

Taking Action. Delivering Results.

Annual Report 2014 For the year ended March 31, 2014



Intellectual Property

Superior Durability and Abundant Variation

reducers, ranging in size from compact models the size of your hand to large models several meters wide, is able to meet diverse customer needs.



Environmental and Social Contribution Initia



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Speed reducers are equipment that reduces the rotational speed of motors to optimal speeds while boosting torque. Using proprietary wave-shaped configuration, SHI's CYCLO® drive speed reducers are engineered for superior durability by dispersing impact loads through smooth rolling contact. Our broad product lineup of speed





To Our Shareholders, ustomers, and Employ

Presentation and rview with the Pre

Special Feature

Review of Operations

Research and Development

Intellectual Property

Corporate Governance

World-Class Ultra-Precise High-Cycle Molding

By advancing its precision molding technologies, which had conquered the optical disc market, SHI is now able to consistently satisfy the complex requirements of the light guiding plate market and other demanding markets. Our injection molding machines have strong functionality, enabling high-quality and high-cycle production of thin-wall molded products, such as food containers, while also boasting excellent economical products that were recognized by the Japan Machinery Federation with its Ministry of Economy, Trade and Industry Minister's Award for Excellence in Energy Efficient Equipment.



Environmental and ocial Contribution Initia



Financial Section



Corporate Data

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Presentation and terview with the President

Special Feature

Intellectual Property

World-Leading Biomass Technology

Circulating fluidized-bed (CFB) boilers resistant fuels. This is particularly adva boilers are able to effectively utilize w been underutilized in the past, while contributing to CO₂ reduction. Over the past few years, SHI has provided systems that benefit people and the environment, including compact power generation facilities suitable for Feedin Tariff (FIT) demand, and systems that can utilize a variety of fuels in emerging countries.









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Circulating fluidized-bed (CFB) boilers are able to efficiently incinerate low-grade, burnresistant fuels. This is particularly advantageous in biomass power generation, because CFB boilers are able to effectively utilize worn tires, low-grade coal, and other fuels that had





Overview of Operating Highlights

Intellectual Property

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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.

2013	
Apr.	 New organizational structure Merged Presses business subsi Machinery Division Logistics systems business was ness subsidiary; Sumitomo He
May	
June	l i i i i i i i i i i i i i i i i i i i
July	• Announced details of the mer related subsidiaries
	 Released Japan's first wheel-ty complies with interim Tier 4 e
Aug.	 Announced details of the execution ment concerning the manufacture
, tagi	device to help combat Alzheir
	 Extreme ultraviolet imaging te a spectroscopic planet observa
Sept.	atmospheric interaction (SPRIN
	 Received approval for dosimet tron beam sterilization sterile
	* Dosimetric release: A method used in det cals (antimicrobial agent)
Oct.	 Successfully developed a technication at ambient temperatures with
	Acquired the patent for a prot
	• Expanded the Company's proc
Nov.	 Received FDA approval to the therapy system for the treatm
	• Commenced sales of the SH2

• Received orders for two continuous ship unloader units that offer world-leading loading and unloading performance

Dec.

Jan.

Feb.

Mar.

• Received the Chairman's Award for Excellence in Energy Efficient Equipment held by the Japan Machinery Federation for the Company's hydraulic excavators and sloped-ejection type grit jet pump

launched sidiaries into parent company and launched the Industrial

as spun out into a conveyance and cargo handling machinery busieavy Industries Material Handling Systems was launched

erger of gear-reducer

type asphalt finisher that emissions requirements

ecution of joint development agreeacture of a pharmaceutical synthesis mer's-type dementia

elescope loaded onto "Hisaki," vatory for the recognition of INT-A)

etric release*, Japan's first elecpharmaceutical etermining sterilization for sterile pharmaceuti-

nnology for processing organic effluent a methane fermentation treatment oton beam therapy system irradiation device

oduct series of compact gearmotors sale of the Company's proton nent of cancer in the United States 200HB-6 hybrid hydraulic excavator









Print



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Cautionary Note Concerning Forward-Looking Statements

Review of Operations

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Financial Highlights

Sumitomo Heavy Industries, Ltd. and Consolidated Subsidiaries

To Our Shareholders,

			Millions of yen			Thousands of U.S. dollars (Note 1)
	FY2009	FY2010	FY2011	FY2012	FY2013	FY2013
Summary of Income (for the year):						
Net sales	¥516,165	¥548,015	¥624,100	¥585,871	¥615,271	\$5,973,501
Machinery Components	69,040	74,591	93,206	91,174	99,994	970,814
Precision Machinery	105,191	131,944	144,145	124,603	133,518	1,296,291
Construction Machinery	102,650	130,811	158,942	152,773	192,511	1,869,038
Industrial Machinery	85,637	66,544	80,683	84,264	78,793	764,979
Ships	62,927	59,496	58,111	46,013	14,814	143,826
Environmental Facilities & Plants	81,884	76,070	80,116	78,584	86,166	836,567
Others	8,835	8,558	8,898	8,460	9,475	91,986
Operating income	28,254	45,803	47,135	31,288	34,329	333,291
Machinery Components	861	4,874	4,238	2,767	5,876	57,046
Precision Machinery	(2,603)	8,340	12,507	8,635	8,684	84,306
Construction Machinery	571	5,290	8,293	6,132	10,299	99,992
Industrial Machinery	14,167	10,252	9,499	4,385	4,076	39,572
Ships	6,664	9,897	10,935	2,366	(2,992)	(29,049)
Environmental Facilities & Plants	7,101	5,566	6	5,575	6,198	60,180
Others	1,376	1,518	1,631	1,361	2,053	19,934
EBITDA (Note 4)	47,979	63,744	64,955	49,570	52,946	514,040
Net income	13,280	27,926	19,492	5,865	17,891	173,699
Capital expenditures (Note 5)	24,465	14,292	19,682	29,888	20,329	197,369
R&D expenses	8,187	7,445	9,343	9,835	10,718	104,055
Depreciation and amortization	19,725	17,941	17,820	18,282	18,617	180,749
Cash flows from operating activities	57,513	36,521	23,309	2,660	63,661	618,070
Cash flows from investing activities	(13,954)	(23,513)	(22,672)	(19,660)	(27,622)	(268,176)
Free cash flows (Note 6)	43,559	13,008	638	(17,000)	36,039	349,894
Cash flows from financing activities	(26,686)	(22,020)	19,879	(11,428)	(9,498)	(92,212)

Notes: 1. The U.S. dollar amounts have been translated, for convenience only, at ¥103=\$1, the prevailing exchange rate on the Tokyo Foreign Exchange Market as of March 31, 2014. 2. 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.

3. Effective from fiscal 2013, cyclotron accelerators, medical equipment, and LCD manufacturing machines, which had previously been classified in the Precision Machinery segment, have been classified in the Industrial Machinery segment. Fiscal 2012 segment information has been revised in line with this change in product classification.

Operating Income and

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

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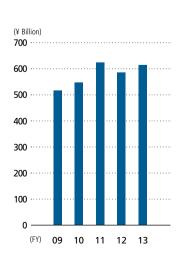
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5. Capital expenditures are capitalized and recorded as assets.

6. Free cash flows = Cash flows from operating activities + Cash flows from investing activities



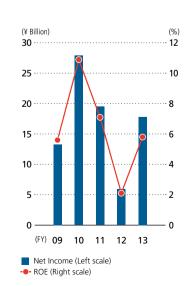


Operating Income Margin (¥ Billion) (%) 50 10 40

(FY) **09 10 11 12 13**

Operating Income (Left scale) --- Operating Income Margin (Right scale)





			Millions of yer	1		Thousands of U.S. dollars (Note 1)
	FY2009	FY2010	FY2011	FY2012	FY2013	FY2013
Financial Position (at year-end):						
Total assets	¥610,087	¥626,829	¥691,841	¥647,724	¥724,182	\$7,030,890
Interest-bearing debt	87,660	67,833	96,522	98,547	107,433	1,043,038
Total net assets	254,153	269,380	282,145	292,826	331,059	3,214,166
			Yen			U.S. dollars (Note 1)
Amounts per Share of Common Stock:						
Net income (Note 7)	¥22.01	¥45.87	¥31.75	¥9.56	¥ 29.17	\$0.28
Stockholders' equity	404.73	435.10	454.43	470.69	532.28	5.17
Cash dividends	4.00	8.00	10.00	8.00	7.00	0.07
Share Data:			Yen			U.S. dollars (Note 1)
Stock price at year-end	¥563	¥543	¥460	¥381	¥419	\$4.06
			NAIII: and after			Thousands of U.S. dollars
Market value	¥339,720	¥333,622	Millions of yer ¥282,309	¥233,808	¥256,964	(Note 1) \$2,494,796
Financial Indexes:	,	,	%	,		<i>+_,,</i>
ROIC (Note 8)	4.8	7.8	7.4	4.9	4.8	
Operating income margin	5.5	8.4	7.6	5.3	5.6	
EBITDA margin	9.3	11.6	10.4	8.5	8.6	
Stockholders' equity ratio	40.0	42.6	40.3	44.6	45.1	
ROA (Return on assets)	2.1	4.5	3.0	0.9	2.5	
ROE (Return on equity)	5.6	10.9	7.1	2.1	5.8	
Interest-bearing debt ratio	14.4	10.8	14.0	15.2	14.8	
			Yen			
US\$/Yen exchange rate (at year-end)	¥93	¥83	¥82	¥94	¥103	

US\$/Yen exchange rate (at year-end)

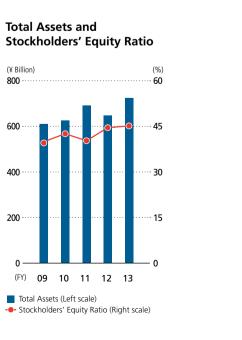
Notes: 7. Net income per share of common stock is based on the weighted average number of shares outstanding in each year. 8. ROIC (Return on Invested Capital) = (Operating income + Interest and dividends received) x 55% (= 1- Effective tax rate) (Average of stockholders' equity + Average of interest-bearing debt)

(¥ Billion)

120

60

30





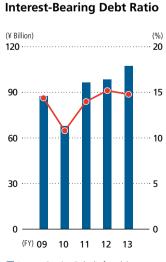
Environmental and Social Contribution Initiati

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Corporate Data

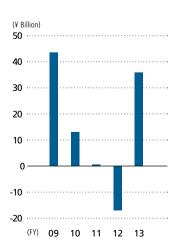
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Interest-Bearing Debt and

Interest-Bearing Debt (Left scale) --- Interest-Bearing Debt Ratio (Right scale)

Free Cash Flows



Main Products

Intellectual Property

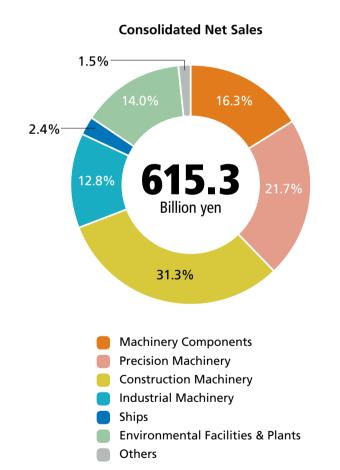
Outline

At a Glance

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.

Note: Consolidated net sales and consolidated operating income are actual figures for fiscal 2013.







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Net Sales and Operating Income (¥ Billion)

Net Sales (Left scale) Operating Income (Right scale)

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Environmental and Social Contribution Initiatives



Sumitomo Heavy Industries, Ltd. Annual Report 2014 **11**

n and e President

Intellectual Property

To Our Shareholders

ers, and Employ

Breaking free from stagnation, embarking on a growth track

Management has been operating in a crisis mode in response to the slump in earnings that the Company has endured over the past few years. In order to break free from stagnation and set the Company firmly on a growth track, we believe the highest priority is building a corporate structure capable of producing strong revenues, and having firmly established our footing, a clear necessity, we are committed to the task of fostering a recovery in profitability. Specifically, we have implemented strategies that include the introduction of new products in segments that fall under the category of mass-produced machinery, structural reform in the heavy machinery businesses, and measures to promote an earnings recovery at overseas facilities where there were still pending concerns.

As a result of these measures, orders in all operating segments improved year on year in fiscal 2013, with total orders surpassing the ¥650 billion level for the first time since the global financial crisis. We truly believe that we have made great strides in turning the Company back toward a growth track.

Fiscal 2013 was the last year in our previous medium-term management plan "Innovation 21," but it was also the year in which we devised our new medium-term management plan that begins in fiscal 2014. The new medium-term management plan, which we are calling "Medium-Term Management Plan 2016," sets targets and the desired direction for the Company over the next three years and factors in a re-evaluation of the state of the Group, as well as a careful analysis and evaluation of the results and strategies of the previous three years under the Innovation 21 plan. The basic thinking for the new medium-term management plan rests on three concepts: "steady growth," "return to higher levels of profitability" and "persistent efforts for operational guality improvements." We believe "globalization" and "innovation," the core goals of Innovation 21, to be essential policy components of our growth strategies, and we will continue their implementation. We will also strengthen our focus on new growth areas, including energy-related operations. At the same time, we will aspire to establish a solid management foundation and will maintain a persistent commitment to improving operational quality in order to secure safety in the workplace, improved levels of compliance, and enhanced product quality.

The Company's corporate mission is 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 each and every stakeholder, including shareholders, customers, and employees as well as the local communities in which we operate. As a general machinery manufacturer, we must learn from our customers, the market, and from other companies within the Group, and we believe it is the mission of the Group to provide the market with the best possible products.

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

Yoshinobu Nakamura Chairman

J. Kaleamura

Shunsuke Betsukawa President and CEO

S. Betsubawa







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and Empl

Special Feature

Review of Operations

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Review of Previous Medium-Term Management Plan "Innovation 21"

		Innovation 21		
	• Sa	ales		¥730 billio
FY2013 Targets	• 0	perating income		¥73 billio
	• R(OIC		10% or mo
Key Words	_	lobalization novation		
Investment Policy (for 3 years)		0 billion t including M&A	.)	
			-	
(1		esults for FY2013 Jear of Innovation	n 2	:1)
Could not achieve steadily increased				orders
		Target		Results
Orders		_		¥658.2 billi
Sales		¥730 billion		¥615.3 billi
Operating Income		¥73 billion		¥34.3 billi
ROIC*		10% or more	-	4.8
			*	Return on invested ca

Providing first-class products and services that contribute to the growth and development of society

The SHI Group's corporate mission is to contribute to the growth and development of society by providing first-class products and services. Earning the enduring trust of customers worldwide is key to realizing sustainable growth and enhancing our corporate value, and will, in turn, enable us to better meet the expectations of shareholders, customers, employees, and local communities.

Fiscal 2013 Operating Results

Orders received exceeded ¥650 billion, providing us with a stepping-stone for sustained growth. In fiscal 2013, orders received saw a substantial increase, exceeding ¥650 billion for the first time since the global financial crisis. Looking at the factors that have underpinned this growth, Japan's economy enjoyed a positive upswing on the back of corrections to the strong yen, while overseas the North American economy remained firm. From a net sales and operating income perspective, results were also well above forecast figures announced at the beginning of the year. I am confident that the positive flow-on effect of orders received in fiscal 2013 on net sales and operating income this fiscal year and beyond will provide a solid stepping-stone for sustained growth.

Our Previous "Innovation 21" Medium-Term Management Plan

Under the plan, we implemented measures inspire by the twin goals of globalization and innovation while expanding our global network.

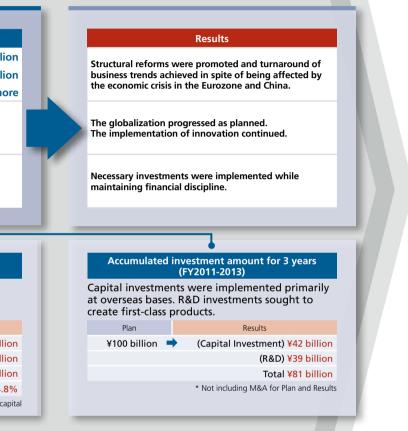
With a view toward firmly embracing globalization, the SHI Group invested actively to expand its overseas business base. Over the three-year period of the Innovation 21 plan, we pursued a variety of initiatives, including the construction and expansion of new and existing overseas production facilities, the optimal relocation of plants, and the acquisition of oversea companies. As of the end of the plan, we believe that we have completed a full round of essential investments. Moving forward, we will now focus on increasing the profitability of our overseas network. Regrettably, we do maintain overseas subsidiaries that have fallen into the red. It is, therefore, vital that we realize an immediate positive turnaround. In similar fashion to



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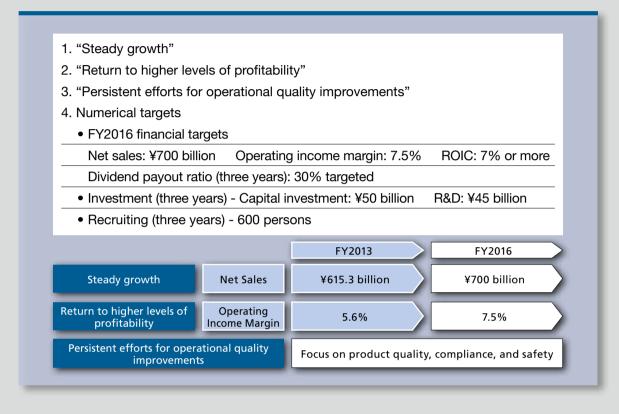


red	the way we increase profitability by generating synergy effects
n	with those overseas companies that we have acquired, we are
	looking to review our global sales network and promote the
	joint development of competitive products. In specific terms,
e.	we will increase our global market share and profitability in the
ur-	large-scale power transmission equipment business by strength-
	ening collaborative ties with Belgium-based Hansen Industrial
5,	Transmissions NV. In the plastic injection molding machine busi-
seas	ness, we will reinforce our cooperative ties in such wide-ranging
ave	areas as global marketing and product development with the
r_	Sumitomo (SHI) Demag Plastics Machinery Group (hereafter
ur	"Demag Plastics Group"), of Germany. In this manner, we will
osid-	expand our share in growth fields and regions.
we	

	Financial Highlights	To Our Shareholders, Customers, and Employees	Presentation and Interview with the President	Special Feature	Review of Operations	Research and Development	Intellectual Property	Corporate Governance	
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Objectives of the Medium-Term Management Plan 2016

"Medium-Term Management Plan 2016" Aiming for Steady Growth



Key Words	
Globalization (Expansion)	 Enhancement of com ness (overseas) and F Enhancement of area ness, Plastic Machine Development of hum
Innovation (Change)	 Creation of first-class Enhancement of proj Focus on after-marke Reform of sales proce
Group Synergies (Ability to Connect)	 Promotion of corpora Differentiation throug Enhancement of colla (Power Transmission and Construction Mag
Focus on New Growth Fields	 Reaching the top of the fields Long-term growth in

Promoting innovation

Innovation is an absolute prerequisite to securing competitive advantage. The SHI Group has continued to engage in product innovation activities that entail injecting highly competitive and innovative products into priority markets in its bid to promote sustainable global growth and increase its earnings power. As one example, we developed equipment for use in Boron Neutron Capture Therapy (BNCT), which continues to attract attention as a next-generation cancer treatment in the medical field, and received our first order in fiscal 2012. This particular equipment draws on the cyclotron accelerator technology that we have nurtured over many years. Delivery and installation represented the world's first practical application of BNCT equipment. In addition, we brought to the market the SE-EV series, which achieves considerable energy savings in the plastic injection molding machinery field. Moreover, we completed the development of a hybrid hydraulic excavator and commenced sales in fiscal 2013.

Our New Medium-Term Management Plan 2016

Targeting net sales of ¥700 billion and an operating income margin of 7.5% in fiscal 2016, the final year of the plan

In fiscal 2016, the final year of our new Medium-Term Management Plan 2016, we will endeavor to achieve net sales of ¥700 billion, operating income of ¥52.5 billion, and an ROIC of 7% or more. These numerical targets set an absolute minimum level of performance that the SHI Group must achieve. While not quite the level of a truly high earnings company, these benchmarks provide a stepping-stone for improved growth and earnings. To achieve these numerical targets, each company within the SHI Group must definitively carry out its initiatives. From an investment perspective, we plan to allocate ¥50 billion to capital expenditure and ¥45 billion to R&D for a total of ¥95 billion over the next three years, and will take aggressive steps to investment in fields that are essential to growth

Under the new Medium-Term Management Plan 2016, the SHI Group will pursue the three fundamental policies of "steady growth," "return to higher levels of profitability," and "persistent efforts for operational quality improvements."

Steady growth

The SHI Group will pursue steady growth in its efforts to secure net sales of ¥700 billion in fiscal 2016. As a part of this growth, we will adopt the key words "globalization" or "expansion," "innovation" or "change," and "Group synergies" or "ability to connect." The principal businesses that will drive this growth are power transmission and control equipment and plastic injection molding machines, which are the mainstay segments that fall into the category of mass-produced machinery. Through these businesses, which we have earmarked for global expansion, we



Financial Section

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Presentation and Interview with the President

Targets and Issues

npetitiveness of Power Transmission & Controls busi-Plastic Machinerv business a marketing (Power Transmission & Controls busiery business, and Construction Machinery business) nan resources for global operations

- s products ject management capability et business cess
- ate group internal value chain ugh system control technology aboration within each business operation group & Controls business, Plastic Machinery business, achinery business)

the energy market niche and developing peripheral

medical field

will continue to develop highly competitive products that can excel on the world stage while bolstering our area marketing activities based on an accurate grasp of each region's and market's specific attributes, which we recognize hold the key. In power transmission and control equipment and plastic injection

molding machines, we will

		Financial	Highlights	
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"Medium-Term Management Plan 2016" Return to Higher Levels of Profitability

	Target	Applicable business operations
1	Operating income margin target of around 10%	Leading business operation groups in the SHI Group (Power Transmission & Controls business, Plastic Machinery business, Precision Equipment business, Steam Turbine business, etc.)
2	Focus on new growth fields	Energy and environment, medical (long-term)
3	 Operating income margin of 5% or higher Self-reliance of each business operation Rejection of deficit orders 	All business operations
4	Review on how business operation should stand	Low profitability business operations and business operations not on value chains in the Group

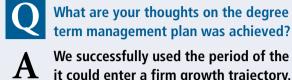
further reinforce collaboration with Hansen Industrial Transmissions NV and the Demag Plastics Group, respectively. The SHI Group will pay equal attention to the aftermarket business, which includes the maintenance and repairs businesses, which remain a common issue throughout the entire Group. We will also focus on energy-related markets as a new growth area that can support steady growth.

Return to higher levels of profitability

The SHI Group has set the goal of improving its operating income margin to 7.5% by fiscal 2016, from its current level of 5.6% in fiscal 2013. Within the Group itself, the ability to generate profits differs from business to business. This, in turn, gives rise to discrepancies in operating income margin goals between businesses. Speed reducers, plastic injection molding machines, steam turbines, cryogenic equipment, and related products will form the Group's high-earning businesses with an operating income margin target of around 10%. Turning to the energyrelated field, growth in both sales and profits is anticipated in the power generation boiler business, where continued expansion is anticipated. Meanwhile, the SHI Group has set an absolute minimum operating income margin of 5% across all businesses of the Group and will work to promote a bottom-up approach as a part of efforts to lift profitability.

Persistent efforts for operational quality improvements

The SHI Group will place the utmost emphasis on improving the quality of its operations and to establish a robust operating platform as a part of efforts to ensure product quality, compliance, and on-site safety. In addition to all operating divisions taking part in activities to upgrade operating quality, the Group Head Office will bolster its support and check role and functions toward operating divisions.



Intellectual Property

We successfully used the period of the plan to place the Group in a position where it could enter a firm growth trajectory.

Regrettably, we were unable to achieve the goals set for fiscal 2013 under the Innovation 21 plan. Despite signs that the global economy had staged a recovery following the shock that followed the collapse of Lehman Brothers, the SHI Group was unable to secure major growth in earnings due to uncertainties that continue to linger throughout its operating markets. These uncertainties were largely attributable to the negative flow-on effects of the financial crisis in Europe and a slowdown in the rate of economic growth in China. Despite these difficult conditions, we undertook the capital and R&D investments that were considered necessary to growth and accordingly were successful in securing a substantial upswing in orders received. We are confident that all preparatory steps have been completed and that we are poised to reenter a growth trajectory.

What is the outlook for fiscal 2014?

A in Japan.

Japan is expected to benefit from a period of ongoing economic recovery. This is largely attributable to correction to the strong yen that began during the previous fiscal year as well as an increase in capital investment. Overseas, indications are that the U.S. economy will remain firm. Conditions in Europe and China, however, are projected to be uncertain. Under these circumstances, the SHI Group is forecasting orders received to reach ¥650 billion, with net sales and operating income expected to come in at ¥650 billion and ¥37 billion, respectively. Results in the Construction Machinery segment are anticipated to fall owing mainly to corrections following the strong domestic demand experienced in fiscal 2013. We believe that this downturn will be offset by contributions from other segments. As a result, we are projecting overall increases in revenues and profits. While macroeconomic conditions remain unclear both in Japan and overseas, we have set the aforementioned forecasts at the minimum level that we expect the Group will achieve.

Please tell us about the Company's policy toward the return of profits to shareholders.



to maintain a dividend payout ratio of 30%.

Under its Medium-Term Management Plan 2016, which covers the three-year period from fiscal 2014 to fiscal 2016, the Company has set a dividend payout ratio target of 30%. Taking the Group's earnings performance into consideration, the Company declared an annual dividend of ¥7 per share for a dividend payout ratio of 24%. This was ¥1 per share lower than in fiscal 2012. In fiscal 2014, we are projecting an annual dividend of ¥9 per share for a dividend payout ratio of 29.1%.

As the first year of the Medium-Term Management Plan 2016, my mission is to place the Group firmly on a growth trajectory. Management will, therefore, continue to focus on improving earnings power and cash flows with a view to returning the Group to higher levels of profitability. Against this backdrop, we will work toward securing a stable dividend payout ratio of 30%.



Einancial Section

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Presentation and Interview with the President

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What are your thoughts on the degree to which the goals of the previous medium-

We anticipate that conditions for orders received will remain firm especially

Under the Medium-Term Management Plan 2016, we have declared our intention

Power Transmission & Control Equipment
Plastic Injection Molding Machines

Hvdraulic Excavators

Boilers

Special Feature

Setting High Standards for Quality in Strategic Areas

Here, we provide a brief explanation of the market conditions and strategies for the four principal operating divisions that will drive the SHI Group's performance over the three-year period of the Medium-Term Management Plan 2016.

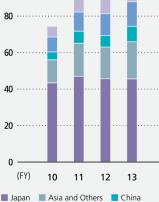
Power Transmission & Control Equipment

Strengthening Overseas Sales and Networks

Power transmission and control equipment, which optimally control the revolution speed of motors, are integral components used across the industrial machinery sector as a whole. Looking ahead, global demand for a wide range of applications is expected to expand. In particular, demand from the natural resource and energy, logistics, food, factory automation, and industrial robot sectors in China, Southeast Asia, and North America, which are expected to experience economic growth, is projected to increase.

Demand in Japan, which accounts for around half of the Company's power transmission and control equipment sales, is experiencing stagnant growth with little expectation of a major improvement in the future. As a result, we have worked aggressively to expand our overseas business bases through the new construction and expansion of production plants over the past few years. In addition, we acquired Hansen Industrial Transmissions NV as a part of efforts to build a supply base for large-scale power transmission equipment in Belgium in 2011. We are strengthening collaboration with this company in a bid to reinforce the development of new products as well as our global sales and service network. Moreover, we are implementing a raft of measures by product on an individual region basis. Through these means, we plan to increase our operating income margin.

Trends in Machinery Component Segment in Sales by Region (Fiscal 2010 to Fiscal 2013) (¥ Billion 100 ·



The Americas Europe



Plastic injection molding machines, which assist in the melting of plastic materials (resins), which are then poured into molds, help to make products that are essential to daily life, including electronic components, components for use in mobile phones, switches, plastic bottles, and medical instruments. Currently, IT device-related demand, including smartphones and tablet PCs, is firm in the East Asia region. Moreover, we are seeing a recovery in automobile-related demand in North America, Southeast Asia, and Japan.

The Company has continued to develop and modify fully electric injection molding machine technologies over many years. The new SE-EV model offers a high level of precision, a high cycle rate, and stable molding together while also ensuring substantial reductions in energy consumption. We now boast a top-class share of the market in Japan at over 20%. Meanwhile, we acquired the Germany-based Demag Plastics Group as a part of our overseas business expansion endeavors in 2008. In this manner, we are working to expand our business across global markets. By strengthening collaboration with the Demag Plastics Group, we are bolstering sales of electric injection molding machines in Europe. At the same time, we are upgrading and expanding our global sales and services network.

Fiscal 2013 ▶ Fiscal 2016



Fiscal 2013 ► **Fiscal 2016**



Operating income margin







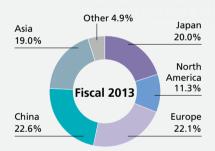
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Sales Composition by Region



Enhance product competitiveness and establish a business with higher profitability

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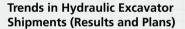
Special Feature Setting High Standards for Quality in Strategic Areas

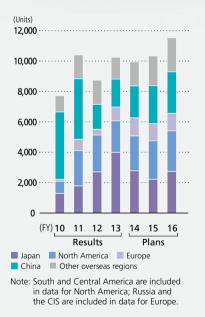
Hydraulic Excavators

Differentiate the Group from Competitors and Also Expand Global Sales

In fiscal 2013, demand in connection with disaster reconstruction- as well as exhaust gas regulation-related products increased substantially in Japan. A downward correction to this surge in demand is expected in fiscal 2014. Turning to overseas markets, China is anticipated to witness a mild recovery going forward despite the drop in demand associated with slowing rates of economic growth in recent years. Europe and the United States are projected to remain firm in the future. Countries in emerging regions, including ASEAN, are forecast to experience ongoing difficult market conditions in fiscal 2014. Thereafter, a moderate recovery is anticipated.

The LEGEST[®] series of hydraulic excavators, manufactured and marketed by Sumitomo (S.H.I.) Construction Machinery Co., Ltd., has attracted wide-ranging acclaim for its fuel efficiency performance and high level of operability. This series has received a host of awards, including the "Grand Award for Energy Conservation" and the "Good Design Award." In addition to further improving fuel efficiency performance, the company launched a hybrid model as its latest addition to the series. In this manner, Sumitomo (S.H.I.) Construction Machinery has positioned efforts to differentiate itself from competitors in terms of product development capabilities at the heart of its business strategy. In overseas markets, steps have been taken to continue OEM supply arrangements with CNH Industrial N.V. (hereafter "CNHi"). Building on this arrangement, contracts were also executed in connection with the supply of major components and the licensing of technologies. Moving forward, the SHI Group will bolster collaboration with CNHi while expanding global sales.





Boilers

Maintain a Top Market Share in Japan and Establish the SHI Group as a Leading Brand in Southeast Asia

Activity is brisk in connection with plans to promote biomass power generation in Japan. This largely reflects the implementation of a fixed-price renewable energy Feed-in Tariff (FIT) purchase scheme. In recent years, a substantial number of plans for small power generation facilities that use wood-based biomass fuels from undergrowth in unused forests have emerged. Outside of Japan, the inherent shortage of electric power in emerging economies, including ASEAN, has driven up demand for private power generation facilities that use low-grade coal and biomass fuels.

The Group's circulating fluidized-bed (CFB) boilers are a mainstay product of the Environmental Facilities & Plants segment. CFB boilers help realize high combustion efficiency through the circulation and combustion of fuels and can also accommodate a wide variety of fuels, including coal, biomass fuels, and waste tires. Thanks largely to the FIT scheme, orders for boilers used in power generation facilities have been robust in recent years in Japan. Looking ahead, the SHI Group will bring to the market boilers that deliver even higher combustion efficiency in its bid to maintain its top share of the market in Japan. Outside Japan, the Group will promote sales growth targeting low-grade coal and biomass-based fuels focusing mainly on Indonesia, Malaysia, and Singapore. At the same time, energies will be channeled toward establishing the SHI Group as a leading brand in Southeast Asian markets.

Fiscal 2013 ▶ Fiscal 2016

Maintain a top share of the market in Japan

Fiscal 2013 ► **Fiscal 2016**



Net sales

Market share in Japan





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CFB Power Generation Facility Delivery Performance (Market Share in Japan)



Sources: 1. A variety of statistical data (MacCov Report, Platts Report, other): materials prepared by the Company based on mar ting information 2. Market share basis: 39 units (Outside

Japan: 16 units)

More than double the amount of CFB boiler sales in fiscal 2016 compared with fiscal 2013

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Construction Machinerv Precision Machinery Machinery Components

Industrial Machinery

Review of Operations



Power Transmission & Controls, Inverters

Machinery

Components

Market Environment

In fiscal 2013, the domestic market was robust, as measures to stimulate the economy were effective and yen depreciation took hold. Overseas markets were weak as rates of economic growth in emerging countries slowed, resulting in a slump in demand for natural resource infrastructure.

In fiscal 2014, in the domestic market we are anticipating economic stimulus measures to continue with expectations toward replacement demand for aging facilities. In overseas markets, we estimate a moderate recovery trend to materialize in business conditions. Worldwide demand for high-efficiency motors is on the rise, and new markets are expanding in such areas as robots, where demand is increasing in emerging countries.

Fiscal 2013 Review and Topics

The SHI Group brought into the fold the North American and Australian sales bases of Hansen Industrial Transmissions NV, which was acquired in 2011. At the same time, the Group reinforced business ties with this company in China, Europe, and other markets.

Fiscal 2013 Segment Results -

The recovery of overseas markets as well as strong demand in the resulted in improvements for both sales and orders.



* Forecasts for fiscal 2014 have been adjusted in line with the reclassification of business segments.



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Ships

Social Contribution In

Environmental Facilities & Plants



As a result, we have put in place a more-efficient global marketing structure for the gearbox unit business. In North America, we locally integrated the production of medium-sized orthogonal gearmotors, demand for which has been expanding, and opened the doors to a new large-scale distribution center that covers the entire North American market, boosting our competitiveness in the region.

Fiscal 2014 Strategies and Initiatives

We plan to expand our lineup of energy-saving products with the launch in fiscal 2014 of models that comply with premium efficiency motor regulations due to come into effect in Japan from April 2015.

In addition, we aim to expand our market shares further by strengthening sales and service structures in each market, and by optimizing the supply chain in each market for our global production bases, which have been the subject of aggressive investments to date. The SHI Group plans to create local companies for its sales bases in the fast-growing Southeast Asian region. In China, we are reorganizing assembly service bases and strengthening operations with new facilities.

Financial Highlights	To Our Shareholders, Customers, and Employees	Presentation and Interview with the President	Special Feature	Review of Operations	Research and Development	Intellectual Property	Corporate Governance	ç
				Machinery Components	Precision Machinery	Construction Machinery	Industrial Machinery	► Ship

Main Products	Major Applications/Markets
Plastic injection molding machines	Major Applications/Markets Electronics, Electric equipment, Automobiles, Containers, Medical equipment
Plastic injection molding	Electronics, Electric equipment, Automobiles, Containers,
Plastic injection molding machines	Electronics, Electric equipment, Automobiles, Containers, Medical equipment
Plastic injection molding machines lon accelerators Plasma coating systems for flat panel displays (FPDs), Laser processing systems, XY stages, Transfer molding press machines	Electronics, Electric equipment, Automobiles, Containers, Medical equipment Research Semiconductors, LCDs
Plastic injection molding machines Ion accelerators Plasma coating systems for flat panel displays (FPDs), Laser processing systems, XY stages, Transfer molding press	Electronics, Electric equipment, Automobiles, Containers, Medical equipment Research

Precision Machinery

Plastic Machinery

Market Environment

In fiscal 2013, IT-related capital investment particularly in the areas of smartphones and tablet PCs in East Asia was robust. At the same time, automobile-related capital expenditure exhibited an upward trend in North America, Southeast Asia, and Japan. While operating conditions are expected to remain firm, the pace of IT-related investment, which has been sharp, is projected to show a slight decline.

Fiscal 2013 Review and Topics

Orders received were robust during the first half of fiscal 2013 due mainly to active IT-related investment. The downturn in investment during the second half was not nearly as severe as anticipated. As a result, overall trends in orders received were moderate. In the area of new product development, the Group introduced the SE180EV-LGP, a new model in its SE-EV series, particularly suitable for the molding of thin light guide plates. This initiative is aimed at capturing the growing demand for smartphones. In addition, the Group

developed and is marketing the SP500E, an all-electric injection molding machine for large-volume production, to address the anticipated surge in demand for PET preform systems. Moreover, steps are being taken to expand sales of in-mold decorative molding systems for use in food containers.

Fiscal 2014 Strategies and Initiatives

IT-related markets are highly cyclical with significant peaks and troughs in demand. On the one hand, the market as a whole is substantial, while, on the other hand, the outlook for market conditions is shrouded in uncertainty. To minimize the effects of fluctuating demand, it is vital that we develop and provide technologies that match the largest possible number of industry fields. Working in partnership with the Demag Plastics Group, we will utilize our global sales service network to accelerate the pace of global market development. Moving forward, we will work to secure a firm foothold in the molding machines industry.

>> Topics

SE180EV-LGP Thin Light Guide Plate Injection Molding Machine

As smartphones and tablets become larger and thinner, advances have been rapidly made in technology to reduce the thickness of light guide plates used in backlight units of LCD panels. As molded products become thinner, it becomes more challenging to uniformly inject resin to the boundaries of mold cavities. This newly developed injection molding machine fulfills market demands for guality through improvements in injection compression molding technology with high-speed injection, high responsiveness, and precise control of the mold clamping units.



Fiscal 2013 Segment Results -

With respect to the plastics machinery business, strong market conditions in the electronic and electrical sectors primarily in Asia as well as improved market conditions in Europe resulted in gains in both sales and orders.

Other businesses in this segment posted mixed figures with strong demand for cryogenic coolers. As a result, orders and sales were essentially unchanged from levels recorded in the previous fiscal year.



Precision Equipment and Others

Market Environment

The market for cryogenic equipment, including cryocoolers for medical institutions and research facilities, is stable. Looking ahead, demand is anticipated to remain firm. While the market for sem conductor- and IT-related electronics equipment continues to con

front difficult conditions, there are signs of a gradual recovery. We anticipated continued stable demand for cryocoolers going Under these circumstances, the environment for orders is improv forward. The SHI Group is committed to bolstering its marketing systems and to pursue a variety of initiatives, including efforts to Fiscal 2013 Review and Topics cultivate new customers. In semiconductor as well as electronics The order environment for cryocoolers used in magnetic resonar equipment production equipment, the market for IT devices, includimaging (MRI) equipment remains robust. During the fiscal year ing smartphones, is expected to witness periodic abrupt change. under review, the Group launched its 4KGM cryocooler to wide Against this backdrop, we will pay particular attention to demand market acclaim. This product is the industry's first cryocooler to u trends while focusing on expanding sales of related equipment super-conductive magnets for cooling applications that complies mainly in Asia. For products incorporated into core semiconductor with Europe's RoHS Directive. In the market for semiconductor units, including ion-implantation systems, we will strive to enhance guality and reliability while strengthening marketing activities production equipment, the Group introduced its S-UHE ultra-high energy, ion-implantation system, which contributes significantly overseas.

Topics

Reaching Temperatures Close to Absolute Zero through the Ultra-Low Temperature 4KGM Cryocooler

The ultra-low temperature 4KGM cryocooler uses the helium gas expansion and contraction cycle method to reach the extremely low temperature of -269°C (4-degrees Kelvin) or close to absolute zero. This product has won wide acclaim for its performance in superconducting magnet applications where liquid helium gas must be used. Among these superconducting magnet applications, the Group's 4KGM cryocooler has captured a global market share for medical-use magnetic resonance imaging (MRI) equipment of more than 90%.



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Review of Operations

Accounting for these factors, the segment as a whole saw orders increase by 13% compared with the previous fiscal year, to ¥134.5 billion, and sales increase by 7% year on year, to ¥133.5 billion. In addition, the segment posted operating income of ¥8.7 billion, a 1% increase compared with the previous fiscal year.

to improving both the productivity of image sensors as well as functionality and performance. In precision control components, we launched a series of large-capacity motor drivers.

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Fiscal 2014 Strategies and Initiatives



Financial Highlights	To Our Shareholders, Customers, and Employees	Presentation and Interview with the President	Special Feature	Review of Operations	Research and Development	Intellectual Property	Corporate Governance	2
				Machinery Components	Precision Machinery	Construction Machinery	Industrial Machinery	Shir



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

Market Environment

Demand in the market for hydraulic excavators expanded by a strong 43% year on year in fiscal 2013, reflecting reconstruction demand in regions affected by the Great East Japan Earthquake disaster and tighter exhaust gas regulations in Japan. Overseas, markets were robust in Europe and the United States, while the world's largest market in China embarked on a recovery. However, challenging conditions persisted in ASEAN countries. As a result, worldwide demand for hydraulic excavators was largely unchanged from the previous fiscal year, at 240,000 vehicles.

Fiscal 2013 Review and Topics

In Japan, SCM successfully tapped into post-quake reconstruction demand and a surge in demand prior to the introduction of stricter emissions regulations, securing record-setting sales volume and a 10.5% share of the market in Japan. In the largest market of China, the Group achieved its target for sales volume, achieving record-high sales.

In new products, the SH200-6 hydraulic excavator was recognized again by the Japan Machinery Federation for its excellent fuel efficiency with the Chairman's Award for Excellence in Energy Efficient Equipment, A hybrid model based on the SH200-6 has also won plaudits for major improvements in work performance as well as its even better fuel economy.

Fiscal 2014 Strategies and Initiatives

We expect market conditions to be challenging in fiscal 2014, with a major reactive drop in demand likely in Japan and no signs of a recovery in emerging markets. In this business environment, we will focus on expanding sales of models compatible with new emissions regulations and cutting-edge hybrid models in Japan. We will also develop new products in line with market needs, and increase the number of models offered overseas. We will also concentrate on growing sales overseas, such as by working to strengthen our partnership with CNHi.

>>> Topics

Strengthening Ties with CNHi

For more than two decades, Sumitomo (S.H.I.) Construction Machinery Co., Ltd. has supplied CASE-branded hydraulic excavators on an original equipment manufacturer (OEM) basis to CNH Industrial N.V. (CNHi). In addition to this arrangement, the two companies have recently reached a technological licensing agreement that allows CNHi to produce hydraulic excavators at its own plants using Sumitomo Construction Machinery's technologies. Their relationship will reach a new stage as both companies pursue synergies through this agreement with the aim of prospering in the competitive world market for construction machinery.

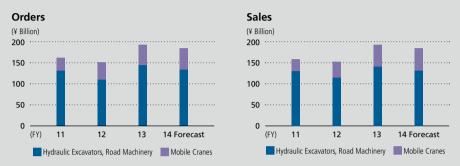


Mikio Ide, president of Sumitomo (S.H.I.) Construction Machinery Co., Ltd. (at right) shaking hands with Richard J. Tobin, CEO of CNH Industrial N.V. (at left)

Fiscal 2013 Segment Results -

The hydraulic excavator business posted increases in both orders and sales due to the upturn in the Japanese market and the robust level of demand from overseas markets.

Boosted by strong demand from North America, the construction crane business also followed suit with an increase in both orders and sales



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

Market Environment

The North American crane market was steady in fiscal 2013, but market conditions worsened in the second half. The Latin American, Oceanian, and the Middle and Near East markets declined year on vear.

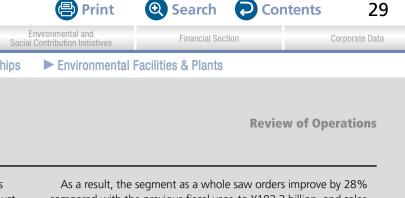
Fiscal 2013 Review and Topics

Link-Belt recorded a slight sales increase in fiscal 2013. In North America, the mobile telescopic and crawler crane markets grew modestly in the first half and declined in the second half, with the full fiscal year being flat compared with fiscal 2012. The Latin American, Oceanian, and the Middle and Near East markets declined and coupled with a stronger U.S. dollar resulted in a challenging sales environment in these regions. Link-Belt's sales in these regions declined in fiscal 2013. Link-Belt displayed four cranes at the 2013 Bauma international trade show in Munich, Germany. The company also

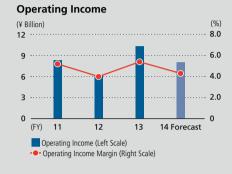
Topics

ATC-3210 All-Terrain Crane

At the world's largest construction machinery exposition, ConExpo 2014, Link-Belt Construction Equipment Company, L.P., LLLP unveiled the new ATC-3210 all-terrain crane. Featuring the latest in technology, the ATC-3210 has been well received by customers for its excellent operability at construction sites and design for easy maneuverability on public roads.



compared with the previous fiscal year, to ¥193.3 billion, and sales increase by 26% year on year, to ¥192.5 billion. In addition, the segment posted operating income of ¥10.3 billion, a 68% increase compared with the previous fiscal year.



achieved a milestone with the shipment of the 500th 100-ton telescopic truck crane.

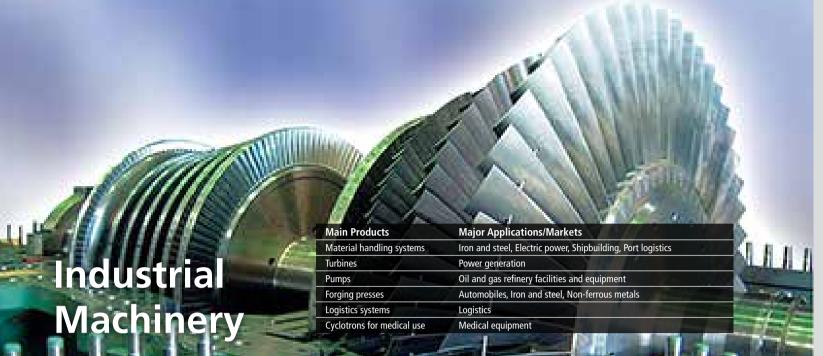
Fiscal 2014 Strategies and Initiatives

Link-Belt strategies for fiscal 2014 will be focused on achieving a production schedule to meet customer demand, the further development of international distributors in targeted markets, maintaining new product development time lines, and a renewed focus on Lean Sigma[®] activities. Link-Belt introduced a 150-ton rough terrain crane and a 50-ton telescopic crawler crane in March 2014. The North American market is anticipated to grow in the second half of 2014. Link-Belt will continue to differentiate its products by delivering new models that meet and exceed the demands, and expectations of customers.



ATC-3210 All-Terrain Crane

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				Machinery Components	Precision Machinery	Construction Machinery	Industrial Machinery	► Ship



Forging Presses and Medical Equipment

Market Environment

The forging press market is expected to benefit from a pickup in capital facility investment. This largely reflects the increase in automobile production in North America, China, and Southeast Asia. The market for cancer diagnosis and treatment equipment is also showing signs of growth in Japan, elsewhere in Asia, Europe, and the United States.

Fiscal 2013 Review and Topics

The Group's large forging presses that boast a rich history of proven results continue to attract widespread acclaim. In addition to three orders for its FPA series of presses, the Group was successful in securing successive orders for its FPX series both in Japan and overseas. Medical equipment-related results were also firm. This was mainly due to sound orders in Japan and overseas for the Group's cyclotrons for positron emission tomography (PET) applications as well as one order in and outside Japan for a proton therapy system.

Fiscal 2014 Strategies and Initiatives

In forging presses, the SHI Group will leverage its local overseas bases and work to expand orders for new equipment. At the same time, we will promote our services business in a bid to address a wide range of needs. Turning to medical equipment, we will continue to expand sales in Japan and overseas while focusing on aftermarkets.

Material Handling Systems Sumitomo Heavy Industries Material Handling Systems Co., Ltd.

Market Environment

Conditions in the steel industry have firmed up. In addition to expectations of a pickup in renewal demand, this positive environment is largely attributable to a favorable turnaround in the shipbuilding market on the back of corrections to the strong yen and moves to expand existing thermal power plant facilities. Against this backdrop, material handling systems operations in Japan are sound with signs of growth overseas particularly in Asia. Demand for automated parking systems is also on the rise especially for office buildings in metropolitan areas.

Fiscal 2013 Review and Topics

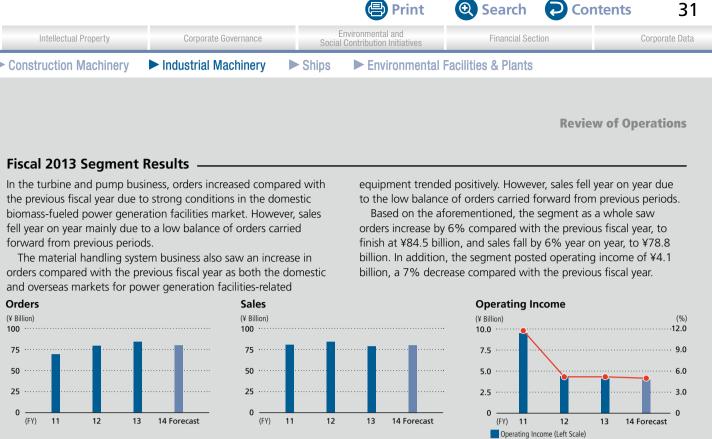
The SHI Group secured orders in its material handling systems business for continuous ship unloaders for electric power generation use in Japan and overseas as well as various cranes for shipyards in Japan. Orders were also received for factory automation (FA) equipment used in highly functional films as well as battery plants. Buoyed by large-scale redevelopment projects in major urban areas, orders for automated parking systems have exceeded expectations.

Fiscal 2014 Strategies and Initiatives

In its material handling systems business, the SHI Group will continue to secure orders from mainly the electric power generation, steel, and shipbuilding markets. In our logistics facilities business, we will take steps to further expand activities in existing markets while developing opportunities in Asia. In addition to increasing our market share in automated parking systems, we will further strengthen our logistics and services businesses.

fell year on year mainly due to a low balance of orders carried forward from previous periods.

and overseas markets for power generation facilities-related



* Businesses that include such products as cyclotron accelerators have been added to this segment from fiscal 2012.

Turbines and Pumps Shin Nippon Machinery Co., Ltd.

Market Environment

Market conditions, in general, continued to stall due to a variety of factors, including political risks throughout Asia and the scaling down of monetary easing measures in the United States. Meanwhile, corrections to the yen's appreciation triggered signs of an improvement in product prices and the competitive environment Turning to the domestic market, conditions in Japan were energized by the Feed-in-Tariff (FIT) scheme for renewable energy resources.

Fiscal 2013 Review and Topics

In its turbine operations, the SHI Group experienced an active FIT market. As a result, orders increased on the back of successful efforts to bolster marketing in Japan. Orders for the Group's high performance steam turbines introduced in fiscal 2011 grew from three units in fiscal 2012 to eight units in fiscal 2013.

Topics

Order Received for Continuous Ship Unloader Units that Boast the World's Highest Rated Capacity

In October 2013, Sumitomo Heavy Industries Material Handling Systems Co., Ltd., received an order for the delivery of two continuous ship unloader units. These bucket elevatortype units are designated to unload coal in Taiwan at the world's highest rated capacity of 2,200 t/h. Since delivering its first unit in 1976, the company has supplied numerous units mainly to electric power companies and steelworks. This order reflects the high acclaim that this product continues to attract from customers for its outstanding efficiency, environmental responsiveness, and market-leading features.

In pumps, the Group's products were well received due to their competitiveness and reliability. During the fiscal year under review, we received an order for an oil refining project in Vietnam

Operating Income Margin (Right Scale)

Fiscal 2014 Strategies and Initiatives

Despite the absence of vigorous activity, the market is expected to experience moderate growth. Turbine operations are projected to remain active. In addition to the FIT market in Japan, this positive outlook is attributable to forecast order growth on the back of robust relationships with customers in overseas private power generation markets. In pumps, we will adopt a selective approach toward projects with a view to improving profitability.



Continuous Ship Unloade (picture of the same type of unit already in operation

Financial Highlights	To Our Shareholders, Customers, and Employees	Presentation and Interview with the President	Special Feature	Review of Operations	Research and Development	Intellectual Property	Corporate Governance	
				Machinery Components	Precision Machinery	Construction Machinery	Industrial Machinery	► Sł



Ships

Sumitomo Heavy Industries Marine & Engineering Co., Ltd.

Main Products

Ships

Market Environment

Changes in the shipping market attributable to such factors as the shale revolution are triggering demand for new tonnage. At the same time, corrections of the strong yen are helping to improve costcompetitiveness. As a result, signs of an upswing in orders received are beginning to emerge. Under these circumstances, shipyards in Japan are building up orders through high-quality products that actively adopt the latest energy-saving technologies. Meanwhile, a period of excess tonnage is projected to continue for the immediate future, reflecting large volume orders for ships by overseas investors.

Fiscal 2013 Review and Topics

Only one vessel was delivered during the fiscal year under review, down four vessels compared with the previous fiscal year. This was largely attributable to efforts aimed at rebuilding Sumitomo Heavy Industries Marine & Engineering's human resources and manufacturing systems. Turning to orders received, the company undertook activities designed to improve productivity, including the application of the Toyota Production (Kanban) System. At the same time,

Sumitomo Heavy Industries Marine & Engineering enhanced its cost-competitiveness by taking full advantage of the positive turnaround in foreign currency exchange rates. As a result, the company received orders for five new Aframax tankers, which offer improved energy-saving performance and cargo loading capacity. Activities and results in fiscal 2013 have laid a solid foundation for further improvements from fiscal 2014 and beyond.

Fiscal 2014 Strategies and Initiatives

operating loss of ¥3.0 billion.

Major Applications/Markets

Marine transportation

In fiscal 2014, the shipbuilding market is expected to witness a continued return by overseas customers seeking high-guality vessels to shipyards in Japan. Looking at marine transportation, trade movements are expected to witness major changes due to a variety of factors, including the shale revolution and expansion of the Panama Canal. Sumitomo Heavy Industries Marine & Engineering will accelerate the pace at which it develops energy-saving vessels in a bid to guickly adapt to changing market needs. By also focusing on activities aimed at boosting orders received, the company will look to position fiscal 2014 as a year in which to take a significant leap forward.

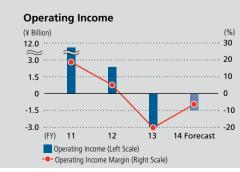
As a result, the segment as a whole saw orders increase by 159% compared with the previous fiscal year, to ¥31.7 billion, and sales fall by

68% year on year, to ¥14.8 billion. In addition, the segment posted an

Fiscal 2013 Segment Results -

As market conditions in the Ship segment continue to recover, five new ship orders were received during the fiscal year under review, representing an increase of four ship orders compared with the previous fiscal year. However, in terms of sales, only one vessel was handed over during the fiscal year under review, four below the total from the previous fiscal year.





Energy Plants

Market Environment

Facilities

Plants

For the domestic electric generation market in Japan, it is becom active and popular for the electric developers to apply the Feed-i Tariff (FIT) system by utilizing biomass fuels, such as waste forest trimmings and/or palm kernel shells (PKS) imported from Malays and Indonesia. The new investment plan to generate electricity b designated independent power producers (or new power develo ers) also becomes active and practicable. In overseas markets, th is a big demand for additional power generation mainly from emerging countries in Southeast Asia. We can see the movemen the ASEAN region to study the potentiality to utilize renewable energy power plants.

Environmental

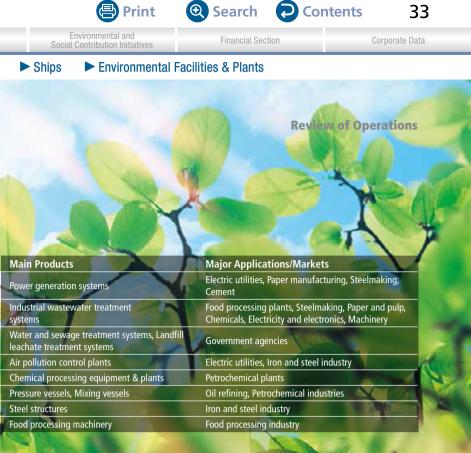
Fiscal 2013 Review and Topics

We increased the number of orders for circulating fluidized-bed (CFB) boilers in fiscal 2013. We received a total order for seven CFB

Topics

Implementing Structural Reforms

The SHI Group implemented two structural reforms in July 2014. One initiative was to transfer the service-related business associated with SHI's power generation plant business to a subsidiary. The second initiative involved the succession of distillation equipment and extraction equipment activities between subsidiaries. By promoting the efficient distribution of businesses within the Group's organization, SHI is facilitating efforts to expand the business scale of each business and to pursue synergy effects.



	boilers, including five newly developed standardized compact CFB
ning	boilers. Concerning biomass fuel power generation in Japan espe-
in	cially for wood-based fuel, the needs have become diversified. We
	reflect our rich experience through our past various supplies of CFB
sia	boilers and will promote the comprehensive utilization of wood-
су	based biomass resources to contribute to society to reduce CO_2
op-	emissions.
iere	
	Fiscal 2014 Strategies and Initiatives
nt in	For the domestic market, we are not only focused on CFB boiler
	sales for biomass fuel combustion that complies with the FIT scheme
	but also focused on the market for co-combustion between coal
	and biomass fuels. For overseas markets, we aim to expand sales of
	CFB boilers that are suitable for low-grade coal combustion. Our

main target areas will be Indonesia, Malaysia, and Singapore.



Small Circulating Fluidized-Bed (CFB) Boiler

Review of Operations					Overview by Geogra	phical Area			
				Machinery Components	Precision Machine	nery I	Construction Machinery	Industrial Machinery	► Ships
Financial Highlights	To Our Shareholders, Customers, and Employees	Presentation and Interview with the President	Special Feature	Review of Operations	Research and Develop	oment	Intellectual Property	Corporate Governance	Soci

(%)

10.0

7.5

50

25

Fiscal 2013 Segment Results -

The energy plant business saw an increase in both orders and sales compared with the previous fiscal year mainly due to the high level of activity in the domestic biomass-fueled power generation boiler market. The water treatment plant business also saw an increase in both orders and sales as a result of buoyant market conditions for products in this sector.

As a result, the segment as a whole saw orders increase by 14% compared with the previous fiscal year, to ¥104.2 billion, and sales increase by 10% year on year, to ¥86.2 billion. In addition, the seqment posted operating income of ¥6.2 billion, an increase of 11% compared with the previous fiscal year.

Operating Income

(FY) 11

12

Operating Income (Left Scale)

--- Operating Income Margin (Right Scale)

13

14 Forecast

(¥ Billion)

10.0

75

50





Market Environment

While the business for private-sector customers is in an upward trend, market conditions remain difficult due to the large number of competitors. By industry, the electronics sector is shrinking. On a positive note, the food and chemicals sectors are experiencing growth. In facilities-related activities, emphasis is being placed on providing new value in a variety of areas, including energy efficiency and CO₂ reduction. Against this backdrop, investment is being channeled increasingly toward streamlining operations.

Turning to the public sector, conditions are showing a low level of stability due mainly to an upswing in penetration rates, resulting in a decline in new installations. The market is also showing signs of intense competition owing to the financial difficulties of local government authorities, the priority measures of local companies, and other factors.

Fiscal 2013 Review and Topics

In the business for private-sector customers, manufacturers, our mainstay customer base, adopted increasingly tight investment policies. Despite these difficult conditions, the SHI Group secured large-scale orders by bolstering ties with internal and external partners. Turning to customers in the public sector, the number of tenders based on comprehensive assessment methods increased.

Against this backdrop, we placed particular emphasis on marketing our unit-type products for wastewater treatment facilities. In addition, we launched our sloped-ejection type Grit Jet Pump "Sumijetter II," which boasts outstanding energy-saving features. This product received the Chairman's Award at the 2013 Excellence in Energy Efficient Equipment Ceremony held by the Japan Machinery Federation.

Fiscal 2014 Strategies and Initiatives

In the business for private-sector customers, the SHI Group will work to cultivate new customers while drawing on the strengths of its inherent technologies, including anaerobic water treatment processing systems and methods for separating solids and liquids, and the Group will endeavor to create new products. In the business for public-sector customers, we will focus on expanding sales of mainstay unit-type equipment for use in major cities. In addition, we will reinforce our abilities to address large-scale design to construction project needs

In promoting overseas sales, we will engage in marketing activities with the aim of securing orders mainly from Japanese companies in Southeast Asia with a particular emphasis on Indonesia. We will also pursue a variety of initiatives, including efforts to bolster our local production structure mainly through our local subsidiary in China.

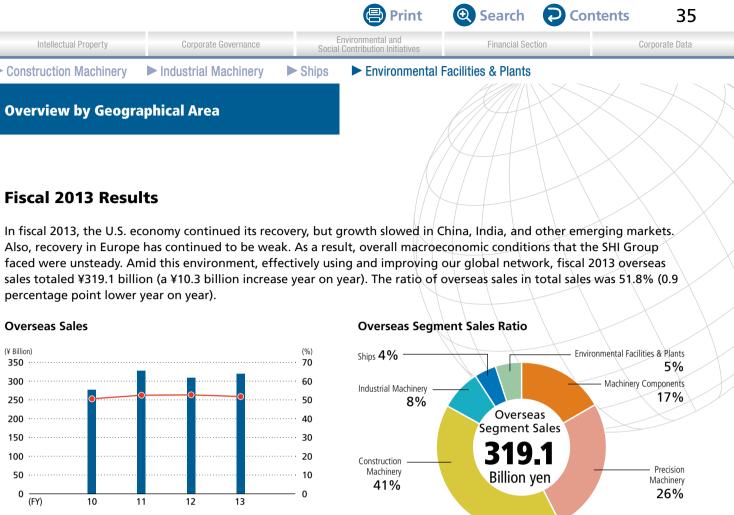
>>> Topics

Successfully Developing Groundbreaking Wastewater Treatment Technologies

SHI, in collaboration with the National Institute for Environmental Studies, successfully developed a technology for processing organic effluent at ambient temperatures utilizing a methane fermentation method. When this technology is out into practical implementation, it will become the world's first case example. While boasting such major benefits as low running costs and smaller amounts of excess activated sludge, the methane fermentation method could not be applied at ambient temperatures. Every effort is being made to promote development with an eye to guickly securing practical application.

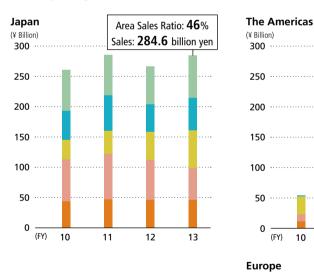


percentage point lower year on year).



Overseas Sales (Left scale) -- Overseas Sales Ratio (Right scale)

Sales by Geographical Area (Note 1)

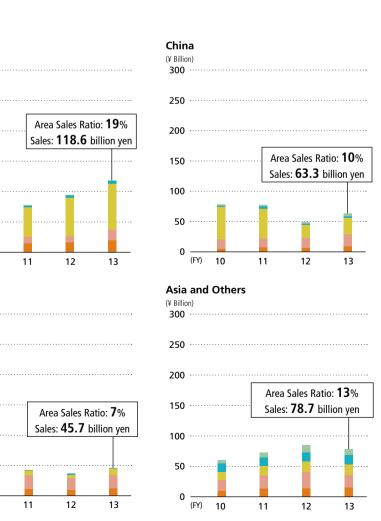




Notes: 1. Sales by geographical area do not include Ships segment sales 2. Businesses that include such products as cyclotron accelerators have been moved from Precision Machinery to Industrial Machinery from fiscal 2013

10

(¥ Billion)



Research and Development

R&D Strategy

Based on a vertically integrated synergistic value chain model, the SHI Group is actively engaged in the development of technologies and products. Under the banner of "Innovation 21," the Group's previous medium-term management plan, the Group as a whole has worked on project activities for innovative green products with the aim of enhancing the competitive edge of the Group's products and minimizing its burden on the environment. In the fiscal 2013 Excellence in Energy Efficient Equipment Awards Ceremony held by the Japan Machinery Federation, the Group's hydraulic excavators and unit-type equipment for the sewage treatment system market received the coveted Chairman's Award.

s and Emplo

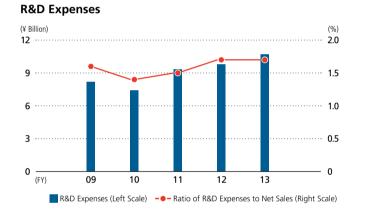
(1) Machinery Components

Major R&D Results by Business Segment

Boasting significantly reduced energy consumption, the Group released a premium efficiency gearmotor compliant with IE3, the international efficiency standard for motors.

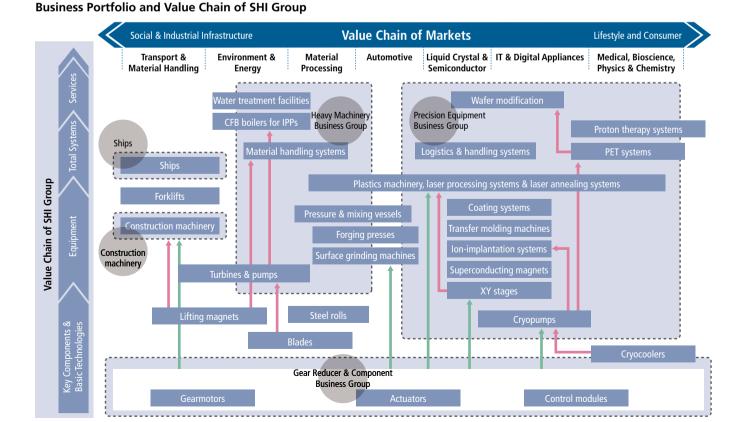
(2) Precision Machinery

In plastic injection molding machines, the Group released the all-electric SP500E PET molding machine for bottle preforms that realizes high guality as well as stability/energy-saving performance during fast cycle molding. In addition, the Group released the SE180EV-C360LGP specialized ultra-thin light guide plate molding machine suitable for next-generation smartphone models.





Premium Efficiency Gearmotor



In components for control systems, the Group turned its

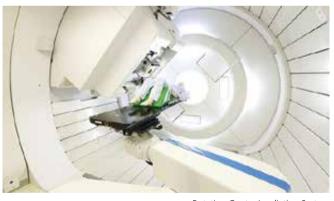
large-power motor drivers into a series. We developed a mid-sized tanker designed to be highly profitable for customers, adaptable to future environmental regulations, and In 4KGM cryocoolers, we launched the industry's first European RoHS-compliant model used for applications that include cooling responsive to market changes typified by the shale revolution. (6) Environmental Facilities & Plants superconducting magnets. In semiconductor manufacturing equipment, the Group released In our industrial wastewater treatment activities, we demonstrated the S-UHE (ultra-high-energy) ion-implantation system that contribthe effectiveness of an anaerobic wastewater treatment system utes to increase in productivity and improvements in the production through the long-term stability treatment of wastewater discharged of high-performance image sensors. from synthetic chemical plants, which contain highly concentrated (3) Construction Machinery alcohol and other materials. In food processing machinery, the Group released a high-In construction machinery, we released in the Japanese market the SH200HB active hybrid excavator that improves productivity while temperature, high-pressure extractor targeting the beverage maintaining fuel efficiency. market. In road machinery, the Group launched in the Japanese market

HA60W-8 and HA60C-8 models installed with engines that comply with Japan's provisional Tier 4 emissions requirements.

(4) Industrial Machinery

In medical equipment, the Group developed and acquired medical device approval for its compact gantry system for proton therapy, which enables 360-degree rotation and irradiation of proton beams to the patient from discretionary angles.

In steam turbines, the Group released high-performance steam turbines.



Rotating Gantry Irradiation System



Ultra-high-Energy Ion-Implantation Equipment S-UHE





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(5) Ships

(7) Technology Research Center

The Technology Research Center engages in R&D primarily on the SHI Group's platform technologies. As an example, the development of multi-scale, multi-physics simulators using the Renormalization Molecular Dynamics method contributes to the differentiation of SHI products based on physical principles.



Hybrid Excavator SH200 HB



Aframax Tanker

Corporate Governance

Corporate Governance

Intellectual Property

The SHI Group is oriented toward 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 the Group's invaluable "property."

Promotion Structure

To link the senior management of the 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 departments, 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.

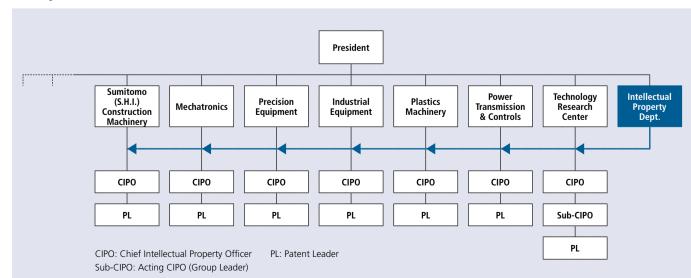
Major Activities and Achievements

(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

CIPO System

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intellectual property evaluation in the design review (DR) process, we are striving to make our product capabilities more robust.

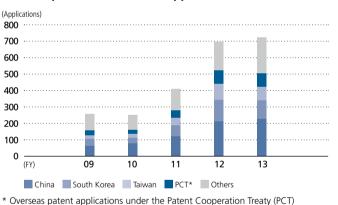
(2) Intellectual Property Evaluation Activities

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, 1,616, or 34.4%, of the Group's total of 4,694 patents were held overseas as of April 2014. In recent years, the Group has been increasing patent applications, particularly in China, South Korea, and Taiwan.

SHI Group's Overseas Patent Applications



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 local communities as a whole.

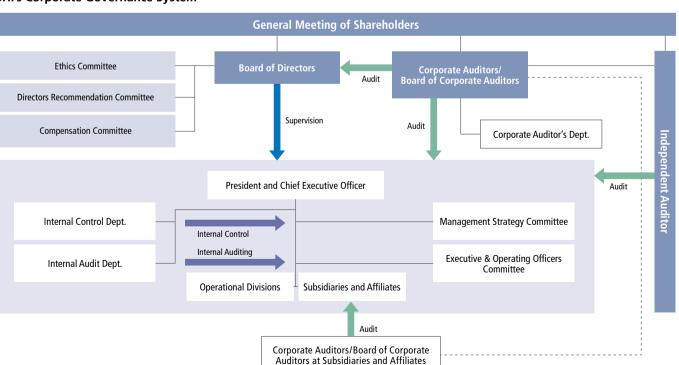
Reinforcement of Corporate Governance

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 the 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.

SHI's Corporate Governance System







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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. The Company 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 executive officers, who execute the Company's business, as well as operating officers. The Committee meets once a month to manage consolidated business results and to ensure the implementation of management policies.

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 eight) 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

External Director and External Corporate Auditors

As mentioned previously, 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. Meanwhile, Susumu Takahashi was appointed an external director of Sumitomo Heavy Industries, Ltd. during the Company's 118th Ordinary General Meeting of Shareholders held on June 27, 2014, to take over the position held by his predecessor Toshiaki Kakimoto.

Title	Name	Reason for appointment	Attendance at meetings of the Board of Directors
External Director	Susumu Takahashi	Based on his substantial economic and management knowledge as well as his vast experience, Mr. Takahashi is expected to provide comments of a beneficial nature while pointing out vari- ous issues in a frank and objective manner to the Company's management. Acknowledging that Mr. Takahashi is not in a position to be considerably controlled by, or to considerably con- trol the management of the Company, he was appointed an external director with the expecta- tion of maintaining appropriate independence.	Appointed as an external director on June 27, 2014.
External	Hideo Kojima	Based on his wealth of experience and knowledge as a long-standing certified public accoun-	Mr. Kojima attended 14 of 15 Board of Directors
Corporate		tant, Mr. Kojima provides comments of a beneficial nature to the Company while pointing out	meetings and all 16 Board of Corporate Auditors
Auditor		various issues in a frank and objective manner.	meetings during fiscal 2013.
External	Takeo Wakae	Based on his long-standing knowledge and wealth of experience as a lawyer, Mr. Wakae pro-	Mr. Wakae attended all 15 Board of Directors
Corporate		vided comments of a beneficial nature to the Company while pointing out various issues in a	meetings and all 16 Board of Corporate Auditors
Auditor		frank and objective manner.	meetings during fiscal 2013.

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.

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, the Internal Audit Department, and the independent auditor closely collaborate with each other and exchange information about audit results, thereby developing and implementing an efficient audit system.

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 directors' retirement allowance system. In addition, the Company has not adopted a stock option system.

	Classification	Classification (Millions of Yen)		Number Eligible Officers (Persons	
			Basic Compensation	(1 0130113	
	Directors (excluding external director)	414	414	11	
	Corporate auditors (excluding external corporate audi- tors)	68	68	2	
	External officers	19	19	3	

- Notes: 1. There were nine directors, two corporate auditors, and three external officers as of March 31, 2014. Included in the figures presented in the table above are the officer number and compensation amounts paid for the period between April 2013 and June 2013 to two directors who retired as of the close of the Company's 117th Ordinary General Meeting of Shareholders held on June 27, 2013. (Accordingly, the aggregate number of eligible officers for the business term under review was 11 directors (excluding the external director), two corporate auditors (excluding external corporate auditors) and three external officers.)
 - 2. No officer received compensation of ¥100 million or more for the period. Accordingly, details of compensation paid to individual officers have been omitted.
 - 3 In addition to the above, the amount of ¥2 million was paid as general employee salaries to one general employee who held the concurrent position of director.



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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 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.

Interview with the Pre

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 an 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.

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 guarterly 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 2013.

Fiscal 2013 IR Activity Results

Activities for 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) Participation in conferences for institutional investors sponsored by securities companies (eleven times) Individual IR interviews Plant tour for analysts/institutional investors (1)
IR Materials Posted on the Company's Website	 Convocation notice (Japanese/English) Securities report/quarterly securities report Corporate governance report Summary of consolidated financial report/timely disclosure materials (Japanese/English) Handout for financial results briefings (Japanese/English) Webcast of financial results briefing (Audio only, Japanese/English (translated version)) Interim report (To our shareholders) Annual report (Japanese/English)



Financial results briefing held in May 2014

Takeover Defense Measures

SHI believes that—from the standpoint of increasing enterprise value and ensuring the common interests of the shareholdersthe 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 2014, the continuation of the Takeover Defense Measures was approved after making necessary changes.

Messages from the External Director and Corporate Auditors



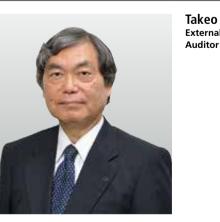
Intellectual Property

Susumu Takahashi	V
External Director	р
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Hideo Kojima **External Corporate** Auditor

SHI has continued to engage in the ongoing reinforcement of its corporate governance. With the aim of further enhancing corporate governance, my primary role as a certified public accountant and an external corporate auditor is, as I understand it, to verify the comprehensiveness and help improve the overall guality of the Company's financial reporting and compliance with business accounting standards. In addition, and in line with the Group's business globalization, it will become increasingly important to secure compliance throughout the Group's domestic and overseas operations, set up and confirm the proper operation of an internal control system, and to enhance the quality of its financial reporting on a consolidated basis. Therefore, I will do my utmost to assist the Group in its efforts to bolster corporate governance from a global perspective.



Takeo Wakae

External Corporate





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While the basic tenets of corporate governance, which underpin efforts to provide stakeholders with an appropriate return by enhancing corporate value hrough highly transparent management, remain unchanged from era to era, I yould posit that the specific mechanisms by which corporate governance is mplemented evolve with changing times and circumstances. The underlying trength of Japan's corporate sector has attracted wide acclaim for its ability to withstand a prolonged period of deflation. Having passed through this difficult tunnel, and against the backdrop of globalization, companies are now being asked to further bolster their operating capabilities in a bid to take the next steps forward.

As an external director, I am committed to supporting the Company in its efforts to reinforce corporate governance and strengthen its management and business capabilities. To this end, I will provide management with recommendations and advice based on my research into economic activities in Japan and overseas, financial markets and corporate management as well as my experience in public policy proposals.

Recently, listed companies have 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.

I am now in my third year as a corporate auditor of Sumitomo Heavy Industries, Ltd. While a major goal of any company is to consistently enhance enterprise value, the odd misstep regarding compliance and periodic events that occur in the conduct of business while accommodating a host of vested interests may result in decisions that appear contrary to improving a company's worth. In cases such as these, acting in a manner that protects the interests of general shareholders may prove difficult. As an external corporate auditor, I see myself as a spokesperson for general shareholders. Accordingly, I will see to it that proper consideration is given to protecting the interests of all parties in the Company's execution of its business.

Directors, Corporate Auditors, and Executive Officers

(As of June 27, 2014) **Board of Directors**



Yoshinobu Nakamura Representative Director, Chairman of the Board

- Apr. 1975 Joined the Company
- Feb. 2001 General Manager of Laser Business Center Jun. 2002 Senior Vice President
- Jun. 2003 General Manager of Precision Equipment Group
- Jun. 2004 Executive Vice President
- Oct. 2004 General Manager of Mechatronics Div.
- Jun. 2005 Director

Yuji Takaishi

Jun. 2007 Director

Apr. 1977 Joined the Company

Apr. 2007 Senior Vice President

- Apr. 2006 General Manager of Electro-Mechanical Systems Div.
- Apr. 2007 Representative Director, President and CEO Apr. 2013 Representative Director, Chairman of the Board
- (current)

Representative Director, Executive Vice President

Jul. 2000 Acting General Manager of Niihama Works

Apr. 2005 General Manager of Human Resources Dept.

Plastics Machinery Div.

Development Dept.

Apr. 2012 General Manager of Corporate Planning &

Development Div. (current)

Apr. 2010 Executive Vice President (current), General Manager of

Apr. 2013 Representative Director (current), General Manager of

Export Administration Dept. (current) Apr. 2014 General Manager of Corporate Planning & Apr. 2012 Senior Executive Vice President

Accounting Div.

Apr. 2010 Executive Vice President

Development Dept.

Shunsuke Betsukawa

Apr. 1978 Joined the Company

Apr. 2007

Apr. 2009

Jun. 2009 Director

Representative Director, President and CEO

Finance & Accounting Div.

Jul. 2001 General Manager of Corporate Administration Dept. of

General Manager of Corporate Planning &

Senior Vice President, General Manager of Finance &

Apr. 2013 Representative Director, President and CEO (current)

Apr. 2011 Representative Director, CFO, General Manager of Export Administration Dept.



Shinji Nishimura **Representative Director, Senior Executive Vice President**

- Apr. 1974 Joined the Company
- Feb. 2001 General Manager of Ship and Steel Structure Group
- Jun. 2002 Senior Vice President Apr. 2003 Vice President, General Manager of Ship & Marine
- Div., Representative Director and President of Sumitomo Heavy Industries Marine & Engineering Co., Ltd.
- Apr. 2005 Senior Vice President, General Manager of Corporate Planning &
- Development Dept. Jun. 2005 Director
- Apr. 2006 Executive Vice President
- Apr. 2007 Representative Director (current), Senior Executive Vice President (current), General Manager of Power
- Transmission & Controls Group (current)



Intellectual Property

Yoshiyuki Tomita

Director, Senior Vice President

- Apr. 1981 Joined the Company May 2009 General Manager of Technology Development Center of Corporate Technology Operations Group Apr. 2011 Vice President, General Manager of Technology
- Research Center of Corporate Technology Operations Group Jun. 2012 Director (current)
- Apr. 2014 Senior Vice President (current), General Manager of Corporate Technology Operations Group (current)

Corporate Auditors

Yukio Kinoshit Kazumi Fujita

Executive Officers

Shunsuke Bets Shinji Nishimu Katsuhiko Tani Yuji Takaishi

- Katsuhide Yok
- **Chuck Martz**

Hitoshi Ushiya

Kazuto Kanesh Tetsuva Okamı Akio Yoshikaw

- Nobutaka Miya
- Toshiharu Tana
- Yoshiyuki Tomi Isao Kohno

Shinji Shimom



Director, Senior Vice President

- Apr. 1974 Joined the Company Jun. 2008 Director of Sumitomo (S.H.I.) Construction Machinery
- Co., Ltd.
 - Director and Executive Vice President of Sumitomo (S.H.I.), Construction Machinery Co., Ltd. (current),
- Apr. 2012 Vice President
- Apr. 2013 Senior Vice President (current), China Head Representative (current), Chairman of Sumitomo Heavy Industries (China), Ltd. (current), Chairman of



Director, Senior Vice President

- Apr. 2014 Deputy General Manager & General Manager of Global Business, Support Dept. of Power Transmission & Controls Group (current)



Susumu Takahashi External Director

Feb. 2004 Counselor of The Japan Research Institute Limited Aug. 2007 Vice Chairman of The Japan Research Institute, Limited Jun. 2011 Chairman of The Japan Research Institute, Limited (current) Jun. 2014 Director of the Company (current)

- Hideo Suzuki Yukio Kumata

Akio Yoshikawa

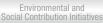
- Apr. 2011

 - General Manager of China Business Div. (current)
- Sumitomo Heavy Industries (Shanghai) Management, Ltd. (current)
- Jun. 2013 Director (current)



- Toshiharu Tanaka
- Apr. 1983 Joined the Company
- Jun. 2013 Director (current)
- Apr. 2011 General Manager of Precision Equipment Div. Jun. 2012 General Manager of Tanashi Works Apr. 2013 Senior Vice President (current)





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Kazuto Kaneshige **Director, Senior Vice President**

Apr. 1977 Joined the Company

- Feb. 2009 General Manager of Industrial Machinery Center Jun. 2010 Director of Sumitomo Heavy Industries Techno-Fort Co., Itd.
- Apr. 2012 Representative Director, President and CEO of Sumitomo Heavy Industries Techno-Fort Co., Ltd.
- Apr. 2012 Senior Vice President (current)
- Apr. 2013 General Manager of Industrial Equipment Div. (current) Jun. 2014 Director (current)



Mikio Ide

Director	
Apr. 1973	Joined the Company
Apr. 2001	Director of Sumitomo (S.H.I.) Construction Machinery Co., Ltd.
Jun. 2003	Vice President
Jun. 2005	Director (current)
Apr. 2010	Senior Executive Vice President, Director and Senior Executive Vice President of Sumitomo (S.H.I.) Construction Machinery Co., Ltd.
Apr. 2011	Representative Director, President and CEO of Sumitomo (S.H.I.) Construction Machinery Co., Ltd. (current)

ta	Standing Corporate Auditor Standing Corporate Auditor	Hideo Kojima Takeo Wakae	External Corporate Auditor External Corporate Auditor	

sukawa ura	President and CEO Senior Executive Vice President	General Manager, Power Transmission & Controls Group
iguchi	Executive Vice President	General Manager, Corporate Quality Dept.
J	Executive Vice President	General Manager, Corporate Planning & Development Div., General Manager, Export Administration Dept.
ota	Executive Vice President	Representative Director and President, Sumitomo Heavy Industries Material Handling Systems Co., Ltd., General Manager, Ehime Works
	Executive Vice President	Chairman and CEO, Link-Belt Construction Equipment Company, L.P., LLLP
ama	Senior Vice President	Representative Director and President, Sumitomo Heavy Industries Environment Co., Ltd.
hige	Senior Vice President	General Manager, Industrial Equipment Div.
ura	Senior Vice President	CEO, Sumitomo (SHI) Demag Plastics Machinery GmbH
va	Senior Vice President	China Head Representative, Chairman, Sumitomo Heavy Industries (China), Ltd., Chairman, Sumitomo Heavy Industries (Shanghai) Management, Ltd. Director and Executive Vice President, Sumitomo (S.H.I.) Constructior Machinery Co., Ltd.
vawaki	Senior Vice President	General Manager, Ship & Marine Div., Representative Director and President, Sumitomo Heavy Industries Marine & Engineering Co., Ltd.
aka	Senior Vice President	Deputy General Manager, General Manager of Global Business Support Dept., Power Transmission & Controls Group
ita	Senior Vice President	General Manager, Corporate Technology Operations Group
	Senior Vice President	General Manager, Finance & Accounting Div.
	Vice President	Deputy General Manager, Corporate Technology Operations Group
	Vice President	Deputy General Manager, General Manager of Geared Motor Dept., Power Transmission & Controls Group
nura	Vice President	Executive Vice President, Sumitomo (S.H.I.) Construction Machinery Co., Ltd.

Environmental and Social Contribution Initiatives

s and Employ

Basic Approach to Environmental Issues

Sumitomo Heavy Industries Group Environmental Philosophy

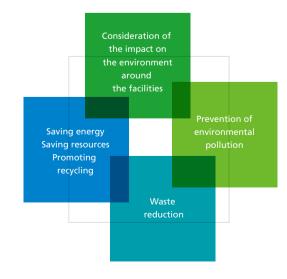
The Sumitomo Heavy Industries Group contributes to implementing sustainable development of society by holding fast to the "Sumitomo Business Spirit."

The Sumitomo Heavy Industries Group is taking action across the Group to protect the global environment.

Environmental Policy

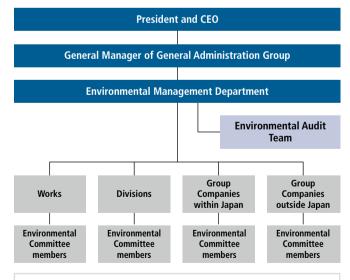
In order to implement the sustainable development of society, we must respond to global environment issues and reduce the burden on the environment posed by various aspects of corporate activity. To do so, the Group is promoting autonomous and proactive initiatives to protect the environment.

In 1992, we established the Environmental Committee to promote environmental protection and compliance in local communities. In September 1997, we established the Sumitomo Heavy Industries Environmental Policy in order to drive home the message of environmental management. In addition, in order to clarify the basic policy of activities across the SHI Group, we established the Sumitomo Heavy Industries Group Environmental Policy in November 1999, expanding environmental management across the Group as a whole, including overseas facilities.



Environmental Management

We have established an Environmental Management Department in the General Administration Group, which draws up the medium-term environmental plan (the current fourth medium-term environmental plan runs from FY2014 to FY2016), and environmental goals on an annual basis, and develops environmental management across the Group, including personnel training. In 2011, we assigned an environmental manager to Shanghai, China, to promote environmental activity monitoring and support throughout China.



• Evaluation by the General Manager, General Administration Group (Once per year)

- Executive Board Conference (Four times per year)
- Environmental audit (Once per vear)
- Sumitomo Heavy Industries Group Environmental Management Conference (Twice per year)
- Environment and Energy Conservation Conference for Prevention of Global Warming (Four to six times per year)
- Special Patrol for Energy Conservation (According to level of goal attainment)

Environmental Initiatives

Zero Emissions

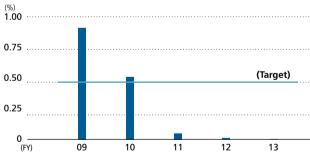
Intellectual Property

The SHI Group has defined factories at which the amount of waste disposed of as landfill as a percentage of total waste (the zero emissions rate) is less than 0.5% as zero emissions factories. We have been promoting this program since FY2005, and as a result in FY2013 we achieved zero emissions at all seven works and all sites at all eight Group companies. We were also able to achieve a zero emissions rate of 0.004% for the Group as a whole, greatly exceeding the target. Recycling by separating waste is crucial in achieving zero emissions.

Going forward, we will conduct thoroughgoing waste separation so that we can maintain zero emissions status, and we will aim to make our plants friendly to the global environment.

The Group has put in place the target of achieving zero emissions at its overseas factories since FY2011 and continues to promote measures aimed at reducing the generation of waste for disposal, that is, the volume of nonrecyclable industrial waste to be discarded as landfill. In FY2013, the Group achieved a zero emissions rate, the rate of the volume of waste for disposal to the total volume of waste, across all of its overseas factories of 3.9% against a target of 10%

Zero emissions rate (Domestic)



Reducing CO₂ Emissions

The SHI Group started to take action in FY2005 with the first medium-term environmental plan to reduce CO₂ emissions by 10% from FY2004 levels by FY2007. As of FY2014, we launched the fourth medium-term environmental plan aiming to further reduce CO₂ emissions by 32% from the FY2004 level by FY2016. Compared to the benchmark year of FY1990 for the Kyoto Protocol, the target is to achieve a 39% reduction.

Environmental and Social Contribution Init

🕒 Print

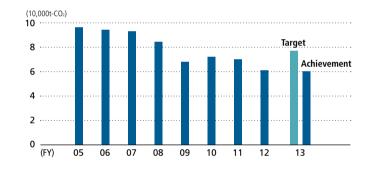
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In FY2013, we were able to control emissions to per unit of output far exceeding the target, with a 37% reduction over FY2004 levels and a 44% reduction over FY1990 levels.

The Group is expanding its production scale across factories located overseas. At the same time, the Group has taken steps to establish CO₂ emission reduction targets on an individual factory basis since FY2011. Accordingly, each factory is undertaking a host of initiatives aimed at achieving the established CO₂ emission reduction targets. In FY2013, the Group achieved all targets across its network of overseas factories. Total emissions amounted to 73,173 tons of CO₂ against a target of 78,841 tons of CO₂.

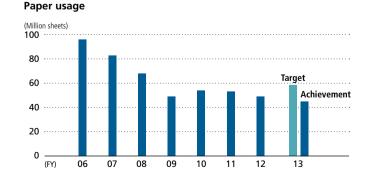


Activities to Reduce Paper Usage

CO, emissions (Domestic)

Reducing paper usage is part of activities to save resources, and, at the same time, it is linked to activities to prevent global warming such as reducing CO_2 emissions in the papermaking process. In FY2013, we exceeded the target of a 43% reduction over FY2005 levels with a reduction of 57%.

Looking ahead, the SHI Group will continue to engage in paper usage reduction activities.



nterview with the Pre-

Intellectual Property

Environmental and Social Contribution Initiatives

Social Contribution Activities

Local Community Cleanup Activities

The SHI Group conducts regular cleanup activities of areas neighboring its works. We also take part in cleanup activities organized by local governments and volunteer groups. For example, the Group participates in cleanup activities in the vicinity of its Ehime Works as well as the annual "Refresh Setouchi" Inland Sea cleanup activities at Takasu Beach. Takasu Beach is the only natural sand beach that remains in Saijo City, and protecting the environment there is seen to be in everyone's interest. This campaign, launched in 1993, marked its 20th anniversary last year, and it was a major event among the city's volunteer campaigns. Moreover, the Group's Nagoya Works and the Niihama Plant participate in the Adopt Program* supervised by local municipalities. Through these activities, we are actively engaging in efforts to clean up surrounding areas.





Families cleaning up Takasu Beach in Saijo City

* Adopt Program

It is a volunteer campaign in which residents designate a public facility, such as a park or a footpath, to take care of on their own responsibility. They then pick up trash, water the plants, and weed it as if it were their own, so that people will be able to enjoy using that facility.

Cooperation with Welfare Facilities

The Yokosuka Works provides a Yokosuka municipal welfare support center with cut ends of electrical wire generated during shipbuilding and empty cans from business offices and dormitories. At the facility, the insulation is stripped off to remove the core wire, and aluminum cans are crushed together in a compactor. The materials are then sold and the proceeds are applied toward facility operating costs. The Nagoya Works cooperated with a welfare facility located in Obu City by regularly placing cookies and bread baked at the facility on sale in the employees' dining hall



▲ Work under way at the Kagamida- ▲ Selling cookies and bread from the En in Yokosuka



Akebi-En in Obu

Overseas Activities

• The Philippines

SHI Designing & Manufacturing, Inc., in the Philippines, has been engaging in social service activities two or three times every year since 2009. An executive committee has organized badminton meets and bingo games to raise funds. The company then donates a matching amount to the executive committee, and it is used to support social service activities. In addition, steps are taken to visit elementary schools in the mountains, where cleanup activities and classes are undertaken. While providing games and stationery as presents, the company also promotes a variety of activities, including tree planting.



▲ Giving books as presents



Tree planting

Germany

Sumitomo (SHI) Demag Plastics Machinery GmbH in Germany held a family day and invited employees' families to visit their plant. Attended by many employee families, the event was a great success, and the president received many messages of thanks. Japanese resident staff members and their families also cooperated by setting up a typical Japanese festival game of fishing for water balloons while organizing other events. These amusements are not generally found in Germany, and the other participants greatly enjoyed this contact, which had considerable appeal as an opportunity to interact and develop cultural exchange.





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Click each item to go to the top page for that category.

	Financial Highlights	To Our Shareholders, Customers, and Employees	Presentation and Interview with the President	Special Feature	Review of Operations	Research and Development	Intellectual Property	Corporate Governance	
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Sumitomo Heavy Industries, Ltd. and Consolidated Subsidiaries

					Millions of you							Thousands of U.S. dollars (Note 1)
	FY2003	FY2004	FY2005	FY2006	Millions of yen FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2013
Summary of Income (for the year):							112000					
Net sales	¥482,765	¥521,310	¥551,339	¥600,256	¥660,769	¥642,918	¥516,165	¥548,015	¥624,100	¥585,871	¥615,271	\$5,973,501
Cost of sales	378,422	407,512	434,904	464,071	505,366	503,072	412,751	426,479	490,878	465,309	483,105	4,690,334
Selling, general and administrative expenses	64,112	65,025	68,930	71,961	77,613	82,906	75,160	75,733	86,087	89,274	97,837	949,876
R&D expenses	6,263	6,317	7,434	8,581	9,908	10,047	8,187	7,445	9,343	9,835	10,718	104,055
Operating income	40,231	48,773	47,505	64,224	77,790	56,940	28,254	45,803	47,135	31,288	34,329	333,291
EBITDA (Note 2)	50,344	58,055	56,577	74,873	91,578	75,260	47,979	63,744	64,955	49,570	52,946	514,040
Net income	16,262	22,792	29,742	37,352	42,974	13,649	13,280	27,926	19,492	5,865	17,891	173,699
Cash Flows (for the year):												
Cash flows from operating activities	¥ 75,775	¥ 45,451	¥ 50,023	¥ 56,789	¥ 29,096	¥ 34,676	¥ 57,513	¥ 36,521	¥ 23,309	¥ 2,660	¥ 63,661	\$ 618,070
Cash flows from investing activities	(7,929)	(6,087)	(7,024)	(12,461)	(41,250)	(35,924)	(13,954)	(23,513)	(22,672)	(19,660)	(27,622)	(268,176)
Free cash flows (Note 3)	67,846	39,364	42,999	44,328	(12,154)	(1,248)	43,559	13,008	638	(17,000)	36,039	349,894
Cash flows from financing activities	(56,666)	(46,490)	(48,812)	(41,193)	(5,238)	15,625	(26,686)	(22,020)	19,879	(11,428)	(9,498)	(92,212)
Cash and cash equivalents at the end of year	57,678	49,108	43,644	47,523	29,879	42,414	61,452	51,700	72,376	46,476	76,418	741,921
Financial Position (at year-end):												
Total assets	¥580,291	¥569,771	¥579,233	¥600,890	¥678,634	¥657,436	¥610,087	¥626,829	¥691,841	¥647,724	¥724,182	\$7,030,890
Total current assets	321,400	316,166	317,813	332,509	381,946	380,293	339,780	365,342	429,046	386,628	434,954	4,222,852
Total non-current assets	258,891	253,605	261,421	268,381	296,688	277,143	270,308	261,487	262,795	261,096	289,228	2,808,038
Interest-bearing debt	215,807	169,228	125,504	88,045	89,567	110,339	87,660	67,833	96,522	98,547	107,433	1,043,040
Net interest-bearing debt	157,353	119,592	81,587	39,890	59,311	65,654	25,149	15,347	23,149	50,732	39,607	384,539
Stockholders' equity	114,526	137,157	167,740			_	_	_	_	_		_
Total net assets (Note 4)	_	_	_	206,010	246,371	238,697	254,153	269,380	282,145	292,826	331,059	3,214,166
					Yen							U.S. dollars (Note 1)
Amounts per Share of Common Stock:												
Net income (Note 5)	¥ 27.01	¥ 37.80	¥ 49.45	¥ 61.99	¥ 71.19	¥ 22.62	¥ 22.01	¥ 45.87	¥ 31.75	¥ 9.56	¥ 29.17	\$ 0.28
Stockholders' equity	190.25	227.90	279.02	338.95	392.80	378.78	404.73	435.10	454.43	470.69	532.28	5.17
Cash dividends	—	3.00	5.00	7.00	10.00	6.00	4.00	8.00	10.00	8.00	7.00	0.07
					%							
Financial Indexes:	0.2	0.4	0.0	10.7	11.0	0.0		0.4	7.0	F 2	БC	
Operating income margin	8.3	9.4	8.6	10.7	11.8	8.9	5.5	8.4	7.6	5.3	5.6	
EBITDA margin	10.4	11.1	10.3	12.5	13.9	11.7	9.3	11.6	10.4	8.5	8.6	
R&D expenses ratio to net sales	1.3	1.2	1.3	1.4	1.5	1.6	1.6	1.4	1.5	1.7	1.7	
Return on assets (ROA)	2.8	4.0	5.2	6.3	6.7	2.0	2.1	4.5	3.0	0.9	2.5	
Return on equity (ROE)	16.0	18.1	19.5	20.1	19.5	5.9	5.6	10.9	7.1	2.1	5.8	
Stockholders' equity ratio	19.7	24.1	29.0	34.1	34.9	34.8	40.0	42.6	40.3	44.6	45.1	
Interest-bearing debt ratio	37.2	29.7	21.7	14.7	13.2	16.8	14.4	10.8	14.0	15.2	14.8	
D/E ratio (Times)	1.9	1.2	0.7	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.3	
ROIC (Note 6)	6.5	8.5	8.8	12.2	14.0	9.6	4.8	7.8	7.4	4.9	4.8	
					Millions of yen							Thousands of U.S. dollars (Note 1)
Investment in Plant and Equipment, and Others:					Willions of yell							
Capital expenditures (Note 7)	¥ 10,562	¥ 8,175	¥ 10,285	¥ 17,257	¥ 28,180	¥ 31,753	¥ 24,465	¥ 14,292	¥ 19,682	¥ 29,888	¥ 20,329	\$197,369
Depreciation and amortization	10,112	9,282	9,072	10,649	13,788	18,320	19,725	17,941	17,820	18,282	18,617	180,749
Number of employees	11,282	11,149	11,319	12,561	14,408	14,984	15,463	17,025	18,139	18,245	17,936	,

Notes: 1. The U.S. dollar amounts have been translated, for convenience only, at ¥103=\$1, the prevailing exchange rate on the Tokyo Foreign Exchange Market as of March 31, 2014.

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

3. Free cash flows = Cash flows from operating activities + Cash flows from investing activities

4. Net assets are presented following enforcement of the new Japanese Corporate Law in 2006. Net assets comprise stockholders' equity as previously defined, plus

minority interests and share subscription rights.

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

6. ROIC (Return on Invested Capital) = $\frac{(\text{Operating income + Interest and dividends received) x 55% (= 1 – Effective tax rate)}{(Austrace of statistic line in the state)}$

(Average of stockholders' equity + Average of interest-bearing debt)

7. Capital expenditures are capitalized and recorded as assets.

Thousands of



Financial Section

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

and Empl

1. Overview of the Business Environment and Performance in Fiscal 2013

During the consolidated fiscal year under review, the overall Japanese economy showed signs of recovery due to factors such as the weaker Japanese ven and the increase in publicas well as private-sector capital investments. On the other hand, the overall direction of the global economy outside of Japan remained unclear as the firm U.S. economy was outweighed by the slowdown in the rates of growth of such emerging markets as China and India, which had continued to drive global economic expansion, and the delayed recovery of the Eurozone.

Set against this economic backdrop, the Sumitomo Heavy Industries Group (hereinafter referred to as the "Group") positioned the fiscal year under review as the Group's turnaround year and implemented organizational reforms across all business divisions. In addition, it focused on improving product quality further in order to strengthen its foundation for future expansion. As a result of these efforts, the figures for orders, sales, operating income, and net income for the fiscal year under review exceeded those of the previous fiscal year.

2. Analysis of Operating Results

(1) Orders

Orders received during fiscal 2013 increased ¥107.5 billion compared with the previous fiscal year, to ¥658.2 billion. The Group's performance was up year on year across all business segments surpassing the ¥650.0 billion milestone for the first time since prior to the Lehman Brothers shock.

(2) Net Sales

Net sales climbed ¥29.4 billion, to ¥615.3 billion. With the exceptions of the Industrial Machinery as well as the Ships segments, net sales improved across all of the Group's business activities. Overseas sales grew ¥10.3 billion, to ¥319.1 billion. The ratio of overseas sales to total consolidated net sales edged down 0.8 of a percentage point, to 51.9%.

(3) Cost of Sales

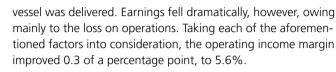
In line with the increase in net sales, the cost of sales climbed ¥17.8 billion, to ¥483.1 billion. The cost of sales ratio declined 0.9 of a percentage point compared with the previous fiscal year, to 78.5%.

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

SG&A expenses grew ¥8.6 billion year on year, to ¥97.8 billion. This was largely attributable to increases in salaries as well as research and development costs and reflected provisions made to the allowance for business losses. The SG&A expense ratio was 15.9%, 0.7 of a percentage point higher than the previous fiscal year.

(5) Operating Income

Operating income increased ¥3.0 billion compared with the previous fiscal year, to ¥34.3 billion. With the exceptions of the Industrial Machinery and Ships segments, all other business segments experienced an upswing in earnings. In each case, the principal factor was the increase in net sales. While orders received in the Industrial Machinery segment improved, net sales declined and earnings edged down as a result of the limited orders received balance. In the Ships segment, one new



(6) Other Income and Expenses

Intellectual Property

Other income and expenses amounted to net expenses of ¥1.3 billion. This represented a year-on-year deterioration of ¥1.0 billion. Other income declined ¥0.3 billion, to ¥6.3 billion, reflecting the downturn in dividend income. Other expenses, on the other hand, climbed ¥0.7 billion, to ¥7.6 billion, primarily as a result of the increase in interest expense.

(7) Extraordinary Gains and Losses

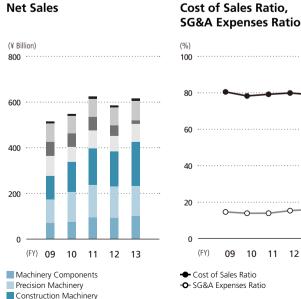
Extraordinary gains and losses amounted to net losses of ¥1.7 billion, an improvement of ¥18.5 billion, compared with the previous fiscal year. There were no extraordinary gains for the period under review. Extraordinary losses declined ¥20.7 billion year on year, to ¥1.7 billion. This mainly reflected the drop in impairment losses on fixed assets of ¥15.7 billion.

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

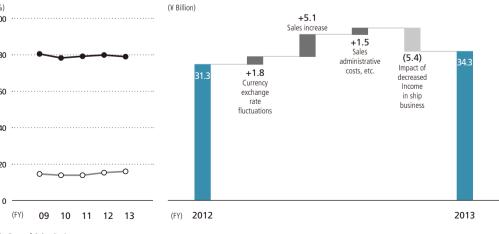
Income taxes increased ¥8.9 billion, to ¥13.5 billion. The effective tax rate was 43.13%.

(9) Minority Interests in Net Income

Minority interests in net loss came to ¥0.1 billion. This was compared with minority interests in net income of ¥0.3 billion in the previous fiscal year.



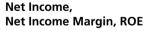


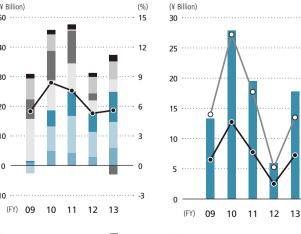


Operating Income, **Operating Income Margin**

(¥ Billion

50





Machinery Components Precision Machinery Construction Machinery (Left scale) Industrial Machinery Ships Environmental Facilities & Plants Others Operating Income Margin (Right scale)

Net Income (Left scale Net Income Margin (Right scale) -O- ROE (Right scale)

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Environmental Facilities & Plants Others

Industrial Machinery Ships



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(10) Net Income

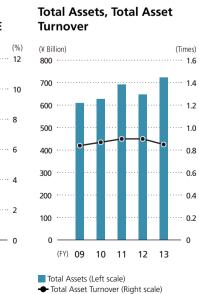
Net income grew ¥12.0 billion compared with the previous fiscal year, to ¥17.9 billion. As a result, net income per share came to ¥29.17, compared with ¥9.56 in fiscal 2012. In addition, ROIC was 4.8%, down 0.1 of a percentage point.

For an overview of operating results by business segment, please refer to the Review of Operations section of this report on pages 24 to 34.

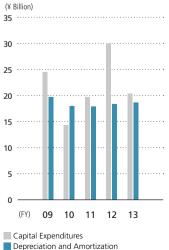
3. Discussion and Analysis of Financial Condition as of the Fiscal 2013 Year-End

(1) Assets, Liabilities, and Net Assets As of March 31, 2014, total assets stood at ¥724.2 billion. up ¥76.5 billion, compared with the balance as of March 31, 2013. Major upward movement included increases in cash and time deposits of ¥20.0 billion, ¥8.7 billion in notes and accounts receivable, ¥5.0 billion in inventories, and ¥9.6 billion in property, plant and equipment.

Total liabilities as of the end of the consolidated fiscal year under review stood at ¥393.1 billion, an increase of ¥38.2 billion, compared with the end of the previous consolidated fiscal year. Major movements included increases in interest-bearing debt of ¥8.9 billion and notes and accounts payable of ¥10.6 billion. Net interest-bearing debt—the amounts of interestbearing debt less cash and time deposits-declined ¥11.1 billion compared with the balance as of the end of the previous fiscal year, to ¥39.6 billion. The ratio of net interest-bearing debt to total assets decreased 2.3 percentage points, to 5.5%



Capital Expenditures, **Depreciation and Amortization**



as follows.

With the restoration and fortification of its global supply chain as a key priority, the Group focused mainly on strengthening the cost-competitiveness of its production bases, particularly in North America and Japan. Capital expenditures in the Machinery Components segment in fiscal 2013 amounted to ¥3.3 billion.

b. Precision Machinery

The Group placed considerable weight on bolstering production capacity as well as productivity. On this basis, the Group undertook capital expenditures to enhance the cost-competitiveness of production bases mainly in Japan. Capital expenditures in the Precision Machinery segment totaled ¥4.6 billion.

c. Construction Machinery

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 2013 were ¥9.4 billion.

d. Industrial Machinery

In its Industrial Machinery activities, the Group undertook to increase production capacity and improve productivity. To this end, a total of ¥1.0 billion was directed toward the renewal of existing facilities.

e. Ships

To increase production capacity and improve productivity in the Ships segment, the Group channeled a total of ¥0.5 billion toward the renewal of existing facilities.

f. Environmental Facilities & Plants

In the Environmental Facilities & Plants segment, the Group undertook capital expenditures totaling ¥0.8 billion aimed primarily at bolstering production capacity and improving productivity by renewing existing facilities.

4. Policy on the Distribution of Profits

Regarding the distribution of profits, the SHI Group adheres to a basic policy of paying dividends commensurate with net income earned during the period while striving to increase dividend amounts. At the same time, the Group 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, the Group decided to target a dividend payout ratio of 30% under its new medium-term management plan.

For the fiscal year under review, and based on the basic policy of maintaining the continuous and stable payment of dividends, the Company decided to pay out an annual dividend of ¥7 per share (including an interim dividend of ¥3 per share). This represents a ¥1 per share decrease compared with fiscal 2012. On this basis, the payout ratio for fiscal 2013 was 24.0%.

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, 2014.

1. Macroeconomic Factors

Demand for capital equipment, which accounts for more than half of the 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 Asia, North America, Europe, and other countries and regions 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. For the fiscal year under review, the ratio of overseas sales to total sales was 52%. To minimize the impact of exchange-rate fluctuations on our business performance, the 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

Net assets as of the end of the consolidated fiscal year under

compared with the end of the previous consolidated fiscal year.

Retained earnings and foreign currency translation adjustments

Consequently, the stockholders' equity ratio for the consoli-

dated fiscal year under review improved by 0.5 of a percentage

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 was ¥63.7 billion

for the consolidated fiscal year under review. The main sources

of cash inflow were the ¥31.3 billion in income before income

inventories. The main source of cash outflow was income taxes

Cash flow used in investing activities totaled ¥27.6 billion for

the consolidated fiscal year under review. This was mainly due

to the ¥19.0 billion used for the acquisition of property, plant

and equipment, and the ¥12.6 billion used for the payment of

loans receivable. These outflows were more than the ¥1.7 bil-

Net cash used in financing activities was ¥9.5 billion for the

consolidated fiscal year under review. This was mainly due to

the ¥10.0 billion net decrease in commercial paper, the ¥4.3

billion in cash dividends paid, and the ¥7.1 billion used to bor-

row funds. Accounting for each of the aforementioned activi-

compared with the negative amount of ¥17.0 billion for the

ties, free cash flows came to a positive amount of ¥36.0 billion,

As a result, cash and cash equivalents as of March 31, 2014

stood at ¥76.4 billion, an increase of ¥29.9 billion, compared

In the fiscal year under review, the SHI Group undertook

capital expenditures for the purpose of strengthening the

down ¥9.6 billion, compared with the previous fiscal year.

Capital expenditures for fiscal 2013 totaled ¥20.3 billion,

year on year. Capital expenditures by segment are described

Depreciation and amortization was ¥18.6 billion, up ¥0.3 billion

lion cash inflow from the sale of investment securities.

taxes and minority interests and the ¥10.2 billion decrease in

point, compared with the end of the previous consolidated

fiscal year to finish at 45.1%.

paid amounting to ¥9.7 billion.

previous fiscal year.

with the previous fiscal year-end.

and Amortization

(3) Capital Expenditures and Depreciation

cost-competitiveness of its production bases.

(2) Cash Flows

review stood at ¥331.1 billion, an increase of ¥38.2 billion

increased by ¥13.5 billion and ¥21.5 billion, respectively.

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affect the business performance and financial position of the Group.

14. **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, 2013 was ¥19.6 billion, a decline of 22%. If land values continue to fall, or conditions are such that the Group 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. Individual Order Agreements

In the vast majority of cases, the SHI Group commences the manufacture of a product after concluding individual order agreements with customers. In the case of important construction and other projects where the contract amount is substantial, order deliberations are undertaken across multiple levels before the execution of an order agreement. However, cost overruns attributable to design, processing, and other issues that result from unforeseeable changes in economic conditions, any incidence of litigation, or the payment of penalties relating to a failure to meet predetermined product performance and delivery standards may result in a deterioration in earnings. In the event of an order cancellation at the request of a customer, the SHI Group could suffer an adverse impact on its business performance if it is unable to recoup related costs in full.

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 Group 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 such disasters 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.

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LIABILITIES AND NET ASSETS

Current liabilities:

Consolidated Balance Sheets

To Our Shareholders,

rs, and Employ

March 31, 2014 and 2013

		Millions of yen				
ASSETS	2014	2013	2014			
Current assets:						
Cash and time deposits (Notes 2, 4 and 11)	¥ 67,826	¥ 47,814	\$ 658,501			
Trade receivables (Note 11):						
Notes receivable	12,724	14,152	123,536			
Accounts receivable	169,237	159,147	1,643,073			
Allowance for doubtful accounts	(1,217)	(1,117)	(11,815)			
Short-term investment (Notes 11 and 12)	10,000	—	97,087			
Inventories:						
Finished products	63,819	66,877	619,598			
Work in process	49,144	44,791	477,131			
Raw materials and supplies	31,286	27,548	303,750			
Deferred tax assets (Note 5)	13,201	12,191	128,162			
Other current assets (Note 13)	18,934	15,225	183,829			
Total current assets	434,954	386,628	4,222,852			
Property, plant and equipment:						
Land (Note 4)	109,265	108,033	1,060,825			
Buildings and structure (Note 4)	125,920	120,784	1,222,524			
Machinery and equipment	143,501	127,337	1,393,212			
Construction in progress	2,884	2,614	28,000			
Other tangible fixed assets	36,486	34,847	354,237			
	418,056	393,615	4,058,798			
Accumulated depreciation	(197,772)	(182,963)	(1,920,115)			
Net property, plant and equipment	220,284	210,652	2,138,683			
Intangible assets	8,648	7,765	83,959			
Investments, long-term loans and other assets:						
Investments in unconsolidated subsidiaries and affiliated companies	10,918	9,717	105,998			
Investment securities (Notes 11 and 12)	15,827	15,471	153,659			
Long-term loans receivable (Note 11)	13,786	51	133,842			
Deferred tax assets (Note 5)	10,118	11,838	98,233			
Other assets	11,133	7,419	108,093			
Allowance for doubtful accounts	(1,486)	(1,817)	(14,429)			
Total investments and other assets	60,296	42,679	585,396			
Total assets (Note 9)	¥724,182	¥647,724	\$7,030,890			

Short-term bank loans (Notes 4 and 11) Long-term debts due within one year (Notes 4 and 11) Commercial paper (Note 4) Trade payables (Note 11): Notes payable Accounts payable Advance receipt on contracts Income taxes payable Allowance for warranty Allowance for losses on construction contracts Allowance for losses on business Allowance for losses on business transfer Other current liabilities (Notes 4, 5 and 13) Total current liabilities Long-term liabilities: Long-term debts (Notes 4 and 11) Employees' severance and retirement benefits (Note 14) Allowance for losses on product liabilities Allowance for losses on business transfer Liability for retirement benefits (Note 14) Deferred tax liabilities on revaluation difference on land

Contingent liabilities (Note 7)

Total long-term liabilities

Other long-term liabilities (Notes 4 and 5)

Net assets (Note 6): Stockholders' equity: Common stock: Number of shares authorized 1,800,000 thousand shares Number of shares issued: 614,527 thousand shares in 2014 614,527 thousand shares in 2013 Capital surplus Retained earnings Treasury stock at cost: 1,248 thousand shares in 2014 858 thousand shares in 2013

Total stockholders' equity

Accumulated other comprehensive income:

Unrealized gains on securities, net of income taxes Unrealized losses on hedging derivatives, net of income taxes Adjustment on pension obligations of consolidated foreign subsi Accumulated adjustments for retirement benefit (Note 14) Revaluation difference on land

Foreign currency translation adjustments

Total accumulated other comprehensive income

Minority interests

Total net assets Total liabilities and net assets

See accompanying notes.





	Millions	s of yen	Thousands of U.S. dollars (Note 1)
	2014	2013	2014
	¥ 52,817	¥ 48,032	\$ 512,783
	26,855	1,245	260,733
	_	10,000	
	25,623	26,379	248,764
	98,588	87,196	957,164
	30,493	20,937	296,046
	6,903	3,014	67,015
	6,780	5,115	65,821
	1,691	2,017	16,414
	1,936		18,793
	1,550	161	
	37,444	38,919	363,550
	289,130	243,015	2,807,083
	205,150	245,015	2,007,005
	27,761	39,270	269,524
	27,701	39,169	203,324
	36	48	348
	461	40	4,478
	40,037	—	388,709
	24,608	24,608	238,913
	11,090	8,788	107,669
	103,993	111,883	1,009,641
	30,872	30,872	299,725
	23,789	23,789	230,960
	221,101	207,580	2,146,608
	(622)		(6.434)
	(632)	(455)	(6,131)
	275,130	261,786	2,671,162
	3,753	2,694	36,442
	(379)	(562)	(3,681)
sidiaries	—	(3,808)	—
	(2,336)	—	(22,681)
	38,272	38,197	371,578
	11,993	(9,458)	116,436
	51,303	27,063	498,094
	4,626	3,977	44,910
	331,059	292,826	3,214,166
	¥724,182	¥647,724	\$7,030,890

Corporate Governance

Consolidated Statements of Income

Years ended March 31, 2014 and 2013

	Million	s of yen	Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Net sales (Note 9)	¥615,271	¥585,871	\$5,973,501
Costs and expenses:			
Cost of sales	483,105	465,309	4,690,334
Selling, general and administrative expenses	97,837	89,274	949,876
Total	580,942	554,583	5,640,210
Operating income (Note 9)	34,329	31,288	333,291
Other income (expenses):			
Interest and dividend income	1,350	2,377	13,109
Interest expense	(2,637)	(2,097)	(25,599)
Equity in earnings of affiliated companies	1,201	578	11,664
Foreign exchange gain, net	998	1,347	9,685
Impairment losses on fixed assets (Note 3)	(1,690)	(17,392)	(16,411)
Gain on sales of investment securities	—	1,343	—
Reversal of provision for loss on litigation	_	802	—
Loss on defense equipment business	_	(4,986)	—
Other—net	(2,242)	(2,496)	(21,764)
Income before income taxes and minority interests	31,309	10,764	303,975
Income taxes (Note 5):			
Current	12,976	10,553	125,986
Deferred	526	(5,959)	5,107
Total	13,502	4,594	131,093
Income before minority interests	17,807	6,170	172,882
Minority interests in net income	84	(305)	817
Net income	¥ 17,891	¥ 5,865	\$ 173,699
	Y	en	U.S. dollars (Note 1
	2014	2013	2014
Amounts per share of common stock:			
Net income	¥29.17	¥9.56	\$0.28
Diluted net income	—	—	—
Cash dividends applicable to the year (Note 15)	7.00	8.00	0.07

Cash dividends applicable to the year (Note 15) See accompanying notes. onsolidated Statements of Comprehensive In

Years ended March 31, 2014 and 2013

	Million	s of yen	Thousands of U.S. dollars (Note 1
	2014	2013	2014
Income before minority interests	¥17,807	¥ 6,170	\$172,882
Other comprehensive income:			
Unrealized gains on securities, net of income taxes	1,049	426	10,184
Unrealized gains (losses) on hedging derivatives, net of income taxes	168	(811)	1,631
Adjustment on pension obligations of consolidated foreign subsidiaries	858	(234)	8,332
Foreign currency translation adjustments	22,303	10,234	216,534
Share of other comprehensive income of affiliates accounted for using equity method	25	(1)	246
Total other comprehensive income (Note 8)	24,403	9,614	236,927
Comprehensive income	¥42,210	¥15,784	\$409,809
Comprehensive income attributable to:			
Owners of the parent	¥41,442	¥15,068	\$402,354
Minority interests	768	716	7,455



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Consolidated Statements of Changes in Net Assets

Years ended March 31, 2014 and 2013

							Millions of yen		
			Stockholder	s' equity			Accumulated other comprehensive income		
	Number of shares of common stock (Thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock at cost	Sub-total		Vinority nterests	Total
Net assets at April 1, 2012	614,527	¥30,872	¥23,789	¥201,433	¥(445)	¥255,649	¥2,267 ¥ 277 ¥(3,573) ¥ — ¥43,381 ¥(19,113) ¥23,239 ¥	¥3,257	¥282,145
Dividends				(6,137)		(6,137)			(6,137)
Net income				5,865		5,865			5,865
Acquisition of treasury stock					(26)	(26)			(26)
Disposal of treasury stock				(6)	16	10			10
Increase due to transfer of revaluation difference on land				5,184		5,184			5,184
Increase of consolidated subsidiaries with change in scope of consolidation				1,123		1,123			1,123
Increase due to merger				118		118			118
Changes in items other than stockholders' equity in the period (net)							427 (839) (235) — (5,184) 9,655 3,824	720	4,544
Total changes in the period	—	_	_	6,147	(10)	6,137	427 (839) (235) — (5,184) 9,655 3,824	720	10,681
Net assets at March 31, 2013	614,527	¥30,872	¥23,789	¥207,580	¥(455)	¥261,786	¥2,694 ¥(562) ¥(3,808) ¥ — ¥38,197 ¥ (9,458) ¥27,063 ¥	¥3,977	¥292,826

							Millions of yen		
			Stockholder	s' equity			Accumulated other comprehensive income		
	Number of shares of common stock (Thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock at cost	Sub-total	Unrealized gains Adjustment on Accumulated Foreign Unrealized gains (losses) on hedging pension obligations adjustments Revaluation currency on securities, net derivatives, net of of consolidated for retirement difference translation of income taxes income taxes foreign subsidiaries benefit on land adjustments Sub-tota	Minority I interests	Total
Net assets at April 1, 2013	614,527	¥30,872	¥23,789	¥207,580	¥(455)	¥261,786	¥2,694 ¥(562) ¥(3,808) ¥ — ¥38,197 ¥ (9,458) ¥27,06	3 ¥3,977	¥292,826
Dividends				(4,295)		(4,295)			(4,295)
Net income				17,891		17,891			17,891
Acquisition of treasury stock					(181)	(181)			(181)
Disposal of treasury stock				0	4	4			4
Increase due to transfer of revaluation difference on land	I			(75)		(75)			(75)
Changes in items other than stockholders' equity in the period (net)							1,059 183 3,808 (2,336) 75 21,451 24,24) 649	24,889
Total changes in the period	—	_	—	13,521	(177)	13,344	1,059 183 3,808 (2,336) 75 21,451 24,24) 649	38,233
Net assets at March 31, 2014	614,527	¥30,872	¥23,789	¥221,101	¥(632)	¥275,130	¥3,753 ¥(379) ¥ — ¥(2,336) ¥38,272 ¥11,993 ¥51,30	3 ¥4,626	¥331,059

							Thousands	of U.S. dollars (Note	1)						
		Stockholders' equity					Accumulated other comprehensive income								
	Number of shares of common stock (Thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock at cost	Sub-total	Unrealized gain on securities, ne of income taxes	t derivatives, net of	Adjustment on pension obligations of consolidated foreign subsidiaries	Accumulated adjustments for retirement benefit	Revaluation difference on land	Foreign currency translation adjustments	Sub-total	Minority interests	Total
Net assets at April 1, 2013	614,527	\$299,725	\$230,960	\$2,015,344	\$(4,422)	\$2,541,607	\$26,156	\$(5,453)	\$(36,966)	\$ —	\$370,845	\$(91,829)	\$262,753	\$38,612	\$2,842,972
Dividends				(41,697)		(41,697)									(41,697)
Net income				173,699		173,699									173,699
Acquisition of treasury stock					(1,752)	(1,752)									(1,752)
Disposal of treasury stock				(6)	43	37									37
Increase due to transfer of revaluation difference on land	ł			(732)		(732)									(732)
Changes in items other than stockholders' equity in the period (net)							10,286	1,772	36,966	(22,681)	733	208,265	235,341	6,298	241,639
Total changes in the period		_	_	131,264	(1,709)	129,555	10,286	1,772	36,966	(22,681)	733	208,265	235,341	6,298	371,194
Net assets at March 31, 2014	614,527	\$299,725	\$230,960	\$2,146,608	\$(6,131)	\$2,671,162	\$36,442	\$(3,681)	\$ —	\$(22,681)	\$371,578	\$116,436	\$498,094	\$44,910	\$3,214,166

See accompanying notes.



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Consolidated Statements of Cash Flows

Years ended March 31, 2014 and 2013

	Million	s of yen	Thousands of U.S. dollars (Note 1)	
	2014	2013	2014	
Cash flows from operating activities:				
Income before income taxes and minority interests	¥31,309	¥10,764	\$303,975	
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:				
Depreciation and amortization	18,617	18,282	180,749	
Impairment losses on fixed assets	1,690	17,392	16,411	
Gain on sales of investment securities	(459)	(1,343)	(4,458)	
Reversal of provision for loss on litigation	_	(802)	_	
Loss on disposal of property, plant and equipment	252	329	2,446	
Increase in employees' severance and retirement benefits	_	1,560	_	
Decrease in liability for retirement benefits	(108)	—	(1,048)	
Increase (decrease) in allowance	2,638	(2,643)	25,608	
Interest and dividend income	(1,350)	(2,377)	(13,109)	
Interest expenses	2,637	2,097	25,599	
Changes in operating assets and liabilities:				
Decrease in notes and accounts receivable	6,091	6,025	59,132	
Decrease in inventories	10,177	12,702	98,810	
Increase (decrease) in notes and accounts payable	2,306	(44,837)	22,388	
Other—net	729	4,356	7,079	
Sub-total	74,529	21,505	723,582	
Interest and dividend received	1,398	2,240	13,571	
Interest paid	(2,595)	(2,038)	(25,190)	
Income taxes paid	(9,671)	(19,047)	(93,893)	
Net cash provided by operating activities	¥63,661	¥ 2,660	\$618,070	

	Million	Millions of yen		
	2014	2013	U.S. dollars (Note 1) 2014	
Cash flows from investing activities:				
Net (increase) decrease in time deposits	¥ 231	¥ (212)	\$ 2,240	
Proceeds from sale of securities	1,747	1,362	16,961	
Acquisition of property, plant and equipment	(19,050)	(22,052)	(184,947)	
Proceeds from sale of property, plant and equipment	1,407	1,570	13,665	
Net decrease in short-term loans receivable	1,385	441	13,444	
Payments of long-term loans receivable	(12,624)	(6)	(122,562)	
Other—net	(718)	(763)	(6,977)	
Net cash used in investing activities	(27,622)	(19,660)	(268,176)	
Cash flows from financing activities:				
Net increase (decrease) in short-term bank loans	(5,736)	16,393	(55,687)	
Net increase (decrease) in commercial paper	(10,000)	10,000	(97,087)	
Proceeds from long-term debts	15,032	15,416	145,945	
Repayments of long-term debts	(2,236)	(44,427)	(21,706)	
Proceeds from sale of treasury stock	4	10	37	
Purchases of treasury stock	(180)	(27)	(1,752)	
Cash dividends paid	(4,307)	(6,120)	(41,815)	
Cash dividends paid to minority stockholders	(260)	(426)	(2,529)	
Repayments of finance lease obligations	(1,815)	(2,247)	(17,618)	
Net cash used in financing activities	(9,498)	(11,428)	(92,212)	
Effect of exchange rate changes on cash and cash equivalents	3,401	2,073	33,021	
Net increase (decrease) in cash and cash equivalents	29,942	(26,355)	290,703	
Cash and cash equivalents at beginning of year	46,476	72,376	451,218	
Increase in cash and cash equivalents due to change in scope of consolidation	_	455	_	
Cash and cash equivalents at end of year (Note 2)	¥76,418	¥46,476	\$741,921	

See accompanying notes.

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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, 2014, which was ¥103 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.

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 (determined primarily by the weighted average method) or market. Work-in-process is stated at the lower of cost (determined primarily by specific identification method) or market.

Property, plant, and equipment

(A) Tangible fixed assets (excluding lease assets)

Tangible assets are stated at cost and depreciated primarily by declining-balance method for SHI and its domestic consolidated subsidiaries except for buildings acquired after April 1, 1998, which are depreciated primarily using a straight-line method. Tangible assets of SHI's overseas consolidated subsidiaries are also depreciated primarily by a straight-line method.

(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

the estimated useful lives (5 years).

individual basis.

Allowance for warranty

estimated.

Allowance for losses on business Allowance for losses on business is provided for the estimated future expenses that are expected to be incurred associated with maintenance of the transaction agreement between an affiliated company and its sales agents.

Retirement benefits



Financial Section

The estimated useful lives of tangible assets are as follows: – Buildings and structure 10 to 50 years – Machinery and equipment 5 to 12 years

Costs of software obtained for internal use are amortized using the straight-line method over

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

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

Allowance for losses on business transfer

Allowance for losses on business transfer is provided for the estimated future expenses due to the transfer of resort development business.

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.

In calculating the retirement benefit obligation, the straight-line method is used to attribute the expected benefit attributable to the respective fiscal years.

Prior service costs are amortized using the straight-line method over a period within the average remaining service life of active employees.

Intellectual Property

The actuarial difference is amortized using the straight-line method over a period within the average remaining service life of active employees commencing from the following year of the incurrence.

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 items affect 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 which was 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.

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, 2014 has declined by ¥19,589 million (\$190,183 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 ¥10,718 million (\$104,055 thousand) and ¥10,001 million for the years ended March 31, 2014 and 2013, respectively.

Income taxes

rates for the year.

Amounts per share

applicable to the year-end.

Reclassifications

Certain amounts in the consolidated financial statements for the year ended March 31, 2013 have been reclassified to conform to the 2014 presentation.

Change in accounting policies New accounting standards for Retirement Benefits In the fiscal year ended March 31, 2014, SHI and its consolidated domestic subsidiaries adopted "Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, May 17, 2012 (hereinafter, the "Statement No. 26")) and Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, May 17, 2012 (hereinafter, the "Guidance No. 25")) except the article 35 of the Statement No. 26 and the article 67 of the Guidance No. 25 and actuarial gains and losses and past service costs that are yet to be recognized have been recognized and the difference between retirement benefit obligations and plan assets has been recognized as a liability for retirement benefits.

In accordance with the article 37 of the Statement No. 26, the effect of the change in accounting policies arising from initial application has been recognized in accumulated adjustments for retirement benefit in accumulated other comprehensive income.

current fiscal year.



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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 affiliated companies 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

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.

- 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

As a result of the adoption of these standards, a liability for retirement benefits in the amount of ¥40,037 million (\$388,709 thousand) has been recognized and accumulated other comprehensive income has increased by ¥613 million (\$5,953 thousand), at the end of the

In addition, the balance of "adjustment on pension obligations of consolidated foreign subsidiaries", which used to be separately presented, has been reclassified to and combined with the "accumulated adjustments for retirement benefit" on the Company's consolidated balance sheets effective from the current fiscal year.

Impending application of newly issued accounting standards, etc. (A) Accounting standard for Retirement Benefits (ASBJ Statement No. 26, May 17, 2012) and Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, May 17, 2012)

(1) Summary

These accounting standard and guidance have been amended from the viewpoint of improvements to financial reporting and international convergence, mainly focusing on (a) how actuarial gains and losses and past service costs should be accounted for, (b) how retirement benefit obligations and current service costs should be determined and (c) enhancement of disclosures.

(2) Effective dates

Amendments relating to determination of retirement benefit obligations and current service costs are effective from the beginning of annual periods ending on or after March 31, 2015.

(3) Effect of application of the standard

SHI and its consolidated domestic subsidiaries are currently in the process of determining the effects of these new standards on the consolidated financial statements.

- (B) Accounting Standard for Business Combinations (ASBJ Statement No. 21, September 13, 2013), Accounting Standard for Consolidated Financial Statements (ASBJ Statement No. 22, September 13, 2013), Accounting Standard for Business Divestitures (ASBJ Statement No. 7, September 13, 2013), Accounting Standard for Earnings Per Share (ASBJ Statement No. 2, September 13, 2013), Guidance on Accounting Standard for Business Combinations and Business Divestitures (ASBJ Guidance No. 10, September 13, 2013), Guidance on Accounting Standard for Earnings Per Share (ASBJ Guidance No. 4, September 13, 2013)
- (1) Summary

These accounting standards and guidance have been amended mainly focusing on (a) accounting treatment for changes in equity of parent company which maintains controls on its subsidiary before and after additional purchase or part of disposal of investment in subsidiary, (b) accounting treatment of acquisition related costs, (c) presentation of net income and change from minority interests to non-controlling shareholders' interest and (d) provisional accounting treatment.

(2) Effective dates

They will be effective for the beginning of annual periods on or after March 31, 2016. Provisional accounting treatment is effective from the beginning of annual periods ending on or after March 31, 2016.

(3) Effect of application of the standard

SHI and its subsidiaries are currently in the process of determining the effects of these new standards on the consolidated financial statements.

2. Cash and cash equivalents

have negligible risk of changes in value.

Cash and time deposi-Time deposits with ma Restricted deposits Securities (cash equiva Cash and cash equival

3. Impairment losses on fixed assets

(A) The Company recognized the following impairment losses in the year ended March 31, 2014.

Use Business assets, etc.

Idle, etc.

Total

Due to the significant adverse change in the business environment, an impairment analysis was required. As a result of the cash flow analysis, it was determined that the carrying values of the related fixed assets were not recoverable, resulting in the impairment for the year ended March 31, 2014.

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 determined based on a net selling price of each asset, which is calculated by deducting the related selling expenses from the selling price.

March 31, 2013.

Use Ships business assets,

Idle, etc.

Total



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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

Cash and cash equivalents as of March 31, 2014 and 2013 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
its	¥67,826	¥47,814	\$658,501
naturities over three months	(1,248)	(1,201)	(12,109)
	(160)	(137)	(1,558)
alents)	10,000	_	97,087
alents	¥76,418	¥46,476	\$741,921

		Millions of yen	Thousands of U.S. dollars
Type of assets	Location	2014	2014
Buildings, etc.	Nishitokyo, Tokyo Metropolis, etc.	¥1,210	\$11,755
Buildings, etc.	Yokosuka, Kanagawa Pref, etc.	480	4,656
		¥1,690	\$16,411

Reason for recognition of impairment losses

(B) The Company recognized the following impairment losses in the year ended

			Millions of yen
	Type of assets	Location	2013
, etc.	Lands and buildings, etc.	Yokosuka, Kanagawa Pref, etc.	¥16,441
	Lands and buildings, etc.	Kurashiki, Okayama Pref, etc.	951
			¥17,392

	Reason for recognition of impairment lo Due to the significant adverse change in the busir was required. As a result of the cash flow analysis of the related fixed assets were not recoverable, r	ness environme , it was determ	ined that the c	arrying values		As of March 31, 2014 banks and contingent li
	ended March 31, 2013. Grouping of assets Each division is considered an asset group since th cash flows can be identified that are largely indep					Cash and time deposits Buildings and structure Land Total
	groups. A temporarily idle asset is also considered Calculation of recoverable amount The recoverable amount is generally determined by which is calculated by deducting the related selling	an asset group	o. selling price of	each asset,		The Company has ag commitment lines with As of March 31, 2014 lines are as follows:
4. Bank loans, commercial paper, lease obligations and long-term debts	Bank loans as of March 31, 2014 and 2013 consist interest at 3.11% and 2.12% per annum, respect There was no balance of the commercial paper as of March 31, 2013 bore interest principally at 0 The amounts of lease obligation under finance	ively. as of March 31).11% per annu	, 2014. Comm um.	nercial paper		Limit of revolving lines of global commitment line Used Unused
	portion. Long-term debts and lease obligations as of Ma	arch 31, 2014 a	nd 2013 consi	st of the	5. Income Taxes	SHI and its consolidated
	following:	Millior 2014	ns of yen 2013	Thousands of U.S. dollars 2014		prise taxes, which, in th for the years ended Ma The following table s
	0.9% domestic bonds due in December 2014 Loans principally from banks and insurance companies due serially through October 2018	¥10,000	¥10,000	\$ 97,087		and the effective tax rai March 31, 2014 and 20
	with interest ranging from 0.47% to 6.40% in FY2013 Secured	206	199	2,004		Statutory tax rate Non deductible expens and entertainment, e
	Unsecured Lease obligations	44,410 5,796	30,316 5,609	431,166 56,263		Per capita inhabitant ta Non taxable income su
	Amount due within one year Amount due after one year	¥60,412 28,206 32,206	¥46,124 2,599 43,525	\$586,520 273,846 312,674		Tax credit Valuation allowance Equity in earnings of a Undistributed earning:
	Long-term debts and lease obligations are due	as follows:	Millions of yen	Thousands of U.S. dollars		Different tax rates app Income taxes for prior Others
	Years ending March 31		2014	2014		

	Millions of yen	U.S. dollars
Years ending March 31	2014	2014
2015	¥28,206	\$273,846
2016	15,947	154,809
2017	6,988	67,844
2018	2,286	22,197
2019	6,774	65,771
2020 and thereafter	211	2,053
Total	¥60,412	\$586,520

To Our Shareholders, Customers, and Employe

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31, 2014 and 2013, assets pledged as collateral for long-term loans from ngent liabilities are as follows:

	Millions	s of yen	Thousands of U.S. dollars
	2014	2013	2014
iits	¥ 160	¥ 122	\$ 1,558
re	1,036	849	10,055
	166	131	1,608
	¥1,362	¥1,102	\$13,221

y has agreements for revolving lines of credit with twelve banks and for global nes with four banks to efficiently raise working capital.

31, 2014 and 2013, unused revolving lines of credit and global commitment

	Millions	s of yen	Thousands of U.S. dollars
	2014	2013	2014
g lines of credit and ment lines	¥52,461	¥51,041	\$509,328
	1,469	2,275	14,263
	¥50,992	¥48,766	\$495,065

solidated domestic companies are subject to corporate, inhabitants' and enterich, in the aggregate show a statutory tax rate in Japan of approximately 38% nded March 31, 2014 and 2013, respectively.

table summarizes significant differences between the statutory tax rate ve tax rate for consolidated financial statement purposes for the years ended and 2013.

	2014	2013
	38.01%	38.01%
penses for tax purpose such as meals		
t, etc.	1.07	2.89
nt tax	0.56	2.01
e such as dividend income	(0.92)	(6.77)
	(2.40)	(5.51)
e	1.49	9.64
of affiliates	(1.46)	(2.04)
ings in consolidated overseas subsidiaries	2.25	4.05
applied to consolidated overseas subsidiaries	2.81	(3.18)
rior periods	1.21	(2.06)
	0.51	5.64
	43.13%	42.68%

	Finar	ncial	Highlights	
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Main components of deferred tax assets and liabilities as of March 31, 2014 and 2013 are presented below:

	Million	s of yen	Thousands of U.S. dollars
	2014	2013	2014
Deferred tax assets:			
Accrued bonuses	¥ 3,104	¥ 3,231	\$ 30,131
Allowance for doubtful accounts	1,179	763	11,446
Allowance for warranty	2,214	1,819	21,496
Allowance for employees' severance			
and retirement benefit	—	16,442	—
Liability for retirement benefits	15,261	—	148,166
Unrealized profit on inventories	1,547	1,377	15,019
Devaluation of marketable securities			
and investments into affiliated companies	973	1,173	9,445
Depreciation	845	755	8,206
Net operating loss carryforward	3,373	3,111	32,749
Loss on valuation of inventories	5,407	4,569	52,491
Impairment losses on fixed assets	3,425	3,288	33,252
Unrealized gains or losses on hedging derivatives	138	249	1,335
Others	8,239	7,983	79,997
Total deferred tax assets	45,705	44,760	443,733
Less—valuation allowance	(13,004)	(12,600)	(126,249)
Deferred tax assets—net	¥ 32,701	¥32,160	\$ 317,484
Deferred tax liabilities:			
Tax depreciation reserve	(81)	(85)	(788)
Difference on revaluation of assets and liabilities			
of subsidiaries	(3,313)	(3,313)	(32,166)
Accelerated depreciation	(2,610)	(2,069)	(25,340)
Undistributed earnings in consolidated			
overseas subsidiaries	(3,070)	(2,366)	(29,809)
Net unrealized holding gains on securities	(1,377)	(862)	(13,373)
Others	(589)	(456)	(5,707)
Deferred tax liabilities	¥(11,040)	¥ (9,151)	\$(107,183)
Net deferred tax assets	¥ 21,661	¥23,009	\$ 210,301

6. Net assets

Intellectual Property

Under the Japanese law to be designated as col of Directors, designate additional paid-in capit Under the Japanese of surplus is made, the any, of 25% of commo reserve must be set asig reserve is included in re Under the Law, gene to eliminate or reduce Under the Law, all ac ferred to other capital s available for dividends. The maximum amou the entity's non-consoli and regulations. At the general share cash dividend amountin not been accrued in th 2014 and will be record

7. Contingent liabilities

SHI and certain consolidated domestic subsidiaries are contingently liable as endorsers of trade notes receivable discounted with banks in the amounts of ¥4,895 million (\$47,524 thousand) and ¥2,277 million as of March 31, 2014 and 2013, 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 ¥34,033 million (\$330,414 thousand) and ¥37,684 million as of March 31, 2014 and 2013, respectively.

(Revision of statutory tax rate)

Following the promulgation on March 31, 2014 of "Act for Partial Revision of the Income Tax Act, etc." (Act No. 10 of 2014), The Special Reconstruction Corporation Tax will be abolished for the fiscal year beginning on or after April 1, 2014.

Also, following the promulgation on March 31, 2014 of "Act for Partial Revision of the Local Tax Act, etc." (Act No. 4 of 2014) and "Local Corporation Tax Act" (Act No. 11, 2014), The Local Corporation Tax will be imposed for the fiscal year beginning on or after October 1, 2014.

In line with these changes, the effective statutory tax rate used to measure deferred tax assets and liabilities related to temporary difference expected to be recovered or settled after April 1, 2014 will be changed from 38.01% to 35.64%.

As a result of these changes, net deferred tax assets (after offsetting deferred tax liabilities) were decreased by ¥498 million (\$4,834 thousand), as of March 31, 2014, and the deferred income tax expense was increased by ¥481 million (\$4,669 thousand) for the year ended March 31, 2014.



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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.

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

At the general shareholders' meeting held on June 27, 2014, the shareholders resolved cash dividend amounting to ¥2,453 million (\$23,817 thousand). Such appropriations have not been accrued in the accompanying consolidated financial statements as of March 31, 2014 and will be recorded in the period in which they are resolved.

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income

8. Statement of comprehensive 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 years ended March 31, 2014 and 2013 are as follows:

	Million	s of yen	Thousands of U.S. dollars
	2014	2013	2014
Unrealized gains on securities, net of income taxes			
Increase (decrease) during the year	¥ 2,039	¥ 1,494	\$ 19,801
Reclassification adjustments	(457)	(1,072)	(4,440)
Sub-total, before tax	1,582	422	15,361
Tax (expense) or benefit	(533)	4	(5,177)
Sub-total, net of tax	1,049	426	10,184
Unrealized gains (losses) on hedging derivatives, net of income taxes			
Increase (decrease) during the year	(1,494)	(1,527)	(14,504)
Reclassification adjustments	1,769	291	17,170
Sub-total, before tax	275	(1,236)	2,666
Tax (expense) or benefit	(107)	425	(1,035)
Sub-total, net of tax	168	(811)	1,631
Adjustment regarding pension obligations of consolidated foreign subsidiaries			
Increase (decrease) during the year	797	(682)	7,734
Reclassification adjustments	497	290	4,827
Sub-total, before tax	1,294	(392)	12,561
Tax (expense) or benefit	(436)	158	(4,229)
Sub-total, net of tax	858	(234)	8,332
Foreign currency translation adjustment			
Increase (decrease) during the year	22,303	10,234	216,534
Share of other comprehensive income of affiliates accounted for using equity method			
Increase (decrease) during the year	20	(4)	199
Reclassification adjustments	5	3	47
Sub-total, net of tax	25	(1)	246
Total other comprehensive income	¥24,403	¥ 9,614	\$236,927

9. Segment information

(A) Segment information

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 are based on current market price.

Due to the reorganization, some businesses which were previously categorized under the precision machinery segment are categorized under the industrial machinery segment from the year ended March 31, 2014. Amounts in the segment information for the year ended March 31, 2013 have been reclassified based on new segmentation.

and 2013 are as follows:

					Millior	ns of yen				
			Reportable	e segment						
2014	Machinery components	Precision machinery	Construction machinery	Industrial machinery	Ships	Environmental facilities and plants	Total	Other	Adjustment	Consolidated
Net sales:										
Outside customers	¥ 99,994	¥133,518	¥192,511	¥78,793	¥14,814	¥86,166	¥605,796	¥ 9,475	¥ —	¥615,271
Inter-segment	1,726	1,077	28	760	151	372	4,114	2,957	(7,071)	—
Total	101,720	134,595	192,539	79,553	14,965	86,538	609,910	12,432	(7,071)	615,271
Segment income	¥ 5,876	¥ 8,684	¥ 10,299	¥ 4,076	¥ (2,992)	¥ 6,198	¥ 32,141	¥ 2,053	¥ 135	¥ 34,329
Segment assets	¥113,972	¥124,893	¥200,519	¥65,672	¥48,608	¥63,603	¥617,267	¥54,906	¥52,009	¥724,182
Other items:										
Depreciation	¥ 4,510	¥ 4,518	¥ 6,376	¥ 1,711	¥ 307	¥ 866	¥ 18,288	¥ 329	¥ —	¥ 18,617
Impairment losses on fixed assets	17	571	13	—	321	—	922	305	463	1,690
Investments in equity method affiliates	—	1,461	5,024	3,261	_	—	9,746	—	—	9,746
Increase in property, plant and equipment, and intangible assets	3,344	4,564	9,435	986	485	774	19,588	741	_	20,329

Environmental and

Social Contribution Init

2. "Adjustment" is referred to below:

(1) Adjustment of segment income (¥135 million) represents elimination of inter-segment transactions.

(2) Adjustment of segment assets (¥52,009 million) primarily represents the Company's cash and time deposits and marketable securities.

(3) Adjustment of impairment losses on fixed assets (¥463 million) is related to the Company's corporate assets such as housing lots, etc.

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

								Milli	ons of	yen						
						Reportabl	e segment									
2013	Machin compon	,		ecision chinery		nstruction achinery	Industrial machinery	Ships		vironmental facilities Ind plants	Total	(Other	Adju	stment	Consolidated
Net sales:																
Outside customers	¥ 91,1	74	¥12	24,603	¥1	52,773	¥84,264	¥46,013	¥	78,583	¥577,410	¥	8,461	¥		¥585,871
Inter-segment	2,1	13		994		23	914	86	;	501	4,631		2,872	(7	7,503)	—
Total	93,2	87	12	25,597	1	52,796	85,178	46,099)	79,084	582,041	1	1,333	(7	7,503)	585,871
Segment income	¥ 2,7	67	¥	8,635	¥	6,132	¥ 4,385	¥ 2,366	5 ¥	\$,575	¥ 29,860	¥	1,362	¥	66	¥ 31,288
Segment assets	¥106,5	82	¥12	21,698	¥1	58,186	¥62,683	¥52,848	3 ¥	61,533	¥563,530	¥4	9,006	¥35	5,188	¥647,724
Other items:																
Depreciation	¥ 4,2	72	¥	4,691	¥	4,526	¥ 1,865	¥ 1,663	¥	913	¥ 17,930	¥	352	¥		¥ 18,282
Impairment losses on fixed assets	3	69		7		29	_	16,441		—	16,846		58		488	17,392
Investments in equity method affiliates Increase in property, plant and		_		1,450		3,953	3,182		-	—	8,585		—		—	8,585
equipment, and intangible assets	7,3	95		5,993		12,983	1,721	692		743	29,527		361		—	29,888

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 (¥35,188 million) primarily represents the Company's cash and time deposits and marketable securities.

(3) Adjustment of impairment losses on fixed assets (¥488 million) is related to the Company's corporate assets such as housing lots, etc.

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

A summary of net sales, profits or losses, assets and other items by operating segments for the years ended March 31, 2014

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

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					Thousands o	of U.S. dollars				
			Reportable	e segment						
2014	Machinery components	Precision machinery	Construction machinery	Industrial machinery	Ships	Environmental facilities and plants	Total	Other	Adjustment	Consolidated
Net sales:									•	
Outside customers	\$ 970,814	\$1,296,291	\$1,869,038	\$764,979	\$143,826	\$836,567	\$5,881,515	\$ 91,986	\$ —	\$5,973,501
Inter-segment	16,758	10,458	264	7,380	1,470	3,607	39,937	28,714	(68,651)	
Total	987,572	1,306,749	1,869,302	772,359	145,296	840,174	5,921,452	120,700	(68,651)	5,973,501
Segment income	\$ 57,046	\$ 84,306	\$ 99,992	\$ 39,572	\$ (29,049)	\$ 60,180	\$ 312,047	\$ 19,934	\$ 1,310	\$ 333,291
Segment assets	\$1,106,524	\$1,212,550	\$1,946,785	\$637,591	\$471,923	\$617,504	\$5,992,877	\$533,068	\$504,945	\$7,030,890
Other items:										
Depreciation	\$ 43,783	\$ 43,860	\$ 61,916	\$ 16,614	\$ 2,981	\$ 8,404	\$ 177,558	\$ 3,191	\$ —	\$ 180,749
Impairment losses on fixed assets	164	5,550	126	_	3,113	—	8,953	2,966	4,492	16,411
Investments in equity method affiliates	_	14,181	48,785	31,657	—	—	94,623	—	—	94,623
Increase in property, plant and equipment, and intangible assets	32,468	44,309	91,603	9,574	4,707	7,512	190,173	7,196	_	197,369

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

(2) Adjustment of segment assets (\$504,945 thousand) primarily represents of the Company's cash and time deposits and marketable securities.

(3) Adjustment of impairment losses on fixed assets (\$4,492 thousand) is related to the Company's corporate assets such as housing lots, etc.

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

(B) Related information

Information by geographical area

1. Net sales

	Millior	Millions of yen		
	2014	2013	2014	
Japan	¥296,195	¥277,075	\$2,875,680	
U.S.A.	90,534	73,227	878,972	
China	63,192	49,517	613,510	
Other areas	165,350	186,052	1,605,339	
Total	¥615,271	¥585,871	\$5,973,501	

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

2. Property, plant and equipment

	Million	Thousands of U.S. dollars	
	2014	2013	2014
Japan	¥158,071	¥157,953	\$1,534,670
Other areas	62,213	52,699	604,013
Total	¥220,284	¥210,652	\$2,138,683

10. 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, 2014 and 2013 is as follows:

	Millions of yen				
2014	Acquisition cost	Accumulated depreciation	Carrying value		
Machinery and equipment	¥2,992	¥2,472	¥520		
Other tangible fixed assets	210	146	64		
Total	¥3,202	¥2,618	¥584		

2013
Machinery and equipm
Other tangible fixed as
Total

2014

Machinery and equipm Other tangible fixed as Total

2013 are as follows:

Due within one year Due after one year Total

and 2013 are as follows:

Due within one year Due after one year Total

(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.

disclosed due to immateriality.

and 2013 are as follows:

Due within one year
Due after one year
Total



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nvironmental	an	d		

		Millions of yen	
	Acquisition cost	Accumulated depreciation	Carrying value
ment	¥4,565	¥3,298	¥1,267
ssets	648	544	104
	¥5,213	¥3,842	¥1,371
		Thousands of U.S. dollars	
	Acquisition cost	Accumulated depreciation	Carrying value
ment	\$29,048	\$24,003	\$5,045
ssets	2,039	1,414	625
	\$31,087	\$25,417	\$5,670

Total lease payments for finance leases, which are not subject to the ownership transfer from a lessor to a lessee, amounted to ¥413 million (\$4,005 thousand) and ¥762 million for the years ended March 31, 2014 and 2013, respectively.

Future lease payments (including interest) under finance leases as of March 31, 2014 and

Millions of yen		Thousands of U.S. dollars
2014	2013	2014
¥492	¥ 792	\$4,774
92	579	896
¥584	¥1,371	\$5,670

Also, future lease payments under non-cancelable operating leases as of March 31, 2014

Millions of yen		Thousands of U.S. dollars
2014	2013	2014
¥1,275	¥1,107	\$12,375
2,010	1,144	19,519
¥3,285	¥2,251	\$31,894
	2014 ¥1,275 2,010	2014 2013 ¥1,275 ¥1,107 2,010 1,144

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, 2014 and 2013 are not disclosed because the amounts are not material.

Future lease receivables under finance leases as of March 31, 2014 and 2013 are not

Also, future lease receivables under non-cancelable operating leases as of March 31, 2014

Millions of yen		Thousands of U.S. dollars
2014	2013	2014
¥ 39	¥ 46	\$ 374
206	234	2,008
¥245	¥280	\$2,382

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11. 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 and long-term loans receivable 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 bank loans, the Company enters into an interest rate swap contract for each individual loan as hedging instruments. Loans denominated in foreign currencies are exposed to the foreign exchange rate fluctuation risk.

3. Risk management for financial instruments:

(1) Credit risk

The Company reviews credit status of customers before accepting orders to mitigate their credit risk 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 risk

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 the 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 risk

The Company has 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.

tion is not available.

2014

Cash and time deposit Trade receivables Short-term investment and investment secur Long-term loans receiv Assets total Trade payables Short-term bank loans Corporate bonds Long-term bank loans Liabilities Total Derivatives

2013

Cash and time deposit Trade receivables Investment securities Assets total Trade payables Short-term bank loans Corporate bonds Long-term bank loans Liabilities Total Derivatives

2014

Cash and time deposit Trade receivables Short-term investment and investment securi Long-term loans receiv Assets total Trade payables Short-term bank loans Corporate bonds Long-term bank loans Liabilities Total Derivatives

1. Cash and time deposits 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.



(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, 2014 and 2013. Certain financial instruments are excluded from the following table as the fair value informa-

		Millions of yen	
	Carrying amount	Fair value	Difference
ts	¥ 67,826	¥ 67,826	¥ —
	181,961	180,952	(1,009)
t			
rities	23,419	23,419	—
vable	13,786	14,920	1,134
	286,992	287,117	125
	124,211	124,211	—
S	52,817	52,817	—
	10,000	10,000	—
5	44,616	45,116	500
	231,644	232,144	500
	(285)	(578)	(293)
		Millions of yen	
	Carrying amount	Fair value	Difference
ts	¥ 47,814	¥ 47,814	¥ —
	173,299	172,728	(571)
	13,066	13,066	_
	234,179	233,608	(571)
	113,575	113,575	—
S	48,032	48,032	—
	10,000	10,012	12
5	30,515	30,749	234
	202,122	202,368	246
	(1,289)	(1,771)	(482)
		Thousands of U.S. dollars	
	Carrying amount	Fair value	Difference
ts	\$ 658,501	\$ 658,501	\$ —
	1,766,609	1,756,817	(9,792)
t			
rities	227,372	227,372	_
vable	133,842	144,854	11,012
	2,786,324	2,787,544	1,220
	1,205,928	1,205,928	—
S	512,783	512,783	—
	97,087	97,087	—
5	433,170	438,021	4,851
	2,248,968	2,253,819	4,851
	(2,771)	(5,610)	(2,839)

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

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3. Short-term investment and investment securities	The aggregate maturi
Short-term investment represents the certificate deposit with the short-term maturity, which	March 31, 2014 and 20
is recorded at its carrying amount as it approximates the fair value. Investment securities	
represent the equity securities, and the market prices are used to estimate fair values.	

4. Long-term loans receivable

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.

5. Trade payables and short-term bank loans

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

6. 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.

7. Long-term bank loans

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

8. Derivatives

The fair values of forward exchange contracts are based on quoted forward exchange rates. The fair values of options, interest rate swaps and currency 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 the above table because there is no fair value available.

	Million	s of yen	U.S. dollars
	2014	2013	2014
Affiliate stocks	¥10,918	¥9,717	\$105,998
Unlisted stocks	2,403	2,394	23,321
Investment bonds	5	11	53

The aggregate maturities of financial assets subsequent to March 31, 2014 and 2013 are as follows:

	Millions of yen				
2014	Within one year	Over one year within five years	Over five years		
Cash and time deposits	¥ 67,826	¥ —	¥ —		
Trade receivables	178,044	3,662	255		
Long-term loans receivable	3,149	10,626	11		
Total	¥249,019	¥14,288	¥266		
		Millions of yen			
2013	Within one year	Over one year within five years	Over five years		
Cash and time deposits	¥ 47,814	¥ —	¥ —		
Trade receivables	169,587	3,325	387		
Total	¥217,401	¥3,325	¥387		
	Thousands of U.S. dollars				
2014	Within one year	Over one year within five years	Over five years		
Cash and time deposits	\$ 658,501	\$ —	\$ —		
Trade receivables	1,728,574	35,557	2,478		
Long-term loans receivable	30,577	103,158 107			
Total	\$2,417,652	\$138,715	\$2,585		

2014 Long-term bank loans Corporate bonds

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2013 Long-term bank loans Corporate bonds

2014 Long-term bank loans Corporate bonds

12. Short-term investment and investment securities

		Millions of yen		Thousands of U.S. dollars
Available-for-sale	securities	2014	2013	2014
Equity securities	Acquisition cost	¥ 8,260	¥ 9,489	\$ 80,193
	Carrying amount	13,419	13,066	130,285
	Difference	¥ 5,159	¥ 3,577	\$ 50,092
Other securities	Acquisition cost	¥10,000	¥ —	\$ 97,087
	Carrying amount	10,000	—	97,087
	Difference	¥ —	¥ —	\$ —

Sale of securities Net gain

(E) Impairment of securities



urities of long-term bank loans and corporate bonds subsequent to 2013 are as follows:

			Millions	s 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
s	¥16,856	¥13,980	¥5,918	¥1,549	¥6,313	¥—
	10,000	_	_	_	_	_
			Millions	s 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
s	¥1,245	¥15,025	¥11,651	¥1,038	¥1,538	¥18
	_	10,000	—	_	_	_
			Thousands o	f 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
s	\$163,646	\$135,732	\$57,459	\$15,043	\$61,290	\$—
	97,087		_			

(A) Carrying amounts of short-term investment and investment securities not stated at fair values as of March 31, 2014 and 2013 are disclosed in the Note 11. "Financial instruments".

(B) Acquisition costs and carrying amounts of available-for-sale securities as of March 31, 2014 and 2013 are as follows:

(C) Total sales amount of available-for-sale securities and the related net gain in the fiscal years ended March 31, 2014 and 2013 are as follows:

Million	s of yen	Thousands of U.S. dollars
2014	2013	2014
¥1,747	¥1,362	\$16,961
459	1,342	4,458
 459	1,342	4,458

(D) There were no available-for-sale securities with maturity and held-tomaturity securities as of March 31, 2014 and 2013.

Impairment losses for securities were ¥2 million (\$23 thousand) and ¥0 million for the years ended March 31, 2014 and 2013, respectively.

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13. Derivatives information

The Company enters into forward currency exchange contracts, currency option contracts, interest rate swap contracts and currency swap contracts as derivative financial instruments. The Company utilizes forward currency exchange transactions to hedge risk of fluctuation in a foreign currency exchange rate with respect to receivables and payables denominated in foreign currencies. Interest rate swap transactions are utilized to minimize risk of increase in interest rate on borrowings. The 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 and the fair values of forward foreign exchange contracts for which no hedge accounting is applied as of March 31, 2014 and 2013 are as follows:

	Million	s of yen	U.S. dollars
	2014	2013	2014
Contracted amounts:			
To buy foreign currencies	¥ 82	¥ 102	\$ 794
To sell foreign currencies	17,795	14,967	172,767
Fair value:			
To buy foreign currencies	1	(3)	13
To sell foreign currencies	158	(508)	1,535
Net unrealized exchange gain (loss)	¥ 159	¥ (511)	\$ 1,548

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

There is no currency swap contract for which no hedge accounting is applied as of March 31, 2013. The aggregate contracted amounts to be paid / received and the fair values of currency swap contracts for which no hedge accounting is applied as of March 31, 2014 are as follows: Thousands of

	Millions of yen	U.S. dollars
	2014	2014
Currency swap contracts		
Contracted amounts	¥289	\$2,802
Fair value	61	597

(C) Forward foreign exchange contracts for which hedge accounting is applied The aggregate contracted amounts and the fair values of forward foreign exchange contracts for which hedge accounting is applied as of March 31, 2014 and 2013 are as follows:

5 5 11	, Millions	s of yen	Thousands of U.S. dollars
	2014	2013	2014
Deferred hedge accounting			
Contracted amounts:			
To buy foreign currencies	¥ 1,037	¥ 1,137	\$ 10,066
To sell foreign currencies	21,224	10,311	206,057
Fair value:			
To buy foreign currencies	34	151	332
To sell foreign currencies	(541)	(932)	(5,247)
Alternative method (Note)			
Contracted amounts:			
To buy foreign currencies	820	131	7,959
To sell foreign currencies	946	1,422	9,186
Fair value:			
To buy foreign currencies	28	(3)	272
To sell foreign currencies	(122)	(252)	(1,188)
Net unrealized exchange gain (loss)	¥ (601)	¥ (1,036)	\$ (5,831)

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

Interest rate swap cor Contract amounts: Interest swap fixe Fair value: Interest swap fixe

14. Retirement benefits

(A) Year ended March 31, 2013 for their employees. Additionally, SHI provides a "Retirement Benefit Trust".

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

(1) Projected benefit o (2) Fair value of emplo (3) Unfunded projecte (4) Unrecognized actu (5) Unrecognized prior (6) Employees' severar

2. The following severance and pension benefit expenses are included in the statements of income for the year ended March 31, 2013:

(1) Service cost (2) Interest cost on pro (3) Expected return or (4) Amortization of ac (5) Amortization of pr (6) Severance and per

3. Major actuarial assumptions used to determine pension obligations as of March 31, 2013 are as follows:

(1) Allocation of the e benefits to be paid (2) Assumed discount (3) Expected rate of re-(4) Amortization perio

(5) Amortization perio



The aggregate amounts of interest rate swap contracts for which hedge accounting is applied as of March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
ntracts (special treatment) (Note)			
ed rate to floating rate	¥21,398	¥16,795	\$207,746
ed rate to floating rate	(198)	(224)	(1,923)
tions are most the net encount under an interact rate surger contract is added to an deducted			

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

SHI provides both a lump-sum severance payment 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

	Millions of yen
	2013
obligation	¥(76,588)
oyees retirement benefit plan assets	33,011
ed benefit obligation	(43,577)
uarial difference	4,444
or service cost	(36)
nce and retirement benefit	¥(39,169)

	Millions of yen
	2013
	¥3,062
ojected benefit obligation	1,471
n plan assets	(709)
ctuarial difference	1,743
rior service cost	118
nsion benefit expense	¥5,685

	2013
estimated amount of all retirement d at the future retirement date	Equally to each service year using the estimated number of total service years
trate	Mainly 1.5%
eturn on plan assets	Mainly 0.0%
od of prior service cost	SHI: 1 year Subsidiaries: Mainly 12 years
od of actuarial differences	Mainly 12 years

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(B) Year ended March 31, 2014

1. Summary of defined benefit plans

SHI and most of its domestic consolidated subsidiaries provide both a lump-sum severance payment plan and a defined contribution plan for employees. Some foreign consolidated subsidiaries sponsor a defined benefit plan for their employees.

Additionally, SHI provides a "Retirement Benefit Trust".

Liability for retirement benefits and retirement benefit costs are determined based on a simplified method for some lump-sum severance payment plans operated by respective consolidated subsidiaries.

2. Defined benefit plans, except plan applied simplified method

(1) Movement in retirement benefit obligations

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Balance at April 1, 2013	¥72,867	\$707,444
Service cost	2,843	27,598
Interest cost	1,752	17,014
Actuarial loss (gain)	(1,348)	(13,084)
Benefits paid	(4,789)	(46,494)
Prior service costs	(189)	(1,834)
Other	6,368	61,818
Balance at March 31, 2014	¥77,504	\$752,462

(2) Movements in plan assets

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Balance at April 1, 2013	¥32,291	\$313,497
Expected return on plan assets	972	9,434
Actuarial gain (loss)	4,664	45,277
Contributions paid by the employer	894	8,680
Benefits paid	(1,166)	(11,321)
Other	2,662	25,860
Balance at March 31, 2014	¥40,317	\$391,427

(3) Reconciliation from retirement benefit obligations and plan assets to liability (asset) for retirement benefits

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Funded retirement benefit obligations	¥58,682	\$569,733
Plan assets	40,317	391,427
	18,365	178,306
Unfunded retirement benefit obligations	18,822	182,730
Total net liability (asset) for retirement benefits at March 31, 2014	37,187	361,036
Liability for retirement benefits	37,187	361,036
Total net liability (asset) for retirement benefits at March 31, 2014	¥37,187	\$361,036

(4) Retirement benefit costs

Corporate Governance

Service cost Interest cost Expected return on pla Amortization of actua Amortization of prior Other Total retirement benef March 31, 2014

Unrecognized prior ser
Unrecognized actuaria
Total balance at March

(6) Plan assets (a) Plan assets comprise:

Equity securities
Cash and time depos
Other
Total

(b) Long-term expected rate of return

(7) Actuarial assumptions as follows:

Assumed discount rate Long-term expected ra

Balance at April 1, 20 Service cost Benefits paid Contributions paid Other Balance at March 31,



Social Contribution Ini

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Corporate Data

	Millions of yen	Thousands of U.S. dollars
	2014	2014
	¥2,843	\$27,598
	1,752	17,014
lan assets	(972)	(9,434)
arial difference	1,942	18,853
service cost	78	757
	(12)	(121)
fit costs for the fiscal year ended		
	¥5.631	\$54,667

(5) Accumulated adjustments for retirement benefit

	Millions of yen	Thousands of U.S. dollars
	2014	2014
ervice cost	¥ (303)	\$ (2,938)
al difference	(3,508)	(34,064)
h 31, 2014	¥(3,811)	\$(37,002)

	80%
ts	2%
	18%
	100%

Notes: Total plan assets include retirement benefit trust provided for SHI's lump-sum severance payment plan, which comprises 59% of the plan assets and amounts to ¥23,750 million (\$230,583 thousand).

Current and target asset allocations, historical and expected returns on various categories of plan assets have been considered in determining the long-term expected rate of return.

The principal actuarial assumptions at March 31, 2014 (expressed as weighted averages) are

	2014
te	Mainly 1.5%
rate of return	Mainly 0.0%

3. Defined benefit plan applying the simplified method

(1) Movement in liability for retirement benefits

	Millions of yen	Thousands of U.S. dollars
	2014	2014
)13	¥3,001	\$29,137
	402	3,899
	(373)	(3,621)
to plan	(68)	(659)
	(112)	(1,083)
. 2014	¥2,850	\$27,673

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							Independent Auditor	's Report	
		nciliation from retirement benefit o ement benefits	obligations and plan a	ssets to liability	asset) for			Inde	pender
				Millions of yen	Thousands of U.S. dollars			of Directors of Sumitomo Hea	
	Funded Plan asse	retirement benefit obligations ets		2014 ¥ 830 (768)	2014 \$ 8,054 (7,453)		its consolidate and the conso	ted the accompanying consolid ed subsidiaries, which compris lidated statements of income, ended, and a summary of sign	se the co compre
	Total net	ed retirement benefit obligations t liability (asset) for retirement benefit	s at March 31, 2014	62 2,788 2,850	601 27,072 27,673			's Responsibility for the Con	
	Total net	for retirement benefits t liability (asset) for retirement benefit		2,850 ¥2,850	27,673 \$27,673		in accordance	is responsible for the preparati with accounting principles ge determines is necessary to enal	nerally
	(\$3,8	399 thousand) for the year ended N		amounted to ¥	amounted to ¥402 million free from material misstatemer Auditor's Responsibility				ue to fi
	Contrib	ned contribution plan utions paid to defined contribution ed to ¥597 million (\$5,794 thousa					conducted ou require that w	ility is to express an opinion or r audits in accordance with aud e comply with ethical requirer ut whether the consolidated fit	diting s ments a
15. Subsequent events	The follo accomp	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, 2014, were approved at the SHI's general shareholders' meeting held on June 27, 2014: Thousands of				consolidated assessment of or error. In m and fair prese	Ives performing procedures to financial statements. The proc the risks of material misstater aking those risk assessments, ntation of the consolidated fina- the circumstances, while the o	edures ment of we con ancial s	
	Year-end	l cash dividends ¥4.00 (\$0.04) per sh	are	Millions of yen 2014 ¥2,453	2014 \$23,817		expressing an the appropriat	opinion on the effectiveness of eness of accounting policies u as well as evaluating the over	of the en
		proved dividend will be paid to the			4201011		We believe th audit opinion	at the audit evidence we have	obtaine
							Opinion		
16. Others	(specific (Provisic 2013, w	In connection with an order received from the city of Kyoto for the "Construction Work (specifically only for plant equipment work) for the Kyoto City Incinerated Ash Melting Facility (Provisional Name)", SHI received a cancellation notice from the city of Kyoto on August 5, 2013, which states that SHI was unable to deliver the said facility by the prefixed delivery					position of Su and their fina	n, the consolidated financial sta mitomo Heavy Industries, Ltd ncial performance and cash flo erally accepted in Japan.	I. and i
	Kyoto D	e. In addition, the city of Kyoto filed istrict Court, claiming compensation	on for damages of ¥18				Convenience	Translation	
	SHI ha accorda any disp	sand) against SHI by reason of the cancellation. SHI had petitioned for arbitration to the Central Construction Work Disputes Committee in accordance with the relevant provisions of the contract with the city of Kyoto that, in case of any disputes, a resolution would be pursued via the mediation or arbitration of the Committee of Construction Work Disputes under the Construction Business Act. However, the city of					March 31, 20 into U.S. doll	ar amounts in the accompanyin 14 are presented solely for con ar amounts and, in our opinion dated financial statements.	venien

Kyoto did not pursue an amicable solution via arbitration, thereby resulting in the filing of the

SHI is confident that the purported cancellation at a stage before the near completion of

the intended work is invalid and therefore that the city of Kyoto's claim of compensation for damages based on such cancellation is groundless. SHI intends to fully insist on the legitimacy

KPHG AZSA LLC June 27, 2014 Tokyo, Japan

lawsuit.

of its position regarding this lawsuit.



Environmental and

Social Contribution Initi



Financial Section



ndustries, Ltd.:

d financial statements of Sumitomo Heavy Industries, Ltd. and e consolidated balance sheets as at March 31, 2014 and 2013, prehensive income, changes in net assets, and cash flows for ant accounting policies and other explanatory information.

dated Financial Statements

nd fair presentation of these consolidated financial statements lly accepted in Japan, and for such internal control as he preparation of consolidated financial statements that are o fraud or error.

ese consolidated financial statements based on our audits. We g standards generally accepted in Japan. Those standards s and plan and perform the audit to obtain reasonable ial statements are free from material misstatement.

ain audit evidence about the amounts and disclosures in the res selected depend on our judgement, including the of the consolidated financial statements, whether due to fraud consider internal control relevant to the entity's preparation al statements in order to design audit procedures that are ctive of the financial statement audit is not for the purpose of e entity's internal control. An audit also includes evaluating and the reasonableness of accounting estimates made by resentation of the consolidated financial statements.

ined is sufficient and appropriate to provide a basis for our

ents present fairly, in all material respects, the financial id its consolidated subsidiaries as at March 31, 2014 and 2013, for the years then ended in accordance with accounting

onsolidated financial statements with respect to the year ended ience. Our audit also included the translation of yen amounts ch translation has been made on the basis described in Note 1 Special Feature

Intellectual Property

(As of April 1, 2014)

Segment	Business	Company Name	Telephone Number	Segment	Business	Company Name	Telephone N
achinery	Power Transmission and	Sumitomo Heavy Industries Gearmotors Co., Ltd.	0562-88-3040	Construction	Hydraulic Excavators	Sumitomo (S.H.I.) Construction Machinery Co., Ltd.	03-6737-2600
Components Control Equipment	Sumitomo Heavy Industries, PTC Sales Co., Ltd.	03-6737-2580	Machinery	Road Machinery	Sumitomo (S.H.I.) Construction Machinery Sales Co., Ltd.	03-6737-2610	
		Sumiju Tomida Machinery Co., Ltd.	0562-48-4167			Sumitomo (S.H.I.) Construction Machinery (Tangshan) Co., Ltd.	61-3391000
	Sumiju Technos, Ltd.	0562-48-5115			LBX Company, LLC	1-859-245-39	
		SEISA Gear, Ltd.	0724-31-3021			Sumitomo Heavy Industries (China) Financial Leasing, Ltd.	86-21-5204-9
		Sumitomo Heavy Industries (Tangshan), Ltd.	86-0315-339-0080	ī		PT. SUMITOMO S.H.I. CONSTRUCTION MACHINERY INDONESIA	62-21-5795-22
		Sumitomo (SHI) Cyclo Drive China, Ltd.	86-22-2499-3501			PT. SUMITOMO S.H.I. CONSTRUCTION MACHINERY SOUTHEAST ASIA	62-21-8910-8
		Sumitomo (SHI) Cyclo Drive Logistics, Ltd.	86-21-5774-8866		Mobile Cranes	Link-Belt Construction Equipment Company, L.P., LLLP	1-859-263-52
		Sumitomo Heavy Industries (Vietnam) Co., Ltd.	84-4-955-0010				
		Sumitomo (SHI) Cyclo Drive Germany GmbH	49-8136-66-0	Industrial	Material Handling Cystems	Sumitana Haavy Industrias Matarial Handling Systems Co., Ltd.	03-6737-2640
		Sumitomo (SHI) Cyclo Drive Asia Pacific Pte. Ltd.	65-6-591-7800	Machinery	Material Handling Systems	Sumitomo Heavy Industries Material Handling Systems Co., Ltd.	
		Sumitomo (SHI) Cyclo Drive Korea, Ltd.	82-2-730-0151	machinery	Forging Presses	Sumijiu Technocraft Co., Ltd.	0897-32-6306
		Sumitomo Machinery Corporation of America	1-757-485-3355		Turbines and Pumps	Shin Nippon Machinery Co., Ltd.	03-6737-2630
		Sumitomo Industrias Pesadas do Brasil Ltda.	55-11-5585-3600		Forklift Trucks	Sumitomo NACCO Materials Handling Co., Ltd.	0562-48-525
		SM Cyclo of Canada, Ltd.	1-905-469-1050		Quantum Equipment and Cyclotron Accelerators	Sumiju Examination & Inspection, Ltd.	0898-65-486
		Hansen Industrial Transmissions NV	32-3-450-12-11			SHI Accelerator Service Ltd.	03-5434-846
						Japan Electron Beam Irradiation Service Co., Ltd.	03-5434-846
	Direction Indirections Machalines	Contraction to the second second	045 547 7744			Sumiju Magnet (Kunshan) Co., Ltd.	86-512-5768
ision hinery	Plastic Injection Molding Machines	Sumitomo Heavy Industries Modern, Ltd.	045-547-7711				
Machinery Machines		Sumiju Platec Co., Ltd.	043-420-1558	Ships	Ships	Sumitomo Heavy Industries Marine & Engineering Co., Ltd.	03-6737-262
		Sumiju Logitech Co., Ltd.	043-420-1680				
		Izumi Seiki Co., Ltd.	0897-32-6232	En discontratal	Energy-Related and Environmental Protection Systems	Sumiju Plant Engineering Co. Itd	042-468-400
		Ningbo Sumiju Machinery, Ltd.	86-574-86805901	Environmental Facilities & Plants		Sumiju Plant Engineering Co., Ltd.	
		Sumitomo (SHI) Demag Plastics Machinery GmbH	49-911-5061-717			Sumiju Environmental Technologies, Ltd.	03-6737-282
		Sumitomo (SHI) Demag Plastics Machinery North America, Inc.	1-770-447-5430		Water Treatment Systems	Sumitomo Heavy Industries Environment Co., Ltd.	03-6737-270
		SHI Plastics Machinery (Hong Kong) Ltd.	852-2750-6630			Sumiju Environmental Engineering, Inc.	03-5719-502
		S.H.I. Plastics Machinery (S) Pte. Ltd.	65-6-779-7544		Pressure Vessels, Chemical Processing Equipment and Plants Food Processing Machinery	Sumitomo Heavy Industries Process Equipment Co., Ltd.	0898-64-693
	Cryogenic Equipment	Sumitomo (SHI) Cryogenics of America, Inc.	1-610-791-6700			Nihon Spindle Mfg. Co., Ltd.	06-6499-555
		Sumitomo (SHI) Cryogenics of Europe GmbH	49-6151-860610			Izumi Food Machinery Co., Ltd.	06-6718-6150
		Sumitomo (SHI) Cryogenics of Europe, Ltd.	44-1256-853333		Sales and Services, Area Management Compan	DT Cumitama Llagur Industrias Indonasia	
		SHI Manufacturing & Services (Philippines), Inc.	63-43-405-6263			, PT. Sumitomo Heavy Industries Indonesia	62-0-21-5795
	Precision Equipment and	Sumitomo Heavy Industries Himatex Co., Ltd.	0897-32-6485				
	Components	Sumiju Precision Forging Co., Ltd.	046-869-1659	Others	Others	Sumitomo Heavy Industries Business Associates, Ltd.	03-6737-2342
	LCD and Semiconductor	Sumitomo Heavy Industries Mechatronics, Ltd.	03-6737-2531	o there		Lightwell Co., Ltd.	03-5828-923
	Equipment	SEN Corporation	03-6737-2690			Izumi Support Corporation	03-6737-266
	Machine Tools	Sumitomo Heavy Industries Finetech, Ltd.	086-525-6280			Sumitomo Heavy Industries (China), Ltd.	86-21-6219-8
-	Defense Equipment	Sumiju Business, Ltd.	042-468-4311			Sumitomo Heavy Industries (Cnina), Ltd.	1-610-791-67
							1-h10-/91-h





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Environmental and	
Social Contribution Initiatives	
Social Contribution mitiatives	

y Industries (China) Financial Leasing, Ltd.	86-21-5204-9192
S.H.I. CONSTRUCTION MACHINERY INDONESIA	62-21-5795-2254
S.H.I. CONSTRUCTION MACHINERY SOUTHEAST ASIA	62-21-8910-8688
uction Equipment Company, L.P., LLLP	1-859-263-5200
y Industries Material Handling Systems Co., Ltd.	03-6737-2640
raft Co., Ltd.	0897-32-6306
achinery Co., Ltd.	03-6737-2630
CO Materials Handling Co., Ltd.	0562-48-5251
tion & Inspection, Ltd.	0898-65-4868
Service Ltd.	03-5434-8468
Beam Irradiation Service Co., Ltd.	03-5434-8467
(Kunshan) Co., Ltd.	86-512-5768-920
y Industries Marine & Engineering Co., Ltd.	03-6737-2620
gineering Co., Ltd.	042-468-4007
nental Technologies, Ltd.	03-6737-2820
y Industries Environment Co., Ltd.	03-6737-2700
nental Engineering, Inc.	03-5719-5020
y Industries Process Equipment Co., Ltd.	0898-64-6936
/lfg. Co., Ltd.	06-6499-5551
hinery Co., Ltd.	06-6718-6150
eavy Industries Indonesia	62-0-21-5795109
y Industries Business Associates, Ltd.	03-6737-2342

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.



[Ion-implantation system]

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 systems electrically ionize the elements and accelerate the resulting ions at high voltage for high-precision injection into the wafer.



[Cryocoolers]

Cryocoolers utilize a process under which helium gas is compressed and expanded, enabling cooling to temperatures near absolute zero (-273°C).



[Laser drills] -

Laser drills employ laser beams to cut holes in insulating resin. Primarily applied during printed circuit board manufacturing processes, the Company's laser drills boast the industry's highest speeds with the potential to cut over 1,000 holes per second.



Construction Machinery

[Telescopic machinery] -

Telescopic refers to a configuration that can both contract and expand much like the term "telescope" in English. The telescopic boom crawler crane, for example, delivers a crane arm that can both extend and contract.



[Asphalt pavers] -

S-UHF

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

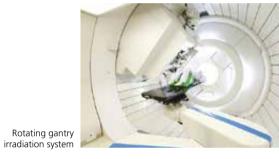


Industrial Machinery

Intellectual Property

[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



[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.



[Servo-driven presses]

By generating pressure, forging presses apply a compression molding process to materials. In addition to high intensity and high rigidity, forging presses can be used in the manufacture of components with complex shapes. SHI boasts the world's largest class pressing capacity.



Servo-driven presses





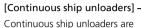
Financial Section

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Corporate Data

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



Continuous ship unloader



Ships

[Aframax tankers] -

Aframax tankers are mid-sized oil tankers with dead weight freight capacity in the 80.000 to 120.000MTDW class.



Aframax tankers

Environmental Facilities & Plants

[Circulating fluidized-bed (CFB) boilers] -

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.



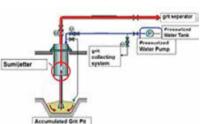
Circulating fluidized-bed (CFB) boiler

[Grit pumping systems] -

Grit lifters are typically used inside the grit chambers of wastewater treatment plants and other facilities. It is a device that uses pressurized water to

remove and transfer the built-up grit that has settled in the chamber.

Jet-pump type grit pumping system Sumijetter II



Intellectual Property

Corporate Data

(As of March 31, 2014)

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: 17,936 (Consolidated) 2,584 (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 Listing: Tokyo

Shares Outstanding: 614,527,405

Number of Shareholders: 48,685

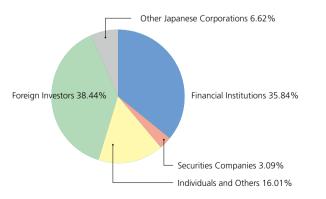
Major Shareholders:

Name of shareholder	Percentage of total shares issued and outstanding
Japan Trustee Services Bank, Ltd. (Trust account)	6.9
The Master Trust Bank of Japan, Ltd. (Trust account)	6.4
Sumitomo Life Insurance Company	3.5
STATE STREET BANK AND TRUST COMPANY 505224	3.2
Sumitomo Mitsui Banking Corporation	2.5
Sumitomo Heavy Industries, Ltd. Kyoeikai	2.0
JAPAN RE FIDELTY	1.4
Japan Trustee Services Bank, Ltd. Sumitomo Mitsui Trust Retirement Benefit Trust Account	1.3
Trust & Custody Services Bank, Ltd. (Trust account 9)	1.3
Sumitomo Corporation	1.2

Breakdown of Shareholders as of March 31, 2014:

Breakdown of shareholders	Number of shares held (unit 1,000)
Financial Institutions	220,244
Securities Companies	18,989
Individuals and Others	98,391
Foreign Investors	236,212
Other Japanese Corporations	40,691

The "Other Japanese Corporations" category also includes treasury stock, government institutions, and local governments The number of shares held is 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







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