30,743	34,420	330,570
Total current liabilities	234,954	302,386	2,526,387
Long-term liabilities:			
Long-term debt (Note 5)	46,698	41,027	502,131
Employees' severance and retirement benefits (Note 14)	32,426	34,808	348,662
Allowance for losses on product liabilities	235	237	2,525
Deferred tax liabilities on revaluation difference on land	32,211	32,211	346,351
Other long-term liabilities (Note 6)	9,410	8,070	101,198
Total long-term liabilities	120,980	116,353	1,300,867
Contingent liabilities (Note 8)			
Net assets (Note 7):			
Common stock:	30,872	30,872	331,953
Number of shares authorized 1,800,000 thousand shares			
Number of shares issued 605,726 thousand shares			
Capital surplus	20,503	20,503	220,458
Retained earnings	161,951	148,725	1,741,406
Treasury stock at cost, 2,315,778 shares in 2010 and 2,259,483 shares in 2009	(1,494)	(1,471)	(16,066)
Total owners' equity	211,832	198,629	2,277,751
Unrealized gains (losses) on securities, net of income taxes	2,002	(547)	21,535
Unrealized gains on hedging derivatives, net of income taxes	1,125	1,945	12,097
Adjustment regarding pension obligations of consolidated overseas subsidiaries	(1,753)	(3,008)	(18,852)
Revaluation difference on land	40,386	40,360	434,253
Foreign currency translation adjustments	(9,370)	(8,798)	(100,748)
Total valuation and translation adjustments	32,390	29,952	348,285
Minority interests	9,931	10,116	106,790
Total net assets	254,153	238,697	2,732,826
Total liabilities and net assets	¥610,087	¥657,436	$6,560,080

See accompanying notes.

Consolidated Statements of Income

Years ended March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	2010
Net sales (Note 9)	¥516,165	¥642,918	$5,550,162
Costs and expenses (Note 9):			
Cost of sales	412,751	503,072	4,438,182
Selling, general and administrative expenses	75,160	82,906	808,176
	487,911	585,978	5,246,358
Operating income (Note 9)	28,254	56,940	303,804
Other income (expenses):			
Income			
Interest and dividend income	1,222	1,179	13,142
Exchange gains	933	—	10,030
Equity in earnings of affiliates	—	755	—
Other—net	2,395	1,859	25,747
Expenses			
Interest expense	(1,940)	(1,611)	(20,863)
Equity in losses of affiliates	(22)	—	(233)
Exchange losses	—	(1,941)	—
Other—net	(4,296)	(6,919)	(46,195)
Special gains (losses):			
Gains			
Gain on sale of securities	1,581	13	16,995
Subsidy	863	—	9,282
Losses			
Loss on valuation of investment securities	(1,000)	(6,043)	(10,754)
Contract loss	(1,000)	—	(10,750)
Environmental expenses	(503)	—	(5,408)
Amortization of goodwill	—	(4,932)	—
Business restructuring costs	(213)	(2,019)	(2,285)
Impairment losses on fixed assets (Note 4)	—	(1,904)	—
Loss on breach of antimonopoly law	—	(1,638)	—
Income before income taxes and minority interests	26,274	33,739	282,512
Income taxes (Note 6):			
Current	11,503	17,711	123,677
Deferred	382	979	4,112
Total	11,885	18,690	127,789
Minority interests in net income	(1,109)	(1,400)	(11,925)
Net income	¥ 13,280	¥ 13,649	$ 142,798

	Yen		U.S. dollars (Note 1)
	2010	2009	2010
Amounts per share of common stock:			
Net income	¥22.01	¥22.62	$0.24
Diluted net income	—	—	—
Cash dividends applicable to the year (Note 15)	4.00	6.00	0.04

See accompanying notes.

Consolidated Statements of Changes in Net Assets

Year ended March 31, 2009

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

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

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

Consolidated Statements of Changes in Net Assets

Year ended March 31, 2010

	Number of shares of common stock (Thousand)	Millions of yen				
		Owners' equity				
		Common stock	Capital surplus	Retained earnings	Treasury stock	Sub-total
Net assets at March 31, 2009	605,726	¥30,872	¥20,503	¥148,725	¥(1,471)	¥198,629
Net income				13,280		13,280
Acquisition of treasury stock					(28)	(28)
Disposal of treasury stock				(1)	5	4
Increase due to transfer of revaluation difference on land				(26)		(26)
Increase from increase of consolidated subsidiaries with change in scope of consolidation				578		578
Decrease due to exclusion of consolidated subsidiaries from the scope of consolidation				(605)		(605)
Changes in items other than owners' equity in the period (net)						
Total changes in the period	—			13,226	(23)	13,203
Net assets at March 31, 2010	605,726	¥30,872	¥20,503	¥161,951	¥(1,494)	¥211,832

	Millions of yen							
	Valuation and translation adjustments							
	Unrealized gains (losses) on securities, net of income taxes	Unrealized gains (losses) on hedging derivatives, net of income taxes	Adjustment regarding pension obligations of consolidated overseas subsidiaries	Revaluation difference on land	Foreign currency translation adjustments	Sub-total	Minority interests	Total
Net assets at March 31, 2009	¥ (547)	¥1,945	¥(3,008)	¥40,360	¥(8,798)	¥29,952	¥10,116	¥238,697
Net income								13,280
Acquisition of treasury stock								(28)
Disposal of treasury stock								4
Increase due to transfer of revaluation difference on land								(26)
Increase from increase of consolidated subsidiaries with change in scope of consolidation								578
Decrease due to exclusion of consolidated subsidiaries from the scope of consolidation								(605)
Changes in items other than owners' equity in the period (net)	2,549	(820)	1,255	26	(572)	2,438	(185)	2,253
Total changes in the period	2,549	(820)	1,255	26	(572)	2,438	(185)	15,456
Net assets at March 31, 2010	¥2,002	¥1,125	¥(1,753)	¥40,386	¥(9,370)	¥32,390	¥ 9,931	¥254,153

		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, 2009	605,726	$331,953	$220,458	$1,599,198	$(15,812)	$2,135,797
Net income				142,798		142,798
Acquisition of treasury stock					(301)	(301)
Disposal of treasury stock				(17)	47	30
Increase due to transfer of revaluation difference on land				(279)		(279)
Increase from increase of consolidated subsidiaries with change in scope of consolidation				6,211		6,211
Decrease due to exclusion of consolidated subsidiaries from the scope of consolidation				(6,505)		(6,505)
Changes in items other than owners' equity in the period (net)						
Total changes in the period	—	—	—	142,208	(254)	141,954
Net assets at March 31, 2010	605,726	$331,953	$220,458	$1,741,406	$(16,066)	$2,277,751

	Thousands of U.S. dollars (Note 1)							
	Valuation and translation adjustments							
	Unrealized gains (losses) on securities, net of income taxes	Unrealized gains (losses) on hedging derivatives, net of income taxes	Adjustment regarding pension obligations of consolidated overseas subsidiaries	Revaluation difference on land	Foreign currency translation adjustments	Sub-total	Minority interests	Total
Net assets at March 31, 2009	$ (5,877)	$20,910	$(32,342)	$433,974	$ (94,599)	$322,066	$108,775	$2,566,638
Net income								142,798
Acquisition of treasury stock								(301)
Disposal of treasury stock								30
Increase due to transfer of revaluation difference on land								(279)
Increase from increase of consolidated subsidiaries with change in scope of consolidation								6,211
Decrease due to exclusion of consolidated subsidiaries from the scope of consolidation								(6,505)
Changes in items other than owners' equity in the period (net)	27,412	(8,813)	13,490	279	(6,149)	26,219	(1,985)	24,234
Total changes in the period	27,412	(8,813)	13,490	279	(6,149)	26,219	(1,985)	166,188
Net assets at March 31, 2010	$21,535	$12,097	$(18,852)	$434,253	$(100,748)	$348,285	$106,790	$2,732,826

Consolidated Statements of Cash Flows

Years ended March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	2010
Cash flows from operating activities:			
Income before income taxes and minority interests	¥26,274	¥33,739	$282,512
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation	19,725	18,320	212,097
Impairment losses on fixed assets	—	1,904	—
Loss on disposal of property, plant and equipment	584	859	6,284
Gain on sale of investment securities	(1,581)	(9)	(16,995)
Loss on valuation of investment securities	1,000	6,043	10,754
Amortization of goodwill	—	4,932	—
Business restructuring costs	213	2,019	2,285
Loss on breach of antimonopoly law	—	1,638	—
Environmental expenses	503	—	5,408
Contract loss	1,000	—	10,750
Increase (decrease) in employees' severance and retirement benefits	(1,327)	1,345	(14,270)
Equity in earnings (losses) of unconsolidated subsidiaries and affiliated companies	22	(755)	233
Increase (decrease) in allowance	(17)	5	(179)
Interest and dividend income	(1,222)	(1,179)	(13,142)
Interest expenses	1,940	1,611	20,863
Changes in operating assets and liabilities:			
(Increase) decrease in notes and accounts receivable	15,652	30,033	168,298
(Increase) decrease in inventories	27,977	(19,021)	300,824
Increase (decrease) in notes and accounts payable	(29,282)	(25,368)	(314,855)
Other—net	5,551	6,271	59,693
Sub-total	67,012	62,387	720,560
Interest and dividend received	1,785	1,712	19,195
Interest expenses	(1,869)	(1,615)	(20,096)
Payment for income taxes	(9,415)	(27,808)	(101,240)
Net cash provided by operating activities	¥57,513	¥34,676	$618,419

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	2010
Cash flows from investing activities:			
Net increase in time deposits	¥ 1,713	¥ 55	$ 18,414
Net decrease (increase) in short-term investment securities	1,500	—	16,129
Payments for securities	(46)	(475)	(494)
Payments for purchases of property, plant and equipment	(20,004)	(28,073)	(215,094)
Proceeds from sale of securities	1,485	1,045	15,966
Payment for purchase of investment in affiliated company	(22)	(4,511)	(240)
Proceeds from sale of property, plant and equipment	926	1,112	9,961
Decrease in short-term loans receivable	778	3,137	8,364
Payments for long-term loans receivable	(9)	(57)	(101)
Collection of long-term loans receivable	24	64	262
Payment for purchase of consolidated subsidiary with change in scope of consolidation (Note 2)	—	(7,921)	—
Other—net	(299)	(300)	(3,208)
Net cash used in investing activities	(13,954)	(35,924)	(150,041)
Cash flows from financing activities:			
Net increase (decrease) in short-term loans	(5,754)	19,644	(61,874)
Increase (decrease) in commercial paper	(24,000)	6,000	(258,065)
Proceeds from long-term debt	6,099	384	65,577
Payments for long-term debt	(1,137)	(2,857)	(12,224)
Proceeds from issuance of bonds	10,000	—	107,527
Redemption of bonds	(10,000)	—	(107,527)
Cash dividends paid	(22)	(6,628)	(234)
Payment of dividends for minority stockholders	(1,004)	(382)	(10,791)
Repayments of finance lease obligations	(843)	(466)	(9,062)
Other—net	(25)	(70)	(269)
Net cash provided by (used in) financing activities	(26,686)	15,625	(286,942)
Effect of exchange rate changes on cash and cash equivalents	206	(1,817)	2,207
Net increase in cash and cash equivalents	17,079	12,560	183,643
Cash and cash equivalents at beginning of year	42,414	29,879	456,067
Increase due to new consolidated companies	1,942	—	20,883
Decrease from the change in consolidation scope	—	(39)	—
Increase due to a consolidated subsidiary's merger with a non-consolidated subsidiary	17	14	185
Cash and cash equivalents at the end of year (Note 2)	¥61,452	¥42,414	$660,778

See accompanying notes.

Notes to Consolidated Financial Statements

1. Significant accounting policies

Basis of presenting consolidated financial statements

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

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

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

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2010, which was ¥93 to U.S. $1. The convenience translations should not be construed as representations of what the Japanese yen amounts have been, could have been, or could in the future be when converted into U.S. dollars at this or any other rate of exchange.

Principles of consolidation

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

Investments in significant affiliated companies are accounted for by the equity method. Significant goodwill, which is difference between the investment cost and net assets at the date of acquisition are amortized over 5 years. In case of insignificant amounts, 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 values are stated at fair value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of the net assets. Realized gains and losses on sale of such securities are computed using the moving-average method. Equity securities issued by subsidiaries and affiliated companies, which are not consolidated or accounted for using the equity method, are stated at cost based on the moving-average method. Unlisted available-for-sale securities are stated at cost based on the moving-average method.

Inventories

Inventories are stated at the lower of cost or net realizable value as of the year-end date.

Depreciation and amortization

Tangible fixed assets (not including lease assets):

Buildings acquired between April 1, 1998 and March 1, 2007 are depreciated using a straight-line method with residual value of 5%. Buildings acquired after April 1, 2007 are depreciated primarily using a straight-line method with no residual value. Other tangible fixed assets acquired on or before March 31, 2007 are depreciated primarily by declining-balance method with residual value of 5% and those acquired after April 1, 2007 are depreciated by declining-balance method with no residual value.

During the year ended March 31, 2009, the Company and consolidated domestic subsidiaries reviewed and changed useful lives prompted by reassessment of useful lives in the Japanese Corporation Tax Law in 2009. This had not any material impact on the Company's consolidated financial statements.

Lease assets:

The Company and consolidated domestic subsidiaries account for finance leases commencing prior to April 1, 2008 which do not transfer the ownership of the leased property to the lessee as operating leases with disclosures of certain "as if capitalized" information. The Company and consolidated domestic subsidiaries capitalized finance leases that commenced after March 31, 2008, except for certain immaterial or short-term finance leases, which are accounted for as operating leases.

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

Allowance for doubtful accounts

The Company and consolidated subsidiaries provide an allowance for doubtful accounts. Calculation of the allowance is based on historical collection losses for normal receivables and accounts receivable considered at risk (bankruptcy, companies under reorganization plan), the amount is recorded based on an estimated uncollectible amount, on an individual basis.

Revaluation difference on land

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

The current value of the land as of March 31, 2010 fell by ¥21,137 million ($227,276 thousand) in comparison with the book value of the land after the revaluation.

Employees' severance and retirement benefits

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

Prior service costs are recognized in expenses as incurred by the Company and amortized by the straight-line method over a period within the average remaining service year of employees (mainly 12 years) by consolidated subsidiaries.

The actuarial gains (losses) are amortized by the straight-line method over a period within the average remaining service year of employees (mainly 12 years) commencing in the next year when incurred.

Allowance for warranty

For expenditures in relation to repair work to be performed free of charge after delivery of products, allowance for warranty is provided at an amount estimated to be incurred based on the past experience of such repair work actually performed.

Allowance for losses on construction contracts

With regard to construction contracts with high probability of incurring substantial losses at the end of the fiscal year, an estimated amount of losses to be incurred in the future is provided as allowance for the losses on construction contracts.

Allowance for losses on product liabilities

Allowance for losses on product liabilities is provided at an estimated amount of product liabilities to be incurred in relation to crane business of overseas subsidiaries.

Allowance for losses on business restructuring

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

Revenue recognition of construction contracts

The percentage-of-completion method is applied to construction contracts when outcome of individual contracts is reliably estimated. The completed-contract method is applied to the other construction contracts.

Software costs

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

Research and development costs

Research and development costs are charged to income when incurred. Research and development costs included in production cost, and selling, general and administrative expenses were ¥8,930 million ($96,020 thousand) and ¥10,688 million for the years ended March 31, 2010 and 2009, respectively.

Income taxes

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

The Company and certain domestic consolidated subsidiaries adopt Japanese tax regulations for 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 subsidiary, except for common stock, capital surplus and retained earnings, which are translated at historical rates.

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

Amortization of goodwill

Goodwill is amortized based on the straight-line method over the 5-year period, the estimated period over which the effect of investment is expected to be obtained.

However, where amount of goodwill is insignificant, all such amount is charged or credited to income as incurred.

Derivatives and hedge accounting

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

However, if forward foreign exchange contracts meet certain hedging criteria, they are accounted for the contracts 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 the amount using the spot rate at the inception date of the contract) is recognized over the term of the contract.

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

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

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

Amounts per share

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

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

Cash dividends per share have been presented on an accrual basis and include year-end cash dividend resolved at shareholders' meeting held after the end of fiscal year, but applicable to the year ended.

Reclassifications

Certain amounts in the consolidated financial statements for the year ended March 31, 2009 have been reclassified to conform to the 2010 presentation.

Change in accounting policies

(A) New accounting standards for retirement benefits

Effective from the fiscal year ended March 31, 2010, the Company and consolidated domestic subsidiaries adopted the "Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)" (Accounting Standards Board of Japan ("ASBJ") Statement No. 19 issued on July 31, 2008). The new accounting standard requires domestic companies to use the rate of return on long-term government or gilt-edged bonds as of the end of the fiscal year for calculating the projected benefit obligation of a defined-benefit plan. Previously, domestic companies were allowed to use a discount rate determined by taking into consideration fluctuations in the yield of long-term government or gilt-edged bonds over a certain period. There is no impact of this change on the operating income and income before income taxes and minority interests for the year ended March 31, 2010.

(B) New accounting standard for construction contracts

To account for the revenues and costs of construction contracts, the percentage-of-completion method was applied to long-term, large-scale construction contracts that met certain conditions, whereas the completed-contract method was applied to other construction contracts. Effective from the year ended March 31, 2010, the domestic companies adopted the "Accounting Standard for Construction Contracts" (ASBJ Statement No. 15, issued on December 27, 2007) and the "Guidance on Accounting Standard for Construction Contracts" (ASBJ Guidance No. 18, issued on December 27, 2007). Accordingly, when the outcome of individual contracts is reliably estimated, the domestic companies apply the percentage-of-completion method to construction projects commencing in the year ended March 31, 2010, otherwise the completed-contract method is applied. The percentage of completion at the end of the reporting period is measured by the proportion of the cost incurred to the estimated total cost. As a result of the adoption, net sales for this consolidated fiscal year increased by ¥781 million ($8,397 thousand) and operating income and income before taxes and minority interests each increased by ¥116 million ($1,251 thousand) compared to the previous accounting method. Effects on the change on the segment information are described in "9. Segment information (D)".

(C) Unification of accounting policies applied to foreign subsidiaries for consolidated financial statements

On May 17, 2006, the Accounting Standards Board of Japan issued ASBJ Practical Issues Task Force No. 18 "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" ("PITF No. 18"). PITF No. 18 requires that accounting policies and procedures applied by a parent company and its subsidiaries to similar transactions and events under similar circumstances should, in principle, be unified for the preparation of the consolidated financial statements. PITF No. 18, however, as a tentative measure, allows a parent company to prepare consolidated financial statements using foreign subsidiaries' financial statements prepared in accordance with either International Financial Reporting Standards or U.S. generally accepted accounting principles. In this case, adjustments for the following six items are required in the consolidation process so that their impact on net income is accounted for in accordance with Japanese GAAP unless the impact is not material.

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

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

Business combinations

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

1. General information:

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

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

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

2. Business of the entity:

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

3. Overview of the transaction and the purpose:

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

4. Acquired company's financial results for 2009:

As the acquisition date is deemed to be on March 31, 2009, the results of operations of the acquired company before March 31, 2009 are included in equity in earnings of affiliates.

5. Acquisition costs:

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

6. Negative goodwill:

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

(2) Reason for the negative goodwill

The negative goodwill was recorded as the acquisition price agreed with the seller in consideration of the valuation by a third party institution was lower than the net assets measured at fair value as of the date of the acquisition.

(3) Amortization of negative goodwill

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

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, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Cash and time deposits	¥62,511	¥44,685	$672,167
Time deposits with maturities over three months	(322)	(2,035)	(3,461)
Collateral deposits	(738)	(237)	(7,939)
Investment securities (cash equivalents)	1	1	11
Cash and cash equivalents	¥61,452	¥42,414	$660,778

As the Note of Business combinations states, the Company acquired additional voting rights of an affiliate, SEN Corporation, an SHI and Axcelis Company, which became a consolidated subsidiary as a result.

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

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

	Millions of yen
	2009
Current assets	¥11,477
Non-current assets	4,242
Goodwill generated	(3,334)
Current liabilities	(876)
Non-current liabilities	(76)
Acquisition cost of stock	¥11,433
Cash and cash equivalents	(3,512)
Payment for purchase	¥ 7,921

3. Inventories

Inventories as of March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Finished products	¥ 34,408	¥ 43,260	$ 369,979
Work in process	70,071	84,826	753,455
Raw materials and supplies	18,937	21,294	203,625
Total	¥123,416	¥149,380	$1,327,059

4. Impairment losses on fixed assets

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

			Millions of yen
Use	Type of assets	Location	2009
Business Property	Intangible fixed assets	Germany	¥1,633
Idle	Buildings, etc.	Kurashiki, Okayama Pref.	116
Idle	Buildings, etc.	Saijo, Ehime Pref.	108
Idle	Buildings, etc.	Yokosuka, Kanagawa Pref.	47
Total			¥1,904

Reason for recognition of impairment losses:

Due to decrease in profitability and changes in a business plan, recoverability of assets amount cannot be expected.

Grouping of assets:

Assets grouping is basically determined based on each division operation. Temporarily idle assets are grouped as each item.

Calculation of recoverable amount:

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

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

Bank loans as of March 31, 2010 and 2009 consisted of short-term loans, bearing average interest at 1.69% and 1.63% per annum, respectively.

There was no balance of the commercial paper as of March 31, 2010. Commercial paper as of March 31, 2009 bore interest principally at 0.50% per annum.

The amounts of lease obligation under finance leases include the imputed interest expense portion.

Long-term debt as of March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
0.9 % domestic bonds due in December 2014	¥10,000		$107,527
1.0 % domestic bonds due in March 2010		¥10,000	
Loans principally from banks and insurance companies due serially through June 2018 with interest ranging from 1.07% to 2.20% in 2009			
Secured	1,196	1,796	12,860
Unsecured	45,940	40,367	493,977
Lease obligations	4,320	2,460	46,449
	¥61,456	¥54,623	$660,813
Amount due within one year	11,226	11,136	120,706
Amount due after one year	50,230	43,487	540,107

Annual maturities of long-term debt as of March 31, 2010 were as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31	2010	2010
2011	¥11,226	$120,706
2012	5,532	59,484
2013	21,262	228,622
2014	1,619	17,409
2015	21,650	232,801
2016 and thereafter	167	1,791
Total	¥61,456	$660,813

As of March 31, 2010 and 2009, assets pledged as collateral for short-term loans, long-term loans from banks and insurance companies and domestic bonds were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Cash and time deposits	¥ 739	¥ 294	$ 7,942
Buildings and structure	2,295	2,754	24,674
Machinery and other tangible fixed assets	87	1,663	934
Land	34,529	34,652	371,284
Total	¥37,650	¥39,363	$404,834

The Company has agreements with twelve banks for revolving lines of credit and four global commitment lines to efficiently borrow working capital.

As of March 31, 2010 and 2009, unused revolving lines of credit and global commitment lines were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Limit of revolving lines of credit and global commitment lines	¥50,888	¥45,823	$547,183
Executed	3,551	4,351	38,184
Unused	¥47,337	¥41,472	$508,999

6. Income tax

The Companies are subject to corporation, inhabitants' and enterprise taxes, which, in the aggregate show a statutory tax rate in Japan of approximately 41% for the years ended March 31, 2010 and 2009.

The following table summarizes significant differences between the statutory tax rate and the effective tax rate for consolidated financial statement purposes for the years ended March 31, 2010 and 2009.

	2010	2009
Statutory tax rate	40.69%	40.69%
Expenses not deductible for tax purposes	2.70	1.37
Per capita inhabitant tax	0.80	0.60
Dividend income deductible for tax purpose	(4.42)	(1.42)
Amortization of goodwill	0.62	7.76
Retained earnings in consolidated overseas subsidiaries	—	(8.37)
Valuation allowance	3.82	11.53
Others	1.02	3.24
Effective tax rate	45.23%	55.40%

Main components of deferred tax assets and liabilities as of March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Deferred tax assets:			
Accrued bonuses	¥ 3,280	¥ 3,387	$ 35,271
Allowance for doubtful accounts	869	846	9,341
Allowance for warranty	1,832	2,048	19,702
Allowance for employees' severance and retirement benefit	15,070	15,804	162,040
Unrealized profit on inventories	704	880	7,574
Devaluation of marketable securities and investments into affiliated companies	1,045	1,621	11,238
Excess depreciation	1,202	1,350	12,929
Net operating loss carryforward	5,382	3,461	57,867
Loss on valuation of inventories	2,238	1,686	24,061
Others	6,872	7,359	73,891
Total deferred tax assets	38,494	38,442	413,914
Less-valuation allowance	(14,109)	(13,617)	(151,706)
Deferred tax assets—net	¥24,385	¥24,825	$262,208
Deferred tax liabilities:			
Excess tax depreciation reserve	(112)	(115)	(1,207)
Difference on revaluation of assets and liabilities of subsidiaries	(3,955)	(4,089)	(42,525)
Accelerated depreciation	(662)	(545)	(7,114)
Retained earnings in consolidated overseas subsidiaries	(1,328)	(1,345)	(14,279)
Net unrealized holding gains on securities	(1,038)	—	(11,158)
Deferred gain or loss on hedges	(813)	(1,333)	(8,739)
Others	(104)	(15)	(1,130)
Deferred tax liabilities	¥ (8,012)	¥ (7,442)	$ (86,152)
Net deferred tax assets	¥16,373	¥17,383	$176,056

7. Net assets

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 Japanese Corporate Law ("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 Law, generally legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a 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, 2010, amounted to ¥30,662 million ($329,703 thousand).

At the general shareholders' meeting held on June 29, 2010, the shareholders resolved cash dividends amounting to ¥2,414 million ($25,953 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2010 and are recognized in the period in which they were resolved.

8. Contingent liabilities

Certain consolidated domestic subsidiaries are contingently liable as endorsers of trade notes receivable discounted with banks in the amounts of ¥2,502 million ($26,902 thousand) and ¥3,257 million as of March 31, 2010 and 2009. In addition, 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 ¥15,495 million ($166,612 thousand) and ¥14,178 million as of March 31, 2010 and 2009 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 business segment for the years ended March 31, 2010 and 2009, and a summary of identifiable assets, depreciation, impairment losses on fixed assets and capital expenditures by business segment for the years ended March 31, 2010 and 2009 are presented below:

	Millions of yen						
2010	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	¥174,231	¥77,195	¥76,452	¥85,637	¥102,650	¥ —	¥516,165
Inter-segment	2,322	2,306	652	207	6	(5,493)	—
Total	176,553	79,501	77,104	85,844	102,656	(5,493)	516,165
Costs and expenses	178,253	71,554	69,902	71,677	102,085	(5,560)	487,911
Operating income (loss)	¥ (1,700)	¥ 7,947	¥ 7,202	¥14,167	¥ 571	¥ 67	¥ 28,254
II Identifiable assets	¥227,759	¥61,545	¥91,564	¥63,505	¥122,098	¥43,616	¥610,087
Depreciation	9,804	1,053	3,176	1,853	3,839	—	19,725
Capital expenditures	8,923	750	4,520	1,792	8,480	—	24,465

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

2010	Thousands of U.S. dollars 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	$1,873,454	$830,049	$822,061	$920,833	$1,103,765	$ —	$5,550,162
Inter-segment	24,964	24,800	7,011	2,222	64	(59,061)	—
Total	1,898,418	854,849	829,072	923,055	1,103,829	(59,061)	5,550,162
Costs and expenses	1,916,697	769,401	751,627	770,718	1,097,691	(59,776)	5,246,358
Operating income (loss)	$ (18,279)	$ 85,448	$ 77,445	$152,337	$ 6,138	$ 715	$ 303,804
II Identifiable assets	$2,449,020	$661,778	$984,558	$682,855	$1,312,881	$468,988	$6,560,080
Depreciation	105,416	11,321	34,150	19,925	41,285	—	212,097
Capital expenditures	95,956	8,068	48,599	19,265	91,180	—	263,068

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

(B) Information by geographic area for the years ended March 31, 2010 and 2009 was as follows:

2010	Millions of yen Japan	North America	Other areas	Elimination and/or corporate	Consolidated
I Sales and operating income					
Sales:					
Outside customers	¥418,145	¥46,715	¥51,305	¥ —	¥516,165
Inter-segment	32,315	1,000	7,951	(41,266)	—
Total	450,460	47,715	59,256	(41,266)	516,165
Costs and expenses	422,429	45,945	61,296	(41,759)	487,911
Operating income (loss)	¥ 28,031	¥ 1,770	¥ (2,040)	¥ 493	¥ 28,254
II Identifiable assets	¥451,472	¥45,383	¥66,902	¥46,330	¥610,087

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

2010	Japan	North America	Other areas	Elimination and/or corporate	Consolidated
	Thousands of U.S. dollars				
I Sales and operating income					
Sales:					
Outside customers	$4,496,180	$502,310	$551,672	$ —	$5,550,162
Inter-segment	347,478	10,754	85,489	(443,721)	—
Total	4,843,658	513,064	637,161	(443,721)	5,550,162
Costs and expenses	4,542,243	494,034	659,098	(449,017)	5,246,358
Operating income (loss)	$ 301,415	$ 19,030	$ (21,937)	$ 5,296	$ 303,804
II Identifiable assets	$4,854,545	$487,987	$719,379	$498,169	$6,560,080

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

(C) Overseas sales of the Companies for the years ended March 31, 2010 and 2009 were as follows:

2010	To North America	To Asia	To other areas	Total
	Millions of yen			
Overseas Sales	¥56,869	¥92,696	¥93,885	¥243,450
Consolidated Sales				516,165
Ratio of overseas sales to consolidated sales	11.0%	18.0%	18.2%	47.2%

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

2010	To North America	To Asia	To other areas	Total
	Thousands of U.S. dollars			
Overseas Sales	$611,497	$996,729	$1,009,516	$2,617,742
Consolidated Sales				5,550,162
Ratio of overseas sales to consolidated sales	11.0%	18.0%	18.2%	47.2%

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

(D) The effect of the accounting changes on segment information

New accounting standard for construction contracts

As discussed in "1. Change in accounting policies (B)," from the year ended March 31, 2010, the Company and consolidated domestic subsidiaries adopted the new accounting standard for construction contracts.

By the accounting change, in the Environmental protection facilities, plants & other segment, sales increased by ¥302 million ($3,250 thousand), and operating income increased by ¥28 million ($306 thousand). Further, in the Industrial machinery segment, sales increased by ¥479 million ($5,147 thousand), and operating income increased by ¥88 million ($945 thousand).

10. Information for certain leases

The summary of pro forma 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, 2010 and 2009 was as follows:

(A) Lessees

	Millions of yen		
2010	Acquisition cost	Accumulated depreciation	Net book value
Machinery and other tangible fixed assets	¥15,152	¥8,409	¥6,743
Others	342	214	128
Total	¥15,494	¥8,623	¥6,871

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

	Thousands of U.S. dollars		
2010	Acquisition cost	Accumulated depreciation	Net book value
Machinery and other tangible fixed assets	$162,926	$90,419	$72,507
Others	3,672	2,301	1,371
Total	$166,598	$92,720	$73,878

Total lease payments for finance leases which do not transfer ownership to lessees amounted to ¥2,768 million ($29,760 thousand) and ¥3,922 million for the years ended March 31, 2010 and 2009, respectively.

Future lease payments as of March 31, 2010 and 2009, including interest under such leases were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Due within one year	¥2,410	¥ 3,792	$25,908
Due after one year	4,461	6,981	47,970
Total	¥6,871	¥10,773	$73,878

Also, future lease payments under operating leases as of March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Future lease payments	¥2,269	¥2,544	$24,402
Due within one year included in above	964	769	10,361

(B) Lessors

	Millions of yen		
2010	Acquisition cost	Accumulated depreciation	Net book value
Machinery and other tangible fixed assets	¥10	¥8	¥2
Total	¥10	¥8	¥2

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

	Thousands of U.S. dollars		
2010	Acquisition cost	Accumulated depreciation	Net book value
Machinery and other tangible fixed assets	$109	$92	$17
Total	$109	$92	$17

Total lease payments for finance leases which do not transfer ownership to lessees amounted to ¥1 million ($15 thousand) and ¥15 million for the years ended March 31, 2010 and 2009, respectively.

Future lease payments as of March 31, 2010 and 2009, including interest under such leases were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Due within one year	¥2	¥11	$17
Due after one year	0	12	3
Total	¥2	¥23	$20

Also, future lease payments under operating leases as of March 31, 2010 and 2009, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Future lease payments	¥770	¥697	$8,277
Due within one year included in above	151	194	1,625

11. Financial instruments

Effective from the fiscal year ended March 31, 2010, the Company adopted the revised Accounting Standard, "Accounting Standard for Financial Instruments" (Accounting Standards Board of Japan ("ASBJ") Statement No. 10 revised on March 10, 2008) and the "Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19 revised on March 10, 2008). Information on financial instruments for the year ended March 31, 2010 required pursuant to the revised accounting standards is as follows;

(A) Qualitative information on financial instruments

Utilization policy of financial instruments:

The Companies raise funds necessary for operating and investing activities through bank loans and bond issuances and utilizes financial assets that carry little risk or no risk for temporary funds surplus. The derivatives policy states that the Company utilizes derivatives only to mitigate the risks that are described as follows, and does not conduct speculative transactions for trading purposes.

Financial instruments and related risks:

Trade receivables are exposed to the credit risk in relation to customers and trading partners. Trade receivables denominated in foreign currencies are exposed to the foreign exchange rate fluctuation risk. The Company mitigates such risks through forward exchange contracts and options, and maintains the ratios of the exposure at a certain range. The hedge ratios and balances not yet hedged are regularly reported to their Board of Directors.

The Companies are exposed to the market price fluctuation risk in relation to investment securities that are primarily for business relationship.

Most trade payables are due within one year. Although part of them is exposed to foreign exchange rate fluctuation risk, the exposure is always within the balance of accounts receivable in the same currency.

Loans, commercial paper and corporate bonds are primarily used for fund raising related to operating and investing activities. For long-term loans in foreign currencies, the Companies enter into interest rate swap contracts for hedging purposes.

Risk management for financial instruments:

Credit risk:

The Companies review credit status of customers before accepting orders to mitigate their credit exposure. In accordance with a credit management policy, each business unit monitors collection and balance of receivables for each customer to minimize uncollectable amounts.

For derivatives and deposits, the Companies enter into contracts only with highly rated financial institutions.

Market risks:

In relation to amounts of net trade receivables and trade payables in foreign currencies, the Companies hedge exchange rate fluctuations in accordance with a market risk management policy. The status of the hedge is reported to the Board of Directors every month. Major consolidated subsidiaries take the same approach.

Loan-related interest payable is also monitored and reported to the Board of Directors regularly. To mitigate the interest-rate fluctuation risk, interest-rate swaps are used.

In relation to securities and investment securities, the current fair market value and the financial position of the issuers are monitored regularly. The Company reviews appropriately the investment portfolio in consideration of relationship with counterparties.

Derivative transactions conducted by the Company and its major consolidated subsidiaries are used solely for the purpose of hedging risks concerning exchange rate and interest rate fluctuations as explained above. The Company confirms balances with the contract counterparties every month.

Liquidity risks:

The Companies conduct cash management among major consolidated subsidiaries for efficient use of the Companies' funds. The Company timely formulates and updates the fund management plan based on reports from business units and major subsidiaries, and monitors the liquidity risk.

(B) Fair values of financial instruments

Book values and fair values of the financial instruments on the consolidated balance sheet as of March 31, 2010 were as follows. Certain financial instruments were excluded from the following table as the fair values were not available.

	Millions of yen		
2010	Book value	Fair value	Difference
Cash and time deposits	¥ 62,511	¥ 62,511	¥ —
Trade receivables	131,893	131,767	(126)
Investment securities	14,533	14,533	—
Assets Total	208,937	208,811	(126)
Trade payables	108,018	108,018	—
Short-term bank loans	30,524	30,524	—
Corporate bonds	10,000	9,933	(67)
Long-term debt	47,136	47,259	125
Liabilities Total	195,678	195,736	58
Derivatives	1,618	1,121	(497)

	Thousands of U.S. dollars		
2010	Book value	Fair value	Difference
Cash and time deposits	$ 672,167	$ 672,167	$ —
Trade receivables	1,418,206	1,416,847	(1,359)
Investment securities	156,269	156,269	—
Assets Total	2,246,642	2,245,283	(1,359)
Trade payables	1,161,479	1,161,479	—
Short-term bank loans	328,218	328,218	—
Corporate bonds	107,527	106,811	(716)
Long-term debt	506,637	508,165	1,328
Liabilities Total	2,104,061	2,104,671	(612)
Derivatives	17,395	12,050	(5,345)

Cash and time deposits:

The fair values approximate the book values because of short-term maturities of these instruments.

Trade receivables:

The discounted cash flow method was used to estimate the fair values, based on discount rates calculated as totals of appropriate baseline rates and credit risk spreads.

Investment securities:

The market prices were used to estimate the fair values.

Trade payables and short-term bank loans:

The fair values approximate the book values because of short-term settlement of these instruments.

Corporate bonds:

The discounted cash flow method was used to estimate the fair values, based on discount rates calculated as totals of appropriate baseline rates and credit risk spreads.

Long-term debt:

The discounted cash flow method was used to estimate the fair values, based on marginal borrowing rates as discount rates.

Derivatives:

The fair values of forward exchange contracts are based on quoted forward exchange rates. The fair values of options and interest rate swaps are based on the quotes from financial institutions.

The affiliates stocks, the unlisted stocks and the investment bonds in the following table are not included in "Investment Securities" above because there is no fair value available.

	Millions of yen	Thousands of U.S. dollars
	2010	2010
Affiliates stocks	¥13,509	$145,259
Unlisted stocks	2,345	25,220
Investment bond	11	117

The aggregate maturities subsequent to March 31, 2010 for financial assets with maturity were as follows:

	Millions of yen		
	Within one year	Over one year within five years	Over five years
Cash and time deposits	¥ 62,511	¥ —	¥ —
Trade receivables	127,396	4,357	139
Total	¥189,907	¥4,357	¥139

	Thousands of U.S. dollars		
	Within one year	Over one year within five years	Over five years
Cash and time deposits	$ 672,167	$ —	$ —
Trade receivables	1,369,855	46,852	1,499
Total	$2,042,022	$46,852	$1,499

The aggregate maturities subsequent to March 31, 2010 for long-term debt and corporate bonds were as follows:

	Millions of yen					
2010	Within one year	Over one year within two years	Over two years within three years	Over three years within four years	Over four years within five years	Over five years
Long-term debt	¥10,438	¥4,133	¥19,937	¥1,040	¥11,441	¥147
Corporate bond	—	—	—	—	10,000	—

	Thousands of U.S. dollars					
2010	Within one year	Over one year within two years	Over two years within three years	Over three years within four years	Over four years within five years	Over five years
Long-term debt	$112,232	$44,436	$214,378	$11,178	$123,016	$1,597
Corporate bond	—	—	—	—	107,527	—

12. Securities

(A) Book values of securities not stated at fair value as of March 31, 2010 were disclosed in note 11 "Financial instruments". Book values of securities not stated at fair value as of March 31, 2009 were as follows:

	Millions of yen
	2009
Held-to-maturity debt securities:	
Non-listed corporate bonds	¥ 10
Available-for-sale securities:	
Non-listed equity securities	2,488
Others	11
Total	¥2,509

(B) Acquisition costs and book values of securities with fair value as of March 31, 2010 and 2009 were as follows:

		Millions of yen		Thousands of U.S. dollars
Available-for-sale securities		2010	2009	2010
Equity securities	Acquisition cost	¥11,375	¥11,717	$122,314
	Book value	14,533	10,928	156,269
	Difference	¥ 3,158	¥ (789)	$ 33,955

(C) Total sales amount of available-for-sale securities in the year ended March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Sale of securities	¥1,705	¥1,013	$18,336
Net gain	1,581	9	16,995

(D) There were no available-for-sale securities with maturity and held to maturity securities as of March 31, 2010. Maturities of available-for-sale securities and held to maturity securities as of March 31, 2009 were as follows:

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

(E) Impairment of securities

Impairment losses for securities were ¥377 million ($4,051 thousand) and ¥6,024 million for the years ended March 31, 2010 and 2009, respectively.

13. Derivatives information

The Companies enter into forward currency exchange contracts, interest rate swap contracts and currency option contracts as derivative financial instruments. The Companies utilize forward currency exchange transactions to hedge exchange rate risk with respect to receivables and payables denominated in foreign currencies. Interest rate swap transactions are utilized to minimize risk of increase in interest rate on borrowings. The Companies enter into such transactions only with international financial institutions with higher credit ratings to avoid credit risk exposure. Details of transactions are reviewed and approved by the Companies' internal policies, which include personnel's responsible based on transaction types and limits of amounts.

(A) Forward foreign exchange contracts not accounted for as hedge

The aggregate contracted amounts to be paid / received and the fair values of forward foreign exchange contracts not accounted for as hedge in Japanese yen as of March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Contracted amount to be paid/received:			
To buy foreign currencies	¥ 417	¥ 872	$ 4,486
To sell foreign currencies	11,160	14,866	120,004
To buy foreign exchange options	495	819	5,325
To sell foreign exchange options	422	1,637	4,537
Fair value:			
To buy foreign currencies	(15)	692	(163)
To sell foreign currencies	(187)	15,177	(2,006)
To buy foreign exchange options	7	10	75
To sell foreign exchange options	(9)	(69)	(95)
Net unrealized exchange gain (loss)	¥ (204)	¥ (551)	$ (2,189)

(B) Interest rate swap contracts not accounted for as hedge

There were no interest rate swap contracts of the Companies as of March 31, 2010 and 2009.

(C) Forward foreign exchange contracts accounted for as hedge

The aggregate contracted amounts to be paid / received and the fair values of forward foreign exchange contracts accounted for as hedge in Japanese yen as of March 31, 2010 were as follows

	Millions of yen	Thousands of U.S. dollars
	2010	2010
Deferred hedge accounting		
Contracted amount to be paid/received:		
To buy foreign currencies	¥ 308	$ 3,307
To sell foreign currencies	32,482	349,268
Fair value:		
To buy foreign currencies	(13)	(135)
To sell foreign currencies	1,834	19,719
Alternative method*		
Contracted amount to be paid/received:		
To sell foreign currencies	148	1,589
Fair value:		
To sell foreign currencies	(10)	(110)
Net unrealized exchange gain (loss)	¥1,811	$19,474

* When certain conditions are met, translation of foreign currency receivables and payable are based on yen amounts fixed by forward contract.

(D) Interest rate swap contracts accounted for as hedge

The aggregate amounts of interest rate swap contracts accounted for as hedge as of March 31, 2010 were as follows:

	Millions of yen	Thousands of U.S. dollars
	2010	2010
Interest rate swap contracts (special treatment)*		
Contracted amount to be paid/received:		
Interest swap fixed rate to floating rate	¥26,868	$288,905
Fair value:		
Interest swap fixed rate to floating rate	(487)	(5,236)

* When certain conditions are met, the net amount to be paid or received under an interest rate swap contract is added to or deducted from interest on liabilities for which the interest rate contract is executed.

14. Employees' severance and retirement benefits

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

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
(1) Projected benefit obligation	¥(69,847)	¥(74,428)	$(751,039)
(2) Fair value of employees' retirement benefit plan assets	31,360	29,007	337,205
(3) Unfunded projected benefit obligation	(38,487)	(45,421)	(413,834)
(4) Unrecognized actuarial difference	5,981	10,451	64,307
(5) Unrecognized prior service cost	80	170	865
(6) Prepaid pension benefit expenses	—	(8)	—
(7) Employees' severance and retirement benefits	¥(32,426)	¥(34,808)	$(348,662)

(B) The following severance and pension benefit expenses are included in the statements of income for the years ended March 31, 2010 and 2009:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
(1) Service cost	¥3,232	¥3,602	$34,768
(2) Interest cost on projected benefit obligation	1,829	1,774	19,663
(3) Expected return on plan assets	(562)	(642)	(6,046)
(4) Amortization of actuarial difference	1,477	815	15,883
(5) Amortization of prior service cost	187	346	2,007
(6) Effect of change in accounting method of retirement benefits*	110	—	1,181
(7) Severance and pension benefit expense	¥6,273	¥5,895	$67,456

* One domestic subsidiary ceased adopting a simplified method in estimating the employees' severance and retirement benefits for the year ended March 31, 2010 and expensed all the difference at the beginning of the year.

(C) Main actuarial assumptions used to determine pension obligations as of March 31, 2010 and 2009 are as follows:

	2010	2009
(1) Allocation of the estimated amount of all retirement benefits to be paid at the future retirement date	Equally to each service year using the estimated number of total service years	Equally to each service year using the estimated number of total service years
(2) Assumed discount rate	Mainly 2.0%	Mainly 2.0%
(3) Expected rate of return on plan assets	Mainly 0.0% (Trust assets for retirement benefits; 0.0%)	Mainly 0.0% (Trust assets for retirement benefits; 0.0%)
(4) Amortization period of actuarial differences	Mainly 12 years	Mainly 12 years
(5) Amortization period of prior service cost	The Company: 1 year Subsidiaries: Mainly 12 years	The Company: 1 year Subsidiaries: Mainly 12 years

15. Subsequent events

(A) Appropriations of retained earnings

The following appropriations of retained earnings, which have not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2010, were approved at a general shareholders' meeting of the Company held on June 29, 2010:

	Millions of yen	Thousands of U.S. dollars
	2010	2010
Year-end cash dividends ¥4.00 ($0.04) per share	¥2,414	$25,953

The approved dividend will be paid to the shareholders of record as of March 31, 2010.

(B) Stock exchange

a) General information

The Company will execute a stock exchange for Nihon Spindle Manufacturing Co., Ltd. ("Nihon Spindle"), a consolidated subsidiary of the Company, as the acquired company on the transaction on October 1, 2010. The stock exchange will be executed with minority shareholders.

b) Business of the entity

Business of Nihon Spindle is manufacturing and sales of dust collectors, cooling towers, spinning machines, food processing equipment, clean rooms, and industrial fasteners.

c) Overview of the transaction including its purpose

From the time Nihon Spindle became a consolidated subsidiary of the Company in October 2007, both companies have worked together to create business synergies.

However, since that time the business environment has significantly changed and market competition has become more intense as a result of the global economic downturn that began in the second half of 2008. In order to cope with such changes, Nihon Spindle is constantly asked to further expand its global presence and strengthen its product capabilities by its shareholders. With this in mind, Nihon Spindle developed a plan to actively utilize the technical development capabilities and global business network of the Company in order to set it on a growth trajectory.

Through the conversion of Nihon Spindle into a wholly-owned subsidiary, the Company intends to maximize business synergies between the two companies more quickly. This will help Nihon Spindle strengthen its operating foundation, achieve long-term growth, and will ultimately improve the corporate value of the entire Companies.

d) The ratio for the stock exchange

	The Company	Nihon Spindle
Stock exchange ratio	1	0.38

Notes: 1. Share exchange ratio
0.38 share of the common stock of the Company is provided to shareholders of Nihon Spindle in exchange for 1 share of its common stock of Nihon Spindle. However, no shares of the Company are allotted to the shares of the common stock of Nihon Spindle owned by the Company (19,494,180 shares).
2. The method of calculation and basis of calculation by a third party institution
The Company had asked Daiwa Securities Capital Markets Co., Ltd. to calculate the stock exchange ratio. Daiwa Securities Capital Markets Co., Ltd. conducted an analysis with respect to the Company, based on the market share-value method together with the discount cash flow method, and determined the stock exchange ratio by considering the results of these analyses.
Nomura Securities Co., Ltd. conducted an analysis of Nihon Spindle based on three methods; the market share-value average method, the comparison with similar companies method and the discount cash flow method. Nomura Securities Co., Ltd. determined the stock exchange ratio by considering the results of the analyses. Based on the above results, the Company and Nihon Spindle determined the stock exchange ratio as indicated above.

e) Number of shares will be delivered

Number of shares will be delivered to shareholders of Nihon Spindle excluding the Company.

11,311,011 shares

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, 2010 and 2009, and the related consolidated statements of income, changes in net assets and cash flows for the years then ended expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sumitomo Heavy Industries, Ltd. and subsidiaries as of March 31, 2010 and 2009, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2010 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 29, 2010

Network

Domestic Network

Offices

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

Kansai Office
3-33, Nakanoshima 2-chome, Kita-ku, Osaka-shi,
Osaka 530-0005, Japan
Tel: 81-6-7635-3610

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

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

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

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

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

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

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

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

Major Subsidiaries

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

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

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

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

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

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

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

Sumitomo Heavy Industries PTC Sales Co., Ltd.
1-1, Osaki 2-chome, Shinagawa-ku,
Tokyo 141-6025, Japan
Principal business: Power transmission equipment
Tel: 81-3-6737-2580
URL: http://www.sumiju.co.jp
100% owned subsidiary

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

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

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

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

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

Nihon Spindle Mfg. Co., Ltd.
2-30, Shioe 4-chome, Amagasaki-shi,
Hyogo 661-8510, Japan
Principal business: Industrial machinery, environmental protection equipment and building materials
Tel: 81-6-6499-5551
URL: http://www.spindle.co.jp
40.6% owned subsidiary (Note: 100% owned subsidiary from October 1, 2010)

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

Overseas Network

Offices

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

Major Subsidiaries

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

Sumitomo (SHI) Cyclo Drive Germany GmbH
Cyclostrasse 92, 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.
15 Kwong Min Road, Singapore 628718
Principal business: Power transmission equipment
Tel: 65-6591-7800
URL: http://www.sumitomodrive.com.sg
100% owned subsidiary

Sumitomo Heavy Industries (Vietnam) Co., Ltd.
I-7, Thang Long Industrial Park, Dong Anh District, Hanoi, Vietnam
Principal business: Manufacture of motors for power transmission equipment
Tel: 84-4-3955-0004
100% owned subsidiary

Sumitomo Heavy Industries (Tangshan), Ltd.
No. 35 Yuanqu Road, Manufacturing Industrial Zone of Modern Equipment, Kaiping District, Tangshan City, Hebei Province, China
Principle business: Manufacture of large and middle size power transmission
Tel: 86-315-3390880
100% owned subsidiary

Sumitomo (SHI) Cyclo Drive China, Ltd.
13 Floor, No. 1698 Yishan Road, Shanghai, China 201103
Principal business: Power transmission equipment
Tel: 86-21-3462-7877
URL: http://www.smcyclo.com.cn
100% owned subsidiary

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

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

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

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

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

SHI Plastics Machinery (Shanghai) Co., Ltd.
Department, F, 1st Floor, Building.A, No.51, Ri Jing Road, Shanghai Waigaoqiao Free Trade Zone, Pu Dong New Area, Shanghai, China
Principal business: Plastics machinery
Tel: 86-21-3462-7556
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.
3 Hamilton Close, Houndmills Industrial Estate, Basingstoke, Hampshire RG21 6YT, United Kingdom
Principal business: Manufacturer of MRI magnet cryocoolers, cryopumps and laboratory cryostats for research and development
Tel: 44-01256-853333
100% owned subsidiary

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

Sumitomo (S.H.I.) Construction Machinery (Tangshan) Co., Ltd.
No. 33 Yuanqu Road, Manufacturing Industrial Zone of Modern Equipment, Kaiping District, Tangshan City, Hebei Province, China
Principle business: Manufacture of hydraulic excavators
Tel: 61-3391000
100% owned subsidiary

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

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

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

SHI Designing & Manufacturing Inc.
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

Glossary

Mass-Produced Machinery

Power transmission and control equipment

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


CYCLO® speed reducer

Hyponic Drive®

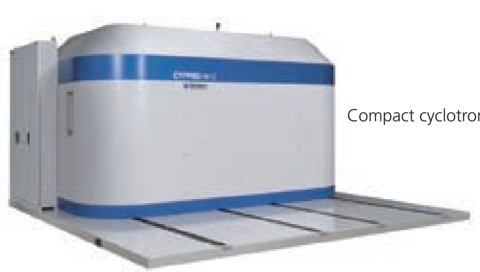

Plastic injection molding machines

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


Full-electric injection molding machine "SE75DUZ"

Cyclotrons

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


Compact cyclotron for PET "HM-12S"

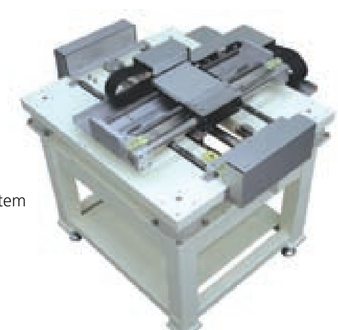
Ion-implantation devices

To create the transistors and other components that comprise semiconductors, the necessary type/volume of elements required for such components must be added to a f at silicon single-crystal substrate known as a wafer. Ion-implantation devices electrically ionize the elements and accelerate the resulting ions at high voltage for high-precision injection into the wafer.

Ion-implantation device "SHX-III"


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.

XY stage for inspection and repair system "TL Series"


Environmental Protection Facilities, Plants & Others

Circulating fluidized-bed (CFB) boiler

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


CFB boiler

Vertical aerator systems

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

"SUMIRATOR UD"

Superfine-bubble membrane tube diffusers

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

Superfine-bubble membrane tube diffuser "MICRAS®"

Ship, Steel Structure & Other Specialized Equipment

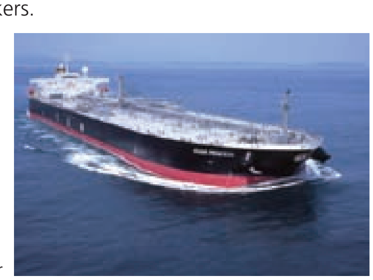
Coke drums

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

Coke drums

Aframax tankers, Suezmax tankers

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



105,000MTDW oil tanker

Industrial Machinery

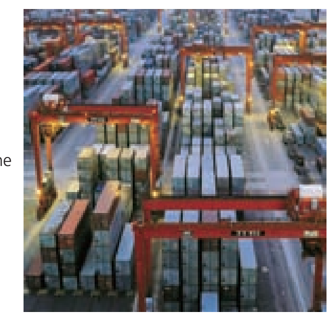
Continuous ship unloaders

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

Transfer cranes

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

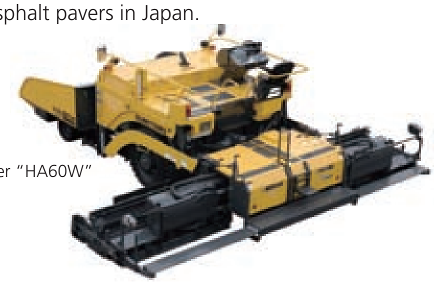


Transfer crane

Construction Machinery

Asphalt pavers

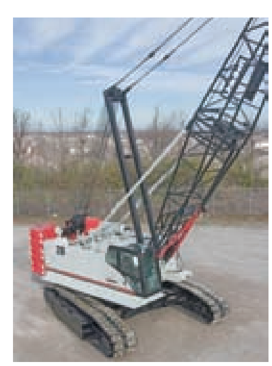
Self-propelled machines used to spread asphalt when paving roads; SHI is the market leader in asphalt pavers in Japan.



Asphalt paver "HA60W"

Crawler cranes

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



Lattice crawler crane "LS-218HSL"

Corporate Data

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

Founded: 1888

Incorporated: November 1, 1934

Paid-in Capital: ¥30,871,651,300

Number of Employees*: 15,463 (Consolidated)
2,748 (Non-consolidated)

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

Stock Exchange Listings: Tokyo, Osaka

Shares Outstanding*: 605,726,394

Number of Shareholders*: 57,596

Major Shareholders*:

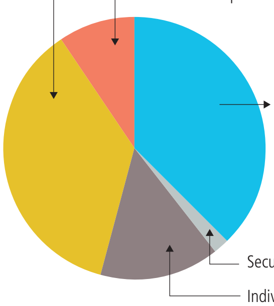
Name of shareholder	Percentage of voting rights
Japan Trustee Services Bank, Ltd.	14.3%
The Master Trust Bank of Japan, Ltd.	7.8%
State Street Bank and Trust Company	5.9%
Sumitomo Life Insurance Company	3.7%
Trust & Custody Services Bank, Ltd.	3.5%
The Chase Manhattan Bank	3.0%
Sumitomo Mitsui Banking Corporation	2.5%
JP Morgan Chase Bank	2.2%
Northern Trust Company	2.0%
State Street Bank	1.9%

*As of March 31, 2010

Breakdown of Shareholders as of March 31, 2010:

Breakdown of shareholders	Number of shares held (unit 1,000)
Financial Institutions	228,746
Securities Companies	10,486
Individuals and Others	89,267
Foreign Investors	221,359
Other Japanese Corporations	55,868

The "Other Japanese Corporations" category also includes treasury stock, government institutions and local governments.
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:

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Sumitomo Heavy Industries, Ltd.
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Sumitomo Heavy Industries, Ltd.

http://www.shi.co.jp

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