

Building Up Our Global Strength

Sumitomo Heavy Industries

Annual Report 2012

For the year ended March 31, 2012



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Pursuing Group Synergies while Accelerating Global Business Development



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Cautionary Note Concerning Forward-Looking Statements

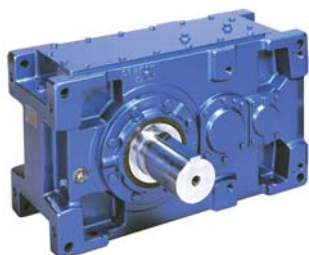
This annual report includes forward-looking statements regarding the future performance of Sumitomo Heavy Industries, Ltd. These forward-looking statements are based on information currently available to the Company and determined subjectively. Future performance is not guaranteed and all information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

Diversified Businesses Underpin Strong Earnings Base

The SHI Group is pursuing business development across a wide spectrum of fields, ranging from leading-edge precision machinery and components through a broad variety of industrial machinery to ships and large-scale plants. The Group consistently offers first-class products and services that maximize customer value in each of these business fields while striving to secure high market shares and profitability. At the same time, we are strengthening inter-segment R&D collaboration in an effort to promote the development of innovative products.

Machinery Components

Sales **93.2** Billion yen
Operating income **4.2** Billion yen

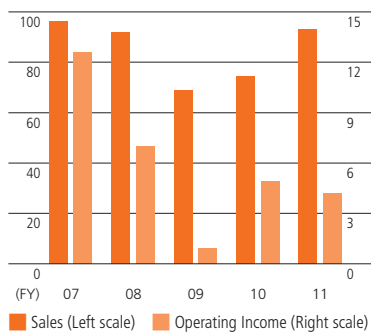


The SHI Group's power transmission and control equipment continues to attract wide acclaim for its high durability and performance thanks to its unique mechanism. In addition to a dominant market position in Japan, the SHI Group boasts one of the top sales records in the global market.

Main Products

Power transmission and control equipment
Inverters

Sales and Operating Income (¥ Billion)



Precision Machinery

Sales **144.1** Billion yen
Operating income **12.5** Billion yen

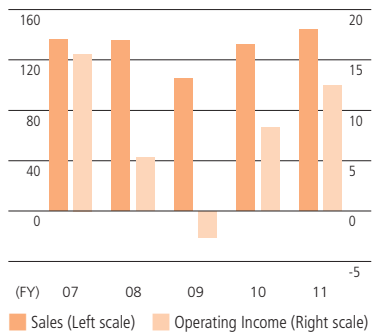


Particularly strong in high-precision and high-cycle molding, the SHI Group is a leading Japanese manufacturer of plastic injection molding machines. The Group also boasts cutting-edge technologies in cyclotrons for medical use as well as semiconductor and LCD manufacturing equipment.

Main Products

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

Sales and Operating Income (¥ Billion)



Construction Machinery

Sales **158.9** Billion yen
Operating income **8.3** Billion yen

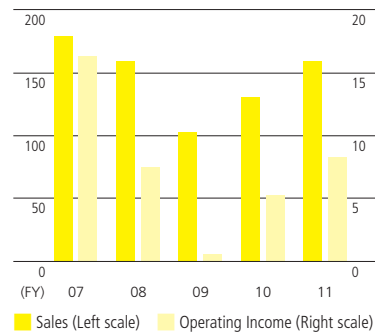


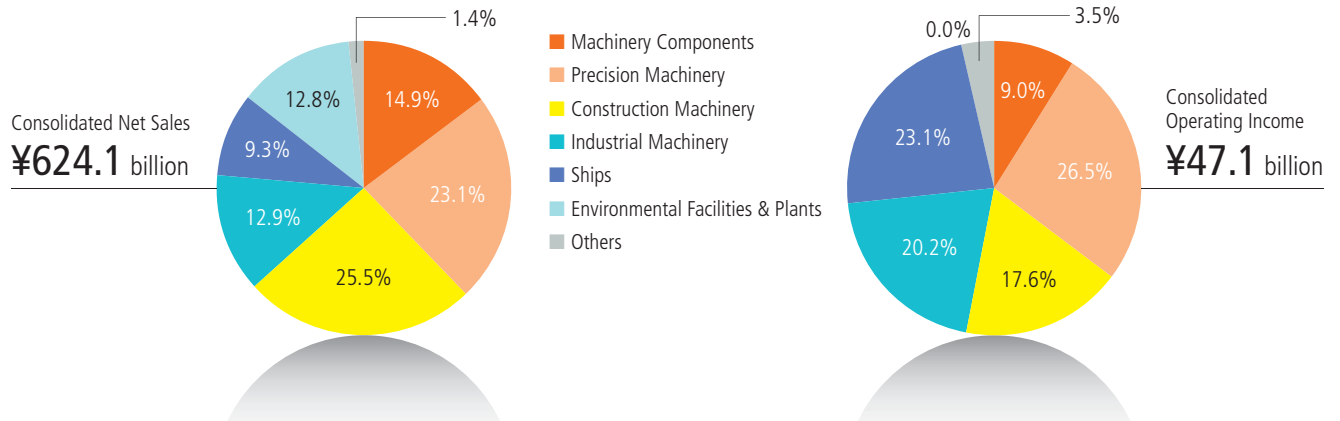
The SHI Group's hydraulic excavators enjoy a solid reputation for their outstanding fuel efficiency and maneuverability. Building on this acclaim, the Group is expanding its market share in Japan and overseas. Turning to the North American market, the SHI Group is steadily establishing its Link-Belt brand of mobile construction cranes.

Main Products

Hydraulic excavators
Mobile cranes
Road machinery

Sales and Operating Income (¥ Billion)





Industrial Machinery

Sales **80.7** Billion yen
Operating income **9.5** Billion yen

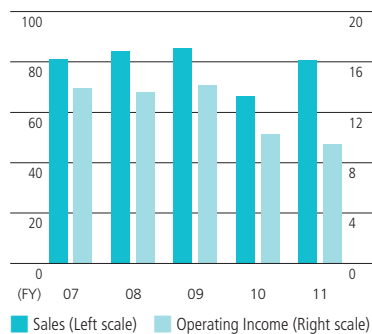


In its steam turbine operations, the SHI Group commands an overwhelmingly dominant share of the global biomass power generation market. The Group is also the market leader in Japan for continuous ship unloaders.

Main Products

Forging machines
Material handling systems
Logistics & handling systems
Turbines
Pumps

Sales and Operating Income (¥ Billion)



Ships

Sales **58.1** Billion yen
Operating income **10.9** Billion yen

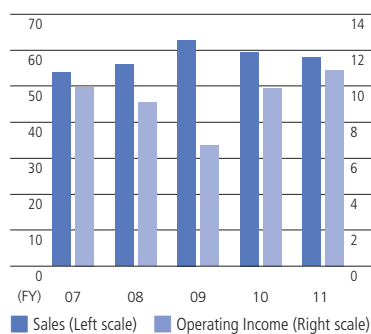


The SHI Group specializes in mid-sized oil tankers. The Group continues to lead the industry in profitability through a process of ongoing production innovation.

Main Products

Ships

Sales and Operating Income (¥ Billion)



Environmental Facilities & Plants

Sales **80.1** Billion yen
Operating income **0.0** Billion yen

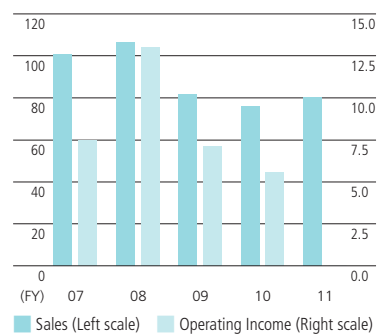


The SHI Group's proven track record in circulating fluidized-bed (CFB) boilers underpins its leading share of the market in Japan. SHI also maintains the world's leading share of the market for coke drums, which are used in oil refining.

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
Pressure vessels, mixing vessels
Steel structures, food processing machinery

Sales and Operating Income (¥ Billion)



Financial Highlights

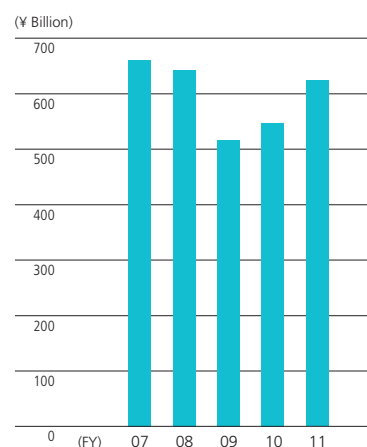
Sumitomo Heavy Industries, Ltd. and Consolidated Subsidiaries

	Millions of yen					Thousands of U.S. dollars (Note 1)
	FY2007	FY2008	FY2009	FY2010	FY2011	FY2011
Summary of Income (for the year):						
Net sales	¥660,769	¥642,918	¥516,165	¥548,015	¥624,100	\$7,610,976
Machinery Components	96,522	91,876	69,040	74,591	93,205	1,136,662
Precision Machinery	136,071	135,351	105,191	131,944	144,145	1,757,863
Construction Machinery	179,370	159,154	102,650	130,811	158,942	1,938,312
Industrial Machinery	81,163	84,310	85,637	66,544	80,683	983,938
Ships	53,781	56,028	62,927	59,496	58,111	708,667
Environmental Facilities & Plants	100,682	106,479	81,884	76,070	80,116	977,024
Others	13,181	9,720	8,835	8,558	8,898	108,510
Operating income	77,790	56,940	28,254	45,803	47,135	574,813
Machinery Components	12,579	7,033	861	4,874	4,238	51,684
Precision Machinery	15,647	5,307	(2,603)	8,340	12,507	152,527
Construction Machinery	16,286	7,543	571	5,290	8,293	101,139
Industrial Machinery	13,930	13,585	14,167	10,252	9,499	115,838
Ships	9,969	9,098	6,664	9,897	10,935	133,352
Environmental Facilities & Plants	7,526	13,040	7,101	5,566	6	75
Others	1,710	1,131	1,376	1,518	1,632	19,888
EBITDA (Note 3)	91,578	75,260	47,979	63,744	64,955	792,130
Net income	42,974	13,649	13,280	27,926	19,492	237,707
Capital expenditure	28,180	31,753	24,465	14,292	19,682	240,024
R&D expenses	9,908	10,047	8,187	7,445	9,343	113,939
Depreciation and amortization	13,788	18,320	19,725	17,941	17,820	217,317
Cash flows from operating activities	29,096	34,676	57,513	36,521	23,309	284,253
Cash flows from investing activities	(41,250)	(35,924)	(13,954)	(23,513)	(22,672)	(276,475)
Free cash flows (Note 4)	(12,154)	(1,248)	43,559	13,008	637	7,778
Cash flows from financing activities	(5,238)	15,625	(26,686)	(22,020)	19,879	242,423

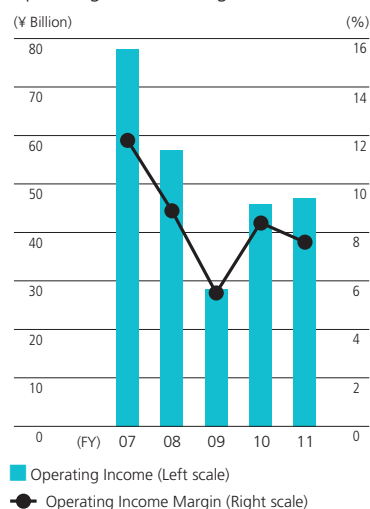
Notes:

- The U.S. dollar amounts have been translated, for convenience only, at ¥82=\$1, the prevailing exchange rate on the Tokyo Foreign Exchange Market as of March 31, 2012.
- From fiscal 2010, SHI adopted the Accounting Standard for Disclosures about Segments of an Enterprise and Related Information (ASBJ Statement No. 17 of March 27, 2009). In line with this adoption, SHI has changed its business segmentation from the period under review. Past figures are presented pro forma based on the new segmentation.
- EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization) = Operating income + Depreciation and amortization
- Free cash flows = Cash flows from operating activities + Cash flows from investing activities

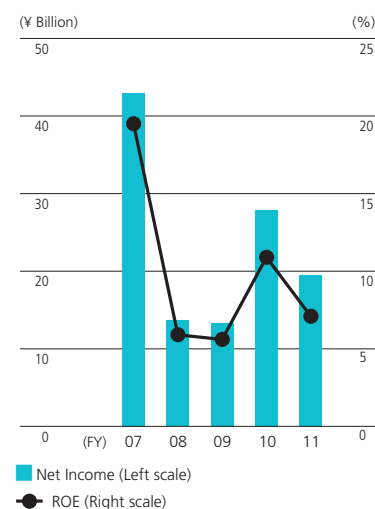
Net Sales



Operating Income and Operating Income Margin



Net Income and ROE



	Millions of yen					Thousands of U.S. dollars (Note 1)
	FY2007	FY2008	FY2009	FY2010	FY2011	FY2011
Financial Position (at year-end):						
Total assets	¥678,634	¥657,436	¥610,087	¥626,829	¥691,841	\$8,437,089
Interest-bearing debt	89,567	110,339	87,660	67,833	96,522	1,177,097
Total net assets	246,371	238,697	254,153	269,380	282,145	3,440,797

	Yen					U.S. dollars (Note 1)
	FY2007	FY2008	FY2009	FY2010	FY2011	FY2011
Amounts per Share of Common Stock:						
Net income (Note 5)	¥ 71.19	¥ 22.62	¥ 22.01	¥ 45.87	¥ 31.75	\$0.39
Stockholders' equity	392.80	378.78	404.73	435.10	454.43	5.54
Cash dividends	10.00	6.00	4.00	8.00	10.00	0.12

	Yen					U.S. dollars (Note 1)
	FY2007	FY2008	FY2009	FY2010	FY2011	FY2011
Share Data:						
Stock price at year-end	¥644	¥325	¥563	¥543	¥460	\$5.61

	Millions of yen					Thousands of U.S. dollars (Note 1)
	FY2007	FY2008	FY2009	FY2010	FY2011	FY2011
Market value	¥388,707	¥196,127	¥339,720	¥333,622	¥282,309	\$3,442,793

	%				
	FY2007	FY2008	FY2009	FY2010	FY2011
Financial Indexes:					
ROIC (Note 6)	14.0	9.6	4.8	7.8	7.4
Operating income margin	11.8	8.9	5.5	8.4	7.6
EBITDA margin	13.9	11.7	9.3	11.6	10.4
Stockholders' equity ratio	34.9	34.8	40.0	42.6	40.3
ROA (Return on assets)	6.7	2.0	2.1	4.5	3.0
ROE (Return on equity)	19.5	5.9	5.6	10.9	7.1
Interest-bearing debt ratio	13.2	16.8	14.4	10.8	14.0

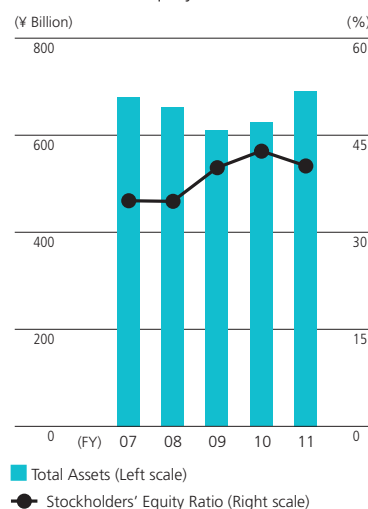
	Yen				
	FY2007	FY2008	FY2009	FY2010	FY2011
US\$/Yen exchange rate (at year-end)	¥100	¥98	¥93	¥83	¥82

Notes:

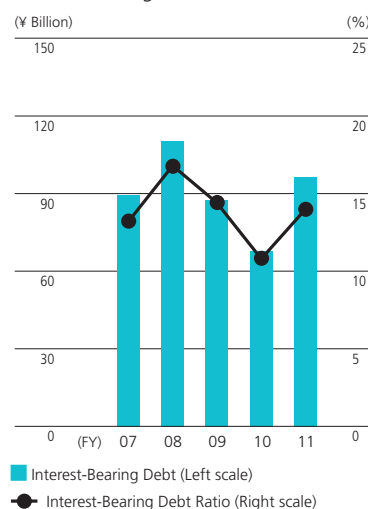
5. Net income per share of common stock is based on the weighted average number of shares outstanding in each year.

6. ROIC (Return on Invested Capital) = (Operating income + Interest and dividends received) x 55% (= 1 - Effective tax rate)
(Average of stockholders' equity + Average of interest-bearing debt)

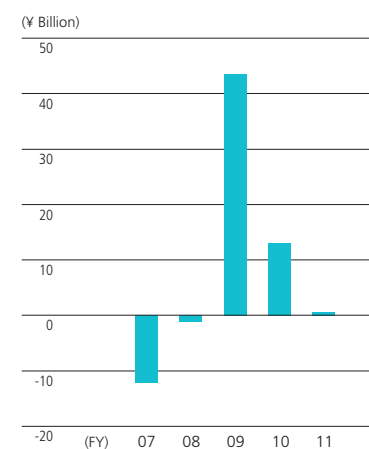
Total Assets and Stockholders' Equity Ratio



Interest-Bearing Debt and Interest-Bearing Debt Ratio



Free Cash Flows



To Our Shareholders, Customers and Employees



Left:
Yoshio Hinoh
Chairman

Right:
Yoshinobu Nakamura
President and CEO

Promoting Globalization as We Strive to Become a “Strong and Powerful SHI”

During fiscal 2011, ended March 31, 2012, the Japanese economy continued to confront extremely harsh conditions. In addition to the damage to facilities and equipment caused by the earthquake disaster, corporate-sector production activities were severely impacted by such factors as shortfalls in the supply of components and electric power as well as unprecedented appreciation in the value of the yen. Outside Japan, operating environments offered little in the way of certainty and stability. This was largely attributable to the slowdown in growth rates in China on the back of policy initiatives implemented to tighten monetary conditions, the effects of flooding in Thailand and the disruption to public-sector finance and financial markets in Europe. Under these circumstances, the SHI Group made the earthquake recovery efforts of clients a top priority and worked diligently to normalize production activities.

Moreover, the Group launched its “Innovation 21” medium-term management plan in April 2011 and implemented measures aimed at improving market competitiveness. While net income fell below the level reported in the previous fiscal year, these efforts helped to lift orders received, net sales, operating income and ordinary income on a year-on-year basis. Despite this upswing compared with the previous fiscal year, the Group’s overall performance fell short of the first-year targets established under “Innovation 21.” This less than satisfactory performance can be attributed to such external factors as the unprecedented strength of the yen and deceleration in economic growth. Notwithstanding these factors, fiscal 2011 saw the Group left with a number of outstanding issues. Looking ahead, we will enhance and streamline our manufacturing bases, including the expanded plant in China and other newly established overseas plants, so as to firmly position the Group on a growth trajectory.

Keeping in mind the keywords “Globalization” and “Innovation,” which form the basis of “Innovation 21,” the SHI Group is promoting global growth strategies. Today’s global economy is being driven by countries, that, although separate entities, are working together to move forward. At the same time, corporate management is being forced to undergo substantial change. Against this backdrop, the SHI Group is proactively expanding into global markets and reaching out to

customers around the world with the aim of transitioning from a well-established corporate entity in Japan to a world-leading brand. While responding to changes in the structure of the market and enhancing our overall competitiveness, we are striving to become a “Strong and Powerful SHI” that is capable of generating sustainable growth and flexibly adapting to every possible operating condition.

The corporate mission of the SHI Group remains to contribute to the development of society through the provision of first-class products and services. Winning the enduring confidence of customers worldwide is key to realizing sustainable growth and enhancing corporate value, and 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. In recent years, society has also taken up a growing interest in the corporate governance and compliance endeavors of the corporate sector. The SHI Group has been stepping up its efforts to augment and strengthen its activities in the corporate governance and compliance fields. To this end, SHI has appointed an external director as well as corporate auditors and promotes internal control systems to establish an efficient and transparent management structure. Moving forward, the SHI Group is committed to further reinforcing corporate governance and compliance as a part of its overall efforts to enhance corporate value.

As we work toward achieving our established goals, we kindly request the continued support and understanding of shareholders, customers and employees.



Yoshio Hinoh
Chairman



Yoshinobu Nakamura
President and CEO

Interview with the President

Fiscal 2011 Results

Q. How would you evaluate the Group's performance in fiscal 2011?

A. We were successful in terms of increased orders received and net sales despite a harsh operating environment.

In fiscal 2011, both orders and net sales surpassed levels recorded in the previous fiscal year. While the SHI Group registered slight increases in operating income and ordinary income, net income fell by a substantial margin owing to such extraordinary losses as a loss in connection with defects found in the construction of a plant and a loss on valuation of investment securities.

Amid an economic environment that continues to reel under the weight of such difficulties as the downturn in production activity as a result of the earthquake disaster and appreciation in the value of the yen, I rate positively our ability to again record a year-on-year increase in revenue. However, our performance fell short of targets established at the beginning of the period, especially from the profit perspective, with operating income and ordinary income well below planned levels. Looking at operating income by business segment, earnings fell year on year in both Machinery Components and Industry Machinery due mainly to ongoing appreciation in the value of the yen. In addition, the provision of an allowance for modifications made in connection with defects found in the construction of a plant in the Environmental Facilities & Plants segment resulted in a substantial deterioration in profits.

While acknowledging the impacts of such external factors as the greater than expected strength of the yen and the downturn in the economy, many issues need to be urgently addressed, not the least of which is profitability.

"Innovation 21" Medium-Term Management Plan

Q. Please provide us with an update on progress after completing the first year of "Innovation 21."

A. While we were unable to reach our performance targets for the first year of our medium-term management plan, we have made steady progress in implementing "globalization" and "innovation" measures.

First Year Financial Results

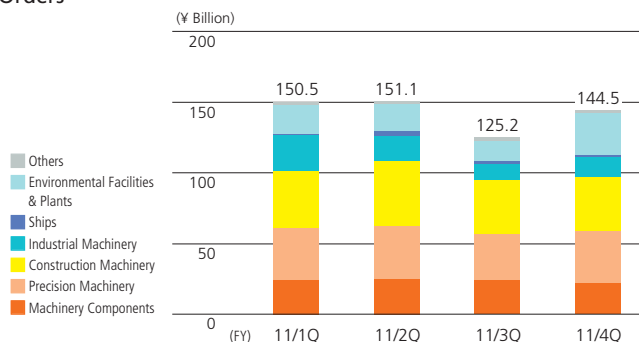
Against the backdrop painted earlier, the SHI Group was unable to achieve its first year medium-term management plan targets. Turning to orders received, the Group performed solidly in Europe and the United States, where there are indications of market recovery, particularly in segments falling into the category of mass-produced machinery. Entering the second half, however, we were unable to avoid the impacts of fluctuations in foreign currency exchange rates and the downturn in the economy. As a result, we failed to reach the target set for orders. Sales were buoyed by an order backlog in heavy machinery-related businesses bringing us close to the established target. From a profit perspective, however, operating income fell well short of the mark. We put this down to a business structure that is highly sensitive to such external factors as movements in foreign currency exchange rates and will take urgent steps to implement necessary countermeasures.

Executing "Globalization" and "Innovation" Measures

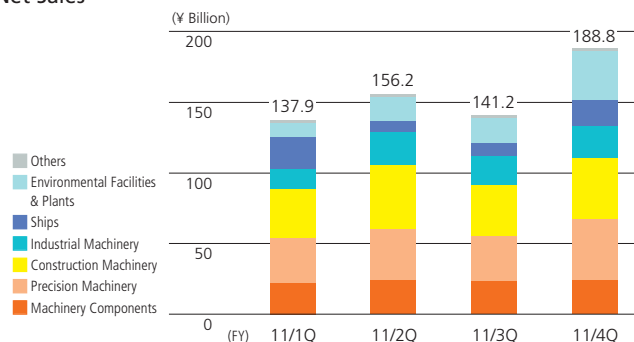
We have made steady progress in implementing measures according to plan based on the keywords "globalization" and "innovation." In order to accelerate business development in newly emerging markets, we constructed and commenced

Trends in Fiscal 2011 Quarterly Results

Orders



Net Sales

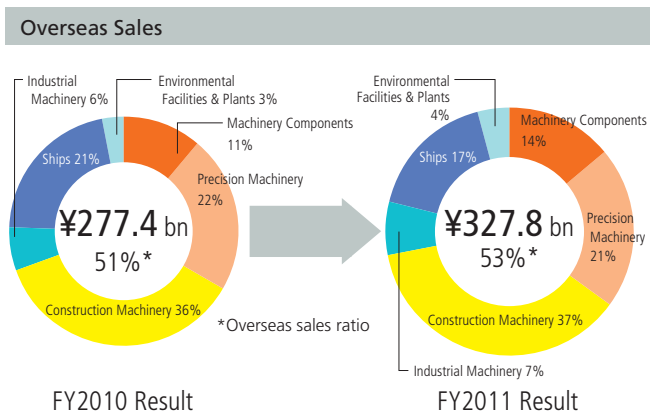




Yoshinobu Nakamura President and CEO

operations at a new hydraulic excavator plant in Indonesia and a new gearbox plant in Brazil. In addition, we are expanding existing plants in China and Vietnam to boost capacity. Moreover, in each business we are strengthening collaboration with related overseas subsidiaries and are upgrading and expanding our global network. As a result, our overseas sales ratio in fiscal 2011 was 53%, up from 51% in the previous

fiscal year. From the perspective of innovation, we recognize the critical need to comprehensively reshape the competitive structure of each business. To this end, we have identified the phrase “Innovation of Half and Double,” and are implementing a variety of initiatives, including efforts to increase production efficiency and accelerate product development to address numerous outstanding issues, such as the need to reinforce our business structure.



Toward a “Strong and Powerful SHI”

There are numerous hurdles to be overcome, not the least of which is wildly fluctuating global economic conditions, to remain competitive on the world stage. Against this backdrop, we will strengthen our corporate structure and raise our competitiveness as we strive to become a “Strong and Powerful SHI” that is capable of generating sustainable growth in every possible environment.

Overview of the “Innovation 21” Medium-Term Management Plan

(Plan Period: April 1, 2011 to March 31, 2014)

Basic Policy

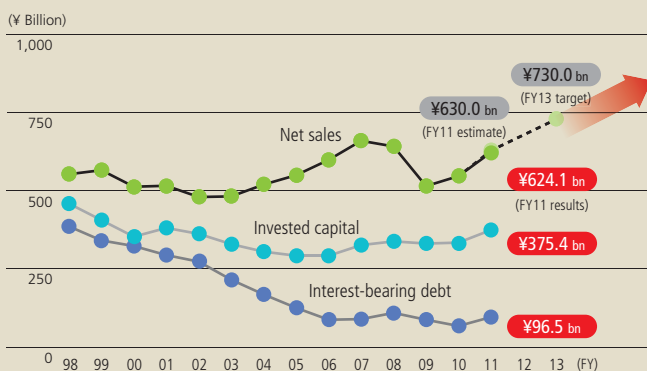
The SHI Group’s Medium-Term Management Plan, “Innovation 21,” covers the three-year period from fiscal 2011 to fiscal 2013. Under this new plan, the SHI Group aims to realize a “Strong and Powerful SHI.” This “Strong and Powerful SHI” must be capable of sustaining growth by reinforcing its competitive advantages and flexibly adjusting to changes in operating conditions.

With regard to quantitative targets for fiscal 2013, ending March 31, 2014, the SHI Group is aiming for net sales totaling ¥730.0 billion, operating income totaling ¥73.0 billion and return on invested capital (ROIC) of 10% or more. In order to achieve these targets, we will (1) enhance and effectively employ our global network, (2) develop and release into the market innovative products (product innovation), and (3) promote innovation in manufacturing and sales while enhancing business execution capabilities (process innovation). Guided by the corporate slogan “Innovation of Half and Double,” the SHI Group will rebuild its corporate structure and establish a position of competitive advantage in global markets.

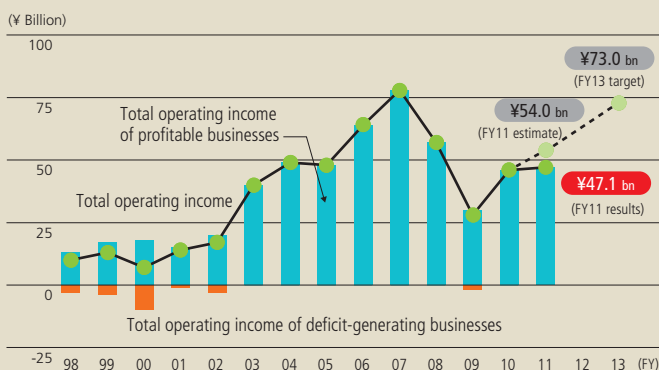
Outline of “Innovation 21”

Financial targets (for Fiscal 2013)	Net sales	¥730.0 billion
	Operating income	¥73.0 billion
	ROIC	10% or more
Corporate concept	“Strong and Powerful SHI” Redesign the Group’s competitive corporate structure and establish superiority to work towards sustained growth and an improved earning capacity	
Keywords for growth	“Globalization” and “Innovation”	
Investment policy	¥150.0 billion over three years	
Long-term target	Achieve net sales totaling ¥1 trillion	

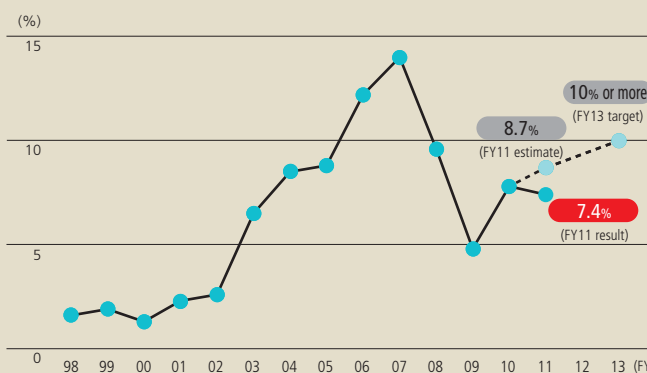
Net Sales and Invested Capital



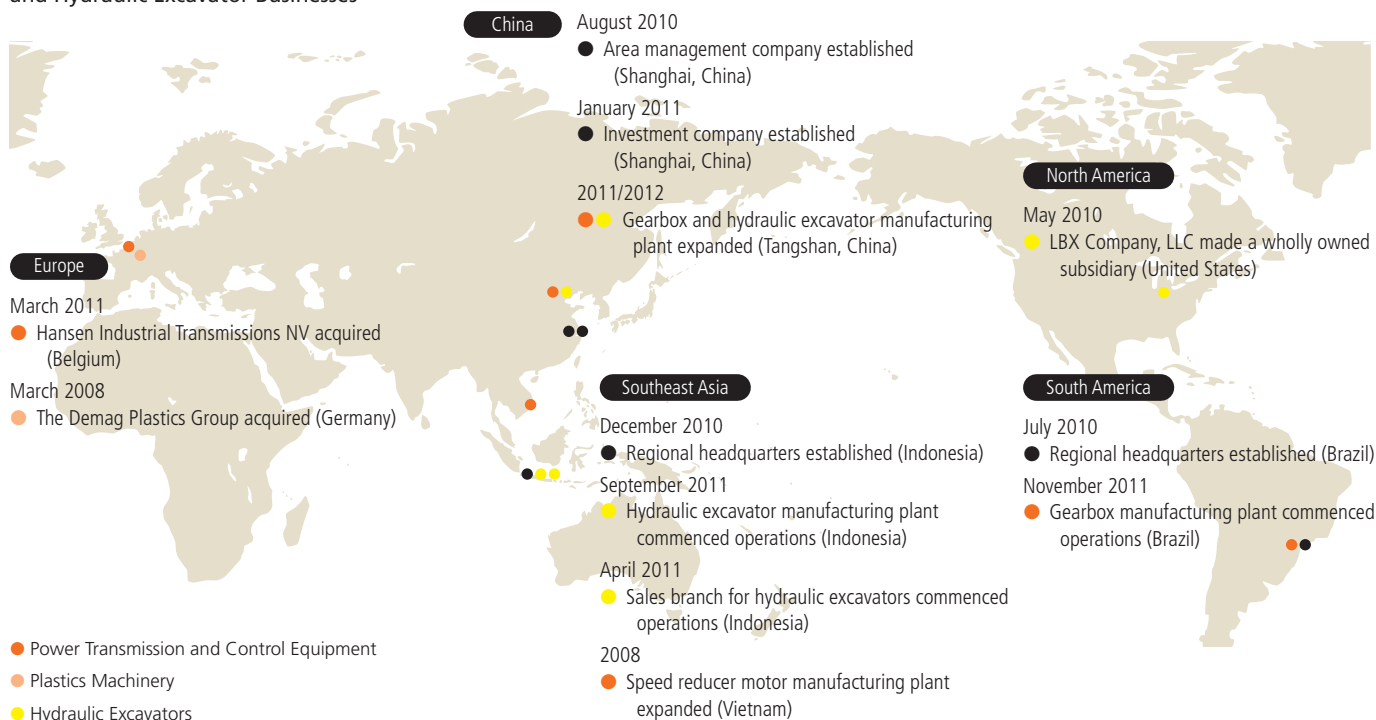
Operating Income



ROIC



Upgrading and Expanding Global Bases in the Power Transmission and Control Equipment, Plastics Machinery and Hydraulic Excavator Businesses



Q. Taking into account results after the first year, will you make any changes in the plan?

A. In principle, we are not contemplating any change in the overall direction of our strategies. Outside of Japan, we will work to expand activities in segments that fall under the mass-produced machinery category.

We do not intend to change our policy of pursuing expansion in segments that fall under the category of mass-produced machinery, including Machinery Components, Construction Machinery and Precision Machinery. In each of these businesses, we will actively pursue opportunities in overseas markets and reach out to customers around the world. We will put in place a local production structure while upgrading, expanding and bolstering collaboration with our global network. Through these means, we will strive to expand business.

Q. Can you provide us with specific details of initiatives?

A. While expanding overseas output, we will bolster global collaboration and promote business expansion.

In power transmission and control equipment, we will quickly realize full operations at our Tangshan Plant in China as well as our new plant in Brazil. At the same time, we will bolster collaboration with Hansen Industrial Transmissions NV, which

we acquired last year. These efforts will dovetail with our goal of expanding our global market share. In plastics machinery, we will further strengthen our relationship with the Demag Plastics Group in Germany to boost our share in growth fields and regions. In hydraulic excavators, while increasing production capacity in Japan, China and Indonesia, we will endeavor to lift our market share in the growth markets of Southeast Asia as well as North America and South America.

Q. There were no new shipbuilding orders in fiscal 2011. Please tell us about your policies in this business going forward.

A. We will assign the minimum number of personnel required to carry the business forward.

The SHI Group has continued to adopt a patient policy. Rather than pursue orders to the point where the business incurs a loss, we have reduced the pace of construction and sought to weather the difficult operating environment until market conditions recover. The downturn in the freight shipping and shipbuilding markets, however, shows no sign of abating and we foresee little opportunity to secure orders that are capable of turning a profit. Under these circumstances, we will further slow the pace of construction and keep personnel assigned to the shipbuilding business to the absolute minimum. Every possible step will be taken to avoid any incidence of loss and we will endeavor to quickly capture new orders.

Fiscal 2012 Performance Forecasts	FY12 1H (Forecast)	FY12 2H (Forecast)	FY12 (Forecast)	FY11 (Result)
Orders	290.0	310.0	600.0	571.3
Net sales	300.0	330.0	630.0	624.1
Operating income	17.0	28.0	45.0	47.1
Operating income margin (%)	5.7%	8.5%	7.1%	7.6%
Ordinary income	15.0	26.0	41.0	44.6
Ordinary income margin (%)	5.0%	7.9%	6.5%	7.1%
Extraordinary gains or losses	(0.5)	(1.5)	(2.0)	(6.4)
Net income	8.0	15.5	23.5	19.5
Profit margin (%)	2.7%	4.7%	3.7%	3.1%
Dividends (¥)	4	6	10	10
Payout ratio (%)			26.1%	31.5%
ROIC (after tax) (%)			6.1%	7.4%
Exchange rate (¥ to US\$1.00)			80	85

Outlook for Fiscal 2012

Q. What is your outlook for fiscal 2012?

A. We forecast order and sales increases in segments that fall into the category of mass-produced machinery.

The economic environment in fiscal 2012 is expected to benefit from ongoing growth in newly emerging countries and a recovery in market conditions in developed countries. There remains little room for complacency, however, given the prolonged impacts of such factors as the financial crisis in Europe, a slowing of the growth rate in China and persistent appreciation in the value of the yen. Under these circumstances, the SHI Group expects to record new orders totaling ¥600.0 billion, net sales of ¥630.0 billion and operating income of ¥45.0 billion. These forecasts are based on our assumption that orders and sales in segments that fall into the category of mass-produced machinery will increase on the back of a recovery in overseas markets. The ship and heavy machinery-related markets are not projected to improve. Accordingly, we anticipate continued difficult operating conditions in these fields.

Returning Profits to Shareholders

Q. What is SHI's policy on distributing profits to shareholders?

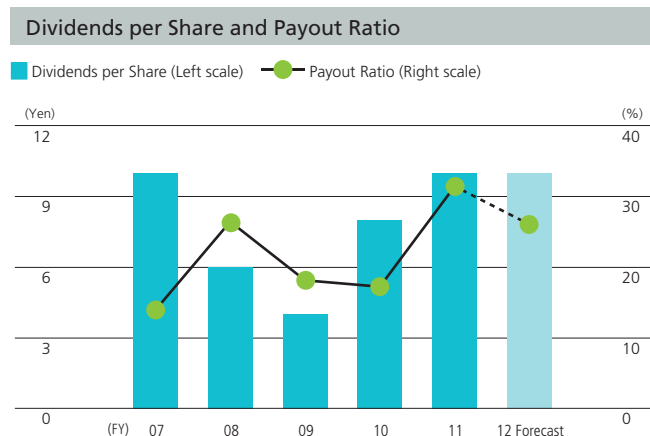
A. SHI adheres to a policy of paying performance-linked cash dividends for each period while working to constantly increase returns.

SHI pays out cash dividends based on profits for each period and continually strives to increase shareholder return. The determination of dividends takes into consideration a full range of factors, including the need to accumulate and

maintain internal reserves at the level required to ensure long-term and stable business development.

For fiscal 2011, in line with the aforementioned policy and reflecting the Group's earnings performance, the Company declared an annual per-share cash dividend of ¥10, up ¥2 compared with fiscal 2010. For fiscal 2012, SHI plans to maintain this level and pay an annual per-share cash dividend of ¥10, which includes an interim cash dividend of ¥4.

By taking sure-footed steps to implement initiatives under the "Innovation 21" Plan, SHI will secure additional business growth, thereby maximizing its corporate value. Through increases in profit distribution, the Company will continue to meet the expectations of its shareholders.



Special Feature



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POWER TRANSMISSION AND
CONTROL EQUIPMENT

Pursuing Group Synergies
while Accelerating Global
Business Development



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PLASTIC INJECTION MOLDING MACHINES

Toward Becoming the
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MEDICAL EQUIPMENT

Globally Expanding Leading-
Edge Cancer Treatment and
Diagnostic Equipment



P. 20

HYDRAULIC EXCAVATORS

Addressing Infrastructure
Development Demand in
Newly Emerging Countries

Building Up Our Global Strength

Under the “Innovation 21,” medium-term management plan, the SHI Group is actively promoting growth in the business fields of power transmission and control equipment, plastic injection molding machines, medical equipment and hydraulic excavators. In this special feature section, the people in charge of operations in these fields discuss the characteristic features of our principal products as well as our business strategies going forward.



Pursuing Group Synergies while Accelerating Global Business Development

Harnessing Collective Strengths to Secure the World's Leading Market Share

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

Maintaining a Top Market Share in Japan while Boasting World-Class Sales Results What is a speed reducer?

Many of the motors used to drive industrial machinery rotate too fast and lack enough torque. Therefore, additional equipment is employed to optimize rotary speed while raising torque as appropriate for different machinery and applications. The most commonly used type of additional equipment are speed reducers, which are combinations of sets of gears. Speed reducers play a key role in modern industry and can be found in a wide range of machinery, including conveyors, cranes and industrial robots.

The history of the power transmission and control equipment business

The SHI Group can trace the production of speed reducers as well as electric motors back to 1911, when it began manufacturing direct-current motors for Besshi Copper Mine. In 1938, SHI signed a technical collaboration agreement with CYCLO Getriebebau Lorenz Braren KG of Germany (currently Sumitomo (SHI) Cyclo Drive Germany GmbH) and the following year commenced production of CYCLO® speed reducer, which remains a mainstay product today. Over its history, the SHI Group has remained at the forefront of the speed reducer industry sector while introducing a wide variety of products, and the Group continues to lead through the promotion of global-scale manufacturing and marketing activities. The SHI Group's strengths lie in a broad product lineup that encompasses speed reducers in every size from small to large as well as for precision control and electric motors and inverters. In addition, the Group boasts a comprehensive customer support network of sales offices in over 250 locations in 50 countries worldwide. Currently, the SHI Group maintains the top share of the market in Japan and registers world-class sales results.

Speed reducer applications

In the section that follows, we provide select examples of major speed reducer applications by size.

Smaller speed reducers are mainly used in compact conveying machinery such as light-load conveyors as well as food processing machinery. To address the food safety and hygiene requirements essential in food processing machinery, the SHI Group developed and released a specifically designed speed reducer.

The CYCLO® speed reducer is the flagship model of medium-sized speed reducers. Unlike common or involute gears, the CYCLO® speed reducer's gear plates are uniquely curved to achieve smooth, rotating contact in a proprietary wave-shaped configuration. Along with its high gear-meshing ratio, which gives it toughness, the defining features of this product are high efficiency, long life, compactness, light weight and a high reduction ratio. The CYCLO® speed reducer is used across a wide range of applications, including conveying, steelmaking, chemical processing and water treatment-related machinery.

Small-sized speed reducers/gearboxes

Principal applications:
Small-sized conveying machinery, food processing machinery



Hyponic Gearmotor®

Medium-sized speed reducers/gearboxes

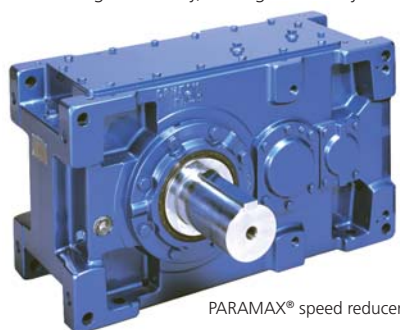
Principal applications:
Conveying machinery, steelmaking machinery, chemical processing machinery, water treatment-related machinery



CYCLO® speed reducer

Large-sized speed reducers/gearboxes

Principal applications:
Cranes, chemical processing machinery, steelmaking machinery, mining machinery



PARAMAX® speed reducer

For larger gearboxes, the greater concern is durability as they are used to drive bigger types of industrial machinery. PARAMAX® speed reducers employ a pressure angle of 25 degrees making it possible to design gearboxes with a high load tolerance in addition to high shock load resistance. The principal applications are in cranes as well as chemical processing, steelmaking and mining-related machinery.

In addition to the aforementioned speed reducers and gearboxes, the SHI Group offers speed reducers for precision control. Such speed reducers, which are required to have excellent rigidity, are in high demand for use in industrial robots, machine tools and factory automation machinery, where precise positioning accuracy is at a premium. The Group continues to address market needs with an abundant product lineup.

Cultivating the Growing Markets of China and South America through Local Production

As a part of its global business development activities, SHI entered the North American market in the 1960s. Working through Sumitomo (SHI) Cyclo Drive Germany GmbH, the Company was quick to expand its sales network throughout Europe as well. In recent years, the SHI Group has focused on business development in newly emerging countries, which continue to exhibit remarkable growth. For more than a decade, the Group has expanded its operations and stepped up the local production of small- and medium-sized speed reducers in China through its plant in Tianjin City. In 2009, the SHI Group commenced production of medium- and large-sized gearboxes at the plant in Tangshan, Hebei Province, that continues to progress steadily. More recently, in November 2011, the Group brought online a new plant for medium- and large-sized gearboxes in Brazil. By ensuring the stable supply of products through local production and sales growth, the SHI Group will endeavor to expand its business in South America, which is projected to enjoy sound economic growth.

Promoting Cooperation with Hansen Industrial Transmissions NV

In March 2011, SHI acquired equity in Belgium-based Hansen Industrial Transmissions NV (HIT), making the company a wholly owned subsidiary. With its production base near Antwerp serving as its center of operations, HIT maintains six assembly bases worldwide. In addition to Europe, the company boasts powerful sales channels in such resource-rich countries as South Africa and Australia, which both exhibit significant growth potential. SHI has received gearbox-related technological support from the former parent company of HIT. Building on this relationship, SHI expects to quickly generate synergies by working with HIT in product development. Together with this new subsidiary, the SHI Group has put in place a full-fledged global-scale cooperative framework from both the product and sales perspectives. Moving forward, the companies will work in unison to promote business expansion.

Area of Focus

Looking at sales trends in the power transmission and control equipment business by geographical area, growth in Japan has stalled while results overseas continue to expand. Given the forecasts of ongoing robust infrastructure investment in such newly emerging countries and regions as China, Central America, South America and Southeast Asia, steadfastly capturing demand in each of these areas is of vital importance. To bring to market products that genuinely meet needs in a timely fashion, the SHI Group will strengthen its marketing function in each area while promoting timely product development. From a manufacturing perspective, considerable weight has been placed in recent years on channeling investment toward the construction of new plants and expansion of production facilities in wide-ranging locations including China, Vietnam and Brazil. Through these means, every effort has been made to augment global production capacity. In Europe, the Group secured a manufacturing base for the production of large-sized gearboxes through the acquisition of HIT. In addition to taking full advantage of these plants going forward, the Group will focus on optimizing its supply chain and to ensure smooth collaborative ties between each manufacturing base and global sales network. The SHI Group will work diligently to build a robust business structure and secure the world's leading market share.

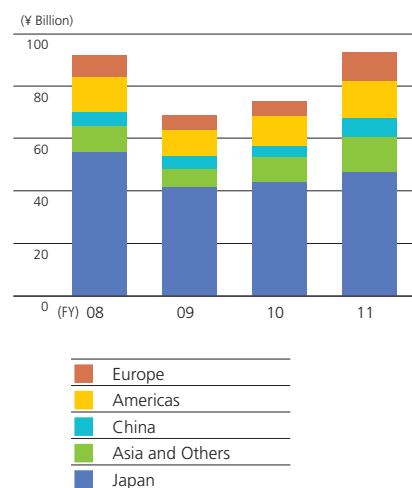


Tangshan Plant



Brazil Plant

Power Transmission and Control Equipment Sales by Geographical Area





Toward Becoming the Leading Global Brand in the High-End Zone

Providing First-Class Products that Seamlessly Fuse Wide-Ranging Technologies

Kazuo Hiraoka
General Manager, Plastics Machinery Division

Maintaining a Leading Share in Japan of the Full-Electric Injection Molding Machine Market

The history of the injection molding machine business

Injection molding machines are used to process plastic products. Plastic materials (resins) are melted and poured into molds where they are allowed to harden into specific shapes.

A wide variety of products essential to everyday life from electronic components, components for use in mobile phones, lenses, all types of switches, optical disks and such medical instruments as syringes as well as PET bottles are manufactured using plastic injection molding machines.

The SHI Group entered into a technological alliance with Netstal-Maschinen AG of Switzerland in 1966 (alliance terminated in 1992). In the ensuing period, the Group has accumulated substantial expertise and know-how in injection molding technologies. In 1998, the SHI Group opted for the full-electric system over the conventional hydraulic system and began releasing full-electric injection molding machines in earnest. Boasting significant expertise in high-precision, high-cycle molding, the Group was successful in meeting the market needs. As a result, deliveries of full-electric injection molding machines grew steadily, particularly to the IT industry. From 2003, the use of electronics by the automotive industry surged dramatically, enabling the SHI Group to secure a top, greater than 20% share of the domestic market. Moving forward, the Group is gradually expanding its market share.

Examples of molded items:



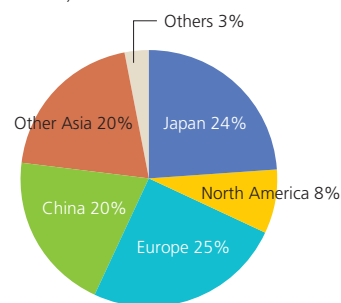
High-precision optical components

Mobile phone connectors

Cups

Plates

Sales of Plastic Injection Molding Machines by Geographical Area (Fiscal 2011)



Lenses



Tail lamps

Full model change of full-electric injection molding machines

Since introducing full-electric injection molding machines to the market in 1998, the SHI Group has prioritized the continuous development of innovative full-electric injection molding technologies, releasing a succession of new models. In October 2011, the Group completed full model changes across its lineup of full-electric plastic injection molding machines, introducing the new SE-EV series. The SE-EV series is designed to draw out the maximum potential of the innovative Zero-molding® system, which adheres to the concepts of zero defects, zero loss and zero faults. In this context, the SE-EV series helps realize high-precision, high-cycle and stable molding. Moreover, the Group conducted a thorough

review focusing on mechanical efficiency. These efforts have helped to cut energy consumption approximately 20% compared with the previous model. In the future, the Group will work to expand orders, especially for this new series, while applying its accumulated technologies to other models.

Bringing to the market large-size light guide plate injection molding machines

The SHI Group released the CL9000U light guide plate injection molding machine for large 40-inch LCD panels in 2011. Light guide plates are used for the back lighting of LCDs in such wide-ranging items as smartphones, tablet PCs and LCD TVs. Light guide plates are thin plastic plates with a fine surface pattern that distributes light from light sources evenly over the entire surface of the plate. In producing large light guide plates, advanced molding technologies are necessary to form thin, distortion-free plates as well as to create the fine patterning across the entire surface.



Full-electric plastic injection molding machine "SE100EV"

Cooperating with the Germany-Based Demag Plastics Group and Accelerating Business Development across Global Markets

In March 2008, SHI acquired Germany-based Demag Ergotech GmbH (currently Sumitomo (SHI) Demag Plastics Machinery GmbH, hereinafter "Demag Plastics Group"), making it a consolidated subsidiary. At the time, the SHI Group's overseas sales ratio in this field was around 60%, with the majority of sales concentrated in Asia, mainly China. Recognizing the need to expand sales in regions other than Asia in order to boost its overseas sales, SHI viewed the acquisition of Demag Plastics Group as a potential major turning point in its efforts to develop business across global markets. Demag Plastics Group was established in Germany in 1922 and is a manufacturer of injection molding machines that enjoy substantial brand recognition. The company maintains manufacturing bases in Germany and China and sales bases extending mainly from Europe, including East Europe and Russia, to North America, South America and Asia. Hydraulic systems remain the mainstream technology in injection molding machines in Europe with full-electric systems accounting for around 20% of the total market. On this basis, there is ample room for sales growth in full-electric machinery. Moving forward, the SHI Group will introduce its full-electric machine technologies, an area of particular strength, through Demag Plastics Group and expand its injection molding machine business focusing on Europe.



Sumitomo (SHI) Demag Plastics Machinery GmbH (Demag Plastics Group)



Full-electric plastic injection molding machine "IntElect 220-1100" manufactured by Demag Plastics Group

Toward Becoming the Leading Global Brand in the High-End Zone

Sales of SHI Group's full-electric injection molding machines are mainly directed to IT-related markets, where high-precision components are required, and other high-end fields. Building on recent demand growth for smartphones, PCs and related devices, the need for such items as connectors, lenses and light guide plates is expected to climb. In addition, demand for high-precision molding components remains firm from such fields as automobiles, medical instruments and containers. Concentrating on high-end markets in which the SHI Group can best leverage its molding technologies, the Group will collaborate with Demag Plastics Group and harness the collective strengths of product and services to become the leading global brand in the high-end zone.



Globally Expanding Leading-Edge Cancer Treatment and Diagnostic Equipment

*Offering Surgery-Free,
Patient-Friendly Cancer Treatment*

Yukio Kumata
Senior Vice President
General Manager, Quantum Equipment Division

Strengthening Overseas Sales of Proton Therapy Systems

What is a proton therapy system?

Proton therapy is a type of radiation therapy that helps eradicate cancer cells by bombarding affected tissue with a proton beam. Proton therapy treatment continues to attract attention from around the world as a nonsurgical treatment method that imposes a much smaller burden on the body. By focusing on cancer cells, proton therapy systems minimize damage to surrounding normal cells, making treatment only minimally invasive. This pinpoint therapy method boasts clear advantages over conventional X-ray radiation treatment, including limited side effects. Moreover, by eliminating the need for hospitalization, this method enables outpatient treatment and patients are able to go about their daily routines at work and home as well as socialize with little or no impediment.

Development history

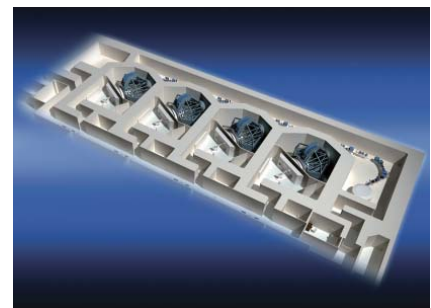
The SHI Group's proton therapy systems utilize a cyclotron, a type of circular particle accelerator, to accelerate protons and thereby generate proton beams. SHI's cyclotron is the culmination of decades of technology development dating back to the Company's founding and its involvement in the lifting magnet business. During the 1960s, SHI commenced research in the magnetic, cyclotron accelerator and related fields. This research and development, focusing mainly on cyclotron accelerators, has now been carried out for more than four decades. This dedication has fostered the SHI Group's current robust proton therapy system business.

Market launches

The SHI Group delivered Japan's first, and the world's second, commercial proton therapy system for hospital installation at the Hospital East facility of the National Cancer Center in 1997. Since treatments commenced in 2001, this system has built up an impressive treatment track record that now extends over a decade. The Group received its first overseas order in 2008 for the delivery of the world's largest such system to a facility in Taiwan. More recently in 2010, an order received in Japan involved the delivery of the world's first system to position the cyclotron and rotating gantry in a vertical configuration in order to conserve space. In addition to greater compactness, this latest system could offer reduced investment costs. Also in 2010, the Group received an order from a hospital in South Korea. Moving forward, the SHI Group is steadily accumulating results both in Japan and overseas.

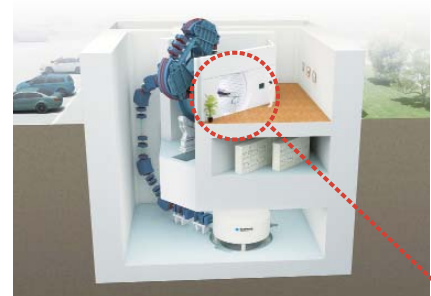
Pencil beam scanning irradiation method

In 2011, SHI obtained authorization from Japan's Ministry of Health, Labour and Welfare to manufacture and distribute medical equipment for proton therapy cancer treatment facilities that use the pencil beam scanning irradiation method. This new irradiation method

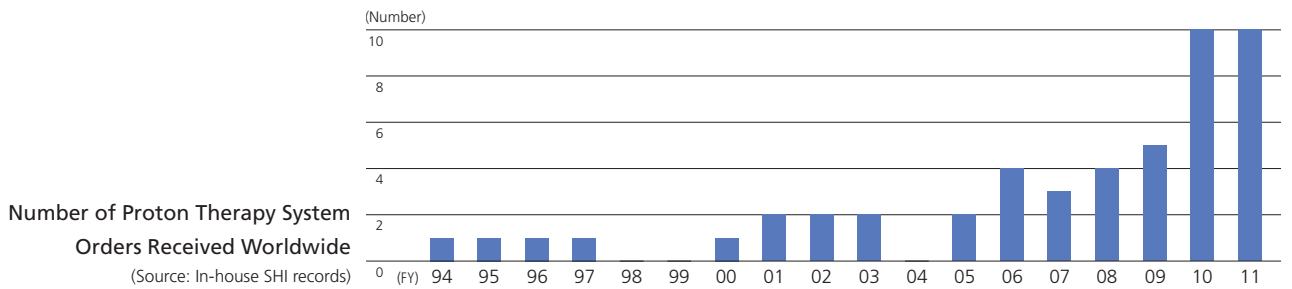


World's largest-scale proton therapy system equipped with four treatment rooms

Vertically arranged compact proton therapy system



Rotating gantry irradiation equipment



utilizes a narrow beam approximately 10mm in diameter. In comparison with the traditional broad beam irradiation method,* this scanning irradiation method can be tuned to precisely match the size and shape of a targeted tumor making it possible to treat tumors with more complex shapes. Equipped with a high-precision diagnostic imaging system for accurate patient positioning and a highly flexible and precise robotically controlled couch, this innovative method delivers optimal patient treatment.

* Broad beam irradiation method: A method of irradiation that uses a large-diameter proton beam generated by a proton beam generator. The beam is shaped to match the targeted tumor using a beam shaping device made specifically for individual patients, referred to as a collimator or a bolus.

Future market trends

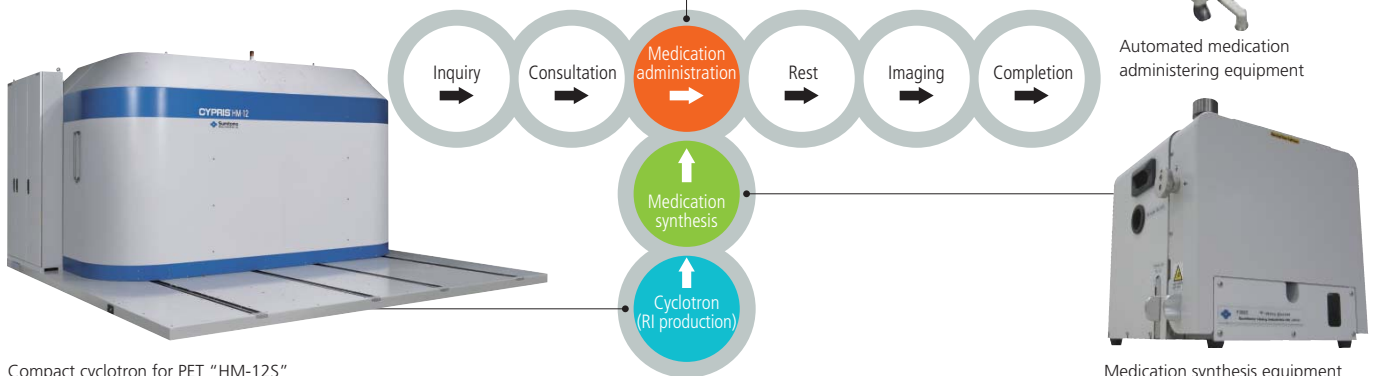
Interest in proton therapy systems for the treatment of cancer has continued to rise over recent years. Between 2000 and 2005, the number of orders worldwide was limited to one or two each year. Recently, this has blossomed to around 10 orders annually. Numerous plans are also taking shape for the widespread introduction of proton therapy systems in a variety of countries and regions, including Japan, North America, Europe and Asia. While several manufacturers in Japan, Europe and the United States provide proton therapy systems, Japan boasts an abundance of proton beam treatment facilities and plays a leading role in driving the field forward. As a pioneer in proton therapy systems, the SHI Group engages in the development of products that match customer needs and strives actively to fulfill market expectations.

Projected Growth in the Overseas Market for the PET Medication Production System

The use of Positron Emission Tomography (PET) as a diagnostic imaging method in the early detection of cancer cells is gaining in popularity around the world. Under this method, an agent containing a positron rich substance that emits radiation is introduced to the body. The positrons gravitate toward tumors and the images produced allow the early discovery of even the smallest of cancer cells.

The SHI Group is the only manufacturer in Japan capable of offering a PET medication production system. Its system includes a compact cyclotron for manufacturing radioactive isotopes (RI), medication synthesis equipment and the automated medication administering equipment needed to produce the radiation agents used in PET diagnosis. The Group also provides a full range of support services from training personnel at medical facilities in the use of the equipment through to the dispatch of equipment operators. The SHI Group accordingly boasts a top market share in Japan and maintains an impressive track record of delivery. Overseas, the Group continues to record equally impressive results with systems delivered to over 40 facilities mainly in China. Looking ahead, the SHI Group will pursue business development in newly emerging markets.

The Flow of PET Diagnosis and SHI's Products



Compact cyclotron for PET "HM-12S"

Medication synthesis equipment



Addressing Infrastructure Development Demand in Newly Emerging Countries

Strengthening the Group's Overseas Production Capabilities

Mikio Ide
 Director, Sumitomo Heavy Industries, Ltd.
 Representative Director and President, Sumitomo (S.H.I.) Construction Machinery Co., Ltd.

Boosting the Group's Production Capacity at Plants in China and Indonesia

In 2004, the SHI Group established a company in China to oversee its sales and service operations and bolster its business development capabilities in that country's market. Thereafter, recognizing the need to establish a local manufacturing plant to support further sales expansion, the Group constructed a plant in Tangshan City, Hebei Province, that came fully online in June 2009. Since then, the SHI Group has invested capital as needed for expansion, bringing the plant's production capacity to 3,000 units per year in fiscal 2011.

The SHI Group also constructed a plant in Indonesia, that commenced operations in September 2011 with a production capacity of 1,000 units per year. Indonesia is a major market and accounts for approximately half of Southeast Asian construction machinery demand. Looking ahead, this market is expected to enjoy continued growth on the back of expansion in demand for natural resources and ongoing robust social infrastructure development. In addition, in 2011 the Group established a local company to oversee its sales and service operations in Indonesia with an eye toward expanding its business throughout Southeast Asia.

Promoting a Three-Plant Integrated Management System

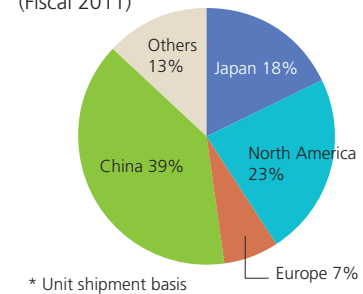
The SHI Group manufactures hydraulic excavators in Chiba in Japan, Tangshan in China and in Indonesia. Moving forward, the Group will continue to bolster its overseas production structure while unifying its production and sales activities to further expand business. Addressing the effects of worldwide economic instability on regional demand as well as the need to improve production efficiency, the SHI Group will promote a three-plant integrated management system from the viewpoint of total optimization. Our integrated management systems will encompass the joint procurement of components as well as production technology collaboration.

Expanding Sales Based on the Group's Fuel Efficiency Performance

The SHI Group concentrates mainly on mid-sized hydraulic excavators. The approximately 20% higher fuel efficiency compared with previous models that the LEGEST® series offers is attracting interest not only in Japan but overseas, as is its improved maneuverability. Recently, we have developed a new hybrid technology for the LEGEST® HYBRID excavator with lifting magnet models. This technology uses an electric motor directly attached to the engine to charge a capacitor (storage battery) and thus store excess electric power. Using the stored power during swinging maneuvers and magnetizing, this system offers a further 10% to 30% reduction in fuel consumption compared with the previous models.

The SHI Group is actively engaged in the research and development of products that comply with exhaust gas emission regulations. The Group has undertaken a full model change, introducing engines that meet provisional requirements under Tier 4 emissions regulations, with mainstay models released in Europe and the United States. Looking ahead, the Group will continue to develop and release in a timely fashion products that address market needs.

Breakdown of Hydraulic Excavators Sold* by Geographical Area (Fiscal 2011)



Hybrid hydraulic excavator LEGEST® HYBRID lifting magnet model

Review of Operations

Machinery Components

Main Products

Power transmission and control equipment, Inverters

Major Applications/Markets

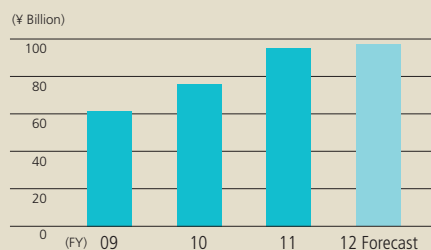
Factory automation machinery, Industrial robots, Machine tools, Conveying and logistics machinery, Steel and iron making machinery, Chemical processing machinery, Material handling machinery, Mining machinery, Food processing machinery, Water treatment plants, Elevators and escalators

Fiscal 2011 Segment Results

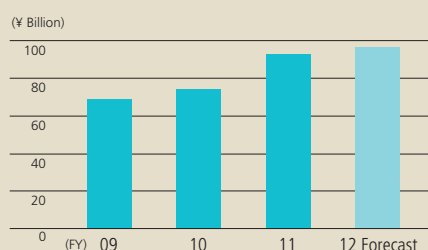
Operating performance improved for almost all components compared with the previous fiscal year, reflecting our appropriate responses to market expansion in emerging countries and the favorable effects of the acquisition of Hansen Industrial Transmissions NV in the previous

fiscal year, leading to increases in orders and sales. As a result, total segment orders were ¥95.1 billion, a 25% year-on-year increase, sales were ¥93.2 billion, a 25% rise, and operating income was ¥4.2 billion, a 13% decrease.

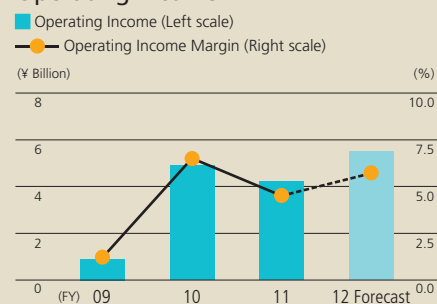
Orders



Sales



Operating Income



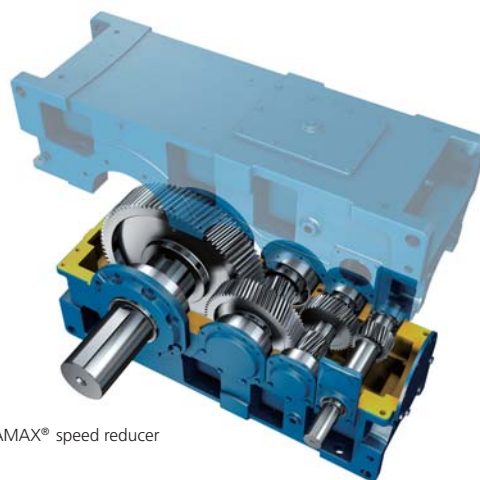
POWER TRANSMISSION AND CONTROL EQUIPMENT, INVERTERS

Market Environment

Market conditions both in Japan and overseas are difficult. This harsh operating environment is mainly attributable to the continued high value of the yen in the second half of fiscal 2011, and the impact of the financial crisis in Europe. On the domestic front, capital investment continues to stagnate, reflecting the shift of production overseas by Japan's corporate sector. On a positive note, however, reconstruction demand related to the earthquake disaster is expected to pick up in the second half of fiscal 2012. Overseas, economic instability across most developed countries remains a concern. In contrast, mainly in emerging countries activity in the resources, environment, infrastructure and related fields has been and is forecast to remain firm.

Fiscal 2011 Review and Topics

In an effort to address the healthy demand being seen principally in emerging countries, the SHI Group kicked off operations at a new plant in Brazil in November 2011. Earlier that year, in August, the Group had finished the expansion of its Tangshan Plant in China, boosting production capacity. In addition, among a host of other initiatives the SHI Group released new models in the Bevel BUDDYBOX® series of right-angle-shaft gear motors with built-in CYCLO® speed reducers and



PARAMAX® speed reducer

steps were taken to launch full-fledged collaborative operations with Belgium-based Hansen Industrial Transmissions NV (HIT), which was included in SHI's scope of consolidation as a wholly owned subsidiary in March 2011.

Fiscal 2012 Strategies and Initiatives

The SHI Group plans to expand overseas sales, focusing mainly on medium- and large-sized gearboxes, which are expected to enjoy particularly firm demand in emerging markets. Through the expanded Tangshan Plant in China and the newly constructed plant in Brazil, we will leverage the merits of local production for local consumption. In Japan, we will take definitive steps to address growing reconstruction demand while further enhancing cost-competitiveness.



Precision Machinery

Main Products	Major Applications/Markets
Plastic injection molding machines	Electronics, Electric equipment, Automobiles, Containers, Medical equipment
Cyclotrons for medical use, Ion accelerators	Medical equipment, Research
Plasma coating system for flat panel displays (FPDs), Laser processing systems, XY stages, Transfer molding press machines	Semiconductors, LCDs
Cryogenic equipment	Medical equipment, Aerospace development
Precision forgings	Jet engines for airplanes, Turbines for power generation
Defense equipment	Defense

PLASTICS MACHINERY

Market Environment

The economic outlook for developed countries, including those of Europe, and investment trends in developing countries remains uncertain. Nevertheless, investment in IT-related facilities, including smartphone and tablet PC factories, mainly in Asia is expected to remain firm. Overall market conditions are expected to remain roughly on par with the previous fiscal year.

Fiscal 2011 Review and Topics

Orders received from the European market were robust during the first half of fiscal 2011. In the second half of the fiscal year, the SHI Group received additional orders, mainly reflecting reconstruction demand following the floods in Thailand. In October 2011, the Group released new models of its full-electric

injection molding machine. The new SE-EV series, which improves on the widely acclaimed SE-DUZ series, offers a higher level of precision, molding stability and energy-saving performance. Through the release of new products, the SHI Group is helping to significantly improve molding productivity.

Fiscal 2012 Strategies and Initiatives

Building on its lineup of full-electric injection molding machines, the SHI Group will upgrade and expand its product offerings to best meet customers' needs in each product field. Every effort will also be made to further enhance functionality. In partnership with Germany-based Demag Plastics Group, acquired in 2008, we will harness our global sales and service network to accelerate development in such worldwide markets as Europe, the United States and Asia. Bolstering both product and marketing capabilities, the SHI Group will seek to dominate the global plastic injection molding machine market.



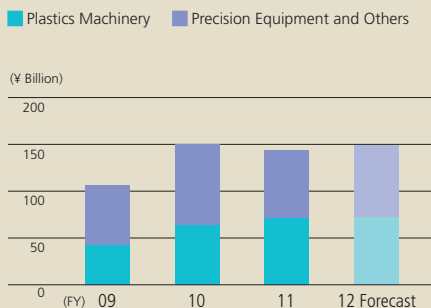
Full-electric plastic injection molding machine "SE100EV"

Fiscal 2011 Segment Results

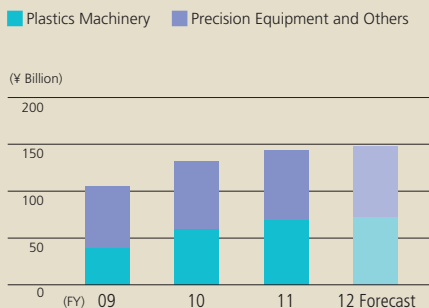
Both orders and sales of plastics machinery increased principally due to a recovery in the European markets. Declines in orders were seen in other areas mainly due to weak performance in the medical equipment and other electronics-related products fields. However, sales increased partly due to favorable orders received in the previous fiscal year. As a

result, total segment orders were ¥143.9 billion, down 4% year over year although sales were up 9% to ¥144.1 billion and operating income increased 50% to ¥12.5 billion.

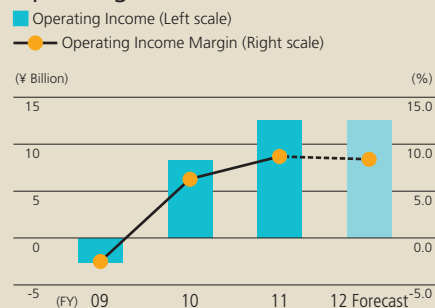
Orders



Sales



Operating Income



PRECISION EQUIPMENT AND OTHERS

Market Environment

Overall market conditions are firm. Medical equipment-related activities are being buoyed by robust trends in cancer diagnosis and treatment equipment in Asia, Europe and the United States. Along with growing awareness of QOL* issues in recent years, there has been a growing interest among hospitals, universities and research facilities in acquiring new equipment. The semiconductor- and electronics-related equipment fields are beginning to show signs of recovery, supported by demand for smartphones and tablet PCs, particularly in Asia.

* QOL: Quality of Life. In medicine, it is becoming ever more important to respect patients' values and improve their QOL during and after medical procedures.

Fiscal 2011 Review and Topics

In medical equipment and related fields, orders were robust for cryogenic equipment. Around the world, SHI's cryogenic equipment is considered essential equipment for magnetic resonance imaging (MRI) scanners and thus enjoys stable demand. Overseas inquiries for proton therapy systems are also brisk. Overall orders for semiconductor- and electronic-related equipment fell short of projections due to deteriorating market conditions despite a temporary pickup in reconstruction demand following the earthquake disaster.

Fiscal 2012 Strategies and Initiatives

The SHI Group will focus on bolstering its sales and marketing structure overseas and work to increase the order volume for medical equipment and related fields. As for semiconductor- and electronics-related equipment, market conditions are



Cryogenic equipment

improving as demand for such IT devices as smartphones is expected to continue rising. Under these circumstances, the SHI Group will look to expand sales of related equipment, particularly in Asia. In such new energy fields as photovoltaic solar and secondary cells, where growth is expected, the SHI Group will endeavor to cultivate new markets.



Construction Machinery

Main Products	Major Applications/Markets
Hydraulic excavators	Construction, Civil engineering, Scrap, Forestry
Mobile cranes	Construction, Civil engineering
Road machinery	Roadway construction

HYDRAULIC EXCAVATORS AND ROAD MACHINERY Sumitomo (S.H.I.) Construction Machinery Co., Ltd.

Market Environment

Demand for hydraulic excavators is feeling the effects of a slowdown in China, the world's largest market for such equipment. A considerable amount of time is expected to pass before there is a full-fledged recovery in market conditions. In Japan, demand increased on the back of reconstruction efforts following the earthquake disaster. Together with signs of a positive turnaround in North America, the market is benefiting from firm demand in Southeast Asian markets.

Fiscal 2011 Review and Topics

The operating environment in fiscal 2011 was harsh, with restrictions on electric power use at the Group's Chiba Works following the Great East Japan Earthquake, difficulties in procuring principal components, a sudden slowdown in growth in China's economy, and profitability deterioration in export markets due to the persistently high yen rate. The Group addressed these factors head on, resolving procurement problems, taking steps to ensure continuous full production at its Chiba Works, capturing reconstruction demand in Japan, and recording an upswing in shipments to North America. As a result, the SHI Group reported record high sales of hydraulic excavators and road machinery. Overseas, moves were made to expand facilities at the Group's Tangshan Plant in China, bringing annual output to 3,000 units. Construction of a new plant in Indonesia was completed and the facility came online in September 2011, bringing the SHI Group's production network in this sector to three plants located in Japan, China and Indonesia.

Turning to specific products, steps were taken to release machinery equipped with a Field View Monitor (FVM®) system that enhances safety during machinery operation. The FVM® system utilizes proprietary technology that combines the images from three cameras mounted on a hydraulic excavator to provide a 270° wide field of view that wraps around the back of cab where the driver sits. Through such innovations, the Group is working diligently to enhance the safety of its products.

Fiscal 2012 Strategies and Initiatives

On the domestic front, reconstruction demand following the earthquake disaster is expected to provide ongoing forward momentum. Overseas, however, numerous factors cloud future prospects. In addition to the slowing of economic growth in China, the financial crisis in Europe and prolonged high valuation of the yen are expected to negatively impact conditions. Against this backdrop, the Group is maintaining a policy of expanding the overall sales volume supported by its plants in Japan, China and Indonesia. Moreover, the SHI Group will work toward the market launch of new hydraulic excavators that comply with Japan's Tier 4 emissions requirements as well as sales growth backed by its product innovation capabilities. In road machinery, emphasis will be placed on entering the overseas asphalt paver market.



New hydraulic excavator plant in Indonesia



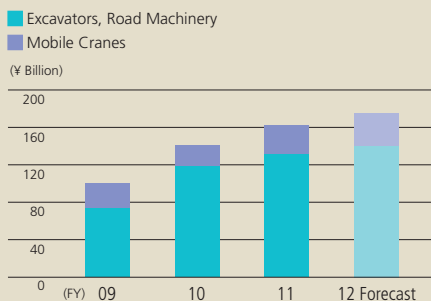
Hydraulic excavators manufactured at the plant in Indonesia

Fiscal 2011 Segment Results

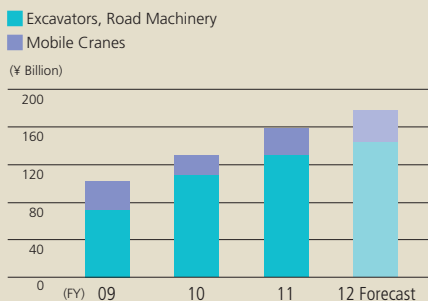
Increases in both orders and sales of hydraulic excavators were seen despite some disruption in supply chains caused by the Great East Japan Earthquake. In mobile construction cranes, orders and sales also rose due to recovery in the North American market. As a result, total segment

orders were ¥162.4 billion, a 15% year-on-year increase, sales were ¥158.9 billion, up 22%, and operating income was ¥8.3 billion, a 57% rise.

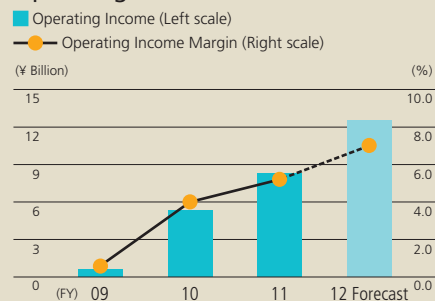
Orders



Sales



Operating Income



MOBILE CRANES

Link-Belt Construction Equipment Company, L.P., LLLP

Market Environment

The North American crane market's low point was in 2010; in 2011, it began to recover. Link-Belt was positively impacted by the growth in oil and gas exploration and dealers continuing efforts to replenish their rental fleets. The Latin American and Oceanian markets continued to grow in 2011, while those of the Near East began to show some signs of recovery.

Fiscal 2011 Review and Topics

Link-Belt recorded a 42% increase in sales in 2011 as a result of the improvement in the North American crane market and increased sales into the growing Latin American markets while beginning to penetrate the Oceanian markets through the establishment of a dealer in Australia. Link-Belt thus increased international sales in line with long-term strategic goals. Link-Belt introduced three new models at Con-Expo, the largest construction equipment show in North America, in March of 2011. Link-Belt continued the Lean Sigma® initiatives and the development of new products to support future sales.

Fiscal 2012 Strategies and Initiatives

Sales orders and the order backlog have continued to increase as demand in certain market segments has continued to grow. Link-Belt strategies for 2012 will be focused on increasing production to meet customer demand, implementation of

Tier 4 engines to meet EPA requirements, further expansion in international markets, minimizing the impact of inflationary pricing pressure, maintaining new product development timelines and continuing to support Lean Sigma® activities.





Industrial Machinery

Main Products	Major Applications/Markets
Material handling systems	Iron and steel, Electric power, Shipbuilding, Port logistics
Turbines	Power generation
Pumps	Oil and gas refinery facilities and equipment
Forging presses	Automobiles, Iron and steel, Non-ferrous metals
Logistics system	Logistics



Continuous ship unloader

MATERIAL HANDLING SYSTEMS

Sumitomo Heavy Industries Engineering and Services Co., Ltd.

Market Environment

In Japan, the business environment continues to be harsh due to such factors as the slowdown in domestic economic growth rates and further appreciation of the yen. On a brighter note, there are expectations of a partial pickup on the back of renewal-related demand for aging facilities and a rise in investment aimed at improving production efficiency. Overseas, capital investment is forecast to increase in the energy and materials fields, particularly in newly emerging regions, including East and Southeast Asia.

Fiscal 2011 Review and Topics

The SHI Group continued to support the reconstruction efforts of customers affected by the Great East Japan Earthquake in a timely manner. At the same time, the Group extended its reach to principal customer segments in Japan and overseas. During the fiscal year under review, we placed considerable weight on addressing renewal-related demand as certain customers took steps to replace aging plant and equipment. Accordingly, we concluded contracts in Japan with shipbuilders and steelworks

for goliath and ladle cranes, respectively, as well as with overseas shipbuilding companies for jib cranes.

Fiscal 2012 Strategies and Initiatives

In Japan, the SHI Group will work to further expand its market share by providing first-class products and services in a timely manner. Outside of Japan, we will vigorously focus our business development energies on the markets of East and Southeast Asia. Building on our first-class products and customer support solutions, we will endeavor to establish a virtuous circle that includes our service and maintenance as well as product businesses.



Steam turbine for power generation

TURBINES AND PUMPS

Shin Nippon Machinery Co., Ltd.

Market Environment

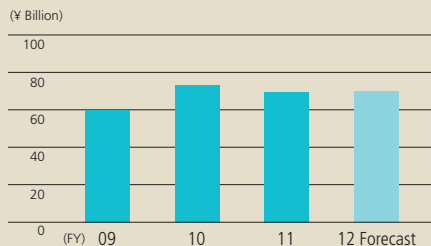
In line with newly emerging countries' growing domestic demand, activities with respect to natural resource- and infrastructure development-related capital investment plans has been accelerating. On the other hand, the European debt crisis has led to the postponement and cancellation of much investment around the world. At the same time, the difficult conditions are being exacerbated by the persistent appreciation of the yen, which is spurring intense price competition.

Fiscal 2011 Segment Results

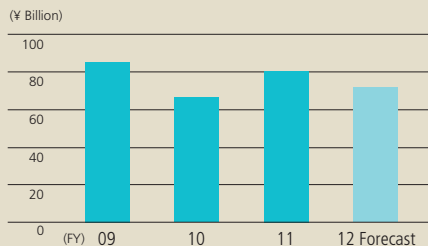
In turbines and pumps, orders decreased partly due to several customers scaling back capital investment; however, sales improved thanks to a backlog of orders from the previous fiscal year. Material handling systems performed firmly, reflecting our focus on disaster-relief and restoration work, which led to increases in both orders and sales. As a result,

total segment orders were ¥69.6 billion, a 5% year-on-year decrease while sales rose 21% to ¥80.7 billion and operating income decreased 7% to ¥9.5 billion.

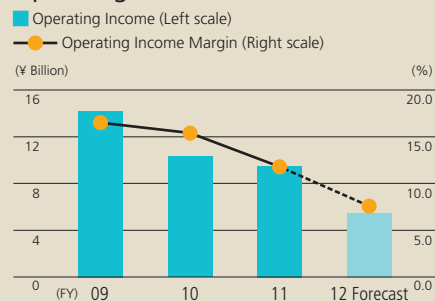
Orders



Sales



Operating Income



Fiscal 2011 Review and Topics

In turbine operations, the SHI Group has achieved considerable success in Thailand by adopting a sales and marketing approach that is deeply rooted in the local market. As a result, the Group won orders from a sugar refinery project. In North America, owing to a weak financing market, prospects for new projects were generally poor. Despite the difficult conditions, the SHI Group secured orders for biomass-based fuel generation turbines. In pumps, orders slumped due to the cooling of the market attributable to political unrest in the Middle East and the economic crisis in Europe. Nevertheless, the SHI Group received orders from an EPC*1 company in South Korea as well as gas and oil refinery project orders from EPC companies in Europe and the United States.

Fiscal 2012 Strategies and Initiatives

The SHI Group will focus on securing orders for power generation turbines for GTCC*2 use and for sugar refinery factories by taking full advantage of the market launch of high-efficiency long blade turbines and the establishment of a local subsidiary in Thailand. Regarding pumps, we will work to expand orders by enhancing our high-temperature, high-pressure pump product line while extending our business into the European and U.S. EPC fields.

*1 EPC stands for engineering, procurement and construction. EPC companies primarily undertake plant engineering projects.

*2 GTCC or gas turbine combined cycle power generation entails the combination of gas and steam turbines to improve generation efficiency.

FORGING PRESSES AND INDUSTRIAL MACHINERY Sumitomo Heavy Industries Techno-Fort Co., Ltd. Market Environment

In forging presses, investment in facilities is projected to pick up due mainly to an increase in demand for closed die forgings for the automobile industries, especially in Asia. In steelmaking

machinery, expectations remain particularly positive for after-market projects that entail quality upgrades, extensions in the useful life of facilities and energy conservation.

Fiscal 2011 Review and Topics

Orders for the compact FPR series forging press were robust. With emphasis on medium-scale models, strong orders extended through to large-scale forging presses. The SHI Group was also successful in attracting orders from new customers. In steelmaking machinery, the Group was commissioned to restore facilities affected by the earthquake disaster. We are proud to contribute in some small manner to reconstruction efforts.

Fiscal 2012 Strategies and Initiatives

In tune with an increase in automobile production unit volumes in Asia, demand for closed die forgings is forecast to expand. In forging presses, orders from Japanese companies entering Asian markets are expected to increase substantially. We are confident that we are also making progress in our sales expansion endeavors targeting overseas customers. Complementing these initiatives, the SHI Group will promote strategies aimed at expanding sales of FPS series servo-driven presses. We will concentrate on winning orders for aftermarket projects in our steelmaking machinery operations.



Hot forging press



Ships

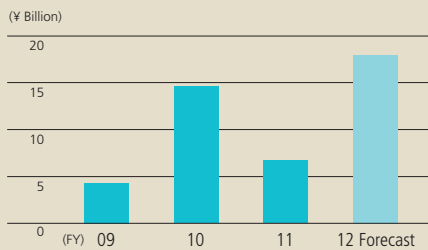
Main Products	Major Applications/Markets
Ships	Marine transportation

Fiscal 2011 Segment Results

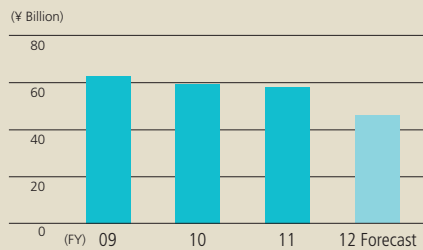
With market conditions continuing to follow the previous fiscal year's sluggish pattern, we received no new orders during fiscal 2011 after the receipt of two new ship orders in fiscal 2010. Sales declined, with seven deliveries of ships, one less than in the previous fiscal year. As a result,

total segment orders were ¥6.7 billion, a 54% year-on-year decrease, sales were ¥58.1 billion, down 2%, and operating income increased 10% to ¥10.9 billion.

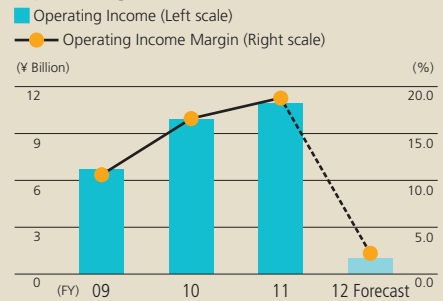
Orders



Sales



Operating Income



Aframax tanker *RICH DUKE II*

SHIPS

Sumitomo Heavy Industries Marine & Engineering Co., Ltd.

Market Environment

The volume of new shipbuilding orders remains lackluster with little or no sign of recovery. This is largely attributable to financial instability triggered by the debt crisis in Europe and prolonged stagnation in the freight shipping market. Exacerbating difficult conditions is the downward pressure placed on shipbuilding market prices by low-priced orders coming out of the shipyards in China. Shipbuilders in Japan are also being buffeted by the appreciation of the yen. For the shipbuilding industry

in Japan to survive, industry participants must deliver higher levels of productivity at a reduced cost while differentiating their products by incorporating environmental and other concerns.

Fiscal 2011 Review and Topics

Regrettably, there were no new shipbuilding orders received during the fiscal year ended March 31, 2012. Amid growing demand for energy-saving, less environmentally damaging vessels, the SHI Group released its new Aframax tanker and other ships, all of which are designed to help realize substantial energy savings. The adoption of the Toyota Production System improved productivity, driving up earnings and enabling the SHI Group to post record-high profits backed by sales of seven new ships, down one from fiscal 2010.

Fiscal 2012 Strategies and Initiatives

In fiscal 2012, conditions in the new shipbuilding market are expected to remain harsh. With the growing trend toward refining crude oil at the point of origin, there are indications that oil trading is undergoing a structural change. Faced with the need to bolster orders received, the SHI Group will endeavor to steer a course through the difficulties of this transitory period by broadening the scope of its product groups and taking heed of changing conditions.



Environmental Facilities & Plants

Main Products	Major Applications/Markets
Power generation systems	Power generation
Industrial wastewater treatment systems	Food processing plants, Petrochemical plants
Water and sewage treatment systems, Landfill leachate treatment system	Government agencies
Air pollution control plants	Electric utilities, Iron and steel industry
Chemical processing equipment & plants	Petrochemical plants
Pressure vessels, Mixing vessels	Oil refining, Petrochemical industries
Steel structures	Iron and steel industry
Food processing machinery	Food processing industry



Circulating fluidized-bed (CFB) boiler

ENERGY-RELATED PLANTS

Market Environment

Although the market in Japan continues to be harsh, there are signs of a recovery supported by efforts to promote the use of wood-based biomass fuels that utilize forestry waste and other materials and an increase in new investment in biomass power-generation facilities that reflects the comprehensive implementation of a fixed-price renewable energy purchase scheme from July 1, 2012. In addition, demand is projected to improve as private industrial power generation operators look to renew and increase the capacity of their facilities in light of expected electric power supply shortfalls. Overseas, legislation mandating the introduction and use of renewable energy together with investment in power generation infrastructure and private industrial power generation is forecast to propel demand.

Fiscal 2011 Review and Topics

The SHI Group received one order in Japan and another overseas for its mainstay circulating fluidized-bed (CFB) boiler. The domestic order was from a power generation facility that primarily employs a newly developed compact CFB boiler that is itself expected to evolve into a flagship product. The new boiler is expected to facilitate the use of wood-based biomass fuels that utilize forestry waste and other materials at this power generation facility. The overseas order reflects the high esteem in which SHI's products and technologies are held.

Fiscal 2012 Strategies and Initiatives

In Japan, the SHI Group will focus on acquiring orders related to biomass power generation projects in response to government policy initiatives promoting the adoption of renewable energy sources. The favorable market conditions created by these and initiatives aimed at augmenting private power generation systems are further buoyed by an FIT scheme* and measures by the Forestry Agency to accelerate the use of wood-based biomass fuels. At the same time, the SHI Group will bolster its service and maintenance business centered on customer satisfaction enhancement activities. Specifically, we will work to identify potential projects, such as for facility repair and modification as well as for extending the useful lives of existing facilities. Overseas, following on the opening of a sales base in Indonesia, the SHI Group will establish a marketing office in Malaysia. The Group will channel its energies toward expanding sales of CFB boilers that use low-grade coal and biomass-based fuels in Southeast Asia.

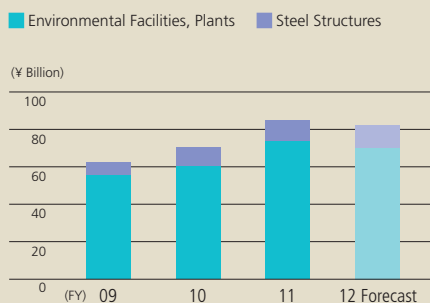
* FIT stands for feed-in tariffs. Under the FIT scheme for government subsidization related to renewable energy sources, selling prices for renewable energy generated by energy users are set by law.

Fiscal 2011 Segment Results

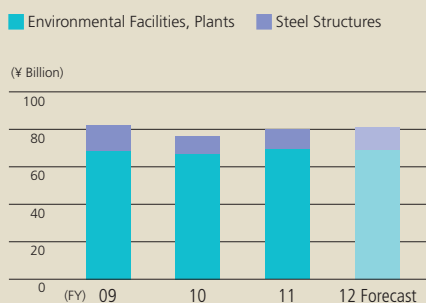
In energy-related plants, overall market conditions were stagnant despite a boost from several overseas projects involving boiler systems for industrial power generation. Consequently, orders were flat and sales decreased compared with the previous fiscal year. Profitability deteriorated, partly due to defects found in the construction of a plant.

In water treatment plants, both orders and sales increased due to firm conditions in the water treatment system market and our proactive response to reconstruction-related demand. As a result, total segment orders were ¥85 billion, a 20% year-on-year increase, sales were ¥80.1 billion, up 5%, and operating income was ¥0.0 billion.

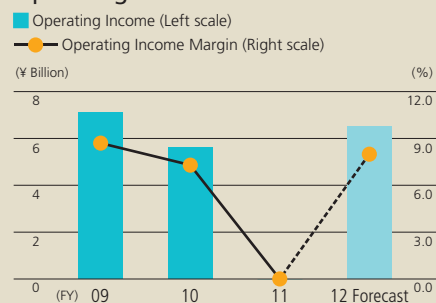
Orders



Sales



Operating Income



WATER AND WASTEWATER TREATMENT PLANTS Sumitomo Heavy Industries Environment Co., Ltd.

Market Environment

Japan's private-sector water treatment facility market continued to face harsh conditions due to prolonged economic stagnation. In the public sector, overall market conditions have remained flat over the past several years, although fiscal 2011 saw a temporary surge in demand attributable to reconstruction activity. In particular, the inflow of new plant construction inquiries from the private sector continues to decline. On a more positive note, investments aimed at renewing and repairing aging facilities as well as promoting improved energy efficiency and reductions in operating costs increased. Similarly, the direction of public-sector activities reflects a growing awareness of the need for energy conservation and cost savings.

Turning to fiscal 2012, the upswing in reports on shortfalls in the supply of electric power and potential hikes in electricity rates would suggest that customers will increasingly favor energy conservation initiatives.

Fiscal 2011 Review and Topics

Despite an extremely difficult operating environment, the volume of orders received from both the private and public sectors surpassed levels recorded in the previous fiscal year. The increase was largely thanks to efforts to bolster networks with internal and external partners from the private sector as well as the receipt of a large-scale wastewater treatment facility order from a pulp manufacturer. In public-sector activities, the SHI Group captured four major project orders and reconstruction-related demand. From a profit perspective, the SHI Group recorded an increase in earnings owing to the positive turnaround in profit margins on an individual project basis.

Fiscal 2012 Strategies and Initiatives

The SHI Group will continue to implement initiatives aimed at further stabilizing its business foundation while placing equal emphasis on measures that contribute to growth. In the private sector, the Group will continue to promote sales and provide high-value-added products with the aim of expanding its market share in the steel industry, where SHI boasts particular strengths, and boost sales of activated sludge reduction systems to the electronic component industry. In addition, amid a general increase in capital investment in connection with the aging of facilities and energy saving measures, we will bolster our services businesses that help customers enhance the performance of existing facilities and equipment while reinforcing relationships with internal and external partners. In the public sector, as the adoption of energy-saving equipment gains momentum, we will aggressively market clearly differentiated products, including the MICRAS® superfine-bubble membrane tube diffuser, agitators and the grit jet pump system SUMIJETTER® for grit chamber facilities. Furthermore, the SHI Group will establish a local subsidiary in China in fiscal 2012 in order to expand local sales.



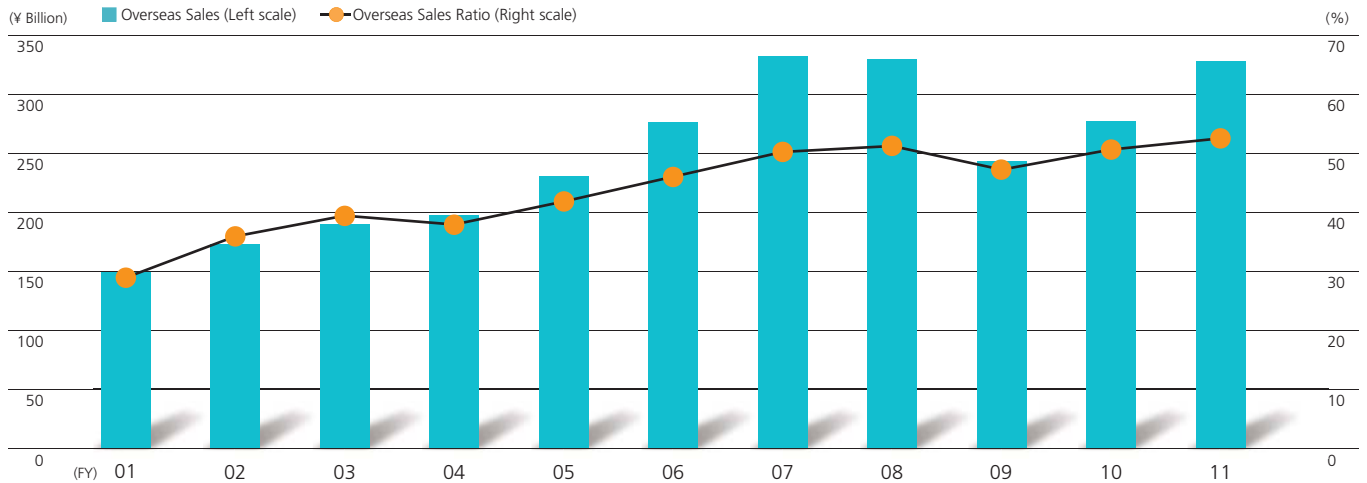
Sumi-Sludge® activated sludge treatment system

Overview by Geographical Area

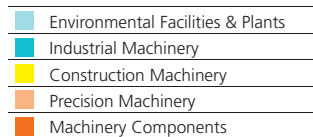
Fiscal 2011 Results

The SHI Group took proactive steps to capture demand in growth markets. Buoyed by the success of these endeavors, the Group saw increased sales of items that fall into the category of mass-produced machinery, including Machinery Components, Precision Machinery and Construction Machinery. As a result, overseas sales amounted to ¥327.8 billion, a year-on-year increase of 18.2%. The ratio of overseas sales to total sales was 52.5%, up 1.9 percentage points compared with the previous fiscal year.

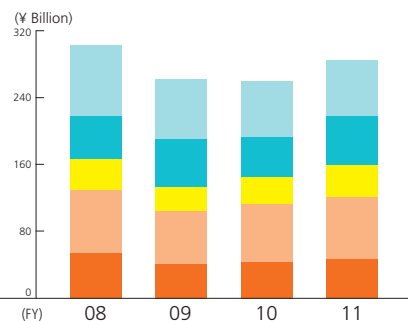
Overseas Sales



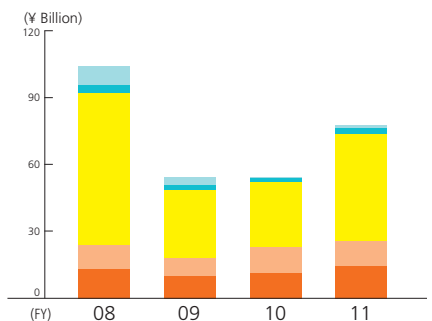
Sales by Geographical Area



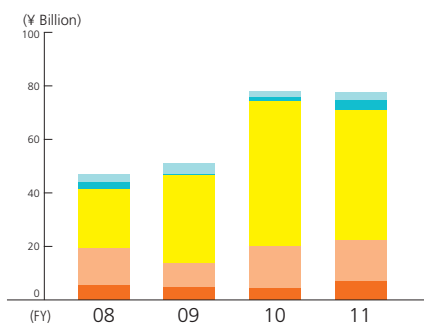
Japan



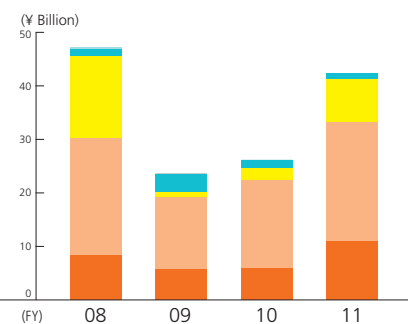
The Americas



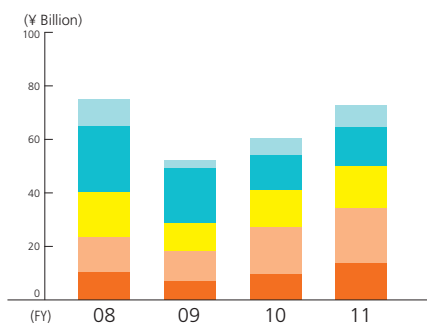
China*



Europe



Asia and Others



*Excluding Taiwan and Hong Kong

Note: Sales by geographical area do not include Ships segment sales.

Research and Development

R&D Strategy

The SHI Group made “globalization” and “innovation” the keywords for growth under “Innovation 21,” its medium-term management plan covering the three-year period ending March 31, 2014. Placing priority on reinforcing our global competitiveness and developing first-class innovative products, 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 to enhance the value of our equipment and systems.

Major R&D Results by Business Segment

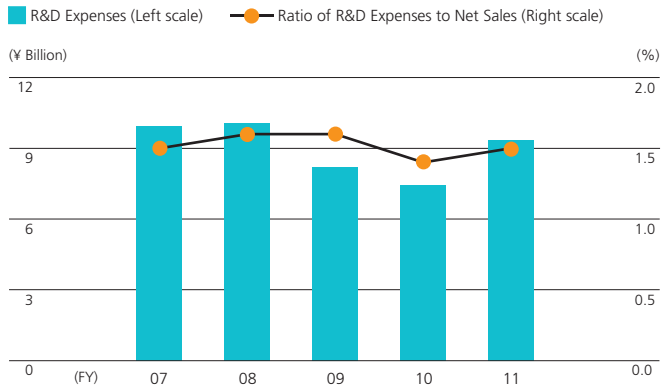
1. Machinery Components

In power transmission equipment, the Group introduced new variations, including a compact model, to its right-angle-shaft gear motor with built-in CYCLO® speed reducers.

2. Precision Machinery

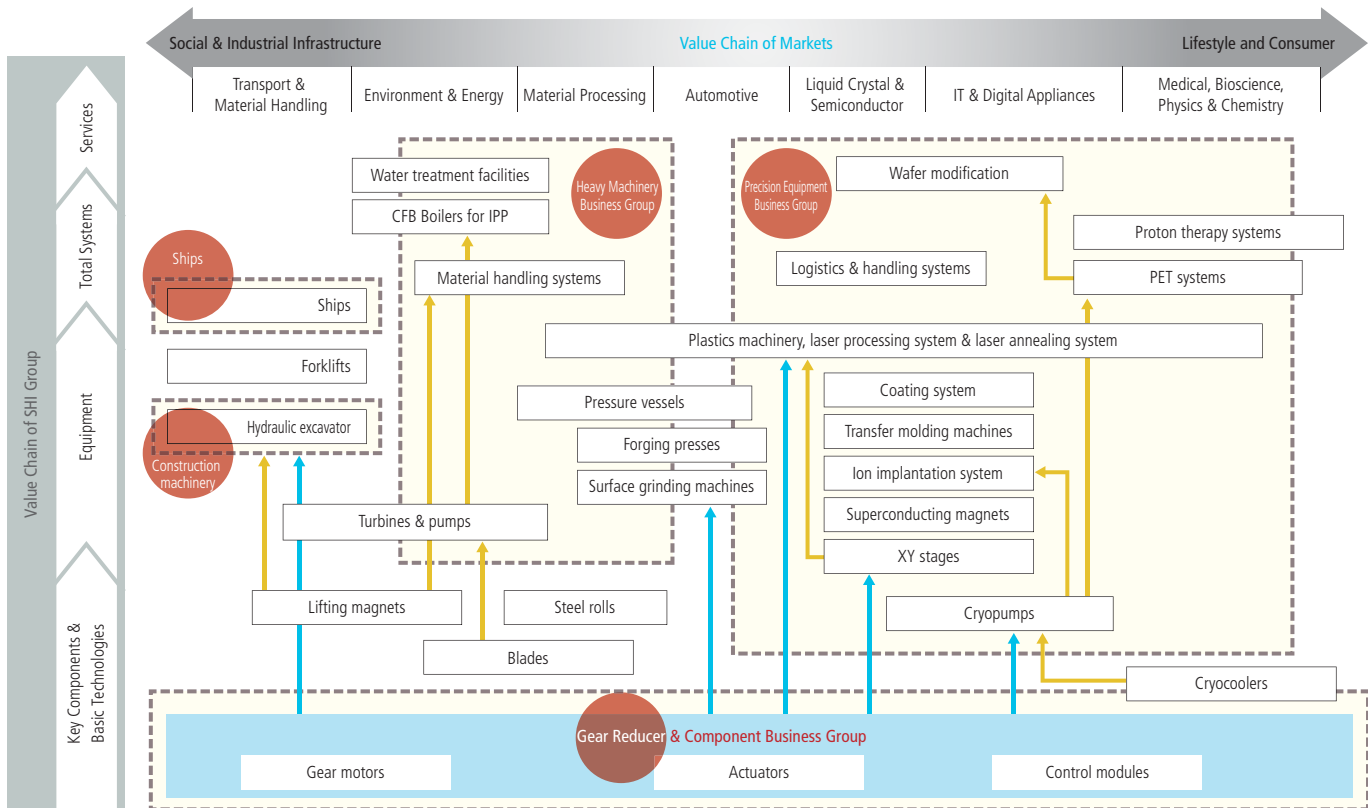
In plastics machinery, we introduced full-model changes across our lineup of full-electric plastic injection molding machines. Focusing on our Zero-molding® system, which adheres to the concepts of zero defects, zero loss and zero faults, we have made successful efforts to enhance accuracy, reduce energy

R&D Expenses



Right-angle-shaft gear motor
“Bevel BUDDYBOX®”

Business Portfolio and Value Chain of SHI Group



consumption and improve operability. We have also released an injection molding machine for making the light guide plates used in large LCD panels.

In quantum equipment, SHI obtained authorization from Japan's Ministry of Health, Labour and Welfare to manufacture and distribute a proton therapy cancer treatment facility that features the pencil beam scanning irradiation method.

In laser annealing systems, we expanded applications to include the manufacture of energy-saving semiconductor devices.

In precision positioning equipment, we introduced a compact precision positioning stage for the wafer inspection equipment market.

In cooling machinery, we released a long-life, low-vibration separated valve unit-type pulse tube cryocooler for use in physical and chemical research fields

In semiconductor production equipment, we introduced an ultra-high energy ion-implantation device for high-sensitivity image sensors.

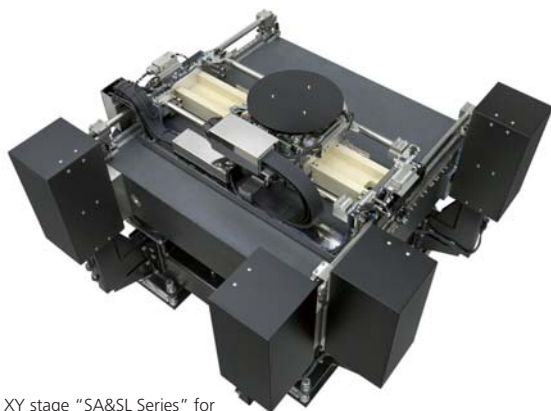
3. Construction Machinery

In hydraulic excavators, the Group fully updated its engines to comply with interim Tier 4 emissions requirement in Europe and the United States. In addition, we released models with a Field View Monitor (FVM®) system option to support safe operation. Moreover, we continue to conduct research into hybrid technologies, building on the success of LEGEST® HYBRID, which has been certified as low-carbon construction machinery.

4. Industrial Machinery

In logistics and automated parking systems, the Group bolstered its automated guided vehicle (AGV) lineup for roll storage and transport systems while introducing additional functions.

In forging presses, the Group released a servo-driven, multi-action forging press that addresses future trends in the automotive industry.



Planar XY stage "SA&SL Series" for semiconductor and printed circuit board exposure and inspection processes

In turbines, we introduced a new long-blade model that enhances internal efficiency.

5. Ships

In ships, we took steps to apply advanced energy-saving technologies to hull forms and propulsion systems while developing a main engine system that complies with anticipated environmental regulations and a new hull equipped with a ballast water treatment system. In the area of production technology development, the Group continues to focus on shortening lead times and improving the quality of its ships.

6. Environmental Facilities & Plants

In its water treatment business targeting private-sector customers, the Group is working to take advantage of the latent properties of microorganisms and exploit them in new products. In the water and sewage business, our energy-saving, unit-type equipment acquired public technical certification for use in helping prevent of global warming.

In energy and environmental plants, the Group is bolstering initiatives aimed at expanding sales of CFB boilers in Southeast Asia.

In mixing and dispersing equipment, we added new functions for lithium-ion secondary cells to substantially improve productivity.



FVM® system monitor



FPS Series servo-driven forging press

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 Department participates fully in reform activities implemented by the CIPOs.

Major Activities and Achievements

1. 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.

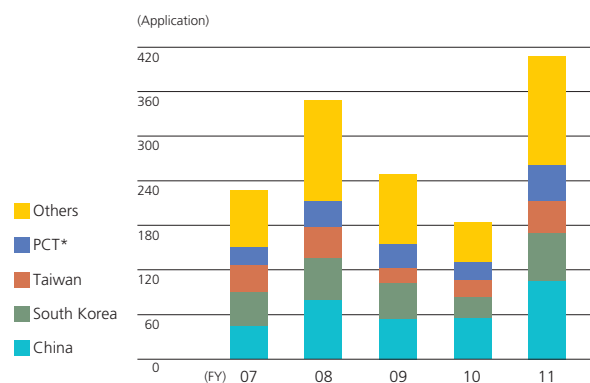
2. Intellectual Property Evaluation Activities

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.

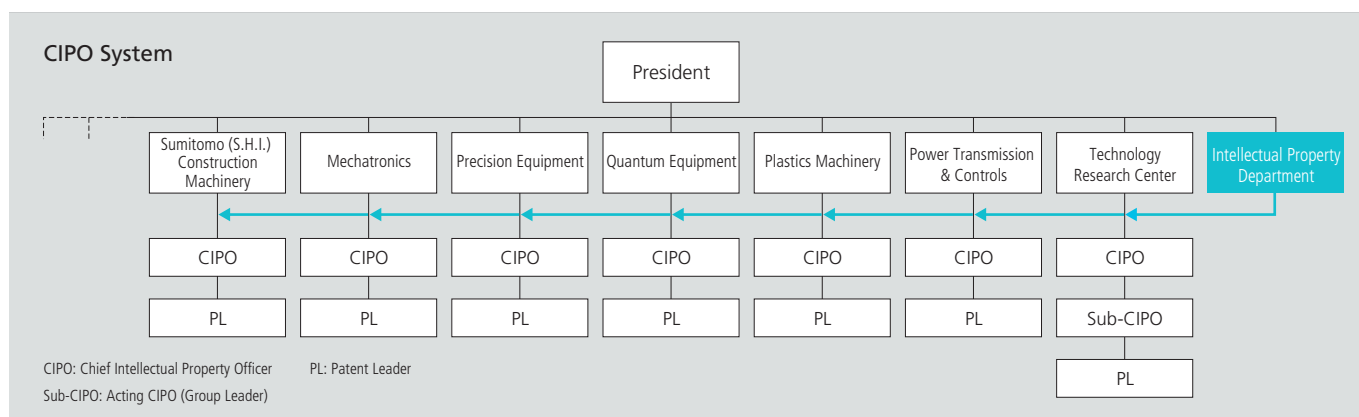
3. Accelerating Overseas Patent Applications

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 actively work to file patent applications overseas. As a result, as of April 2012, as many as 1,350, or 33.4%, of the total 4,040 patents held by the Group were held overseas. In recent years, the Group has been increasing patent applications, particularly in China, South Korea and Taiwan.

SHI Group's Overseas Patent Applications



* Overseas patent applications under the Patent Cooperation Treaty (PCT)



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.

Reinforcement of Corporate Governance

SHI has been working continually over a long period to strengthen its corporate governance function. Specifically, the Company adopted an executive officer system in 1999, appointed an external director in 2002 and shortened the terms of office of directors from two years to one in 2007. These and other measures reflect SHI's ongoing efforts to reinvigorate the Board of Directors, ensure that business is executed in a timely manner and secure the objectivity and transparency of the Company's management.

Moreover, corporate auditors, who take on role of overseeing the management, regularly hold meetings attended by the corporate auditors of Group companies to reinforce the audit function covering the entire SHI Group. To address globalization, the Company also conducts annual onsite audits at its overseas subsidiaries.

SHI ensures that neither its external director nor external corporate auditors have a risk of conflict of interest with the Company's general shareholders and has reported them as independent officers to the Financial Instruments Exchanges on which the Company is listed.

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 four 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 this manner, a system has been established to audit and supervise the execution of duties by the Company's management. SHI believes that this system will ensure that the corporate governance function is exercised to its fullest extent. Moving forward, the Company will take steps to further reinforce the corporate governance function.

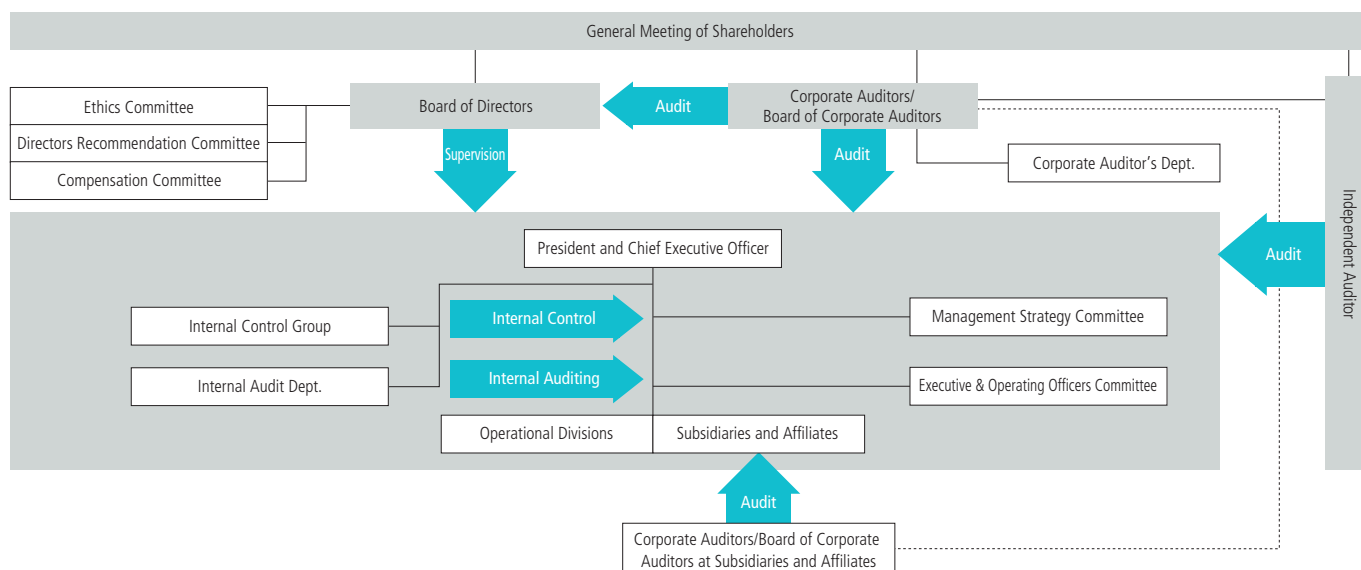
• Board of Directors

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.

• Executive & Operating Officers Committee

The Executive & Operating Officers Committee comprises 19 executive officers, who execute the Company's business, including six who concurrently serve as directors of the Company, as well as 13 operating officers. The Committee meets once a month to manage consolidated business results and to ensure the implementation of management policies.

SHI's Corporate Governance System



- **Management Strategy Committee**

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.

- **Corporate Auditors and the Board of Corporate Auditors**

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. Also, the Company has established the Corporate Auditor's Department as a staff organization to support the Board of Corporate Auditors.

Directors Recommendation Committee and the Compensation Committee

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. Three of the current seven members of the Compensation Committee have been externally appointed. More specifically, as an advisory body to the Board of Directors, the Compensation Committee determines a level of director remuneration that reflects the Company's business performance while 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 nine) 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 conducted by the operational divisions. Corporate auditors

perform their duties in line with the audit plans and policies formulated by the Board of Corporate Auditors. To audit the execution of duties by the Company's directors and executive officers, they attend meetings of the Board of Directors and the Executive & Operating Officers Committee as well as other important meetings. In addition, corporate auditors are allowed to access principal internal memos and other important documents relating to business execution. The Company has appointed KPMG AZSA LLC as its independent auditor, has entered into an audit contract and undergoes rigorous audits. 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.

External Director and External Corporate Auditors

As discussed above, the Company has appointed one external director and two external corporate auditors. SHI ensures that all of its outside officers have no risk of conflicts of interest with the Company's general shareholders and has reported them as independent officers to the Financial Instruments Exchanges on which the Company is listed.

External director Toshiaki Kakimoto attended all 15 Board of Directors meetings during fiscal 2011. Based on his long-standing knowledge and wealth of experience as an economist, Mr. Kakimoto provided comments of a beneficial nature to the Company while pointing out various issues in a frank and objective manner. Mr. Kakimoto has acquired shares of the Company through the officers' shareholding association. SHI has deemed that this shareholding does not impact Mr. Kakimoto's independence as an external director.

External corporate auditor Hideo Kojima attended all 11 Board of Directors meetings and all 11 Board of Corporate Auditors meetings following his appointment as a corporate auditor on June 29, 2011. Based on his long-standing knowledge and wealth of experience as a certified public accountant, Mr. Kojima provided comments of a beneficial nature to the Company while pointing out various issues in a frank and objective manner. Mr. Kojima is originally from Ernst & Young ShinNihon LLC, with whom SHI maintains transactional relationships. Taking into consideration the amounts and nature of these transactions, SHI has deemed that this relationship does not impact Mr. Kojima's independence as an external corporate auditor.

At the Ordinary General Meeting of Shareholders held on June 28, 2012, the appointment of Takeo Wakae as one of the Company's external corporate auditors was approved. SHI

**Compensation Paid to Directors and
Corporate Auditors**
(fiscal 2011)

expects Mr. Wakae will offer invaluable and candid opinions and advice on the Company's management from an objective perspective based on his long-standing knowledge and wealth of experience as a lawyer.

There are no vested interests of note between the aforementioned external director and external corporate auditors and the Company. While SHI does not maintain specific criteria or policies with respect to the independence of external directors and external corporate auditors appointed by the Company, reference is made to the determination standards concerning the independence of officers issued by various securities exchanges.

Compensation of Directors and Corporate Auditors

The maximum amount of compensation paid to directors shall not exceed ¥40 million per month pursuant to the resolution of SHI's Ordinary General Meeting of Shareholders ratified in June 2006. The Company has adopted a director compensation scheme that is linked to SHI's operating results. Individual director remuneration is determined by the Board of Directors on advice from the Compensation Committee regarding applicable standards that reflect SHI's performance.

The maximum amount of compensation paid to corporate auditors shall not exceed ¥7.5 million per month pursuant to the June 2005 resolution of SHI's Ordinary General Meeting of Shareholders. Remuneration paid to individual corporate auditors is determined through a process of deliberation among corporate auditors.

As of the close of the Company's Ordinary General Meeting of Shareholders held in June 2005, SHI terminated its director's retirement allowance system. In addition, the Company has not adopted a stock option system.

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. 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

Classification	Amount of Compensation (Millions of Yen)	Amount by Type of Compensation (Millions of Yen)	Number of Eligible Officers (Persons)
		Basic Compensation	
Directors (excluding external director)	447	447	10
Corporate auditors (excluding external corporate auditors)	67	67	4
External officers	19	19	4

Notes:

- There were nine directors, two corporate auditors and three external officers as of March 31, 2012.
Included in the figures presented in the table above are the officer number and compensation amounts paid for the period between April 2011 and June 2011 to one director, two corporate auditors and one external corporate auditor, who retired as of the close of the Company's 115th Ordinary General Meeting of Shareholders held on June 29, 2011. (Accordingly, the aggregate number of eligible officers for the business term under review were 10 directors (excluding the external director), four corporate auditors (excluding external corporate auditors) and four external officers.)
- No officer received compensation of ¥100 million or more for the period. Accordingly, details of compensation paid to individual officers have been omitted.
- In addition to the above, the amount of ¥20 million was paid as general employee salaries to two general employees who hold the concurrent position of director.

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 Groupwide internal control system. In addition, the Company distributes the *Ethics Regulations and Compliance Manual* to all employees and undertakes regular ethics and compliance education. When necessary, the Company collects written agreements from directors, executive officers and all managers concerning individual compliance items. Moreover, each year on an anonymous basis SHI conducts surveys encompassing all employees in an effort to assess and confirm levels of compliance awareness and understanding. 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 the 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 Groupwide 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.

Information Disclosure and IR Activities

SHI strives diligently to ensure the timely disclosure of relevant information. At the same time, the Company actively promotes dialogue with shareholders and investors. In this regard, SHI recognizes dialogue as an appropriate means to ensure a deeper understanding of the Company and to further enhance its enterprise value.

Fiscal 2011 IR Activity Results

Analysts/Institutional Investors
• Financial results briefings (interim/full fiscal year)
• Quarterly financial results telephone conferences
• Individual visits to overseas institutional investors (North America: 1; Europe: 1; Asia: 1)
• Participation in conferences for institutional investors sponsored by securities companies (six times)
• Individual IR interviews
• Business briefing (twice)

IR Materials Posted on the Company's Homepage
• Convocation notice (Japanese/English)
• Securities report/quarterly securities report
• Corporate governance report
• Summary of consolidated financial report/timely disclosure materials
• Handout for financial results briefings
• Webcast of financial results briefing (Audio only, Japanese/English (translation))
• Interim report (To our shareholders)
• Annual report (Japanese/English)



Financial results briefing held on May 2012

The president provides briefings on the Company's interim and full fiscal year results for the benefit of institutional investors and analysts. Telephone conferences are also conducted on a quarterly basis by the officer responsible for investor relations. Moreover, top management calls on institutional investors and analysts in Japan and overseas. Furthermore, over 300 interviews and meetings with investors and analysts were held during fiscal 2011.

Takeover Defense Measures

SHI believes that—from the standpoint of increasing enterprise value and ensuring the common interests of the shareholders—the nature of 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 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.

In accordance with this basic policy, as part of measures to prevent inappropriate parties from controlling the Company's decisions on financial and business policies, SHI adopted the Countermeasures to Large-Scale Acquisitions of the Company's Shares (Takeover Defense Measures) following approval of the Ordinary General Meeting of Shareholders held in June 2008. At the Ordinary General Meeting of Shareholders held in June 2011 the continuation of the Takeover Defense Measures was approved after making necessary changes.

Messages from the External
Director and
Corporate Auditors

TOSHIAKI KAKIMOTO
HIDEO KOJIMA
TAKEO WAKAE



TOSHIAKI KAKIMOTO
External Director

Corporate compliance and corporate governance have continued to attract the interest of society in recent years. Under these circumstances, SHI'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, I am committed to providing proposals and advice from the broad, third-party perspective that I have long nurtured through research on macroeconomics and various issues concerning corporate management. In this way, I would like to play a part in SHI's working to accelerate globalization and strengthen its corporate governance, thereby contributing to the Group's additional growth and enterprise value maximization.



HIDEO KOJIMA
External Corporate Auditor

Listed companies have in recent years been required to further strengthen their corporate governance. External corporate auditors designated as independent corporate auditors have an important role to play in helping these companies fulfill this requirement.

SHI has continued to engage in the ongoing reinforcement of its corporate governance. Being a certified public accountant and an external corporate auditor of SHI, I understand my primary role to be the verification of the comprehensiveness of the Company's financial reporting and compliance with business accounting standards.

Simultaneously, I must help the Company improve said comprehensiveness. Also, in line with the Company's business globalization, it will become more important than ever before to secure compliance throughout the Group's domestic and overseas operations and to enhance the quality of its financial reporting on a consolidated basis. Therefore, I will do my utmost to enable SHI to bolster corporate governance from a global perspective.



TAKEO WAKAE
External Corporate Auditor

Over the past few years, we have entered an era in which it has become increasingly vital for companies to establish a robust corporate governance system. In addition to shareholders in their position as owners, the activities of joint-stock companies have the potential to significantly impact a wide range of interested parties, including employees, consumers, business partners, group companies and creditors as well as local residents and society at large. In this context, it is therefore imperative that joint-stock companies fulfill a broad variety of compliance and social responsibility requirements in the conduct of their business activities.

Corporate governance not only entails efforts aimed at preventing improprieties, but also maintaining a balance with endeavors designed to boost earnings capabilities. While the Board of Directors plays an important role in pursuing these dual themes, external corporate auditors have the added significant responsibility of ensuring that management is appropriately monitored. As an external corporate auditor, I will maintain strict independence in carrying out my audit duties.

Directors, Corporate Auditors and Executive Officers

(As of June 28, 2012)

Board of Directors



Yoshio Hinoh
Representative Director,
Chairman



Yoshinobu Nakamura
Representative Director,
President and CEO



Shinji Nishimura
Representative Director,
Senior Executive Vice President



Shunsuke Betsukawa
Representative Director,
Senior Executive Vice President
and CFO



Yuji Takaishi
Director,
Executive Vice President



Hitoshi Kashimoto
Director,
Executive Vice President



Yoshiyuki Tomita
Director,
Executive Officer



Kensuke Shimizu
Director



Mikio Ide
Director



Toshiaki Kakimoto
External Director

Corporate Auditors

Yukio Kinoshita
Standing Auditor

Shigeru Toyosumi
Standing Auditor

Hideo Kojima
External Corporate Auditor

Takeo Wakae
External Corporate Auditor

Executive Officers

Yoshinobu Nakamura
President and CEO

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

Shunsuke Betsukawa
Senior Executive Vice President and CFO
General Manager, Export Administration Dept.

Katsuhiko Taniguchi
Executive Vice President
General Manager, Corporate Technology Operations Group
General Manager, Information Systems Development Group

Yuji Takaishi
Executive Vice President
General Manager, Corporate Planning &
Development Dept.

Hitoshi Kashimoto
Executive Vice President
General Manager, Ship & Marine Div.
Representative Director and President, Sumitomo
Heavy Industries Marine & Engineering Co., Ltd.

Osamu Sekiya
Executive Vice President
General Manager, Energy & Environment Group

Katsuhide Yokota
Executive Vice President
Representative Director and President, Sumitomo
Heavy Industries Engineering and Services Co., Ltd.
General Manager, Ehime Works

Chuck Martz
Senior Vice President
Chairman and CEO, Link-Belt Construction
Equipment Company, L.P., LLLP

Junjiro Nogami
Senior Vice President
General Manager, Kansai Office
General Manager, Corporate Marketing Dept.

Hitoshi Ushiyama
Senior Vice President
Representative Director and President, Sumitomo
Heavy Industries Environment Co., Ltd.

Kazumi Fujita
Senior Vice President
General Manager, Internal Control Dept.

Yukio Kumata
Senior Vice President
General Manager, Quantum Equipment Div.

Kazuto Kaneshige
Senior Vice President
Representative Director and President, Sumitomo Heavy
Industries Techno-Fort Co., Ltd.

Tetsuya Okamura
Senior Vice President
CEO, Sumitomo (SHI) Demag Plastics Machinery GmbH

Akihiro Morita
Executive Officer
Deputy General Manager, Quantum Equipment Div.

Yoshiyuki Tomita
Executive Officer
General Manager, Technology Research Center,
Corporate Technology Operations Group

Akio Yoshikawa
Executive Officer
Deputy President, Sumitomo (S.H.I.) Construction
Machinery Co., Ltd.

Isao Kohno
Executive Officer
Deputy General Manager, Power Transmission &
Controls Group

Environmental and Social Contribution Initiatives



The SHI Group recognizes that activities aimed at protecting the global and local environment while building a recycling-oriented society 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.

SHI Group Environmental Policy

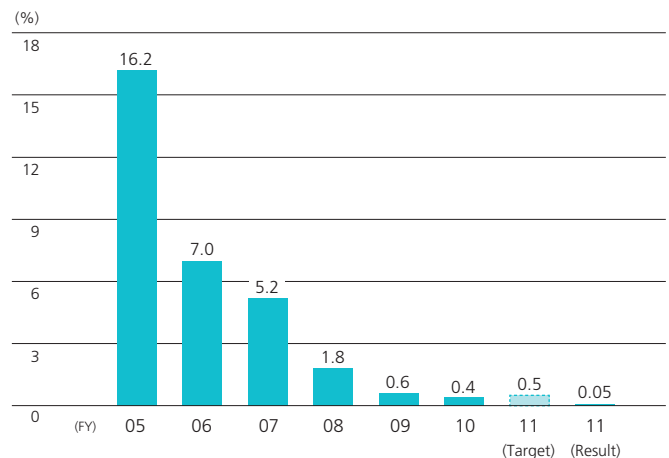
- Consider the impact on the environment around the facilities
- Prevent environmental pollution
- Reduce waste
- Save energy and resources and promote recycling

Efforts to Prevent Global Warming

Achieving Groupwide Zero Emissions in Fiscal 2011

The SHI Group works to prevent the further advance of global warming as one aspect of the overarching goal of preserving the quality of the environment. Through such efforts, the Group is striving to garner the trust of society. One key component of these endeavors entails the quest to achieve zero emissions.

SHI Group's Zero Emissions Rate



Zero emissions activities encompass those that are designed to minimize the generation of waste for disposal, that is, the volume of nonrecyclable industrial waste to be discarded as landfill. There are no specific statutory or regulatory requirements currently in place with respect to zero emissions. Each company engages in activities in line with proprietary standards and goals.

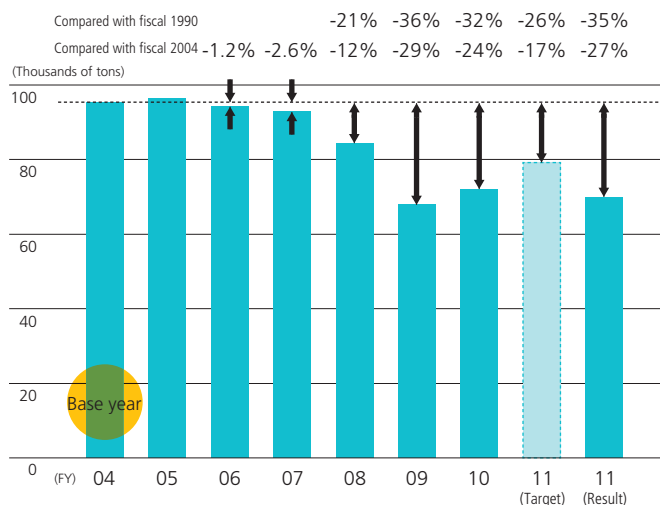
Drawing on precedents set by its industry peers, the SHI Group has defined a zero emissions factory as one where the volume of waste for disposal generated is less than 0.5% of the total produced. Based on this definition, the Group has actively endeavored to achieve zero emissions since fiscal 2005. As a result, SHI achieved zero emissions, with the ratio of volume of waste for disposal to the total volume of waste across the Group dropping to 0.4% in fiscal 2010. Moreover, the Group was successful in substantially surpassing its established goal by recording a ratio of 0.05% in fiscal 2011.

Essential to achieving zero emissions is the sorting and recycling of waste. Moving forward, the SHI Group will continue to adhere strictly to a policy of zero emissions and to separate and sort waste with the aim of ensuring plants that are friendly to the global environment.

Achieving a 27% Cut in CO₂ Emissions Compared with Levels Recorded in Fiscal 2004

The SHI Group works diligently to reduce its CO₂ emissions in order to prevent the further advance of global warming. Corporate activities, production in particular, consume considerable amounts of energy, which, in turn, leads to the discharge of CO₂. In response, the SHI Group works to eliminate the wasteful use of energy and ensure efficient consumption.

SHI Group's CO₂ Emissions



The Group commenced efforts to reduce CO₂ emissions in earnest in fiscal 2005. Steps were taken to establish reduction targets, using CO₂ emission levels recorded in fiscal 2004 as a starting point and to carry out measures focusing mainly on reducing the amount of electric power consumed. In addition to the use of natural light, the Group initiated a changeover to highly-efficient mercury lamps and fluorescent lights. Among a host of other measures, the Group set air-conditioning thermostats to more appropriate levels and introduced inverters together with compressor equipment while adopting a detailed and careful approach toward identifying any and all issues with respect to production and peripheral activities that could be improved. At the Group's Yokosuka Works, steps were taken to install 1,800 photovoltaic cells on the roof of the precision machinery production facility. The use of sunlight as a green energy source has the dual benefits of eliminating greenhouse gas emissions while generating 270,000kWh of energy per year.

Thanks to the aforementioned activities, the SHI Group as a whole achieved a 27% reduction in CO₂ emissions in fiscal 2011 compared with levels recorded in fiscal 2004. This substantially exceeded the predetermined target of 17% and also represents a 35% reduction compared with levels recorded in fiscal 1990. Accordingly, well ahead of schedule, the Group has achieved the government's medium- to long-term reduction goal of 25%.



Photovoltaic cell panel installed on the roof of the precision machinery production facility at SHI's Yokosuka Works

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Eleven-Year Summary

Sumitomo Heavy Industries, Ltd. and Consolidated Subsidiaries

	FY2001	FY2002	FY2003	FY2004	FY2005
Summary of Income (for the year):					
Net sales	¥517,138	¥481,289	¥482,765	¥521,310	¥551,339
Cost of sales	430,399	400,460	378,422	407,512	434,904
Selling, general and administrative expenses	72,564	63,616	64,112	65,025	68,930
R&D expenses	6,777	5,800	6,263	6,317	7,434
Operating income	14,175	17,213	40,231	48,773	47,505
EBITDA (Note 2)	26,078	29,322	50,344	58,055	56,577
Net income	1,650	2,688	16,262	22,792	29,742
Cash Flows (for the year):					
Cash flows from operating activities	¥ 38,808	¥ 29,499	¥ 75,775	¥ 45,451	¥ 50,023
Cash flows from investing activities	(3,343)	(1,074)	(7,929)	(6,087)	(7,024)
Free cash flows (Note 3)	35,465	28,425	67,846	39,364	42,999
Cash flows from financing activities	(32,785)	(22,116)	(56,666)	(46,490)	(48,812)
Cash and cash equivalents at the end of year	40,846	47,661	57,678	49,108	43,644
Financial Position (at year-end):					
Total assets	¥634,904	¥588,010	¥580,291	¥569,771	¥579,233
Total current assets	371,049	329,231	321,400	316,166	317,813
Total non-current assets	199,758	196,104	258,891	253,605	261,421
Interest-bearing debt	294,552	273,544	215,807	169,228	125,504
Net interest-bearing debt	254,402	225,571	157,353	119,592	81,587
Stockholders' equity	87,494	89,331	114,526	137,157	167,740
Total net assets (Note 4)	—	—	—	—	—
Amounts per Share of Common Stock:					
Net income (Note 5)	¥ 2.80	¥ 4.57	¥ 27.01	¥ 37.80	¥ 49.45
Stockholders' equity	148.63	151.86	190.25	227.90	279.02
Cash dividends	—	—	—	3.00	5.00
Financial Indexes:					
Operating income margin	2.7	3.6	8.3	9.4	8.6
EBITDA margin	5.0	6.1	10.4	11.1	10.3
R&D expenses ratio to net sales	1.3	1.2	1.3	1.2	1.3
Return on assets (ROA)	0.3	0.4	2.8	4.0	5.2
Return on equity (ROE)	2.8	3.0	16.0	18.1	19.5
Stockholders' equity ratio	13.8	15.2	19.7	24.1	29.0
Interest-bearing debt ratio	46.4	46.5	37.2	29.7	21.7
D/E ratio (Times)	3.4	3.1	1.9	1.2	0.7
ROIC (Note 6)	2.3	2.6	6.5	8.5	8.8
Investment in Plant and Equipment, and Others:					
Capital expenditures	¥ 15,549	¥ 14,406	¥ 10,562	¥ 8,175	¥ 10,285
Depreciation and amortization	11,902	12,118	10,112	9,282	9,072
Number of employees	12,457	11,777	11,282	11,149	11,319

Notes: 1. The U.S. dollar amounts have been translated, for convenience only, at ¥82=\$1, the prevailing exchange rate on the Tokyo Foreign Exchange Market as of March 31, 2012.

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

Millions of yen						Thousands of U.S. dollars (Note 1)
FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2011
¥600,256	¥660,769	¥642,918	¥516,165	¥548,015	¥624,100	\$7,610,976
464,071	505,366	503,072	412,751	426,479	490,878	5,986,318
71,961	77,613	82,906	75,160	75,733	86,087	1,049,845
8,581	9,908	10,047	8,187	7,445	9,343	113,939
64,224	77,790	56,940	28,254	45,803	47,135	574,813
74,873	91,578	75,260	47,979	63,744	64,955	792,130
37,352	42,974	13,649	13,280	27,926	19,492	237,707
¥ 56,789	¥ 29,096	¥ 34,676	¥ 57,513	¥ 36,521	¥ 23,309	\$ 284,253
(12,461)	(41,250)	(35,924)	(13,954)	(23,513)	(22,672)	(276,475)
44,328	(12,154)	(1,248)	43,559	13,008	637	7,778
(41,193)	(5,238)	15,625	(26,686)	(22,020)	19,879	242,423
47,523	29,879	42,414	61,452	51,700	72,376	882,631
¥600,890	¥678,634	¥657,436	¥610,087	¥626,829	¥691,841	\$8,437,089
332,509	381,946	380,293	339,780	365,342	429,046	5,232,267
268,381	296,688	277,143	270,308	261,487	262,795	3,204,822
88,045	89,567	110,339	87,660	67,833	96,522	1,177,097
39,890	59,311	65,654	25,149	15,347	23,149	282,304
—	—	—	—	—	—	—
206,010	246,371	238,697	254,153	269,380	282,145	3,440,797
Yen						U.S. dollars (Note 1)
¥ 61.99	¥ 71.19	¥ 22.62	¥ 22.01	¥ 45.87	¥ 31.75	\$ 0.39
338.95	392.80	378.78	404.73	435.10	454.43	5.54
7.00	10.00	6.00	4.00	8.00	10.00	0.12
%						
10.7	11.8	8.9	5.5	8.4	7.6	
12.5	13.9	11.7	9.3	11.6	10.4	
1.4	1.5	1.6	1.6	1.4	1.5	
6.3	6.7	2.0	2.1	4.5	3.0	
20.1	19.5	5.9	5.6	10.9	7.1	
34.1	34.9	34.8	40.0	42.6	40.3	
14.7	13.2	16.8	14.4	10.8	14.0	
0.4	0.4	0.4	0.4	0.3	0.3	
12.2	14.0	9.6	4.8	7.8	7.4	
Millions of yen						Thousands of U.S. dollars (Note 1)
¥ 17,257	¥ 28,180	¥ 31,753	¥ 24,465	¥ 14,292	¥ 19,682	\$ 240,024
10,649	13,788	18,320	19,725	17,941	17,820	217,317
12,561	14,408	14,984	15,463	17,025	18,139	

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

1. Overview of the Business Environment and Performance in Fiscal 2011

During fiscal 2011, ended March 31, 2012, tough overall conditions in the Japanese economy continued as the effects of the Great East Japan Earthquake significantly impacted manufacturing activity and the unprecedented strength of the yen hampered exports. At the same time, conditions worldwide remained unstable as the implementation of inflationary controls slowed the growth rate in China, whose economic expansion has been driving the global economy. Furthermore, the floods in Thailand and the disruption in public-sector finance and financial markets in Europe impacted some aspects of the real economy.

Against this economic backdrop, the SHI Group made the earthquake recovery efforts of clients a top priority and worked hard to normalize production activities that had been disrupted. Moreover, keeping in mind the keywords "Globalization" and "Innovation"—the basis of the Group's Innovation 21 Medium-Term Management Plan—efforts were made to implement strategies that looked to improve market competitiveness. As a result, although net income fell compared with the previous fiscal year, the fiscal year under review saw the Group post improvements to prior-year figures for orders, sales and operating income.

2. Analysis of Operating Results

(1) Orders

Orders received during fiscal 2011 rose ¥36.4 billion compared with the previous fiscal year to ¥571.3 billion. While order volumes were down year on year in the Precision Machinery, Industrial Machinery and Ships segments, orders received in the Machinery Components, Construction

Machinery and Environmental Facilities & Plants segments exceeded levels recorded in fiscal 2010.

(2) Net Sales

Net sales grew ¥76.1 billion to ¥624.1 billion. With the exception of the Ships segment, sales improved year on year across all other business segments.

Overseas sales climbed ¥50.4 billion to ¥327.8 billion. The ratio of overseas to total consolidated net sales increased 1.9 percentage points to 52.5%.

(3) Cost of Sales

In line with the increase in net sales, cost of sales expanded ¥64.4 billion to ¥490.9 billion. The cost of sales ratio increased 0.9 of a percentage point to 78.7%, reflecting deterioration in the Construction Machinery and Industrial Machinery segments.

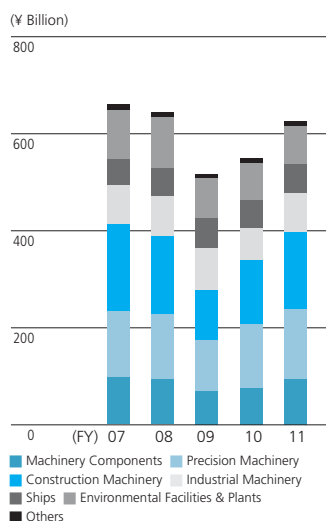
(4) Selling, General and Administrative (SG&A) Expenses

SG&A expenses rose ¥10.4 billion year on year to ¥86.1 billion. This was largely attributable to increases in salary and research and development costs. The SG&A expense ratio was 13.8%, unchanged from the previous fiscal year.

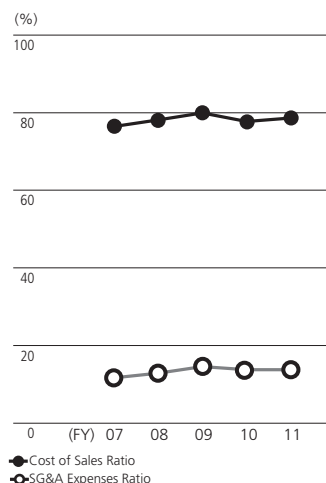
(5) Operating Income

Operating income edged up ¥1.3 billion compared with the previous fiscal year to ¥47.1 billion. Segment operating income increased year on year in the Precision Machinery and Construction Machinery segments primarily due to increases in segment sales. Despite a decline in

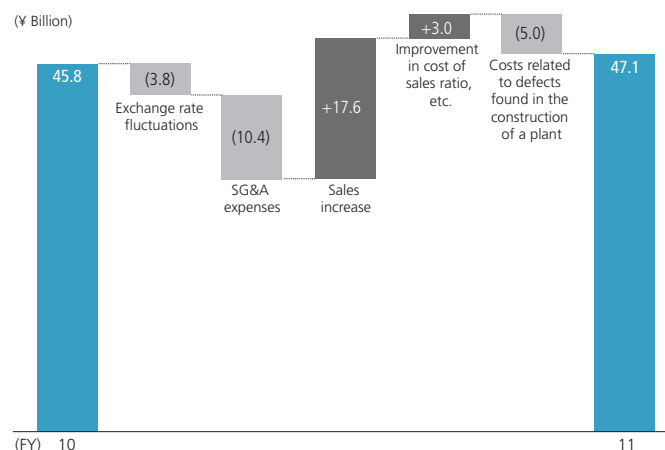
Net Sales



Cost of Sales Ratio, SG&A Expenses Ratio



Breakdown of Variation in Operating Income (Fiscal 2010–Fiscal 2011)



segment sales, the Ships segment secured an increase in earnings owing to such factors as successful cost reduction efforts. The Machinery Components and Industrial Machinery segments recorded a downturn in earnings due largely to fluctuations in foreign currency exchange rates. In the Environmental Facilities & Plants segment, earnings deteriorated dramatically. This was mainly attributable to the provision of an allowance for modifications made in connection with defects found in the construction of a plant. Reflecting the aforementioned factors, the operating income margin declined 0.8 of a percentage point to 7.6%.

(6) Other Income and Expenses

Other income and expenses amounted to net expenses of ¥2.5 billion, a deterioration of ¥1.0 billion from the previous fiscal year. Other income declined ¥0.3 billion year on year to ¥3.7 billion, largely reflecting lower dividend income. Meanwhile, other expenses increased ¥0.7 billion to ¥6.2 billion owing mainly to the upswing in interest expense.

(7) Extraordinary Gains and Losses

Extraordinary gains and losses amount to net losses of ¥6.4 billion, a negative turnaround of ¥7.3 billion compared with fiscal 2010. There were no extraordinary gains in the fiscal year under review. Extraordinary losses increased ¥3.8 billion year on year to ¥6.4 billion. Despite a decrease of ¥0.7 billion in impairment losses on fixed assets, the climb in extraordinary losses was primarily attributable to a contract loss of ¥2.9 billion and loss on valuation of investment securities of ¥2.2 billion that reflected a deterioration in the fair values of shares held.

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

Income taxes increased ¥1.6 billion to ¥17.7 billion, partly due to higher deferred income taxes in line with changes in income tax rates.

(9) Minority Interests in Net Income

Minority interests in net income declined ¥0.1 billion year on year to ¥1.0 billion.

(10) Net Income

Net income contracted ¥8.4 billion year on year to ¥19.5 billion. As a result, net income per share came to ¥31.75 compared with ¥45.87 in fiscal 2010. In addition, ROIC was 7.4%, down 0.4 of a percentage point.

For an overview of operating results by business segment, please refer to the Review of Operations section of this report on pages 21 to 30.

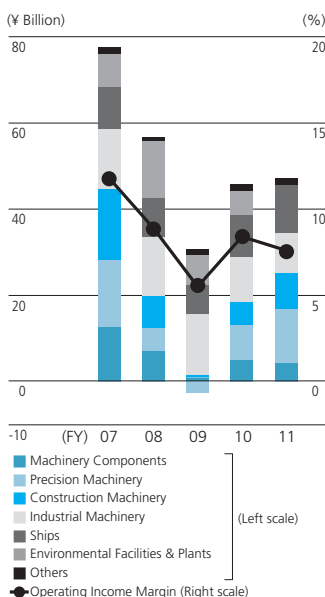
3. Discussion and Analysis of Financial Condition as of the Fiscal 2011 Year-End

(1) Assets, Liabilities and Net Assets

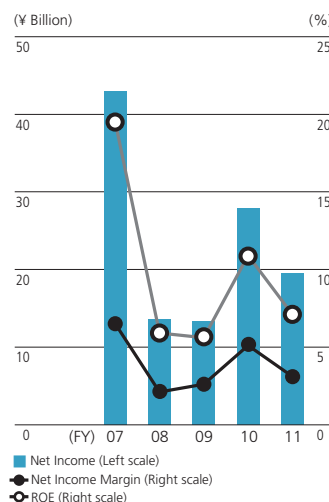
As of March 31, 2012, total assets stood at ¥691.8 billion, up ¥65.0 billion compared with the balance as of March 31, 2011. Decreases in investments, long-term loans and other assets of ¥4.3 billion were more than offset by increases in cash and time deposits, notes and accounts receivable, inventories and property, plant and equipment of ¥20.9 billion, ¥26.0 billion, ¥12.9 billion and ¥5.7 billion, respectively.

Total liabilities rose ¥52.2 billion to ¥409.7 billion. Deferred tax liabilities on revaluation difference on land declined ¥4.2 billion, reflecting

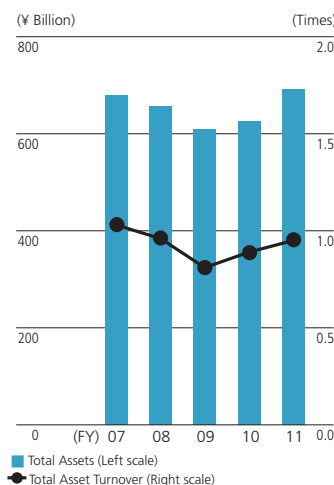
Operating Income, Operating Income Margin



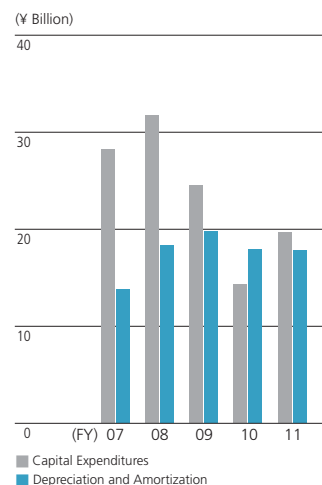
Net Income, Net Income Margin, ROE



Total Assets, Total Asset Turnover



Capital Expenditures, Depreciation and Amortization



the decrease in effective income tax rates and other factors. Interest-bearing debt increased ¥28.7 billion as SHI undertook new borrowings. Notes and accounts payable also climbed ¥21.9 billion. Net interest-bearing debt—the amounts of interest-bearing debt less cash and time deposits—rose ¥7.8 billion compared with the balance as of the end of the previous fiscal year to ¥23.1 billion. The ratio of net interest-bearing debt to total assets increased 0.9 of a percentage point to 3.3%.

Net assets rose ¥12.8 billion to ¥282.1 billion. While foreign currency translation adjustments and adjustment regarding pension obligations of consolidated foreign subsidiaries deteriorated a further ¥4.0 billion and ¥1.6 billion, respectively, retained earnings climbed ¥13.4 billion.

As a result, the stockholders' equity ratio as of March 31, 2012, was 40.3%, down 2.3 percentage points compared with March 31, 2011.

(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 ¥23.3 billion, down ¥13.2 billion year on year. Major cash outflows were an increase in notes and accounts receivable, an increase in inventories and payment for income taxes, which all rose. The principal cash inflow was an increase in notes and accounts payable, which was down from the previous fiscal year.

Net cash used in investing activities amounted to ¥22.7 billion, down ¥0.8 billion compared with fiscal 2010. The major cash outflow consisted of payments for purchases of property, plant and equipment, which increased. In contrast to the previous fiscal year, SHI did not record a payment for purchase of subsidiary with change in scope of consolidation in fiscal 2011.

Net cash provided by financing activities was ¥19.9 billion compared with net cash used in financing activities of ¥22.0 billion in the previous fiscal year. This was largely attributable to such factors as the increase in proceeds from interest-bearing debt.

As a result, cash and cash equivalents as of March 31, 2012 stood at ¥72.4 billion, up ¥20.7 billion compared with the balance as of March 31, 2011.

(3) Capital Expenditures and Depreciation and Amortization

In the fiscal year under review, the SHI Group positioned efforts to restore and fortify its global supply chain as a key priority with capital expenditures accordingly undertaken. Capital expenditures for fiscal 2011 totaled ¥19.7 billion, up ¥5.4 billion compared with the previous fiscal year. Depreciation and amortization was ¥17.8 billion, down ¥0.1 billion year on year.

Capital expenditures by segment are described as follows.

a. Machinery Components

With the restoration and fortification of its global supply chain as a key priority, the SHI group focused mainly on strengthening the

cost-competitiveness of its production bases, particularly in South and Central America. Capital expenditures in the Machinery Component segment in fiscal 2011 amounted to ¥7.5 billion.

b. Precision Machinery

Continuing to make its global supply chain a key priority, the SHI Group placed considerable weight on bolstering production bases in Japan as a part of efforts to enhance cost-competitiveness. Capital expenditures in the Precision Machinery segment totaled ¥3.5 billion.

c. Construction Machinery

As in the Machinery Components and Construction Machinery segments, emphasis was placed on the global supply chain in addition to strengthening the competitiveness of production bases. Concentrating on its bases in Southeast Asia, capital expenditures in the Construction Machinery segment for fiscal 2011 were ¥5.9 billion.

d. Industrial Machinery

In its Industrial Machinery activities, the SHI Group undertook to increase production capacity and improve productivity. To this end, a total of ¥0.8 billion was directed toward the renewal of existing facilities.

e. Ships

To increase production capacity and improve productivity in the Ships segment, the SHI Group channeled a total of ¥0.9 billion toward the renewal of existing facilities.

f. Environmental Facilities & Plants

In the Environmental Facilities & Plants segment, the SHI Group undertook capital expenditures totaling ¥0.9 billion aimed primarily at improving business efficiency and streamlining operations.

In the fiscal year ending March 31, 2013, capital expenditures are projected to total ¥15.0 billion. Focus will be placed on the Machinery Components, Precision Machinery and Construction Machinery segments. Depreciation and amortization is forecast to total ¥17.5 billion.

4. Policy on the Distribution of Profits

SHI adheres to a basic profit distribution policy of paying dividends commensurate with net income earned during the period while 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 this basic policy and the continuous payment of stable dividends, the Company decided to pay out an annual dividend of ¥10 per share (including an interim dividend of ¥4 per share). This represents a ¥2 per share increase compared with fiscal 2010. On this basis, the payout ratio for fiscal 2011 was 31.5%.

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, 2012.

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, 2012, the Group had an order backlog, chiefly in its shipbuilding business, of US\$0.2 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. Overseas Businesses

The Group conducts its business on a global scale, with a focus on the Machinery Components, Precision Machinery and Construction Machinery segments 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.

4. 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.

5. 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, 2012 was ¥23.5 billion, a decline of 24%. If land values continue to fall, or conditions are such that the Company is not expected to recover the book values of its assets or asset groups, we may have to recognize impairment losses on fixed assets, which could adversely affect the business performance and financial position of the Group.

6. Impact of Uncompleted Projects

In connection with an order received from the city of Kyoto for the construction of an incinerated ash melting facility, certain construction defects were uncovered at the test operating stage. As a result, delivery has been delayed. Currently, SHI is making every effort to put in place appropriate measures to secure formal handover. The Company recorded a loss in an amount that could be reasonably estimated at this stage. In the event that SHI is forced to incur additional construction losses, the Group could suffer an adverse impact on the business performance or financial position.

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.

9. Electricity Shortage

Shortages in the supply of electricity over the summer period when demand is at its peak due to the suspension of operations at nuclear power generation stations in 2012 could prevent the SHI Group from undertaking its production operations as scheduled, particularly in the Kansai region. Therefore, this event may have an adverse effect on the Group's business performance.

Consolidated Balance Sheets

March 31, 2012 and 2011

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Current assets:			
Cash and time deposits (Notes 2, 5 and 12)	¥ 73,373	¥ 52,486	\$ 894,793
Trade receivables (Note 12):			
Notes receivable	14,897	12,565	181,671
Accounts receivable	166,351	142,702	2,028,674
Allowance for doubtful accounts	(855)	(991)	(10,422)
Inventories (Note 3)	143,922	131,035	1,755,148
Deferred tax assets (Note 6)	12,196	9,648	148,731
Prepaid expenses and other current assets (Note 2)	19,162	17,897	233,672
Total current assets	429,046	365,342	5,232,267
Property, plant and equipment:			
Land (Note 5)	116,306	117,157	1,418,369
Buildings and structure (Note 5)	140,023	139,776	1,707,601
Machinery and other tangible fixed assets (Note 5)	162,531	158,195	1,982,083
Construction in progress	9,448	1,938	115,222
	428,308	417,066	5,223,275
Accumulated depreciation	(208,496)	(202,910)	(2,542,637)
Net property, plant and equipment	219,812	214,156	2,680,638
Investments, long-term loans and other assets:			
Investments in unconsolidated subsidiaries and affiliated companies (Note 12)	9,138	10,949	111,436
Investment securities (Notes 12 and 13)	14,783	15,333	180,280
Long-term loans receivable	63	67	764
Deferred tax assets (Note 6)	7,419	8,319	90,477
Other assets	12,994	14,135	158,465
Allowance for doubtful accounts	(1,414)	(1,472)	(17,238)
Total investments, long-term loans and other assets	42,983	47,331	524,184
Total assets (Note 10)	¥691,841	¥626,829	\$8,437,089

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Current liabilities:			
Short-term bank loans (Notes 5 and 12)	¥ 27,383	¥ 21,504	\$ 333,933
Long-term debts due within one year (Notes 5 and 12)	19,796	4,411	241,420
Trade payables (Note 12):			
Notes payable	35,230	26,772	429,633
Accounts payable	118,613	105,179	1,446,501
Advance payments received on contracts	27,770	33,295	338,662
Accrued income taxes	11,329	11,574	138,157
Allowance for warranty	5,106	5,196	62,266
Allowance for losses on construction contracts	4,984	1,040	60,786
Allowance for losses on business restructuring	7	412	80
Accrued expenses and other current liabilities (Notes 5 and 6)	38,243	33,124	466,376
Total current liabilities	288,461	242,507	3,517,814
Long-term liabilities:			
Long-term debts (Notes 5 and 12)	49,343	41,918	601,744
Employees' severance and retirement benefits (Note 15)	35,884	31,380	437,608
Allowance for losses on product liabilities	54	208	664
Deferred tax liabilities on revaluation difference on land	27,651	31,836	337,212
Other long-term liabilities (Note 5)	8,303	9,600	101,250
Total long-term liabilities	121,235	114,942	1,478,478
Contingent liabilities (Note 8)			
Net assets (Note 7):			
Common stock:	30,872	30,872	376,484
Number of shares authorized	1,800,000 thousand shares		
Number of shares issued	614,527 thousand shares in 2012 614,527 thousand shares in 2011		
Capital surplus	23,789	23,789	290,108
Retained earnings	201,433	188,047	2,456,503
Treasury stock at cost:	812 thousand shares in 2012 122 thousand shares in 2011	(445)	(67)
Total owners' equity	255,649	242,641	3,117,667
Unrealized gains (losses) on securities, net of income taxes	2,267	982	27,651
Unrealized gains (losses) on hedging derivatives, net of income taxes	277	960	3,374
Adjustment regarding pension obligations of consolidated foreign subsidiaries	(3,573)	(1,978)	(43,575)
Revaluation difference on land	43,381	39,851	529,035
Foreign currency translation adjustments	(19,113)	(15,129)	(233,080)
Total accumulated other comprehensive income	23,239	24,686	283,405
Minority interests	3,257	2,053	39,725
Total net assets	282,145	269,380	3,440,797
Total liabilities and net assets	¥691,841	¥626,829	\$8,437,089

See accompanying notes.

Consolidated Statements of Income

Years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Net sales (Note 10)	¥624,100	¥548,015	\$7,610,976
Costs and expenses:			
Cost of sales	490,878	426,479	5,986,318
Selling, general and administrative expenses	86,087	75,733	1,049,845
Total	576,965	502,212	7,036,163
Operating income (Note 10)	47,135	45,803	574,813
Other income (expenses):			
Income			
Interest and dividend income	953	1,515	11,624
Other—net	2,777	2,474	33,866
Expenses			
Interest expense	(1,652)	(1,489)	(20,152)
Other—net	(4,595)	(4,050)	(56,022)
Extraordinary gains (losses):			
Gains			
Gain on negative goodwill	—	3,437	—
Losses			
Contract loss	(2,863)	(220)	(34,920)
Loss on valuation of investment securities	(2,166)	—	(26,419)
Amortization of prior service costs (Note 15)	(706)	—	(8,607)
Impairment losses on fixed assets (Note 4)	(688)	(1,396)	(8,385)
Loss on revision of retirement benefit plan (Note 15)	—	(503)	—
Effect of adoption of accounting standard for asset retirement obligations	—	(480)	—
Income before income taxes and minority interests	38,195	45,091	465,798
Income taxes (Note 6):			
Current	19,077	16,555	232,644
Deferred	(1,395)	(468)	(17,007)
Total	17,682	16,087	215,637
Income before minority interests	20,513	29,004	250,161
Minority interests in net income	(1,021)	(1,078)	(12,454)
Net income	¥ 19,492	¥ 27,926	\$ 237,707

	Yen		U.S. dollars (Note 1)
	2012	2011	2012
Amounts per share of common stock:			
Net income	¥31.75	¥45.87	\$0.39
Diluted net income	—	—	—
Cash dividends applicable to the year (Note 16)	10.00	8.00	0.12

See accompanying notes.

Consolidated Statements of Comprehensive Income

Years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Income before minority interests	¥20,513	¥29,004	\$250,161
Other comprehensive income:			
Unrealized gains (losses) on securities, net of income taxes	1,287	(1,046)	15,693
Unrealized gains (losses) on hedging derivatives, net of income taxes	(680)	(120)	(8,298)
Adjustment regarding pension obligations of consolidated foreign subsidiaries	(1,596)	(224)	(19,459)
Revaluation difference on land	3,918	—	47,781
Foreign currency translation adjustments	(3,967)	(5,970)	(48,368)
Share of other comprehensive income of affiliates accounted for using equity method	(3)	(43)	(42)
Other comprehensive income (Note 9)	(1,041)	(7,403)	(12,693)
Comprehensive income	¥19,472	¥21,601	\$237,468
Comprehensive income attributable to			
Owners of the parent	¥18,433	¥20,756	\$224,800
Minority interests	1,039	845	12,668

See accompanying notes.

Consolidated Statements of Changes in Net Assets

Years ended March 31, 2012 and 2011

	Owners' equity					
	Number of shares of common stock (Thousand)	Common stock	Capital surplus	Retained earnings	Treasury stock at cost	Sub-total
Net assets at April 1, 2010	605,726	¥30,872	¥20,503	¥161,951	¥(1,494)	¥211,832
Dividends				(2,414)		(2,414)
Net income				27,926		27,926
Acquisition of treasury stock					(164)	(164)
Disposal of treasury stock			5	(1)	8	12
Increase due to transfer of revaluation difference on land				535		535
Increase by stock exchange			3,281		1,583	4,864
Increase of consolidated subsidiaries with change in scope of consolidation				50		50
Changes in items other than owners' equity in the period (net)						
Total changes in the period	8,801	—	3,286	26,096	1,427	30,809
Net assets at March 31, 2011	614,527	¥30,872	¥23,789	¥188,047	¥ (67)	¥242,641

	Owners' equity					
	Number of shares of common stock (Thousand)	Common stock	Capital surplus	Retained earnings	Treasury stock at cost	Sub-total
Net assets at April 1, 2011	614,527	¥30,872	¥23,789	¥188,047	¥ (67)	¥242,641
Dividends				(7,370)		(7,370)
Net income				19,492		19,492
Acquisition of treasury stock					(383)	(383)
Disposal of treasury stock				(1)	5	4
Increase due to transfer of revaluation difference on land				388		388
Increase of consolidated subsidiaries with change in scope of consolidation				877		877
Decrease of consolidated subsidiaries with change in scope of consolidation				0		0
Changes in items other than owners' equity in the period (net)						
Total changes in the period	—	—	—	13,386	(378)	13,008
Net assets at March 31, 2012	614,527	¥30,872	¥23,789	¥201,433	¥(445)	¥255,649

	Owners' equity					
	Number of shares of common stock (Thousand)	Common stock	Capital surplus	Retained earnings	Treasury stock at cost	Sub-total
Net assets at April 1, 2011	614,527	\$376,484	\$290,108	\$2,293,260	\$ (819)	\$2,959,033
Dividends				(89,881)		(89,881)
Net income				237,707		237,707
Acquisition of treasury stock					(4,675)	(4,675)
Disposal of treasury stock				(9)	66	57
Increase due to transfer of revaluation difference on land				4,731		4,731
Increase of consolidated subsidiaries with change in scope of consolidation				10,695		10,695
Decrease of consolidated subsidiaries with change in scope of consolidation				0		0
Changes in items other than owners' equity in the period (net)						
Total changes in the period	—	—	—	163,243	(4,609)	158,634
Net assets at March 31, 2012	614,527	\$376,484	\$290,108	\$2,456,503	\$(5,428)	\$3,117,667

See accompanying notes.

Millions of yen

Accumulated other comprehensive income						Minority interests	Total
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 foreign subsidiaries	Revaluation difference on land	Foreign currency translation adjustments	Sub-total		
¥2,002	¥1,125	¥(1,753)	¥40,386	¥ (9,370)	¥32,390	¥9,931	¥254,153
							(2,414)
							27,926
							(164)
							12
							535
							4,864
							50
(1,020)	(165)	(225)	(535)	(5,759)	(7,704)	(7,878)	(15,582)
(1,020)	(165)	(225)	(535)	(5,759)	(7,704)	(7,878)	15,227
¥ 982	¥ 960	¥(1,978)	¥39,851	¥(15,129)	¥24,686	¥2,053	¥269,380

Millions of yen

Accumulated other comprehensive income						Minority interests	Total
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 foreign subsidiaries	Revaluation difference on land	Foreign currency translation adjustments	Sub-total		
¥ 982	¥ 960	¥(1,978)	¥39,851	¥(15,129)	¥24,686	¥2,053	¥269,380
							(7,370)
							19,492
							(383)
							4
							388
							877
							0
1,285	(683)	(1,595)	3,530	(3,984)	(1,447)	1,204	(243)
1,285	(683)	(1,595)	3,530	(3,984)	(1,447)	1,204	12,765
¥2,267	¥ 277	¥(3,573)	¥43,381	¥(19,113)	¥23,239	¥3,257	¥282,145

Thousands of U.S. dollars (Note 1)

Accumulated other comprehensive income						Minority interests	Total
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 foreign subsidiaries	Revaluation difference on land	Foreign currency translation adjustments	Sub-total		
\$11,966	\$11,706	\$(24,116)	\$485,986	\$(184,499)	\$301,043	\$25,041	\$3,285,117
							(89,881)
							237,707
							(4,675)
							57
							4,731
							10,695
							0
15,685	(8,332)	(19,459)	43,049	(48,581)	(17,638)	14,684	(2,954)
15,685	(8,332)	(19,459)	43,049	(48,581)	(17,638)	14,684	155,680
\$27,651	\$ 3,374	\$(43,575)	\$529,035	\$(233,080)	\$283,405	\$39,725	\$3,440,797

Consolidated Statements of Cash Flows

Years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Cash flows from operating activities:			
Income before income taxes and minority interests	¥38,195	¥45,091	\$465,798
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation	17,820	17,941	217,313
Contract loss	2,863	220	34,920
Loss on valuation of investment securities	2,166	21	26,418
Amortization of prior service costs	706	—	8,607
Impairment losses on fixed assets	688	1,396	8,385
Gain on negative goodwill	—	(3,437)	—
Loss on revision of retirement benefit plan	—	503	—
Effect of adoption of accounting standard for asset retirement obligations	—	480	—
Loss on disposal of property, plant and equipment	345	434	4,206
(Gain) loss on sale of investment securities	(270)	(78)	(3,291)
Increase (decrease) in employees' severance and retirement benefits	2,619	(702)	31,933
Increase (decrease) in allowance	199	(818)	2,428
Interest and dividend income	(953)	(1,515)	(11,624)
Interest expenses	1,652	1,489	20,152
Changes in operating assets and liabilities:			
(Increase) decrease in notes and accounts receivable	(30,305)	(30,224)	(369,576)
(Increase) decrease in inventories	(14,485)	(6,280)	(176,648)
Increase (decrease) in notes and accounts payable	21,159	26,420	258,038
Other—net	646	(1,646)	7,874
Sub-total	43,045	49,295	524,933
Interest and dividend received	1,438	1,014	17,542
Interest expenses	(1,660)	(1,508)	(20,246)
Payment for income taxes	(19,514)	(12,280)	(237,976)
Net cash provided by operating activities	¥23,309	¥36,521	\$284,253

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Cash flows from investing activities:			
Net (increase) decrease in time deposits	¥ (201)	¥ (368)	\$ (2,447)
Payment for purchase of subsidiary with change in scope of consolidation (Note 2)	—	(10,607)	—
Proceeds from sale of securities	768	457	9,370
Payments for purchases of property, plant and equipment	(24,227)	(14,393)	(295,450)
Proceeds from sale of property, plant and equipment	1,486	1,511	18,127
Decrease (increase) in short-term loans receivable	305	(270)	3,725
Payments for long-term loans receivable	(19)	(9)	(226)
Collection of long-term loans receivable	21	20	259
Other—net	(805)	146	(9,833)
Net cash used in investing activities	(22,672)	(23,513)	(276,475)
Cash flows from financing activities:			
Net increase (decrease) in short-term bank loans	6,246	(7,260)	76,174
Proceeds from long-term debts	27,214	—	331,871
Payments for long-term debts	(4,416)	(10,697)	(53,859)
Proceeds from sale of treasury stock	5	60	57
Payments for purchases of treasury stock	(383)	(164)	(4,675)
Cash dividends paid	(7,354)	(2,423)	(89,677)
Payment of dividends for minority stockholders	(49)	(347)	(592)
Repayments of finance lease obligations	(1,384)	(1,189)	(16,876)
Net cash provided by (used in) financing activities	19,879	(22,020)	242,423
Effect of exchange rate changes on cash and cash equivalents	(649)	(977)	(7,920)
Net increase (decrease) in cash and cash equivalents	19,867	(9,989)	242,281
Cash and cash equivalents at beginning of year	51,700	61,452	630,488
Increase due to new consolidated companies	809	237	9,864
Decrease due to exclusion of consolidated companies	(0)	—	(2)
Cash and cash equivalents at end of year (Note 2)	¥72,376	¥51,700	\$882,631

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.

The accounts of foreign consolidated subsidiaries are prepared in accordance with either International Financial Reporting Standards or U.S. generally accepted accounting principles, with adjustments for the specified five items as applicable.

The accompanying consolidated financial statements for Sumitomo Heavy Industries, Ltd. (SHI) and subsidiaries (collectively, the Company) have been reformatted and translated into English (with certain expanded descriptions) from the ones 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, 2012, which was ¥82 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 SHI and its significant subsidiaries. All significant inter-company balances and transactions are eliminated in consolidation. Investments in significant affiliated companies are accounted for using the equity method of accounting.

In the fiscal year ended March 31, 2009, the Company adopted "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 five 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.

1. Goodwill not subject to amortization
2. Actuarial gains and losses of defined-benefit retirement plans recognized outside profit or loss
3. Capitalized expenditures for research and development activities
4. Fair value measurement of investment properties, and revaluation of property, plant and equipment and intangible assets
5. Accounting for net income attributable to minority interests

Marketable and investment securities

Held-to-maturity debt securities are stated at amortized cost, adjusted for the amortization or accretion of premiums or discounts. Available-for-sale securities with fair values are stated at fair value. Unrealized holding gains and losses, net of applicable income taxes, on available-for-sale securities are excluded from earnings and reported as a separate component of accumulated other comprehensive income until realized. Realized gains and losses from the sale of such securities are computed using the moving-average method. Investment securities in unconsolidated subsidiaries and affiliated companies that are not subject to the equity method of accounting, 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

Finished products, raw materials, and supplies are stated at the lower of cost (weighted average) or market. Work-in-process is stated at the lower of cost (specific identification) or market.

Property, plant, and equipment

(A) Tangible fixed assets (excluding lease assets)

Tangible assets are stated at cost. Buildings acquired between April 1, 1998 and March 31, 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.

(B) Lease assets

Property and equipment held under finance lease arrangements, which are not subject to the ownership transfer from a lessor to a lessee, are depreciated on a straight-line basis over the lease term except for

certain immaterial arrangements or ones commenced prior to March 31, 2008, which are accounted for as operating leases.

Software

Costs of software obtained for internal use are amortized using the straight-line method over the estimated useful lives (5 years).

Allowance for doubtful accounts

The Company provides an allowance for doubtful accounts for estimated losses inherent in its receivable portfolio. The required allowance is determined based on historical losses for general accounts receivables. For accounts receivable considered at risk (bankruptcy, companies under reorganization plan), the required allowance is determined based on certain specific factors such as current market conditions, customers' financial condition, the amount of receivables in dispute, current receivables aging, and current payment patterns on an individual basis.

Allowance for warranty

Allowance for warranty is provided for the estimated future warranty costs associated with repair work after delivery of products. These estimates are derived from historical data and trends of product reliability and costs of repairing and replacing defective products.

Allowance for losses on construction contracts

Allowance for losses on construction contracts is provided when the current estimates of total contract revenue and contract cost indicate substantial losses, and such losses are reasonably estimated.

Allowance for losses on business restructuring

Allowance for losses on business restructuring is provided at an estimated amount to be incurred in connection with the Company's business restructuring.

Employees' severance and retirement benefits

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

Prior service costs are expensed as incurred for SHI or amortized using the straight-line method over a period within the average remaining service life of the company's active employees (mainly 12 years) for consolidated subsidiaries.

The actuarial gains (losses) are amortized using the straight-line method over a period within the average remaining service life of the company's active employees (mainly 12 years) commencing from the following year of the incurrence.

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 foreign subsidiaries.

Derivatives and hedge accounting

The Company recognizes all derivative instruments as either assets or liabilities in the consolidated balance sheet at their respective fair values, and changes in the fair values are recognized as gains or losses. For derivatives designated in hedging relationship, the related gains or losses are deferred until the hedged item affects earnings.

For forward foreign exchange contracts that meet certain hedging criteria, they are accounted for as follows:

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

1. The difference, 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 carrying value of the receivable or payable is recognized in the consolidated statement of income in the period which includes the inception date, and
2. 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 forward foreign exchange contracts are 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.

For interest rate swap contracts that meet certain hedging criteria, the net amount to be paid or received is added to or deducted from the interest on the liabilities for which the swap contracts were executed.

For currency option contracts that are executed to hedge future transactions in foreign currencies, the future transaction will be recorded using the contracted forward rate, and no gains or losses on the currency option contracts are recognized.

Revenue recognition on 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.

Amortization of goodwill

Goodwill and negative goodwill that were generated on or before March 31, 2010, are equally amortized over 5 years. In case the amount of goodwill or negative goodwill is insignificant, it is amortized in full as generated. Negative goodwill generated after March 31, 2010 was fully amortized at the time of generation.

Revaluation difference on land

The Company revaluated land held for business use as of March 31, 2002 in accordance with Enforcement Ordinance for the Law Concerning Revaluation Reserve for Land effective March 31, 1998.

The current market value of the land as of March 31, 2012 has been declined by ¥23,456 million (\$286,052 thousand) as compared to the carrying value.

Research and development costs

Research and development costs are expensed when incurred. Research and development costs included in manufacturing cost and selling, general and administrative expenses were ¥9,665 million (\$117,871 thousand) and ¥8,228 million for the years ended March 31, 2012 and 2011, respectively.

Income taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities, and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to be applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

SHI files a Japanese consolidated tax return with certain domestic consolidated subsidiaries.

Foreign currency translation and transactions

All asset and liability accounts of foreign subsidiaries and affiliates are translated into Yen at the applicable balance sheet date exchange rates of each foreign subsidiary, except for common stock, capital surplus and retained earnings, which are translated at historical rates. Revenues, costs, and expenses are translated into Yen at average exchange rates for the year.

Transactions in foreign currencies are translated at the exchange rate in effect at the time of the transaction. Any assets and liabilities denominated in foreign currencies are translated into Yen using the year-end exchange rate. Gains and losses resulting from transactions in foreign currencies are included in the consolidated statements of income.

Amounts per share

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

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

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

Reclassifications

Certain amounts in the consolidated financial statements for the year ended March 31, 2011 have been reclassified to conform to the 2012 presentation.

Change in accounting policies

(A) New accounting standards for Accounting Changes and Error Corrections

In the fiscal year ended March 31, 2012, the Company adopted "Accounting Standard for Accounting Changes and Error Corrections" (Accounting Standards Board of Japan ("ASBJ") Statement No. 24 issued on December 4, 2009) and "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Guidance No. 24, issued on December 4, 2009) for accounting changes and corrections of prior period errors which are made from the fiscal year beginning of April 1, 2011.

(B) New accounting standards for Presentation of Comprehensive Income

In the fiscal year ended March 31, 2011, the Company adopted "Accounting Standard for Presentation of Comprehensive Income" (ASBJ Statement No. 25 issued on June 30, 2010) and "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, revised on June 20, 2010).

As a result of the adoption of these standards, the Company has presented the consolidated statement of comprehensive income in the consolidated financial statements for the fiscal year ended March 31, 2011.

(C) New accounting standards for the Equity Method

In the fiscal year ended March 31, 2011, the Company adopted "Accounting Standard for the Equity Method" (ASBJ Statement No. 16, issued on March 10, 2008) and "Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method" (ASBJ PITF No. 24, issued on March 10, 2008). There is no impact of this change on income before income taxes and minority interests for the year ended March 31, 2011.

(D) New accounting standards for Asset Retirement Obligations

In the fiscal year ended March 31, 2011, the Company adopted "Accounting Standard for Asset Retirement Obligations" (ASBJ Statement No. 18, issued on March 31, 2008) and "Guidance on Accounting Standard for Asset Retirement Obligations" (ASBJ Guidance No. 21, issued on March 31, 2008).

As a result, operating income for the year ended March 31, 2011 decreased by ¥24 million, and income before income taxes and minority interests each decreased by ¥504 million.

(E) New accounting standards for Business Combinations

In the fiscal year ended March 31, 2011, the Company adopted "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, issued on December 26, 2008), "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, issued on December 26, 2008), "Partial Amendments to Accounting Standard for Research and Development Costs" (ASBJ Statement No. 23, issued on December 26, 2008), "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, issued on December 26, 2008), "Revised Accounting Standard for Equity Method of Accounting for Investments" (ASBJ Statement No. 16, issued on December 26, 2008) and "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, issued on December 26, 2008).

Business combinations

(A) Stock exchange with Nihon Spindle Manufacturing Co., Ltd.

1. General information

On October 1, 2010, SHI and its consolidated subsidiary, Nihon Spindle Manufacturing Co., Ltd. (Nihon Spindle), executed a stock exchange.

The legal form of the transaction is a stock exchange to convert Nihon Spindle into a wholly-owned subsidiary of SHI. The stock exchange was executed as a simplified stock exchange under Article 796 Paragraph 3 of the Corporate Law, and the Company acquired additional 59.1% of the voting rights of Nihon Spindle, including 0.4% of indirect ownership.

2. Business of the entity

The business of Nihon Spindle is manufacturing and distribution of environmental, air pollution control, industrial equipment and construction materials.

3. Overview of the transaction and the purpose

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

However, 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, SHI 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 Company.

4. Acquisition costs

	Millions of yen
Acquisition price	¥4,864
Direct costs attributable to the acquisition	41
Acquisition costs	4,905

5. The ratio for the stock exchange

	Stock exchange ratio
SHI	1.0
Nihon Spindle	0.38

Notes: 1. Stock exchange ratio

0.38 share of the SHI's common stock was allocated to shareholders of Nihon Spindle in exchange for 1 share of the common stock of Nihon Spindle. However, no shares of SHI were allocated to the shares of the common stock of Nihon Spindle owned by SHI (19,494,180 shares).

2. The method of calculation and basis of calculation by a third party institution Daiwa Securities Capital Markets Co., Ltd. calculated the stock exchange ratio. Daiwa Securities Capital Markets Co., Ltd. performed an analysis with respect to SHI and Nihon Spindle, based on the market share-value method together with the discounted cash flow method, and calculated the stock exchange ratio by considering the results of these analyses. Meanwhile, Nomura Securities Co., Ltd. calculated the ratio based on Nihon Spindle's request and performed an analysis of SHI and Nihon Spindle based on three methods; the market share-value average method, the comparison with similar companies method and the discounted cash flow method. Nomura Securities Co., Ltd. calculated the stock exchange ratio by considering the results of the analyses. Based on the above results, SHI and Nihon Spindle determined the stock exchange ratio as explained.

6. Number of stocks delivered and the assessed value

Number of stocks delivered to Nihon Spindle	11,311,011 shares
Assessed value	4,864 millions of yen

SHI used its treasury stock as part of the stocks to be delivered for the stock exchange.

7. Negative goodwill

(1) Amount of negative goodwill	3,437 millions of yen
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(2) Reason for the negative goodwill

The negative goodwill was recorded since the amount of minority interests decreased by this stock exchange was higher than the costs of the additionally acquired common stock of Nihon Spindle.

(B) Acquisition of stocks of HANSEN INDUSTRIAL TRANSMISSIONS NV

1. General information

On March 4, 2011, SHI acquired stocks of HANSEN INDUSTRIAL TRANSMISSIONS NV (HIT), a group company of HANSEN TRANSMISSIONS INTERNATIONAL NV in Belgium.

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

2. Business of the entity

The business of HIT is manufacturing and distribution of industrial gearboxes.

3. Overview of the transaction and the purpose

To expand the overseas distribution channels, and increase sales of industrial gearboxes in the Machinery Components business.

4. Acquired company's financial results for 2011

As the acquisition date is regarded to be on March 31, 2011, the results of operations of the acquired company before March 31, 2011 are not included in the Company's consolidated financial statement for the year ended March 31, 2011.

5. Acquisition costs

	Millions of yen
Acquisition price	¥10,097
Direct costs attributable to the acquisition	436
Acquisition costs	10,533

6. Goodwill

(1) Amount of goodwill 1,070 millions of yen

(2) Reason for the goodwill

The goodwill was recorded since the acquisition price agreed with the seller was higher than the net assets measured at fair value as of the date of the acquisition.

(3) Amortization of goodwill

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

2. Cash and cash equivalents

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

Cash and cash equivalents as of March 31, 2012 and 2011 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Cash and time deposits	¥73,373	¥52,486	\$894,793
Time deposits with maturities over three months	(829)	(659)	(10,108)
Restricted deposits	(168)	(128)	(2,054)
Investment securities (cash equivalents)	—	1	—
Cash and cash equivalents	¥72,376	¥51,700	\$882,631

SHI acquired additional voting rights of an affiliate, LBX COMPANY, LLC in the year ended March 31, 2011. As a result, LBX COMPANY, LLC became a consolidated subsidiary.

The following table summarizes the assets and liabilities of LBX COMPANY, LLC at the acquisition date and the stock acquisition price.

LBX COMPANY, LLC (as of April 30, 2010)

	Millions of yen
	2011
Current assets	¥ 5,058
Non-current assets	473
Goodwill generated	585
Current liabilities	(1,259)
Non-current liabilities	(14)
Book value on an equity basis before acquisition	(2,116)
Acquisition cost of stock	¥ 2,727
Cash and cash equivalents	(119)
Payment for purchase of subsidiary with change in scope of consolidation	¥ 2,608

As explained in the Note of Business combinations (B), SHI acquired the stock of HIT, which became a consolidated subsidiary.

The following table summarizes the assets and liabilities of HIT and six other Hansen Group companies at the acquisition date and the stock acquisition price.

HIT and six other Hansen Group companies (as of March 31, 2011)

	Millions of yen
	2011
Current assets	¥ 8,806
Non-current assets	5,278
Goodwill generated	1,070
Current liabilities	(3,833)
Non-current liabilities	(788)
Acquisition cost of stock	¥10,533
Cash and cash equivalents	(2,535)
Payment for purchase of subsidiary with change in scope of consolidation	¥ 7,998

3. Inventories

Inventories as of March 31, 2012 and 2011 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Finished products	¥ 51,326	¥ 41,827	\$ 625,924
Work in process	71,562	70,802	872,710
Raw materials and supplies	21,034	18,406	256,514
Total	¥143,922	¥131,035	\$1,755,148

4. Impairment losses on fixed assets

(A) The Company recognized the following impairment losses in the year ended March 31, 2012.

Use	Type of assets	Location	Millions of yen	Thousands of U.S. dollars
			2012	2012
Common assets	Lands and buildings, etc.	Yokosuka, Kanagawa Pref, etc.	¥229	\$2,794
Idle	Lands and buildings	Yokosuka, Kanagawa Pref, etc.	254	3,805
Business assets	Buildings, etc.	Kurashiki, Okayama Pref, etc.	205	2,506
Total			¥688	\$8,385

Reason for recognition of impairment losses

Due to decline of profitability and related revision of the business plan for certain product lines, an impairment analysis was required. As a result of the cash flow analysis, it was determined that the projected cash flows generated by the related assets were less than their carrying values, resulting in the impairment for the year ended March 31, 2012.

Grouping of assets

Each division is considered an asset group since the asset group is the lowest level at which cash flows can be identified that are largely independent of the cash flows of other asset groups. A temporarily idle asset is also considered an asset group.

Calculation of recoverable amount

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

(B) The Company recognized the following impairment losses in the year ended March 31, 2011.

Use	Type of assets	Location	Millions of yen
			2011
Idle	Lands and buildings, etc.	Inage-ku Chiba, etc.	¥1,251
Common assets	Lands and buildings	Yokosuka, Kanagawa Pref.	91
Idle	Lands	Niihama, Ehime Pref, etc.	39
Other		—	15
Total			¥1,396

Reason for recognition of impairment losses

Mainly due to a change in the welfare and benefit program, recoverability became questionable.

Grouping of assets

Each division is considered an asset group since the asset group is the lowest level at which cash flows can be identified that are largely independent of the cash flows of other asset groups. A temporarily idle asset is also considered an asset group.

Calculation of recoverable amount

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

5. Bank loans and long-term debt

Bank loans as of March 31, 2012 and 2011 consist of short-term loans, bearing average interest at 2.26% and 1.56% per annum, respectively.

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

Long-term debt as of March 31, 2012 and 2011 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
0.9 % domestic bonds due in December 2014	¥10,000	¥10,000	\$121,951
Loans principally from banks and insurance companies due serially through March 2019 with interest ranging from 0.53% to 6.86% in FY2011			
Secured	204	595	2,486
Unsecured	58,935	35,735	718,727
Lease obligations	5,055	4,862	61,645
	¥74,194	¥51,192	\$904,809
Amount due within one year	21,194	5,441	258,469
Amount due after one year	53,000	45,751	646,340

Long-term debt are due as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
	2012	2012
2013	¥21,194	\$258,469
2014	27,970	341,100
2015	22,896	279,223
2016	660	8,044
2017	1,416	17,262
2018 and thereafter	58	711
Total	¥74,194	\$904,809

As of March 31, 2012 and 2011, assets pledged as collateral for short-term loans, long-term loans from banks and contingent liabilities are as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Cash and time deposits	¥ 168	¥ 129	\$ 2,054
Buildings and structure	746	1,681	9,096
Machinery and other tangible fixed assets	—	40	—
Land	115	34,387	1,403
Total	¥1,029	¥36,237	\$12,553

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

As of March 31, 2012 and 2011, unused revolving lines of credit and global commitment lines are as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Limit of revolving lines of credit and global commitment lines	¥48,730	¥49,304	\$594,270
Used	4,980	6,046	60,732
Unused	¥43,750	¥43,258	\$533,538

6. Income tax

SHI and the consolidated domestic companies are subject to corporate, inhabitants' and enterprise taxes, which, in the aggregate show a statutory tax rate in Japan of approximately 41 % for the years ended March 31, 2012 and 2011.

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, 2012 and 2011.

	2012	2011
Statutory tax rate	40.69%	40.69%
Expenses not deducted for tax purposes	0.82	0.60
Per capital inhabitant tax	0.55	0.47
Dividend income deductible for tax purposes	(0.83)	(1.49)
Tax credit	(1.51)	(1.43)
Effect of revision of statutory tax rate	4.23	—
Valuation allowance	2.89	—
Gain on negative goodwill	—	(3.10)
Others	(0.55)	(0.06)
Effective tax rate	46.29%	35.68%

Main components of deferred tax assets and liabilities as of March 31, 2012 and 2011 are presented below:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Deferred tax assets:			
Accrued bonuses	¥ 3,390	¥ 3,476	\$ 41,339
Allowance for doubtful accounts	421	1,068	5,140
Allowance for warranty	1,693	1,829	20,644
Allowance for employees' severance and retirement benefit	15,456	15,110	188,487
Unrealized profit on inventories	1,379	1,208	16,815
Devaluation of marketable securities and investments into affiliated companies	1,388	1,029	16,923
Depreciation	981	1,219	11,969
Net operating loss carryforward	3,144	6,103	38,341
Loss on valuation of inventories	2,089	2,202	25,481
Others	9,621	8,779	117,339
Total deferred tax assets	39,562	42,023	482,478
Less—valuation allowance	(12,461)	(17,334)	(151,969)
Deferred tax assets—net	¥27,101	¥24,689	\$ 330,509
Deferred tax liabilities:			
Tax depreciation reserve	(88)	(103)	(1,072)
Difference on revaluation of assets and liabilities of subsidiaries	(3,461)	(3,800)	(42,206)
Accelerated depreciation	(1,994)	(1,669)	(24,321)
Retained earnings in consolidated overseas subsidiaries	(1,930)	(1,550)	(23,539)
Net unrealized holding gains on securities	(784)	(595)	(9,563)
Deferred gain or loss on hedges	(252)	(693)	(3,068)
Others	(243)	(360)	(2,967)
Deferred tax liabilities	¥ (8,752)	¥ (8,770)	\$(106,736)
Net deferred tax assets	¥18,349	¥15,919	\$ 223,773

(Revision of statutory tax rate)

Following the promulgation on December 2, 2011 of "Act for Partial Revision of the Income Tax Act, etc. for the Purpose of Creating Taxation System Responding to Changing in Economic and Social Structure" (Act No. 114 of 2011) and "Act on Special Measures for Securing Financial Resources Necessary to Implement Measures for Reconstruction Following the Great East Japan Earthquake" (Act No. 117 of 2011), the corporate tax rate will be changed and the Special Reconstruction Corporation Tax will be imposed for the fiscal year beginning on or after April 1, 2012.

In line with these changes, the effective statutory tax rate used to measure deferred tax assets and liabilities related to temporary differences expected to be recovered or settled during the fiscal years beginning on April 1, 2012 through March 31, 2015 will be changed from 40.69% to 38.01%. Additionally, the effective statutory tax rate used to measure deferred tax assets and liabilities related to temporary differences expected to be recovered or settled after April 1, 2015 will be changed from 40.69% to 35.64%.

As a result of these changes, net deferred tax assets (after offsetting deferred tax liabilities) and deferred tax liabilities on revaluation difference on land were decreased by ¥1,456 million and ¥3,918 million, respectively, as of March 31, 2012, and the deferred income tax expense was increased by ¥1,614 million for the year then ended.

7. Net assets

Under the 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 in the accompanying consolidated balance sheets.

Under the Japanese Corporate Law ("the Law"), in case 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 allowed to be distributed as dividend is determined based on the entity's non-consolidated financial statements in accordance with the Japanese laws and regulations. The maximum amount that SHI is allowed to distribute as dividend at March 31, 2012 is ¥31,380 million (\$382,690 thousand).

At the general shareholders' meeting held on June 28, 2012, the shareholders resolved cash dividend amounting to ¥3,682 million (\$44,906 thousand). Such appropriations have not been accrued in the accompanying consolidated financial statements as of March 31, 2012 and will be recorded in the period in which they are resolved.

8. Contingent liabilities

Certain consolidated domestic subsidiaries are contingently liable as endorsers of trade notes receivable discounted with banks in the amounts of ¥5,261 million (\$64,157 thousand) and ¥2,488 million as of March 31, 2012 and 2011, respectively. In addition, SHI and certain consolidated subsidiaries are contingently liable as guarantors for bank loans or other borrowings obtained by unconsolidated subsidiaries, affiliated companies and employees in the amounts of ¥41,720 million (\$508,779 thousand) and ¥25,397 million as of March 31, 2012 and 2011, respectively (net of guarantees by co-guarantors).

9. Statement of comprehensive income

Amounts reclassified to net income in the current fiscal period that were recognized in other comprehensive income in the current or previous period and related tax effects for each component of other comprehensive income in the year ended March 31, 2012 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2012	2012
Unrealized gains (losses) on securities, net of income taxes		
Increase (decrease) during the year	¥ (525)	\$ (6,398)
Reclassification adjustments	2,050	24,992
Sub-total, before tax	1,525	18,594
Tax (expense) or benefit	(238)	(2,901)
Sub-total, net of tax	1,287	15,693
Unrealized gains (losses) on hedging derivatives, net of income taxes		
Increase (decrease) during the year	548	6,686
Reclassification adjustments	(1,715)	(20,918)
Sub-total, before tax	(1,167)	(14,232)
Tax (expense) or benefit	487	5,934
Sub-total, net of tax	(680)	(8,298)
Adjustment regarding pension obligations of consolidated foreign subsidiaries		
Increase (decrease) during the year	(2,636)	(32,145)
Reclassification adjustments	193	2,352
Sub-total, before tax	(2,443)	(29,793)
Tax (expense) or benefit	847	10,334
Sub-total, net of tax	(1,596)	(19,459)
Revaluation difference on land		
Tax (expense) or benefit	3,918	47,781
Foreign currency translation adjustment		
Increase (decrease) during the year	(3,967)	(48,368)
Share of other comprehensive income of affiliates accounted for using equity method		
Increase (decrease) during the year	(3)	(42)
Total other comprehensive income	¥(1,041)	\$ (12,693)

10. Segment information

(A) Segment information

In the fiscal year ended March 31, 2011, the Company adopted "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Statement No. 17, issued on March 27, 2009) and "Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ PITF No. 20, issued on March 21, 2009).

The Company's major operations comprise (1) machinery components segment, (2) precision machinery segment, (3) construction machinery segment, (4) industrial machinery segment, (5) ships segment, (6) environmental facilities and plants segment. The method of the accounting of the reportable operating segments is generally the same as explained in the Note 1. "Significant accounting policies". Inter-segment sales is based on current market price.

A summary of net sales, profits or losses, assets and other items by operating segments for the years ended March 31, 2012 and 2011 are as follows:

2012	Millions of yen									
	Reportable segment						Total	Other	Adjustment	Consolidated
	Machinery components	Precision machinery	Construction machinery	Industrial machinery	Ships	Environmental facilities and plants				
Net sales										
Outside customers	¥ 93,205	¥144,145	¥158,942	¥80,683	¥58,111	¥80,116	¥615,202	¥ 8,898	¥ —	¥624,100
Inter-segment	2,311	1,416	18	321	90	607	4,763	2,886	(7,649)	—
Total	95,516	145,561	158,960	81,004	58,201	80,723	619,965	11,784	(7,649)	624,100
Segment income	¥ 4,238	¥ 12,507	¥ 8,293	¥ 9,499	¥10,935	¥ 6	¥ 45,478	¥ 1,632	¥ 25	¥ 47,135
Segment assets	¥104,660	¥144,860	¥143,153	¥59,344	¥79,266	¥60,241	¥591,524	¥45,599	¥54,718	¥691,841
Other items										
Depreciation	¥ 3,750	¥ 5,063	¥ 3,929	¥ 1,536	¥ 2,081	¥ 1,026	¥ 17,385	¥ 435	¥ —	¥ 17,820
Impairment losses on fixed assets	100	122	84	—	149	—	455	4	229	688
Investments in equity method affiliates	—	1,452	3,317	3,132	—	—	7,901	—	—	7,901
Increase in property, plant and equipment, and intangible assets	7,517	3,488	5,901	825	924	853	19,508	174	—	19,682

Notes: 1. "Other" includes the other operating segments such as real estate, software, and other operations, which are not included in the reportable segments.

2. "Adjustment" is referred to below:

(1) Adjustment of segment income (¥25 million) represents elimination of inter-segment transactions.

(2) Adjustment of segment assets (¥54,718 million) primarily represents the Company's cash and time deposits and marketable securities.

(3) Adjustment of impairment losses on fixed assets (¥229 million) is related to the Company's corporate assets such as housing lots.

3. Segment income has been reconciled with operating income in the accompanying consolidated statements of income.

2011	Millions of yen									
	Reportable segment						Total	Other	Adjustment	Consolidated
	Machinery components	Precision machinery	Construction machinery	Industrial machinery	Ships	Environmental facilities and plants				
Net sales										
Outside customers	¥ 74,591	¥131,945	¥130,811	¥66,544	¥59,496	¥76,070	¥539,457	¥ 8,558	¥ —	¥548,015
Inter-segment	1,810	1,158	10	137	74	794	3,983	2,190	(6,173)	—
Total	76,401	133,103	130,821	66,681	59,570	76,864	543,440	10,748	(6,173)	548,015
Segment income	¥ 4,874	¥ 8,340	¥ 5,290	¥10,252	¥ 9,897	¥ 5,566	¥ 44,219	¥ 1,518	¥ 66	¥ 45,803
Segment assets	¥105,947	¥138,404	¥121,339	¥49,921	¥80,230	¥52,246	¥548,087	¥39,466	¥39,276	¥626,829
Other items										
Depreciation	¥ 3,298	¥ 5,305	¥ 3,720	¥ 1,706	¥ 2,422	¥ 1,037	¥ 17,488	¥ 453	¥ —	¥ 17,941
Gain on negative goodwill	—	—	—	—	—	3,437	3,437	—	—	3,437
Impairment losses on fixed assets	15	—	—	—	—	—	15	—	1,381	1,396
Investments in equity method affiliates	—	1,407	3,164	3,704	—	—	8,275	—	—	8,275
Increase in property, plant and equipment, and intangible assets	3,848	2,976	4,442	869	1,106	712	13,953	339	—	14,292

Notes: 1. "Other" includes the other operating segments such as real estate, software, and other operations, which are not included in the reportable segments.

2. "Adjustment" is referred to below:

(1) Adjustment of segment income (¥66 million) represents elimination of inter-segment transactions.

(2) Adjustment of segment assets (¥39,276 million) primarily represents the Company's cash and time deposits and marketable securities.

(3) Adjustment of impairment losses on fixed assets (¥1,381 million) is related to the Company's corporate assets such as housing lots.

3. Segment income has been reconciled with operating income in consolidated statements of income.

2012	Thousands of U.S. dollars									
	Reportable segment						Total	Other	Adjustment	Consolidated
	Machinery components	Precision machinery	Construction machinery	Industrial machinery	Ships	Environmental facilities and plants				
Net sales										
Outside customers	\$1,136,662	\$1,757,863	\$1,938,312	\$983,938	\$708,667	\$977,024	\$7,502,466	\$108,510	\$ —	\$7,610,976
Inter-segment	28,170	17,270	225	3,917	1,096	7,402	58,080	35,195	(93,275)	—
Total	1,164,832	1,775,133	1,938,537	987,855	709,763	984,426	7,560,546	143,705	(93,275)	7,610,976
Segment income	\$ 51,684	\$ 152,527	\$ 101,139	\$115,838	\$133,352	\$ 75	\$ 554,615	\$ 19,888	\$ 310	\$ 574,813
Segment assets	\$1,276,339	\$1,766,576	\$1,745,767	\$723,710	\$966,662	\$734,650	\$7,213,704	\$556,091	\$667,294	\$8,437,089
Other items										
Depreciation	\$ 45,735	\$ 61,739	\$ 47,913	\$ 18,732	\$ 25,380	\$ 12,513	\$ 212,012	\$ 5,301	\$ —	\$ 217,313
Impairment losses on fixed assets	1,214	1,487	1,025	—	1,826	—	5,552	39	2,794	8,385
Investments in equity method affiliates	—	17,711	40,449	38,199	—	—	96,359	—	—	96,359
Increase in property, plant and equipment, and intangible assets	91,662	42,536	71,963	10,065	11,272	10,399	237,897	2,133	—	240,030

Notes: 1. "Other" includes the other operating segments such as real estate, software, and other operations, which are not included in the reportable segments.

2. "Adjustment" is referred to below:

(1) Adjustment of segment income (\$310 thousand) represents elimination of inter-segment transactions.

(2) Adjustment of segment assets (\$667,294 thousand) primarily represents of the Company's cash, and time deposits and marketable securities.

(3) Adjustment of impairment losses on fixed assets (\$2,794 thousand) is related to the Company's corporate assets such as housing lots.

3. Segment income has been reconciled with operating income in consolidated statements of income.

(B) Related information

Information by geographical area

1. Net sales

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Japan	¥296,335	¥270,608	\$3,613,846
U.S.A.	65,199	45,833	795,106
China	77,741	78,028	948,067
Other areas	184,825	153,546	2,253,957
Total	¥624,100	¥548,015	\$7,610,976

* Net sales are classified into the country or the region based on customers' locations.

2. Property, plant and equipment

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Japan	¥175,482	¥180,322	\$2,140,025
Other areas	44,330	33,834	540,613
Total	¥219,812	¥214,156	\$2,680,638

11. Leases

(A) As lessee

The Company has various finance leases for its machinery and other assets, which have been accounted for in the same manner as operating leases. The information of gross amount of such assets and the related accumulated depreciation as well as their carrying value as of March 31, 2012 and 2011 is as follows:

	Millions of yen		
	Acquisition cost	Accumulated depreciation	Carrying value
2012			
Machinery and other tangible fixed assets	¥8,109	¥5,582	¥2,528
Others	122	110	11
Total	¥8,231	¥5,692	¥2,539
2011			
Machinery and other tangible fixed assets	¥11,627	¥7,318	¥4,309
Others	282	218	64
Total	¥11,909	¥7,536	¥4,373

2012	Thousands of U.S. dollars		
	Acquisition cost	Accumulated depreciation	Carrying value
Machinery and other tangible fixed assets	\$ 98,894	\$68,067	\$30,827
Others	1,485	1,346	139
Total	\$100,379	\$69,413	\$30,966

Total lease payments for finance leases, which are not subject to the ownership transfer from a lessor to a lessee, amounted to ¥1,225 million (\$14,937 thousand) and ¥1,809 million for the years ended March 31, 2012 and 2011, respectively.

Future lease payments (including interest) under finance leases as of March 31, 2012 and 2011 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Due within one year	¥1,210	¥1,807	\$14,753
Due after one year	1,329	2,566	16,213
Total	¥2,539	¥4,373	\$30,966

Also, future lease payments under non-cancelable operating leases as of March 31, 2012 and 2011 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Future lease payments	¥2,738	¥2,238	\$33,391
Due within one year included in above	1,081	1,105	13,181

(B) As lessor

The Company has some finance leases for its certain assets, which have been accounted for in the same manner as operating leases. The information of gross amount of such assets and the related accumulated depreciation as well as their carrying value is not disclosed due to immateriality.

Total lease payments receivable under finance leases, which are not subject to the ownership transfer from a lessor to a lessee, for the years ended March 31, 2012 and 2011 are not disclosed because the amounts are not material.

Future lease receivables under finance leases as of March 31, 2012 and 2011 are not disclosed due to immateriality.

Also, future lease receivables under noncancelable operating leases as of March 31, 2012 and 2011 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Future lease receivables	¥340	¥591	\$4,148
Due within one year included in above	53	149	644

12. Financial instruments

(A) Qualitative information on financial instruments

1. Utilization policy of financial instruments

The Company obtains the required funds for its operation and investment primarily from bank loans and bond issuances. The Company limits its investment portfolio for temporary excess funds to short-term financial assets that carry little risk. The derivative instruments are utilized only to mitigate the risks described below and no speculative transactions are permitted under the Company's policy.

2. 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 entering into forward exchange contracts and option contracts, and maintains the ratio of the exposure within a certain range. The hedge ratio and unhedged balances are regularly reported to the Board of Directors.

The Company is exposed to the market price fluctuation risk in relation to investment securities that are held by the Company primarily for maintaining business relationship.

Most trade payables are due within one year. Although part of them is denominated in foreign currencies and exposed to foreign exchange rate fluctuation risk, such exposure is naturally mitigated as there is constantly corresponding balance of accounts receivables denominated in the same foreign currencies.

Loans, commercial papers, and corporate bonds are primarily used for obtaining the fund required for operation and investment. For part of long-term loans, the Company enters into an interest rate swap contract for each individual loan as hedging instruments.

3. Risk management for financial instruments:

(1) Credit risk

The Company reviews 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 uncollectible amounts.

For derivatives and deposits, the Company enters into contracts only with highly rated financial institutions.

(2) Market risks

In relation to amounts of net of trade receivables and trade payables denominated in foreign currencies, the Company executes the hedge transaction to mitigate the exchange rate fluctuation risk in accordance with a market risk management policy. The status of the hedging activities is reported to the Board of Directors every month. Major consolidated subsidiaries also manage the foreign exchange rate fluctuation risk in a same manner.

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 investment securities, the current fair market value and the financial condition of the issuers are monitored regularly. The Company continuously reevaluates the investment portfolio in consideration of relationship with counterparties.

The Company's derivative transactions are executed solely for the purpose of hedging risks concerning exchange rate and interest rate fluctuations as explained above. The Company reconciles outstanding balances with the contract counterparties on a monthly basis.

(3) Liquidity risks

The Company implemented a cash management system among major consolidated subsidiaries whereby SHI centralizes management of available funds within the consolidated group companies. 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

The following table presents the carrying amounts and fair values of the Company's financial instruments recorded on the consolidated balance sheets as of March 31, 2012 and 2011. Certain financial instruments are excluded from the following table as the fair value information is not available.

2012	Millions of yen		
	Carrying amount	Fair value	Difference
Cash and time deposits	¥ 73,373	¥ 73,373	¥ —
Trade receivables	181,248	181,187	(61)
Investment securities	12,596	12,596	—
Assets total	267,217	267,156	(61)
Trade payables	153,843	153,843	—
Short-term bank loans	27,383	27,383	—
Corporate bonds	10,000	9,941	(59)
Long-term debt	59,139	59,255	116
Liabilities Total	250,365	250,422	57
Derivatives	(735)	(1,132)	(397)

2011	Millions of yen		
	Carrying amount	Fair value	Difference
Cash and time deposits	¥ 52,486	¥ 52,486	¥ —
Trade receivables	155,267	155,066	(201)
Investment securities	13,036	13,036	—
Assets total	220,789	220,588	(201)
Trade payables	131,951	131,951	—
Short-term bank loans	21,504	21,504	—
Corporate bonds	10,000	10,022	22
Long-term debt	36,329	36,809	480
Liabilities Total	199,784	200,286	502
Derivatives	1,501	1,095	(406)

2012	Thousands of U.S. dollars		
	Carrying amount	Fair value	Difference
Cash and time deposits	\$ 894,793	\$ 894,793	\$ —
Trade receivables	2,210,345	2,209,592	(753)
Investment securities	153,611	153,611	—
Assets total	3,258,749	3,257,996	(753)
Trade payables	1,876,133	1,876,133	—
Short-term bank loans	333,933	333,933	—
Corporate bonds	121,951	121,226	(725)
Long-term debt	721,212	722,626	1,414
Liabilities Total	3,053,229	3,053,918	689
Derivatives	(8,960)	(13,808)	(4,848)

1. Cash and time deposits

The carrying amounts approximate the fair values because of the short-term maturity of these instruments.

2. Trade receivables

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

3. Investment securities

The market prices are used to estimate the fair values.

4. Trade payables and short-term bank loans

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

5. Corporate bonds

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

6. Long-term debt

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

7. 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 affiliate 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
	2012	2011	2012
Affiliate stocks	¥9,138	¥10,949	¥111,436
Unlisted stocks	2,176	2,286	26,541
Investment bonds	11	11	129

The aggregate maturities of financial assets subsequent to March 31, 2012 and 2011 are as follows:

	Millions of yen		
	Within one year	Over one year within five years	Over five years
2012			
Cash and time deposits	¥ 73,373	¥ —	¥ —
Trade receivables	174,604	6,549	95
Total	¥247,977	¥6,549	¥95

	Millions of yen		
	Within one year	Over one year within five years	Over five years
2011			
Cash and time deposits	¥ 52,486	¥ —	¥—
Trade receivables	148,650	6,616	1
Total	¥201,136	¥6,616	¥ 1

	Thousands of U.S. dollars		
	Within one year	Over one year within five years	Over five years
2012			
Cash and time deposits	\$ 894,793	\$ —	\$ —
Trade receivables	2,129,318	79,869	1,158
Total	\$3,024,111	\$79,869	\$1,158

The aggregate maturities of long-term debt and corporate bonds subsequent to March 31, 2012 and 2011 are as follows:

2012	Millions of yen					
	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	¥19,796	¥26,044	¥12,174	¥35	¥1,036	¥54
Corporate bonds	—	—	10,000	—	—	—

2011	Millions of yen					
	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	¥4,411	¥19,332	¥1,032	¥11,433	¥34	¥87
Corporate bonds	—	—	—	10,000	—	—

2012	Thousands of U.S. dollars					
	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	\$241,420	\$317,611	\$148,459	\$429	\$12,633	\$660
Corporate bonds	—	—	121,951	—	—	—

13. Investment securities

(A) Carrying amounts of investment securities not stated at fair values as of March 31, 2012 and 2011 are disclosed in "12. Financial instruments".

(B) Acquisition costs and carrying amounts of marketable securities as of March 31, 2012 and 2011 are as follows:

Available-for-sale securities	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Equity securities			
Acquisition cost	¥ 9,441	¥11,404	\$115,134
Carrying amount	12,596	13,036	153,611
Difference	¥ 3,155	¥ 1,632	\$ 38,477

(C) Total sales amount of available-for-sale securities and the related net gain in the fiscal years ended March 31, 2012 and 2011 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Sale of securities	¥563	¥99	\$6,868
Net gain	251	79	3,059

(D) There were no available-for-sale securities with maturity and held-to-maturity securities as of March 31, 2012 and 2011.

(E) Impairment of securities

Impairment losses for securities were ¥2,085 million (\$25,422 thousand) and ¥1 million for the years ended March 31, 2012 and 2011, respectively.

14. Derivatives information

The Company enters into forward currency exchange contracts, interest rate swap contracts, and currency option contracts as derivative financial instruments. The Company utilizes 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 risks of increase in interest rate on borrowings. The Company enters 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 authorized individuals at the Company based on an internal policy, which indicates acceptable transaction types and monetary limits for each transaction.

(A) Forward foreign exchange contracts for which no hedge accounting is applied

The aggregate contracted amounts to be paid / received and the fair values of forward foreign exchange contracts for which no hedge accounting is applied as of March 31, 2012 and 2011 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Contracted amounts to be paid/received:			
To buy foreign currencies	¥ 725	¥ 895	\$ 8,836
To sell foreign currencies	26,171	8,960	319,158
To buy foreign exchange options	—	186	—
To sell foreign exchange options	—	—	—
Fair value:			
To buy foreign currencies	(8)	(10)	(96)
To sell foreign currencies	(884)	8	(10,778)
To buy foreign exchange options	—	2	—
To sell foreign exchange options	—	—	—
Net unrealized exchange gain (loss)	¥ (892)	¥ 0	\$ (10,874)

(B) Interest rate swap contracts for which no hedge accounting is applied

There are no interest rate swap contracts for which no hedge accounting is applied as of March 31, 2012 and 2011.

(C) Forward foreign exchange contracts for which hedge accounting is applied

The aggregate contracted amounts to be paid / received and the fair values of forward foreign exchange contracts for which hedge accounting is applied as of March 31, 2012 and 2011 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Deferred hedge accounting			
Contracted amounts to be paid/received:			
To buy foreign currencies	¥ 587	¥ 425	\$ 7,162
To sell foreign currencies	18,326	23,313	223,485
Fair value:			
To buy foreign currencies	19	17	228
To sell foreign currencies	138	1,484	1,687
Alternative method (Note)			
Contracted amounts to be paid/received:			
To buy foreign currencies	138	163	1,677
To sell foreign currencies	1,131	10,410	13,790
Fair value:			
To buy foreign currencies	(90)	(8)	(1,094)
To sell foreign currencies	(27)	12	(334)
Net unrealized exchange gain (loss)	¥ 40	¥ 1,505	\$ 487

Note: When certain conditions are met, foreign currency denominated receivables and payables are translated into Japanese yen based on the fixed exchange rates provided by the respective forward contracts.

(D) Interest rate swap contracts for which hedge accounting is applied

The aggregate amounts of interest rate swap contracts for which hedge accounting is applied as of March 31, 2012 and 2011 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Interest rate swap contracts (special treatment) (Note)			
Contraction amounts to be paid/received:			
Interest swap fixed rate to floating rate	¥22,700	¥22,821	\$276,829
Fair value:			
Interest swap fixed rate to floating rate	(280)	(410)	(3,420)

Note: 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.

15. Employees' severance and retirement benefits

SHI provides both an unfunded retirement benefit plan and a defined contribution plan for employees. Most of its domestic consolidated subsidiaries also provide the same plans for their employees. Some foreign consolidated subsidiaries sponsor a defined benefit plan for their employees.

Additionally, SHI provides a "Retirement Benefit Trust".

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

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
(1) Projected benefit obligation	¥(68,944)	¥(67,537)	\$(840,765)
(2) Fair value of employees' retirement benefit plan assets	28,807	31,041	351,301
(3) Unfunded projected benefit obligation	(40,137)	(36,496)	(489,464)
(4) Unrecognized actuarial difference	4,237	5,041	51,665
(5) Unrecognized prior service cost	16	75	191
(6) Employees' severance and retirement benefit	¥(35,884)	¥(31,380)	\$(437,608)

(B) The following severance and pension benefit expenses are included in the statements of income for the years ended March 31, 2012 and 2011:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
(1) Service cost	¥3,620	¥3,105	\$44,140
(2) Interest cost on projected benefit obligation	1,678	1,790	20,468
(3) Expected return on plan assets	(691)	(687)	(8,429)
(4) Amortization of actuarial difference	1,364	1,282	16,640
(5) Amortization of prior service cost (Note 1)	787	67	9,600
(6) Severance and pension benefit expense	6,758	5,557	82,419
(7) Loss on revision of retirement benefit plan (Note 2)	—	503	—
Total	¥6,758	¥6,060	\$82,419

Notes: 1. ¥706 million out of ¥787 million for the year ended March 31, 2012 represents the one-time amortization of prior service cost generated due to the revision of SHI's unfunded retirement benefit plan.

2. Some consolidated subsidiaries terminated tax qualified retirement pension plans and transitioned it to the defined contribution plan. Due to this transition, loss on revision of retirement benefit plan was incurred for the year ended March 31, 2011.

(C) Major actuarial assumptions used to determine pension obligations as of March 31, 2012 and 2011 are as follows:

	2012	2011
(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 1.5%	Mainly 2.0%
(3) Expected rate of return on plan assets	Mainly 0.0%	Mainly 0.0%
(4) Amortization period of prior service cost	SHI: 1 year Subsidiaries: Mainly 12 years	SHI: 1 year Subsidiaries: Mainly 12 years
(5) Amortization period of actuarial differences	Mainly 12 years	Mainly 12 years

16. 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, 2012, were approved at a SHI's general shareholders' meeting held on June 28, 2012:

	Millions of yen	Thousands of U.S. dollars
	2012	2012
Year-end cash dividends ¥6.00 (\$0.07) per share	¥3,682	\$44,906

The approved dividend will be paid to the shareholders as of March 31, 2012.

(B) Regarding the probable payment to the Ministry of Defense

In May 2012, SHI received an inquiry about the cost calculation in the Defense Equipment System Division (Tanashi factory) from the Ministry of Defense. As a result of the internal investigation, it has come to our attention that there are certain instances where the reported working hours in the actual cost calculation were higher than they should have been at the Defense Equipment System Division and Sumiju Tokki Service Co., Ltd., which is a SHI's wholly-owned subsidiary.

In accordance with the terms and conditions in the related contracts with the Ministry of Defense, the Company will probably be obligated to make a certain payment to the Ministry of Defense in the future. The Company is currently cooperating with the Ministry of Defense for their investigation. Since the amount is not reasonably estimable and possible timing of the payment is undetermined, the Company is unable to foresee the effect on its consolidated financial condition and operating result at this stage.

On May 25, 2012, SHI and Sumiju Tokki Service Co., Ltd. were notified by the Ministry of Defense of the suspension of the future transactions.

Independent Auditors' Report

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

We have audited the accompanying consolidated financial statements of Sumitomo Heavy Industries, Ltd. (SHI) and its consolidated subsidiaries (collectively, the Company), which comprise the consolidated balance sheets as at March 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Sumitomo Heavy Industries, Ltd. and its consolidated subsidiaries as at March 31, 2012 and 2011, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 16 "Subsequent events" to the consolidated financial statements.

As described in the Note 16, SHI received an inquiry in May 2012 from the Ministry of Defense. As a result of the internal investigation, it turned out that there were certain instances where the reported working hours in the actual cost calculation were higher than they should have been at the Defense Equipment System Division and Sumiju Tokki Service Co., Ltd., which is a SHI's wholly-owned subsidiary. In accordance with the terms and conditions in the related contracts with the Ministry of Defense, the Company will probably be obligated to make a certain payment to it in the future.

The Note 16 also discloses that the Company is currently cooperating with it for the investigation, and therefore, the amount is not reasonably estimable and the timing of the payment is undetermined.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2012 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 LLC

June 28, 2012
Tokyo, Japan

Major Subsidiaries and Affiliates

(As of March 31, 2012)

Segment	Business	Company Name	Telephone Number
Machinery Components	Power Transmission and Control Equipment	Sumitomo Heavy Industries Gearmotors Co., Ltd.	0562-88-3040
		Sumitomo Heavy Industries, PTC Sales Co., Ltd.	03-6737-2580
		Sumiju Tomida Machinery Co., Ltd.	0562-48-4167
		Sumiju Technos, Ltd.	0562-48-5115
		SEISA Gear, Ltd.	0724-31-3021
		Sumitomo Heavy Industries (Tangshan), Ltd.	86-0315-339-0080
		Sumitomo (SHI) Cyclo Drive China., Ltd.	86-22-2499-3501
		Sumitomo (SHI) Cyclo Drive Logistics, Ltd.	86-21-5774-8866
		Sumitomo Heavy Industries (Vietnam) Co., Ltd.	84-4-955-0010
		Sumitomo (SHI) Cyclo Drive Germany GmbH	49-8136-66-0
		Sumitomo (SHI) Cyclo Drive Asia Pacific Pte. Ltd.	65-6-591-7800
		Sumitomo (SHI) Cyclo Drive Korea, Ltd.	82-2-730-0151
		Sumitomo Machinery Corporation of America	1-757-485-3355
		Sumitomo Industrias Pesadas do Brasil Ltda.	55-11-5585-3600
		SM Cyclo of Canada, Ltd.	1-905-469-1050
Hansen Industrial Transmissions NV	32-3-450-12-11		
Precision Machinery	Plastic Injection Molding Machines	Sumitomo Heavy Industries Modern, Ltd.	045-547-7711
		Sumiju Platec Co., Ltd.	043-420-1558
		Sumiju Logitech Co., Ltd.	043-420-1680
		Izumi Seiki Co., Ltd.	0897-32-6232
		Ningbo Sumiju Machinery, Ltd.	86-574-86805901
		Sumitomo (SHI) Demag Plastics Machinery GmbH	49-911-5061-717
		SHI Plastics Machinery, Inc. of America	1-770-447-5430
		SHI Plastics Machinery (Hong Kong) Ltd.	852-2750-6630
		S.H.I. Plastics Machinery (S) Pte. Ltd.	65-6-779-7544
	Quantum Equipment and Ion Accelerators	Sumiju Examination & Inspection, Ltd.	0898-65-4868
		SHI Accelerator Service Ltd.	03-5434-8468
		Japan Electron Beam Irradiation Service Co., Ltd.	03-5434-8467
		Sumiju Magnet (Kunshan) Co., Ltd.	86-512-5768-9200
	Cryogenic Equipment	Sumitomo (SHI) Cryogenics of America, Inc.	1-610-791-6700
		Sumitomo (SHI) Cryogenics of Europe GmbH	49-6151-860610
		Sumitomo (SHI) Cryogenics of Europe, Ltd.	44-1256-853333
		SHI Manufacturing & Services (Philippines), Inc.	63-43-405-6263
	Precision Equipment and Components	Sumitomo Heavy Industries Himatex Co., Ltd.	0897-32-6485
		Sumiju Precision Forging Co., Ltd.	046-869-1659
	LCD and Semiconductor Equipment	Sumitomo Heavy Industries Mechatronics, Ltd.	03-6737-2531
		SEN Corporation	03-6737-2690
	Machine Tools	Sumitomo Heavy Industries Finetech, Ltd.	086-525-6280
	Defense Equipment	Sumiju Business, Ltd.	042-468-4311
		Sumiju Tokki Service Co., Ltd.	042-468-4451
	Forklift Trucks	Sumitomo NACCO Materials Handling Co., Ltd.	0562-48-5251

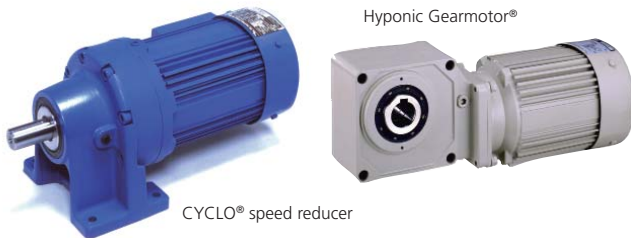
Segment	Business	Company Name	Telephone Number
Construction Machinery	Hydraulic Excavators	Sumitomo (S.H.I.) Construction Machinery Co., Ltd.	03-6737-2600
		Sumitomo (S.H.I.) Construction Machinery Sales Co., Ltd.	03-6737-2610
		Sumitomo (S.H.I.) Construction Machinery (Tangshan) Co., Ltd.	61-3391000
		LBX Company, LLC	1-859-245-3900
	Mobile Cranes	Link-Belt Construction Equipment Company, L.P., LLLP	1-859-263-5200
Industrial Machinery	Material Handling Systems	Sumitomo Heavy Industries Engineering and Services Co., Ltd.	03-6737-2640
	Forging Presses	Sumitomo Heavy Industries Techno-Fort Co., Ltd.	0897-32-6300
		Sumijiu Technocraft Co., Ltd.	0897-32-6306
	Turbines and Pumps	Shin Nippon Machinery Co., Ltd.	03-6737-2630
	Sales and Services, Area Management Company	Sumitomo Heavy Industries (Shanghai) Management, Ltd.	86-21-3462-7660
Ships	Ships	Sumitomo Heavy Industries Marine & Engineering Co., Ltd.	03-6737-2620
Environmental Facilities & Plants	Energy-Related and Environmental Protection Systems	Sumijiu Plant Engineering Co., Ltd.	042-468-4007
		Sumijiu Environmental Technologies, Ltd.	03-6737-2820
	Water Treatment Systems	Sumitomo Heavy Industries Environment Co., Ltd.	03-6737-2700
		Sumijiu Environmental Engineering, Inc.	03-5719-5020
	Pressure Vessels, Chemical Processing Equipment and Plants	Sumitomo Heavy Industries Process Equipment Co., Ltd.	0898-64-6936
		Nihon Spindle Mfg. Co., Ltd.	06-6499-5551
Food Processing Machinery	Izumi Food Machinery Co., Ltd.	06-6718-6150	
Sales and Services, Area Management Company	PT. Sumitomo Heavy Industries Indonesia	62-0-21-57951095	
Others	Others	Sumitomo Heavy Industries Business associates, Ltd.	03-6737-2342
		Lightwell Co., Ltd.	03-5828-9230
		Izumi Support Corporation	03-6737-2666
		Sumitomo Heavy Industries (China), Ltd.	86-21-6219-8232
		Sumitomo Heavy Industries (USA), Inc.	1-610-791-6782

Glossary

Machinery Components

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.



Precision Machinery

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.



Proton therapy system

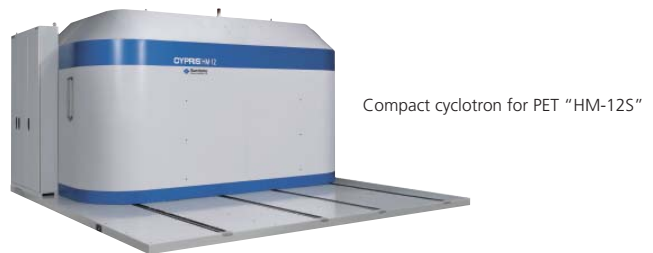
Proton therapy is a type of radiation therapy that destroys cancer cells by bombarding affected areas with a proton beam. Allowing the minimally invasive treatment of cancer cells, proton therapy systems minimize damage to surrounding normal cells, thus reducing burden on the patient's body. Due to such features, these systems eliminate the need for hospitalization and enable the outpatient treatment of cancer.

Rotating gantry irradiation system



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.



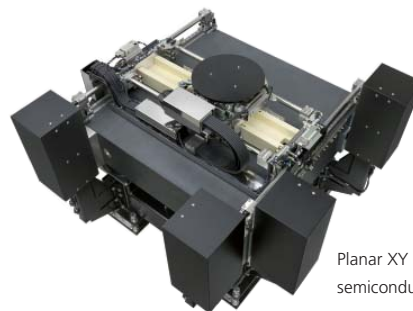
Ion-implantation devices

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



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.



Construction Machinery

Crawler cranes

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

Lattice crawler crane "LS 218HSL"



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"



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



Ships

Aframax tankers, Suezmax tankers

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

Aframax tanker



Environmental Facilities & Plants

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



Rotary kiln

This rotary melting kiln is used for the combustion or melting of industrial waste materials. Through combustion or melting, these materials are detoxified or recycled for metal recovery and slag-making. The cylindrical kiln is mounted, at a slight incline, horizontally over a furnace and rotated slowly when combusting or melting materials. Due to such architecture, industrial waste materials can be processed efficiently.

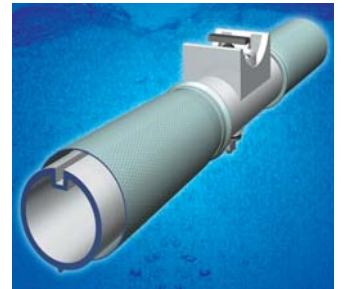
Sumitomo - W+E rotary kiln



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®"



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



Corporate Data

(As of March 31, 2012)

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: 18,139 (Consolidated)
2,470 (Non-consolidated)

Domestic Offices:

Chubu Office

10-24, Higashi-sakura 1-chome, Higashi-ku, Nagoya-shi, Aichi 461-0005, Japan
Tel: 81-52-971-3063

Kansai Office

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

Kyushu Office

6-20, Nakasu 5-chome, Hakata-ku, Fukuoka-shi, Fukuoka 810-0801, Japan
Tel: 81-92-283-1670

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

Technology Research Center

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

Transfer Agent: Sumitomo Mitsui Trust Bank, Limited

Stock Exchange Listings: Tokyo, Osaka

Shares Outstanding: 614,527,405

Number of Shareholders: 55,713

Major Shareholders:

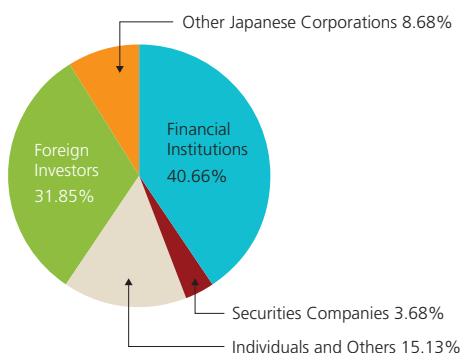
Name of shareholder	Percentage of voting rights
Japan Trustee Services Bank, Ltd. (Trust account)	7.5%
The Master Trust Bank of Japan, Ltd. (Trust account)	7.0%
Japan Trustee Services Bank, Ltd. (Trust account 9)	4.2%
Sumitomo Life Insurance Company	3.5%
Sumitomo Mitsui Banking Corporation	2.5%
Sumitomo Heavy Industries, Ltd. Kyoeikai	1.8%
State Street Bank and Trust Company 505103	1.6%
State Street Bank-West Pension Fund Clients-Exempt	1.4%
Japan Trustee Services Bank, Ltd. Sumitomo Trust Retirement Benefit Trust Account	1.3%
Barclays Capital Securities Limited	1.2%

Breakdown of Shareholders as of March 31, 2012:

Breakdown of shareholders	Number of shares held (unit 1,000)
Financial Institutions	249,894
Securities Companies	22,597
Individuals and Others	92,962
Foreign Investors	195,728
Other Japanese Corporations	53,347

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 following URL or by contacting:

Corporate Communications Department,
Sumitomo Heavy Industries, Ltd.

1-1, Osaki 2-chome, Shinagawa-ku, Tokyo 141-6025, Japan Tel: +81-3-6737-2331

URL: <http://www.shi.co.jp>

 **Sumitomo Heavy Industries, Ltd.**

<http://www.shi.co.jp>

