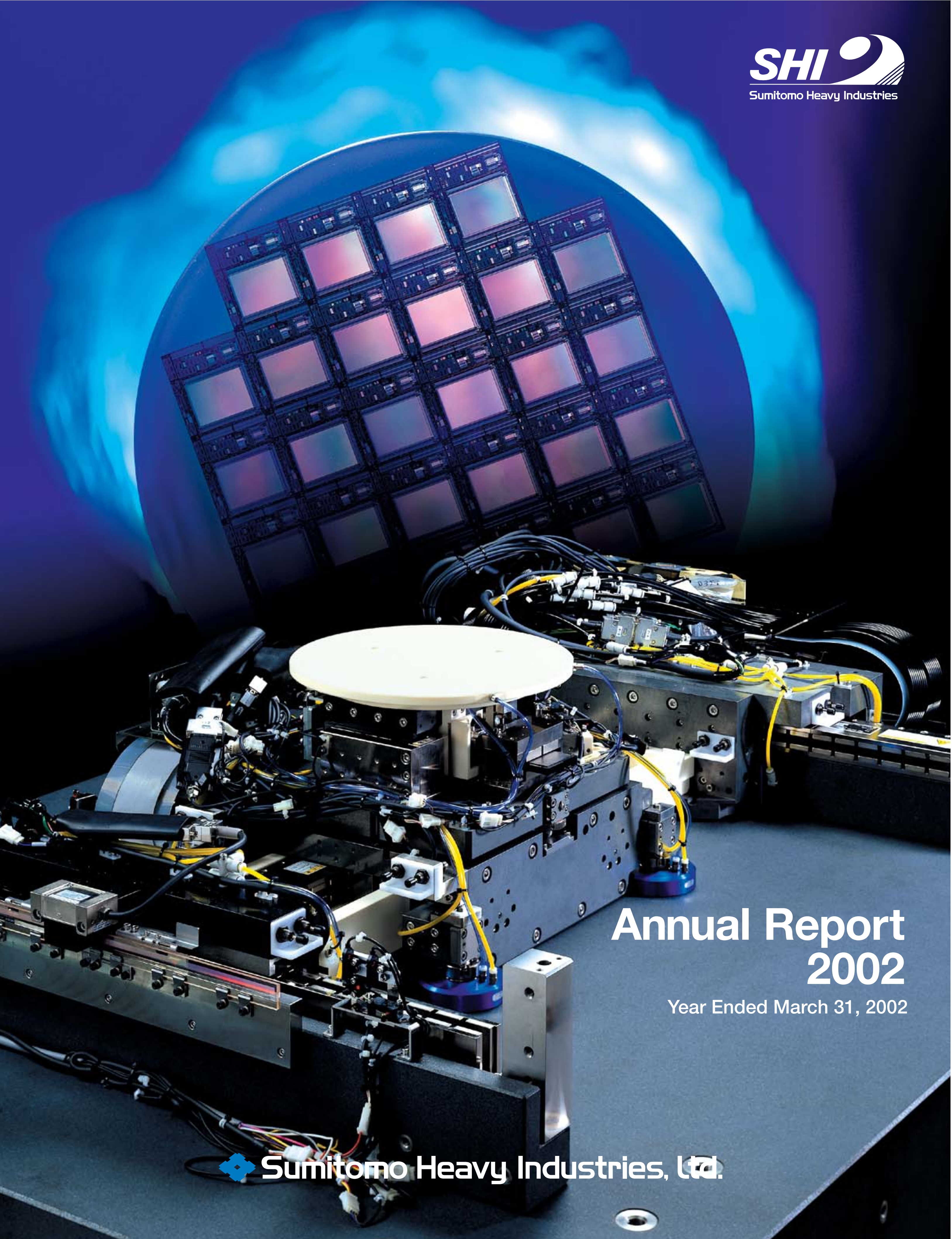


SHI
Sumitomo Heavy Industries

Annual Report 2002

Year Ended March 31, 2002

Sumitomo Heavy Industries, Ltd.

Profile

Sumitomo Heavy Industries, Ltd. first opened for business in 1888 and was incorporated in 1934. An integrated manufacturer of leading-edge industrial products, SHI's core businesses include production and sales of industrial machinery and shipbuilding. Offering both the latest in technology and the finest in quality, we provide our customers around the world with superior products designed to meet a wide range of demands.

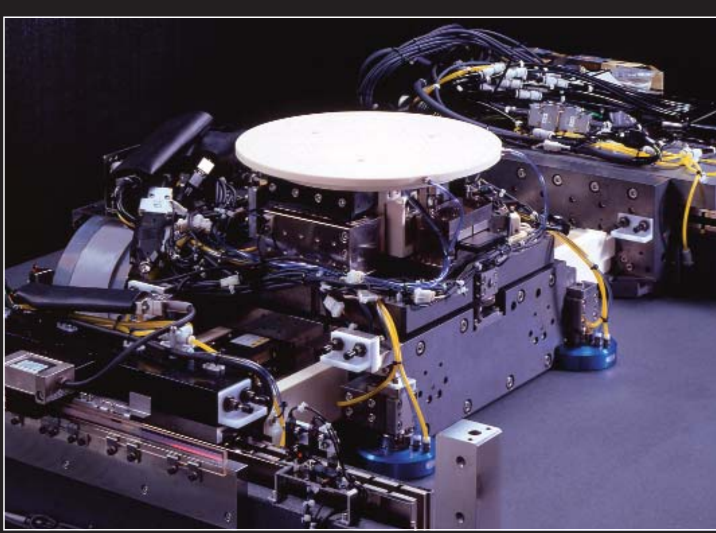
Our core business principles for value creation are

Competence – strengthening world-class competitiveness

Concentration – focusing together on elevated goals

Creativity – delivering change, innovation & responsiveness

Confidence – building our business in concert with our customers



XY stage

"Precision XYZ θ Stage SLHUS-330" (adapted to 300mm wafer) was developed for use in semiconductor wafer inspection. Its superior and unique control system, low profile structure, and non-contact drive with linear motor and air bearing achieved high positioning accuracy, velocity stability and high tracking accuracy.

Contents

Cautionary Statements with Respect to Forward-Looking Statements

Statements made in this annual report with respect to plans, strategies and future performance that are not historical facts are forward-looking statements. Sumitomo Heavy Industries, Ltd. cautions that a number of factors could cause actual results to differ materially from those discussed in the forward-looking statements.

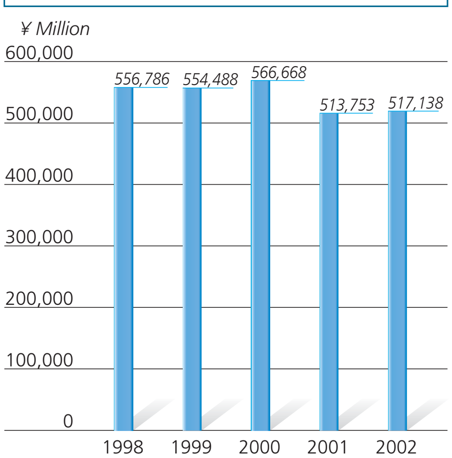
Financial Highlights

SUMITOMO HEAVY INDUSTRIES, LTD. and Consolidated Subsidiaries
Years ended March 31, 2002, 2001, 2000,1999 and 1998

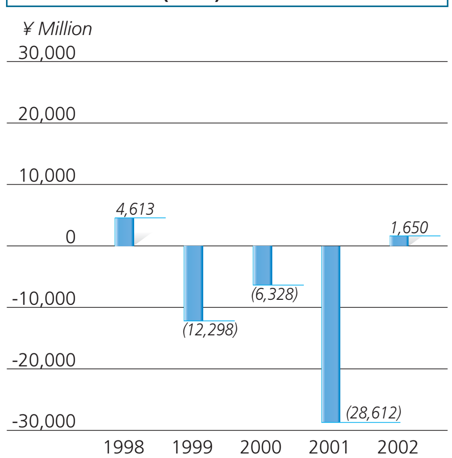
					Millions of yen (except per share amounts)	Thousands of U.S. dollars (except per share amounts)
	1998	1999	2000	2001	**2002**	**2002**
Net sales	¥ 556,786	¥ 554,488	¥ 566,668	¥ 513,753	**¥ 517,138**	**$ 3,888,253**
Operating income	19,323	9,630	12,709	7,485	**14,175**	**106,581**
Net Income	4,613	(12,298)	(6,328)	(28,612)	**1,650**	**12,408**
Net Income per share of common stock (*)	7.83	(20.88)	(10.74)	(48.60)	**2.80**	**0.02**
Stockholders' equity	78,909	72,975	64,829	30,049	**87,494**	**657,848**
Total assets	748,017	723,673	657,149	579,772	**634,904**	**4,773,718**
ROIC (%) (**)	2.7	1.6	1.9	1.3	**2.3**	—

(1) The U.S. dollar amount have been translated, for convenience only, at ¥133.00=$1, the prevailing exchange rate at March 31, 2002.
(2) *Net Income per share of common stock is based on the weighted average number of shares outstanding in each year.
(3) **ROIC (Return on Invested Capital) = (Net Operating Income) x (1-Effective tax rate) / (Invested capital)
Invested capital = (Stockholders' equity + Interest-baring debts) = (Total investment in our business).

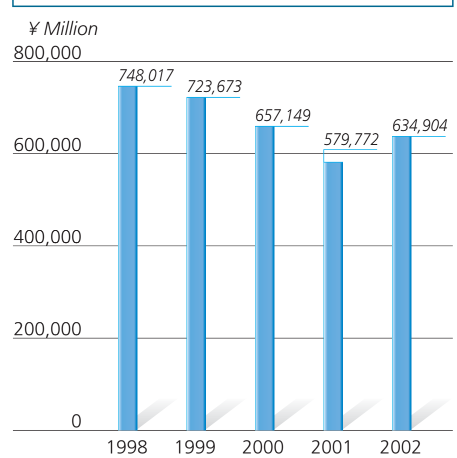
Net Sales



Net Income (Loss)



Total Assets



To Our Shareholders

Yoshio Hinoh
President and CEO

The Company's management strategy is to create value for customers by offering world top-class products and services, which will result in increased corporate value. To achieve this goal, we will continue transforming our business structure in line with changes in the business environment, and increase added value for customers, and strengthen competitiveness. With our firm commitment to this strategy, we will further promote business reorganization, which is the Company's continued management focus.

Review of operations in fiscal 2001

We implemented our three-year medium-term management plan "C21" from fiscal 1999. During those three years, our business environment had become severer than expected due to substantial shrinking in the Japanese market, the IT industry collapse and a slowdown of the U.S. economy triggered by the September 11 terrorist attacks. However, we returned to profit in net income in fiscal 2001, the year ended March 2002, by implementing the strategies of our medium-term management plan, which consisted of business portfolio restructuring and business process re-engineering.

One of the factors in our recovery in net income is a 1.4 percentage point improvement in cost of sales, resulting from cost reductions in both variable and fixed expenses. Let us look at operating income in each segment of fiscal 2001. In the Mass-Produced Machinery Segment, power transmission equipment (PTC), and plastic injection molding machines (plastic machines) were relatively good, while our competitors suffered from poor results due to the decrease in overall demand in the industries. The Construction Machinery Segment, which had a substantial operating loss in fiscal 2000, has become profitable by implementing various strategies based on the "Sumitomo (S.H.I.) Construction Machinery Revival Plan." The Ship, Steel Structure and Other Specialized Equipment Segment also recovered to an operating profit with cost reduction. In the Industrial Machinery Segment, an operating loss decreased substantially. The Environmental Systems, Plants and Others Segment has developed into our main group with three consecutive years of increased operating profit.

In fiscal 2001, we recorded a ¥11.9 billion extraordinary loss due to (1) amortization of net transition obligations in retirement benefits incurred from changes in accounting standard, and (2) special retirement expenses resulting from restructuring.

As a result, net income totaled ¥1.6 billion in fiscal 2001, a substantial improvement from a net loss of ¥28.6 billion in the previous fiscal year. However, due to loss brought forward from previous fiscal year, we decided to suspend payment of dividends again this year.

Review of previous medium-term management plan "C21"

In the "C21" plan, implemented from April 1999 to March 2002, the Company focused on two targets:

(1) Develop a business model that achieves stable profit greater than the cost of capital with a target to achieve greater than 5% ROIC.
(2) Change the business structure into a highly value-added one by reorganizing the group consists of units with distinctive competences.

In specific, the Company implemented a profit improvement strategy by reducing both variable and fixed expenses, and promoted the "Focus" of its business portfolio through alliances, M&As and withdrawal from unprofitable businesses.

(1) Enhanced profitability and improved financial structure compared with fiscal 1998

As for profitability, our operating income margin improved from 1.7% to 2.7% in fiscal 2001. ROIC improved from 1.6% to 2.3% in fiscal 2001, although it did not reach the targeted 5% due to substantial decreases in demand in the markets of Construction Machinery and Mass-Produced Machinery Segments.

In our financial structure, we decreased total assets from ¥723.6 billion to ¥634.9 billion in fiscal 2001 partly by selling idle assets. We also reduced interest-bearing debt from ¥387.1 billion to ¥294.5 billion. Also, by reviewing land prices based on the law concerning land revaluation, there was an increase in capital, with a ¥44.5 billion increase in revaluation reserve for land and retained earnings of ¥11 billion. As a result, consolidated stockholders' equity increased ¥14.5 billion to ¥87.4 billion in fiscal 2001. Stockholders' equity ratio improved from 10.0% to 13.8%.

(2) Reorganization of business portfolio

We promoted reorganization of our business structure since fiscal 1999. We focused management resources on strategic business areas with high growth potential, where the Company could fully utilize its competence. In businesses without a clear competence or with low ROIC, we promoted alliances with other companies or drastically lowered the break-even point to make those businesses profitable. We withdrew from some of those businesses when we could not expect them to adequately recover. Our strategic business areas are PTC, plastic machines, and “precision control equipment and component” businesses.

1) PTC, plastic machines

Mass-Produced Machinery Segment increased its market share by attracting new customers and continuously introducing new products. In the PTC business, we launched a small-sized geared motor (Astero). In the plastic machine business, we reinforced our product line particularly in all-electric-powered machines, and introduced glass injection molding machines. Also, we expanded our factory in Tian-jin, China, of a subsidiary manufacturing PTC, to promote global cost reduction.

2) Precision control equipment and components

We have been developing the precision control equipment and components business as a third profitable source of revenue, following the PTC business and plastic machine business. We are expanding market shares of our next-generation core products, such as cryogenics, ultra precision positioning devices and ion accelerators. In particular, ultra precision positioning devices are substantially expanding market share in the high-end market. In the quantum equipment business, an ion accelerator for PET (Positron Emission Tomography) has a 60% market share, and was recently approved by the Ministry of Health, Labor and Welfare for medical use. Its future growth is expected.

On the other hand, we acquired OPTEL Corporation, which specializes in development and manufacturing of functional components for optical information communication equipment, and acquired semi-conductor encapsulation equipment business from NEC Corporation and Shibaura Mechatronics Co., Ltd. We also acquired IGC-APD Cryogenics Inc., a U.S. cryogenic business. Thus, we are reinforcing our position in the market by accelerating growth through alliances and M&As.

3) Environmental Protection Facilities and Plants business

Environmental Protection Facilities and Plants business has grown into another core business following the Mass-Produced Machinery business. The Company is reinforcing the business by providing solution-type engineering services. As part of this effort, we made a license agreement with Foster Wheeler Energy International, Inc. for a circulating fluidized bed boiler (CFB) technology to enter IPP (Independent Power Producer) business in addition to Environmental Protection Facility businesses.

4) Industrial Machinery, Shipbuilding, Construction Machinery

In the Industrial Machinery, Shipbuilding and Construction Machinery businesses, we promoted cost reduction and downsizing while transforming business structures to maximize its competence mainly through alliances. In the Industrial Machinery Business, we established a joint venture company with NKK Corporation and Hitachi Zosen Corporation in April 2002 for a steel manufacturing plant business. In the Shipbuilding business, our naval ship business was transferred to Marine United, Inc., a joint venture with Ishikawajima-Harima Heavy Industries Co., Ltd. In commercial shipbuilding, we will reinforce engineering while operating a slim and compact organization to be realized through spin-off. In the Construction Machinery Business, we decided to promote a global strategic alliance in the mobile crane business with Hitachi Construction Machinery Co., Ltd. ("Hitachi") and Tadano, Ltd. As part of this strategy, we established a new joint venture company specializing in crawler cranes with Hitachi on July 1, 2002.

(3) Pursuing technological synergy

Our target is to become a Group of business units with their own distinctive competences. Therefore, we are reinforcing our technological capability that will be an engine for developing products with global competitiveness. To pursue technological synergy in strategic business areas, we constructed a new Research and Development Center in Yokosuka Works, positioning Yokosuka as a business and development center for leading-edge technology.

(4) Increasing intangible value: human resource development and the Six Sigma

We are enhancing human resource development, by motivating and increasing the skills of middle management through an in-house business school with top-class lecturers and a Six Sigma program. We work with SSQ (Six Sigma Qualtec), a U.S. consultancy to implement a Six Sigma program throughout the Company. Our Six Sigma program is not implemented as a managerial tool for regular daily work, but to train managers to solve managerial problems. Already 61 of our middle managers acquired black belts and 58 acquired green belts.

Next initiative: the new medium-term management plan

We just started our new Medium-term Management Plan from April 2002 to March 2005. In the new Medium-term Management Plan, we will continue to develop a "Powerful Sumitomo Heavy Industries Group," based on the concepts and achievements of our "C21" plan. We will rebuild our business model to increase corporate value and become a business Group to pursue synergy across our businesses through value chains. In particular, we will put value on our customers' needs and their opinions, listening to the "Voices of Customers." We will create value for customers with three policies: globally competitive products, global marketing capability and global supply chain management. Our target toward fiscal 2004 is more than ¥20 billion in operating income, with less than ¥250 billion in interest-bearing debt.

We will further reinforce our human resource development. We believe that our Six Sigma program will increase problem-solving capabilities of our middle management. We will also reorganize our personnel system so that we are able to reward people putting an emphasis on one's accomplishments.

The Company will create corporate value through providing more high value-added products, with priority to create value for customers, and to meet the interests of all stakeholders including shareholders, customers and employees. We appreciate your understanding and support to the Company's management policy.

Yoshio Hinoh
President and CEO

Yoshio Hinoh

Special Feature

C21:Previous Medium-term Management Plan — from fiscal 1999 to 2001

During these three years, we reorganized our business structure to reinforce profitability and improve our financial structure by "C21."

Targets of C21

(1) Develop a business model that achieves stable profit greater than the cost of capital with a target to achieve greater than 5% ROIC.

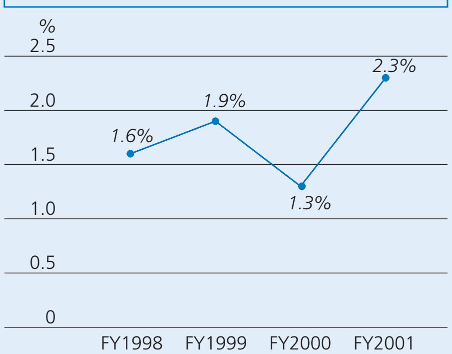
(2) Change the business structure into a highly value-added one by reorganizing the group consists of units with distinctive competences.

Major achievements in C21

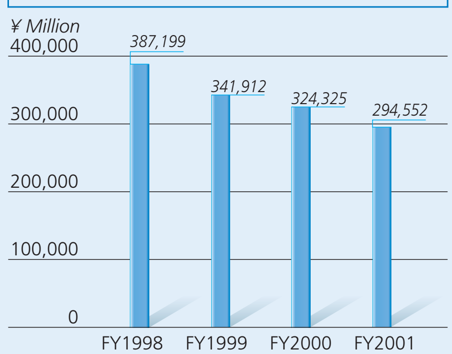
(1) ROIC increased from 1.6% in fiscal 1998, just before the start of C21, to 2.3% in fiscal 2001.

(2) Interest-bearing debt decreased from ¥387.1 billion in fiscal 1998 to ¥294.5 billion in fiscal 2001. Stockholders' equity increased from ¥73.0 billion in fiscal 1998 to ¥87.4 billion in fiscal 2001.

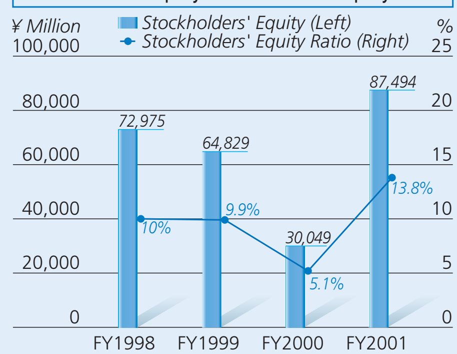
ROIC



Net Debt

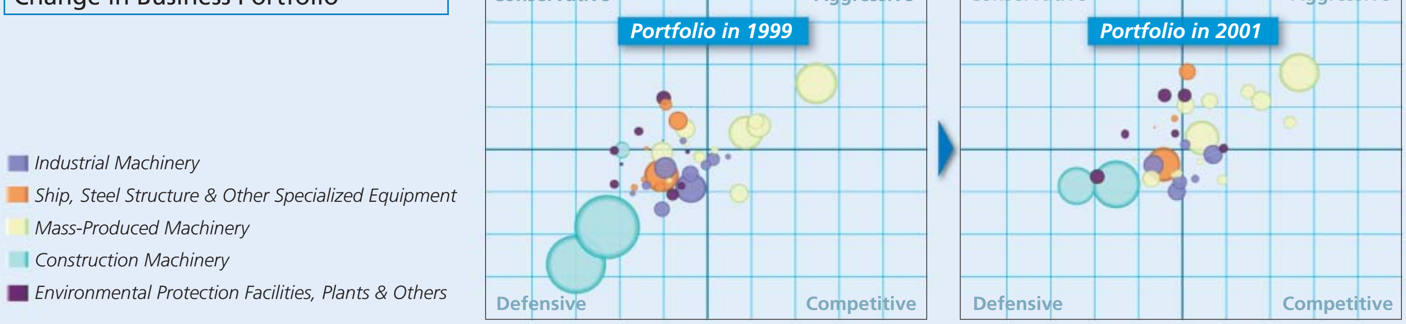


Stockholders' Equity / Stockholders' Equity Ratio

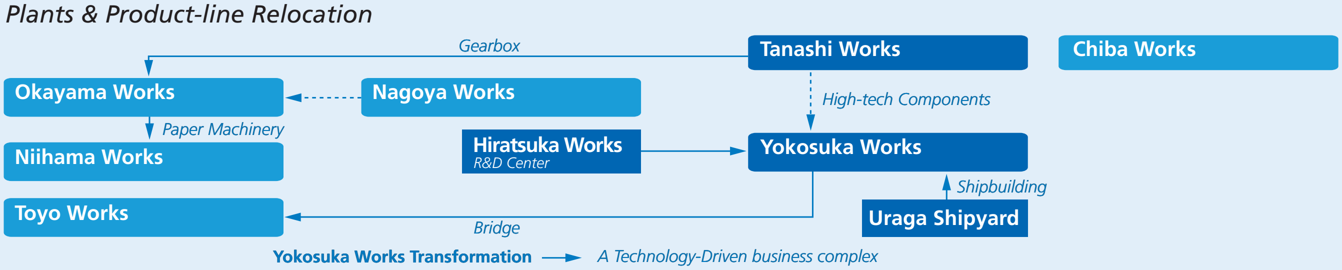


(3) We promoted reorganization of our business portfolio through a "Focus" policy. We relocated our Research and Development Center from Hiratsuka Works to Yokosuka Works. The objective of this relocation is to develop Yokosuka Works into a research, development and business center of cutting edge technology, to pursue technological synergy in strategic business areas.

Change in Business Portfolio



Plants & Product-line Relocation



New Medium-term Management Plan — from fiscal 2002 to 2004

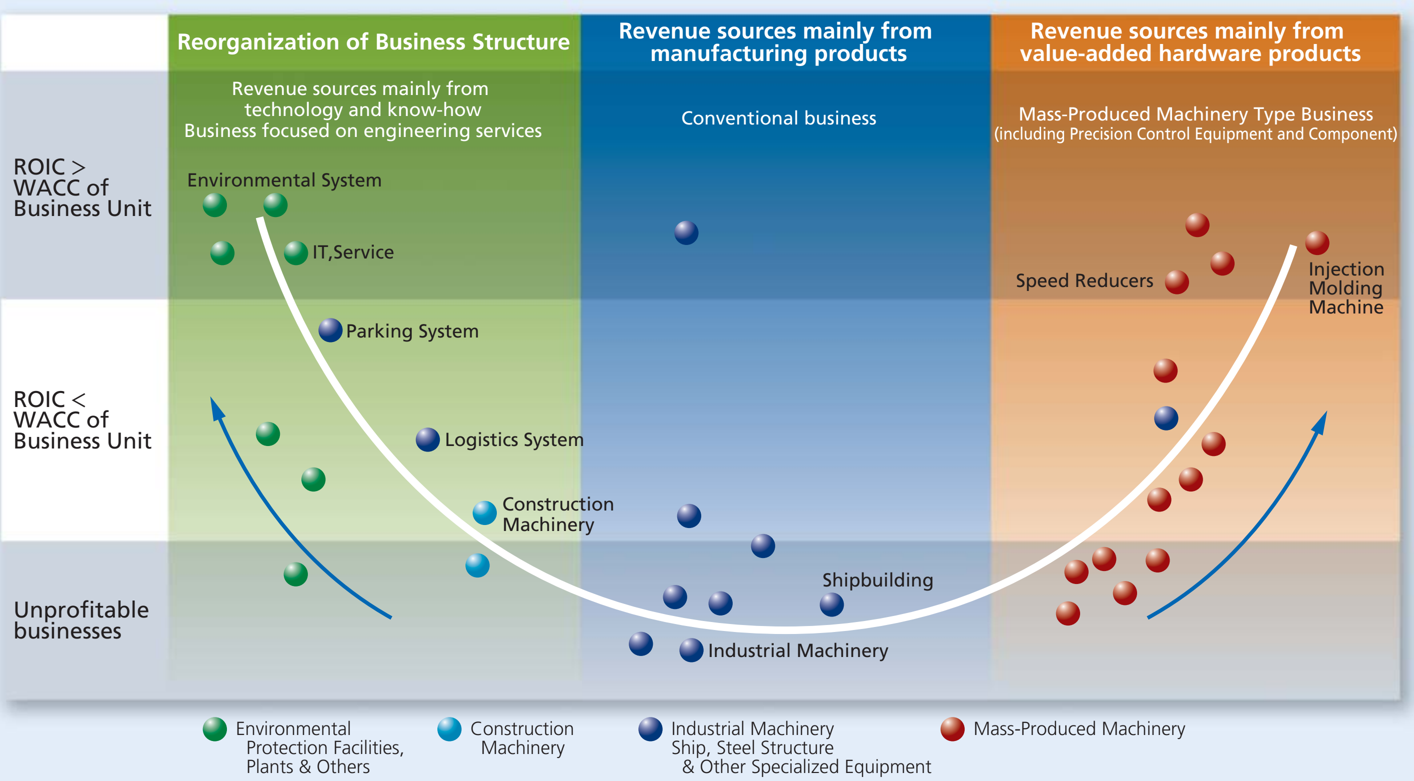
In the next three years, we will reinforce profitability by achieving an operating profit in all segments and create a "Powerful Sumitomo Heavy Industries Group."

Target in fiscal 2004	(1) Achieve ROIC greater than WACC.* (2) Achieve operating income of more than ¥20 billion. (3) Decrease interest-bearing debt to less than ¥250 billion. *WACC (Weighted Average Cost of Capital) = (Cost of equity capital) + (Cost of interest-bearing debts)
Reorganization of business structure	Expand Mass-Produced Machinery business and Environmental Protection Facilities, Plants business.
Mass-Produced Machinery	(1) Increase investment, introduce new products and develop global supply chain in power transmission and equipment business and plastic injection molding machine business. (2) Develop "Precision control equipment and component business": Develop business for ion accelerator, laser system, semi-conductor encapsulation equipment, cryogenics and precision positioning devices as a third profitable source of revenue.
Environmental Protection Facilities, Plants & Others, Bridges	(1) Ensure profitability even with decreasing investment in the public sector. (2) Promote IPP (Independent Power Producer) plant business. (3) Strengthen project administration capability and cost reduction.
Industrial Machinery, Ship, Steel Structure & Other Specialized Equipment	Transform these businesses into business focused on engineering services with competence, and rebuild business model to increase profitability through project management and utilization of IT (including remote maintenance system, trouble diagnosis, inspection services.)
Reinforcing Group management	Functional reinforcement of corporate headquarters. Consolidation and restructuring of subsidiaries and affiliates.
Establish strong management base	(1) Reform personnel and wage systems (2) Promote Six Sigma program (3) Train next-generation management personnel

Reorganization of Business Structure

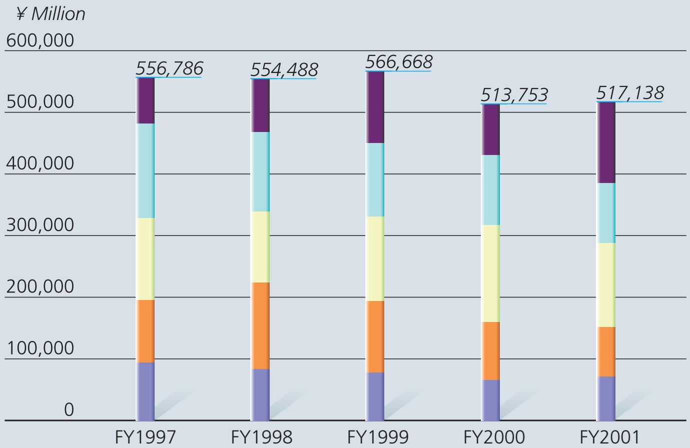
We have been developing the precision control equipment and components business as a third profitable source of revenue, following the "power transmission and speed reducer" business and "plastic injection molding machine" business.

We will also transform our conventional heavy machinery businesses into high value-added engineering service businesses.

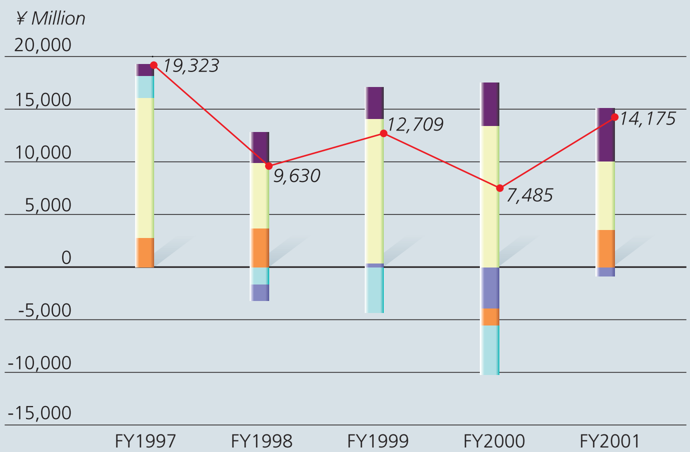


Review of Operations
Overview of Segments

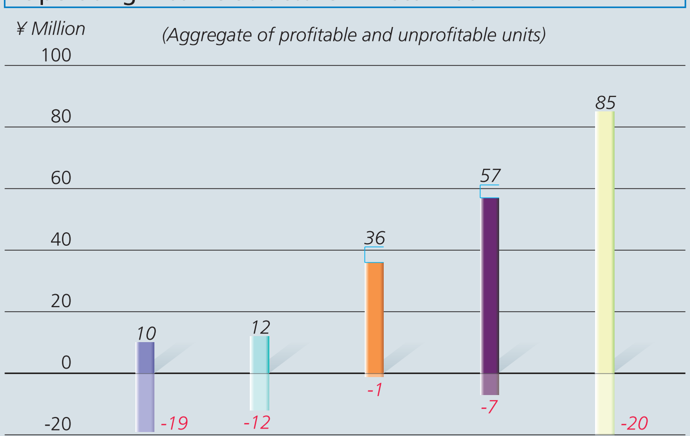
Net Sales by Segments



Operating Income by Segments



Operating Income Structure in fiscal 2001



Industrial Machinery
Ship, Steel Structure & Other Specialized Equipment
Mass-Produced Machinery
Construction Machinery
Environmental Protection Facilities, Plants & Others
Operating Income (Consolidated)

Let's take a look at our performance in fiscal 2001 by segment. In the Industrial Machinery Segment, sales totaled ¥72.2 billion, up 9% from the previous fiscal year mainly due to an increase in sales of logistics systems, although the segment had an operating loss.

In the Ship, Steel Structure & Other Specialized Equipment Segment, received orders were almost the same as the previous fiscal year, however its sales decreased 15% from the previous fiscal year to ¥79.7 billion, with ¥3.5 billion in operating income.

In the Mass-Produced Machinery Segment, power transmission equipment, plastic injection molding machines and laser systems were relatively good, while our competitors suffered from poor results due to the decrease in overall demand in their related industries. Under these circumstances, the sales totaled ¥135.6 billion, down 14% from the previous fiscal year, with ¥6.4 billion in operating income, ¥6.9 billion decrease from the previous fiscal year.

In the Construction Machinery Segment, sales decreased 12% due to a decrease in demand. We achieved ¥13 million operating income through cost reductions and "Sumitomo (S.H.I.) Construction Machinery Revival Plan."

In the Environmental Protection Facilities, Plants & Others Segment, we completed and delivered two large-scale municipal waste incineration plants. Sales totaled ¥131 billion, up 57% from the previous fiscal year with ¥5 billion in operating income.

Industrial Machinery

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

Major Units
- Shin Nippon Machinery Co., Ltd.
- Nihon Spindle Mfg. Co., Ltd.
- Sumitomo Heavy Industries Engineering and Services Co., Ltd.
- Sumiju Accelerator Service, Ltd.
- SHI Machinery Service Hong Kong, Ltd.

Ship, Steel Structure & Other Specialized Equipment

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

Major Units
- Sumiju Steel Construction & Engineering Co., Ltd.
- Marine United, Inc.
- Sumiju Techno Center Co., Ltd.
- SHI Mechanical & Equipment, Inc.
- SHI Examination & Inspection, Ltd.

Mass-Produced Machinery

Main Products
- Power Transmission Equipment
- Plastic Injection Molding Machines
- Extrusion Laminators
- Transfer Molding Press Machines
- Laser Processing Systems
- Forklift Trucks
- Precision Forgings & Castings
- Cryogenic Equipment
- XY Stages
- Defense Equipment

Major Units
- Sumitomo Eaton Nova Corporation
- Sumitomo NACCO Material Handling Co., Ltd.
- Sumitomo Machinery Corporation of America
- Sumitomo (SHI) Cyclo Drive Europe, Ltd.
- Sumitomo Plastics Machinery Inc. of America
- Synex Corporation
- SHI Control Systems, Ltd.
- Sumitomo (SHI) Cryogenics of America, Inc.
- SHI Manufacturing & Services (Philippines), Inc.

Construction Machinery

Main Products
- Excavators
- Cranes
- Road Equipment

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

Environmental Protection Facilities, Plants & Others

Main Products
- Chemical Process Equipment & Plants
- Pulp & Paper Manufacturing Machinery
- Power Generation Systems
- Air Pollution Control Plants
- Water and Sewage Treatment Systems
- Municipal Solid Waste Incineration Plants
- Industrial Wastewater Treatment Systems
- Software

Major Units
- Izumi Food Machinery Co., Ltd.
- Lightwell Co., Ltd.
- Sumiju Environmental Engineering, Inc.
- Sumiju Plant Service Co., Ltd.
- Sumiju Environmental Designing, Inc.

From top to bottom : Twin Belt Type Continuous Ship Unloader / "OCEAN LADY" - 105,000MT Tanker / New-IB Series / Spin Ace Series excavators SH125XU-3 / Electric Power Development Co., Ltd. Isogo Power Station Dry-Process Desulfurization Plant

3000t Automatic Hot Forging Press delivered to Iron Mountain in USA

Industrial Machinery

Summary of Operations

In the Industrial Machinery Segment, a decline in large-capital projects related to steel manufacturing lowered order bookings for fiscal 2001, which totaled ¥47.2 billion, down 21% from the previous fiscal year. Orders in fiscal 2001 include accelerator for PET (Positron Emission Tomography) system and a large crane for domestic shipyards. Sales in this segment in fiscal 2001 totaled ¥72.2 billion, a slight increase from the previous fiscal year, due to a sales increase of logistic system and parking system. Sales in fiscal 2001 include a large-scale mechanical parking system for Roppongi Hills Gate Tower in Tokyo and an unloader system for an electric company.

We have been promoting aggressive structural reform, from the conventional business with large-size industrial machines as the core to technology-intensive business such as semiconductor and LCD manufacturing equipment and medical accelerators. As for medical accelerators, a proton therapy system was certified as medical equipment for cancer treatment by the Ministry of Health, Labor and Welfare. With this approval, we have been expanding the medical accelerator business as Japan's first manufacturer specializing in this system.

On the other hand, in the large industrial machinery business, sales and engineering services for steel plants and equipment were combined into JP Steel Plantech Co., which was established in alliance with NKK Corporation and Hitachi Zosen Corporation, to integrate technological capabilities and to reinforce competitiveness. In addition, the paper and press machine business and transportation system business were transferred to newly established subsidiaries to flexibly respond to market conditions. Specifically, the paper and press machine business was transferred to Sumitomo Heavy Industry Techno-Fort Co., Ltd., and the transportation system business was transferred to Sumitomo Heavy Industry Engineering & Services Co., Ltd. Both companies started operation on June 1, 2002.

Argon Cleaning System "CleArJet"

Main Businesses

■ Quantum Equipment

Business in fiscal 2001

In conjunction with the medical equipment, reimbursement by the public Health Insurance for PET (Positron Emission Tomorgaphy) examinations with FDG (2-[18F]fluoro-2-deoxy-D-glucose) were approved by the Japanese Government in April 1, 2002, and markets for small cyclotron and RI synthesis modules for the PET system are expected to expand. In this market situation, we have been the first company who can sell FDG synthesis equipment for the PET system, approved as a medical device by the Ministry of Health, Labor and Welfare. With this approval, the FDG synthesis module, in both the FDG MicroLab, manufactured by GE Medical Systems, and the F100, manufactured by us, can be used for reimbursement of PET examination. With regard to cancer treatment, we have also been the first company who can sell and manufacture the Proton Therapy System approved as a medical device by the Ministry of Health, Labor and Welfare. The Proton Therapy System, now applicable for an "Advanced Medical Treatment," is also expected to be included in the health insurance coverage in the future.

In the semiconductor and LCD market, orders declined significantly in fiscal year 2001, resulting from a heavy recession in this business field. It is remarkable that we have finished development of a modular sputtering system of ITO plasma display for fifth-generation glass boards. Growth of modular sputtering systems is expected for use in large size liquid crystal boards and organic EL boards.

Strategies for fiscal 2002

In the medical equipment business, we will promote sales of small cyclotron and RI synthesis modules for the PET system for domestic private medical institutions. With regard to the Proton Therapy System, we will extend our marketing and sales to overseas markets, mainly in Asia.

In the recovering semiconductor and LCD-related market, we will develop business related to the Plasma Coating System for OLED, while expanding sales of an Argon aerosol dry-cleaning system for the semiconductor wafer manufacturing process.

Automated picking system for liquor and beverage
Cartons and plastic cases automatically picked and stacked

Kyoto City Outou Parking

■ Logistics System

Business in fiscal 2001

In our logistics system business, demand for manufacturing-related machines including FA (Factory Automation) systems, has been gradually decreasing, while our distribution system business has maintained the same overall or gradually increasing demand. We are now setting a foothold by receiving as many orders as possible and by accumulating know-how for future growth. In fiscal 2001, we have delivered systems including a 3-D automated warehouse system and an automatic material handing system with a gyro type AGV (Automated Guided Vehicle), rail mounted vehicles and a case layer picker. These systems are under operation in 24-hour factories, which require high reliability.

Strategies for fiscal 2002

In fiscal 2002, overall demand is expected to decrease gradually, and the market is becoming more and more competitive. In this severe market condition, our strategy is to provide a total system for customers with our "highly capable developing system" and "specialized sub-systems (key hard-ware and component packages*)." Through providing this solution-type business, we will create value for customers and make this business stable and profitable. Also, we will continue to develop new products such as a mail-sorting system, eWMS (Warehouse Management System), to respond flexibly to customer requirements, and promote commercialization of these products as strategic products.

*To integrate and customize multiple systems equipped with machines such as gyro-type AGV and rail mounted vehicles, and sell them as packaged products.

■ Parking System

Business in fiscal 2001

In fiscal 2001, a number of large-scale high-rise condominium projects were promoted in central Tokyo, resulting in good sales of mechanical parking facilities for condominiums. In the redevelopment business in central Tokyo, such as development in the Roppongi and Shiodome areas, we received many orders for large parking systems, "GPS series," which we will deliver in due course.

We have already delivered large-scale mechanical parking facilities "GPS," with a total capacity of 131 cars, for the Kyoto Parking Corporation in Higashiyama-ward, Kyoto. This parking facility project was a renewal of an aging mechanical parking system in the basement. It is equipped with the latest technology, such as a system enabling the return of a car to the point of entry instead of exit, when a customer needs to get an item left after the car is parked. In addition, it includes a countermeasure for loss of parking tickets.

Strategies for fiscal 2002

In fiscal 2002, we expect continuous demand related to large-scale high-rise condominium projects and redevelopment projects in metropolitan areas, for which we expect new orders for parking facilities utilizing basements. Orders for our large-scale parking system GPS series and puzzle parking system "Sumi-park-Ace," which are efficient and high-volume, are expected to increase.

We aim to upgrade services by developing and introducing a "remote maintenance system" utilizing IT technology, which is designed for smooth operation and management of parking facilities.

SUNBELT SPIRIT" - Reefer Car Carrier

Ship, Steel Structure & Other Specialized Equipment

Summary of Operations

In the Ship, Steel Structure & Other Specialized Equipment Segment, order bookings in fiscal 2001 totaled ¥85.3 billion, almost the same as the previous fiscal year. In our shipbuilding business, we received orders for nine Aframax Tankers, which is one of our most competitive products. This will provide stable revenue till the end of fiscal 2003. Orders for bridges decreased due to cutbacks in public projects.

On the other hand, sales in this Segment totaled ¥79.7 billion, down 15% from the previous fiscal year. We have delivered eight ships including Aframax Tankers and Bulk Carriers in fiscal 2001. However, overall deliveries of ships decreased from the previous fiscal year, partly due to the integration of shipbuilding of Uraga shipyard into Yokosuka shipyard. The number of bridges delivered has also declined, resulted in decline in sales.

We transferred the manufacturing department of our naval shipbuilding business to Marine United Inc.*, which was established jointly with Ishikawajima Harima Heavy Industries Co., Ltd. This manufacturing integration will be completed by April 2003. In our commercial shipbuilding business, we will focus on the Aframax Tanker and promote specialized technology development. In manufacturing, we will reinforce cost competitiveness by reviewing production lines and by utilizing outsourcing—not by expansion in business size but by focusing on profitability.

*Marine United Inc. was established jointly with Ishikawajima Harima Heavy Industries Co., Ltd. to specialize in marketing and designing naval ships. The manufacturing department used to belong to its parent company.

Main Businesses

■ Ship

Business in fiscal 2001

In fiscal 2001, due to the slow-down in the world economy, the shipping market, which was active in the previous fiscal year, declined in the second half of calendar 2001. Due to this slow-down, the shipbuilding market also dropped dramatically in the second half of fiscal 2001. Orders in the international shipping market in fiscal 2001 totaled 36 million GT (gross ton), mainly ordered in the active market of the first half of the fiscal year, which was a good level even though it did not reach 46 million GT in the previous fiscal year.

"KAIOSEI NO.2" - 3,000m3/h Continuous Bucket Elevator Reclaimer

We received orders for eight Aframax Tankers including one product Carrier in the booming tanker market, from Dynacom Tankers Management, Det Stavamgersk Dampskib, Scinicariello Ship Management S.P.A. and Unique Shipping (H.K.) Limited. We also established a guaranteed revenue source until Spring 2004 with an order for a Reclaimer with an elevator unloader from Kanmon Kowan Kensetsu Co. Ltd.

We completed and delivered eight ships in fiscal 2001, including three Panamax Bulk Carriers, three Aframax Tankers, one Reefer Car Carrier and one Reclaimer. Among those ships, the Reefer Car Carrier “SUNBELT SPIRIT” for Great American Lines Inc. was unique one because of its large car deck area and large refrigerated cargo space. The ship was completed and delivered in March 2002.

Strategies for fiscal 2002

In fiscal 2002, severe market conditions are expected to continue in the shipbuilding market due to oversupply. As a countermeasure, we established a marketing development team in July 2001 to improve marketing and to respond to customer requirements, in addition to our current technology development and cost reductions.

We will promote marketing by making proposals that integrate ideas from our marketing and development sections, and by focusing on extensive market research and increased customer satisfaction.

In our naval shipbuilding business, we will transfer operations to a joint company, Marine United Inc., an alliance with Ishikawajima Harima Heavy Industries Co., Ltd. This transfer will

Engan-bashi Bridge (Moseushi Town, Hokkaido)

be completed on April 1, 2003. In commercial shipbuilding, we are now working on reorganizing the business to be spun-off on April 1, 2003. The new company aims to manage a differentiated and specialized shipyard.

■ Bridges

Business in fiscal 2001

In the bridge sector, the steel structure market, which is the main focus of our Steel Structure and Process Equipment Segment, is changing dramatically. Most of the steel structures contracts are related to public works. Since last year, the re-examination of public works by the Government has resulted in shrinking of order amounts and decreasing order prices.

The quantity and the amount of contracts for our company have been declining under the influence of this tendency. In this severe market environment, we are trying to increase market share by developing technology in the field of structure related to bridges, such as port structures, and compound structures of concrete and steel.

An immersed tunnel for Naha port project by the Okinawa General Bureau is a typical example of the application of new technology among the orders we received in the fiscal 2000. The tunnel was constructed by burying eight hybrid tubes, some of the largest in Japan, at the bottom of the sea. These huge box type structures are made of concrete and steel. We constructed part of the 2nd tube in the tunnel. The tunnel is light weight with a minimum of environmental influence compared to conventional reinforced concrete tunnels. We are planning to increase new contracts by marketing these advantages to customers.

Strategies for fiscal 2002

The overall market is expected to shrink substantially due to further review of public works budget by the Government. In this market environment, reinforcement of our main bridge business and development of business opportunities for bridge-related structures are indispensable for our business.

As for bridges, we will maintain contract amounts by promoting market strategies based on the requirements of our main customers such as the Ministry of Land, Infrastructure and Transport, public corporations and local governments. In manufacturing, we will make our plants more competitive by enhancing cost reduction to cope with the decline in prices due to the budget reductions for public works. In addition, we will prepare for future demand from private companies by being more cost competitive.

Also, for bridge-related structures, we will continue to develop technology for port structures and concrete compound structures. Additionally, we will start a bridge maintenance business to meet expected demands for improvement and maintenance of existing bridges.

■ Process Equipment

In the process equipment market, major investments for renewal projects on current facilities are expected to grow as a result of various mergers and acquisitions of oil refining and petrochemical companies against a backdrop of industry regrouping.
In the second half of fiscal 2002, investment for repair and replacement of aged coker facility and also investment for revamp and addition of desulphurization facility to meet clean fuels requirement of gasoline and diesel oil are expected to grow.

We will focus on our competitive products such as coke drum reactors etc., and develop our high value-added business by offering inspection services to core customers.

Metropolitan expressway OJ-12 Section

ASTERO™ geared motor

Mass-Produced Machinery

Summary of Operations

In the Mass-Produced Machinery Segment, order bookings totaled ¥129.2 billion, 16% down from the previous fiscal year, while sales totaled ¥135.6 billion, down 14% from the previous year.

For this segment, we have been aggressively introducing new products to expand business. In the power-transmission and speed reducer business, we introduced new products for extra small geared motors, which we have not provided before. With the product line extension, we have become more flexible to customer needs. In our plastic injection molding machine business, we reinforced competitiveness by making a full model change of all-electric-powered machines. Also, we will strengthen the business foundation of precision positioning devices, which have been evaluated highly for their high-precision technology, through further reinforcing technological advantages. Moreover, to enhance cost competitiveness, we constructed a plant in the Philippines to manufacture components and precision parts, and operation has been started. We also expanded and upgraded the facilities of a subsidiary producing power-transmission and speed reducers in Tianjin, China, to promote cost reduction on a global basis.

Main Businesses

■ POWER TRANSMISSION & CONTROLS

Business in fiscal 2001

In addition to the economic slowdown in the U.S. and the IT recession, a decline in orders for mid- to large-sized gear reducers from heavy industries and hollowing out of domestic production influenced the domestic market. However, we succeeded in increasing market share by introducing new premier model products and by attracting new customers.

This year, we made a full-scale debut in the market of smaller-type geared motor, which is typically smaller than 90W, by introducing the Astero™ geared motor. We became one of the only integrated actuator manufacturers in the world by providing from 6W extra small-sized geared motors to 1000 kW large size gear reducers. In the Chinese market, we established sales, manufacturing and a servicing system to cover all of China, by expanding the production capacity of Sumitomo Cyclo Drive China Ltd. in Tianjin by 300%, and by setting up CYCLO Center (an assembly plant) and new distribution company in Shanghai.

Strategies for fiscal 2002

Following recovery trends in Asia and the United States, the domestic market is expected to recover after it hit bottom in the first quarter of fiscal 2002. In this fiscal year, in response to changing demand and globalization, we will aggressively promote business in the "new frontier market" beyond current markets (both industry-wise and region-wise) and products.

Specifically, we will introduce "global products," optimal products in terms of development, manufacturing, distributing, servicing from a global point of view. We will develop new solutions for growing products such as Astero™ and New IB series, the precision control drive. Also, we will focus on customer satisfaction with e-business, by improving online presentations and making full use of knowledge management systems and EDI (Electric Data Interchange.)

New - IB series

■ Injection Molding

Business in fiscal 2001

In the injection molding industry in fiscal 2001, some of the industries and countries such as the automobile industry and China were relatively stable. However, recession in the IT-related industries substantially affected the market, decreasing overall demand for injection molding machines. Shipment of the Company's injection molding machines decreased to less than 40% from the previous fiscal year. On the other hand, the need for electrification of injection molding machine is still firm, and a new electric injection molding machine, SE-D series, introduced

SE-D Series


Stirling cooler for mobile communication base station

in the second half of fiscal 2001 was highly evaluated by the market, resulting in a recovery in orders in the beginning of the new year. Also, last October, we participated for the first time in the largest plastic fair in the world, K01, held in Germany and displayed our SE-D series, which has potential to boost our business in Europe with its superior capability.

Strategies for fiscal 2002

In this fiscal year, demand in the IT-related business such as DVDs and next-generation mobile phones, for which we excel, is expected to recover. We will pursue business stability and expansion by establishing a business structure that is less vulnerable to demand fluctuations, with more emphasis on markets other than the IT-related industry and on development of emerging markets such as China and Eastern Europe.

To promote this strategy, we will reinforce rapid product development in response to market needs, particularly in the development of new models in our SE-D series, which we introduced in fiscal 2001. We will also reinforce our marketing network in China, Central America, and Europe. We have consistently been showing our strength in molding plastics, and recently introduced a glass molding machine to develop a new market by extending to materials other than plastics.

■ Cryogenics

Business in fiscal 2001

Fiscal 2001 was a year in which we gained a foothold to become a world leader in the cryogenics business. In a strategic alliance, we acquired IGC-APD Cryogenics Inc., which operates as a subsidiary of Intermagnetics General Corporation (IGC) in the United States. It is also specialized in cryocooler manufacturing, and this acquisition has enabled us to develop top-class technology and increase our share in the medical MRI (Magnetic Resonance Imaging) market. By collaborating with each business section in R&D, marketing, manufacturing and service, we will provide solutions for a wide variety of markets, outside of the MRI market, such as the semiconductor industry and communication devices.

Strategies for fiscal 2002

In fiscal 2002, we aim to become the No.1 manufacturer worldwide by enhancing the synergy of the SHI/APD group. With the group’s top-class research and development capabilities, we use our synergy to develop and introduce strategic products, while aggressively approaching new customers and markets by leveraging our sales channels. We will enhance cost reduction by promoting manufacturing in the Philippines, and by purchasing raw materials and parts from the best sources in the region. We will expand service in overseas markets, including maintenance services for other companies’ cryocoolers.

■ Stage System

Business in fiscal 2001

Based on precision positioning technology of nano-order, acquired in the development of x-ray lithography system, we have been working on making our stage system business profitable since fiscal 1999. It has expanded substantially into a ¥20 billion business in the last three years.

There have not been many manufacturers specializing in stage systems up until now. A bearings manufacturer has been manufacturing stage systems for general use, and a ceramic manufacturer has been manufacturing precision positioning stages as application products for their own products in the hardware-oriented businesses. In recent years, in the semiconductor and liquid crystal manufacturing systems field, which is a main market for stage products, fine semiconductors and enlarged liquid crystal display panels are in high demand, resulting in the growing need for a highly-sophisticated stage system, that determines degree of precision and manufacturing time. In this environment, SHI is highly evaluated as a reliable business partner for customers, especially in the high-end market, by providing solutions related to precision positioning and control technology with our outstanding hardware and software.

Strategies for fiscal 2002

In the IT industry in fiscal 2001, a stagnant market resulted in almost the same order amount as fiscal 2000. However, we have offered as many as 40 development evaluation models to the market within fiscal 2001, in response to increasing demand for next generation systems. Following the recovery of the FPD (Flat Panel Display) market including liquid crystal displays and PDPs (Plasma Display Panel), investment for semiconductors is expected to recover in fiscal 2002. Through mass production of strategic products, such as large stages for photo-resist coating systems and precision positioning stages for semiconductor inspection systems that are highly evaluated in the market, we will expand business in line with market recovery.

■ Laser System

Business in fiscal 2001

In fiscal 2001, orders for laser drill applications, which is one of our main pillars of business, especially dropped compared to the previous fiscal year, influenced by the IT recession. The automobile parts industry was relatively firm compared to the electronics industry, but demand decreased from the previous year and orders also declined.

On the other hand, laser annealing systems, required for low temperature polysilicon LCD manufacturing, which have a strategic importance for liquid crystal display manufacturers, increased from the previous year despite a weak economy. We have delivered many annealing systems for development and trial, but in this fiscal year, we have delivered for the first time a number of systems for mass-production. These systems will lead to business expansion.

Strategies for fiscal 2002

In our laser business, we established a company to manage domestic sales and services. Operation started in May 2002. The company will develop a new market, providing sales and service solutions to respond to diversifying market needs, while developing products for our Laser System Division and other companies. This Fall, our Laser System Division and the Okayama Plant will be transferred to Yokosuka to enhance development and manufacturing technologies, by reinforcing the relationship between our Technology Development Center and other divisions.

In the overall market, demand for annealing systems for liquid crystals and organic ELs is expected to increase. Orders for laser drills are expected to increase with the recovery of the market, mainly in overseas markets. In the automobile industry, we will promote product development, adhering to current environmental concerns and IT solutions in vehicles. In addition, we will develop new applications for our products in the electronics field, such as semiconductors, to respond to an expected increase in demand.

Excimer Laser Annealing System

Spin Ace Series excavators SH225X-3

Construction Machinery

Summary of Operations

A decline in investments in public, private and housing sectors in the domestic market resulted in low demand for construction machinery, which declined substantially from the previous fiscal year in a five-year decline. This level is only 41% of fiscal 1990 and 46% of fiscal 1996. On the other hand, overseas demand for construction machinery increased slightly on a year-over-year basis.

Order bookings for this segment in fiscal 2001 totaled ¥96.6 billion, down 3% from the previous fiscal year, while sales totaled ¥98.6 billion, down 12% from the previous fiscal year.

In the Construction Machinery Segment, according to the overall reorganization plan implemented in fiscal 2000, the former Sumitomo (S.H.I.) Construction Machinery Co., Ltd. has been reorganized into two companies in April 2001; new Sumitomo (S.H.I.) Construction Machinery Co., Ltd. specializing in hydraulic excavators and road machinery, and Sumitomo Heavy Industries Construction Crane Co., Ltd., specializing in cranes.

Main Businesses

Hydraulic excavator and road machinery business

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

When the new company started in April 2001, serious cost reductions were implemented in response to severe domestic economic conditions by making the most of existing management resources. We introduced a revised business model which does not overdepend on demand for new machines in the domestic market. We also strengthened exports.

As a result, we hit our planned profit target, despite a decrease in total sales. We have also made drastic changes in our production system and implemented a built-to-order manufacturing system and concentrated road machinery production lines into our Chiba plant.

We increased our share in the domestic market by reorganizing sales distribution and reducing time for decision-making through the integration of seven different sales companies into one single company. Also, in April, we launched a new series of excavators that have been well accepted in market, contributing to our increase in market share. At the same time, we reinforced profit management for used-machines, rental-machines and parts for maintenance, to ensure a stable income even in times of low demand, which largely contributed to our performance this year.

In exports, we introduced new excavator models into the overseas market to expand sales, and enjoyed good sales in Europe and Asia, which made up for a decrease in the domestic market. Sales in North America decreased due to inventory adjustment and other factors.

We launched Spin Ace Series hydraulic excavators, with four types of minimum swing radius machines and two types of ultra minimum swing radius machines, both highly evaluated in the market. The minimum swing radius machine has remarkably stable operability and an ability to turn in small turning circles, the ultra minimum

Vibra - rollers road machinery HW41VW-5

crawler crane SC2000-3

swing radius machine has upgraded fine tuning operability. The accumulated production volume for hydraulic excavators in our Chiba plant has reached 100 thousand since the first model launched in 1967, and now, a wide variety of models, from 6 tons to 80 tons, are manufactured and operating in 57 countries around the world.

For road machinery, we launched two types of vibra-rollers road machinery equipped with a differential mechanism in the rear wheel. At the same time, our main asphalt finisher maintained top share in the domestic market with continuous good sales.

Demand in the domestic market is also projected to decline in fiscal 2002. We will continue to make efforts to increase profit margins in sales of new, used and rental machines and parts sales.

Overseas, demand in China is expected to expand, while the international markets are projected to decline on the whole. In response, we plan to maintain current sales, mainly in North America and Europe, while organizing and upgrading distribution and service channels in China.

■ Crane Business

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

In April 2001, as a company specializing in manufacturing and sales of cranes and related services, we began to concentrate on boosting performance with a commitment to: “Seek customer satisfaction with better quality, fast delivery and good services.”

In May, the Company agreed to a strategic business agreement with Hitachi Construction Machinery Co., Ltd. (“Hitachi”) and Tadano, Ltd. in the crawler and wheel cranes business to better compete in the drastically shrinking world market for cranes. We are promoting global strategies to maximize the R&D, manufacturing, purchasing, sales and service capabilities of three companies and their overseas subsidiaries. Development of a next generation crawler crane model started by establishing a joint R&D Center with Hitachi in October 2001. In April 2002, the Company agreed with Hitachi to establish a new joint venture company by integrating both companies’ capabilities, such as marketing and sales, R&D, manufacturing and servicing of cable cranes including crawler cranes.

In product development, we have reduced development lead time employing modular designs. We are now able to better meet customer requirements, leading to enhanced sales opportunities. In new products, the SC2000-3 was introduced in April, and the SC700-5 in October during fiscal 2001. SC2000-3 has top-in-the class performance and is equipped with a high-performance winch. The crane is especially superior in its transportability, required by users for machines of this class. Its assembly and disassembly system is also highly evaluated. In the domestic market for 150 t to 200 t models, the product had the highest share in the market soon after its launch in the second half of fiscal 2001. SC700-5, which meets low-noise and emission regulations, is highly evaluated for its variety of applications in construction and civil engineering.

Demand for new cranes in fiscal 2002 in Japan is projected to be around 200. Demand in North America is projected to be around 240, down 15% from the previous year, which is expected to recover in fiscal 2003. European market demand is expected to be around 100, almost the same as fiscal 2001. We plan to expand models in a series by leveraging advantages of module designs. In the near future, we are planning to bring high-line pull machines onto the market as the MAGUNA series, suitable for civil engineering foundation work.

Sumitomo, Hitachi And Tadano Form Global Crane Alliance

*IPP (Indipendent Power Producer)
Coal fired Power Station with CFB*

Environmental Protection Facilities, Plants & Others

Summary of Operations

In fiscal 2001, in the plant business, we received orders for two power plants for a cement manufacturer which is involved in the IPP (Independent Power Producer) operation. However, the decline in public works affected the overall environmental business, resulting in order bookings of ¥100.4 billion, down 12% from the previous fiscal year. We recorded ¥131.0 billion in sales, up 57% from the previous fiscal year, with deliveries of large-scale municipal solid waste incineration plants for local governments and large-scale environmental systems for thermal power plants.

To increase profitability in the environmental business, we took an aggressive approach in marketing our main water and sewage treatment system and municipal waste incineration plant solutions, by stressing technical development capabilities and differentiating our products from those of competitors. In the plant business, we are expanding our private power plant business targeting IPPs in Japan and South East Asia, focusing energy-related investments to respond to growing demand.

Main Businesses

■ Environmental System

Business in fiscal 2001

The Plant Environment Business Center promotes marketing mainly for waste-treatment facilities such as waste incineration plants and recycling facilities. In fiscal 2000, in addition to demand for upgrading facilities, there was last-minute demand in response to the Guideline for Dioxin and Dioxin-like Compounds to be enforced in December 2002. Total orders for the market were the highest in recent years. We successfully received orders for two municipal solid waste incineration plant projects and five dioxin-related projects.

In contrast, orders in fiscal 2001 decreased substantially. Market orders for stoker-type, continuous-burning incinerators, one of our core products, sharply declined from 21 in fiscal 2000 to only 2 in fiscal 2001, and we received none of them. There were no orders for recycling facilities either. We only had three orders for small-sized improvement works related to a dioxin prevention project in fiscal 2001.

Strategies for fiscal 2002

Although the business environment this fiscal year continues to be challenging, orders for waste-treatment facilities are expected to recover slightly. We will focus on winning these orders, as well as orders for recycling facilities.

We will be delivering three continuous-burning incinerators, including a large-scale facility for the Tokyo Metropolitan area, and one recycling facility in the second half of this fiscal year. We will ensure safe and timely delivery of these facilities.

In addition, a bio-gas verification experiment, in which we have been working with Yokosuka City in Kanagawa Prefecture since last year, will be starting full operation from this fiscal year. We will do our best to succeed in this experiment to establish a dominant position in the bio-gas market.

■ Energy-Related Plant

Business in fiscal 2001

In December 2001, we made a license agreement with Foster Wheeler Energy International, Inc. for circulating fluidized bed boiler (CFB) technology to expand our power plant business. This agreement resulted in the establishment of the Energy Plant Business Division, which provides a full range of operations, from research and development to after-sales services related to power plant facilities with CFB as a core system, and we started aggressive marketing in Japan and South East Asian markets.

We have been collaborating with Foster Wheeler K.K., a Japanese subsidiary of Foster Wheeler Energy International, Inc., and working on a 150 MW (mega-watt) class IPP plant. In fiscal 2001, we received orders for two 150 MW class IPP plants for a cement manufacturer. As a result, order bookings in fiscal 2001 totaled nearly ¥20 billion. In fiscal 2002, we expect orders for IPP plants (two 50 MW class plants) for the first time from South East Asian Countries to gain a foothold in the overall Asian market, where demand for power plants is expected to increase.

CHUBU Electric Power Co., Inc. Hekinan Power Station Ash Handling Facility

Strategies for fiscal 2002

Thermal recycling of bio-mass and other waste as an effective measure to prevent global warming, which is advanced in Northern Europe, is growing in importance in Japan. We are leveraging our experience in the expanding market, with CFB, which have the advantage of being flexible in using various kinds of fuel. With Foster Wheeler Group's strong experience, we will develop new markets providing technical and business plan support. We plan to grow this business to generate ¥15 billion in profits per year, putting an emphasis on domestic and South East Asian markets, where deregulation is ongoing.

■ Air Pollution Control Center

Business in fiscal 2001

Our Air Pollution Control Center has been working on expanding business for the past 10 years, with emphasis on systems for coal fired power generating facilities including dry SOx (sulfur oxide) removal system, EP (electrostatic precipitator), ash-handling system. However, demand for electricity was stagnant after the burst of Japan's bubble economy, and orders for new thermal power plants declined. This forced us to change our business strategy centering on electricity.

On the other hand, in January 2000, guidelines for dioxin reduction were set up for air, water and land in Japan to reduce toxic pollutant dioxin emission, which is more than ten times of Europe. With this regulation, emission standards, which were mainly applied to waste incinerator plants, are now being applied to industrial treatment facilities such as steel sintering plant, electric furnace steel plant, aluminum refinery, and zinc recycling facilities.

Therefore, our Air Pollution Control Center has shifted its focus to a dry SOx, NOx (nitrous oxide) removal system utilizing our unique application technology of activated char, which has been developed as our emission-gas treatment technology for

Yokosuka City Recycle Plaza "Aicle"

coal-fired power generating boilers since more than 20 years ago. It proved to have an outstanding ability to effectively capture dioxins and decompose them into non-toxic substances. We changed our strategy and enhanced our sales activities of exhaust gas treatment environmental system for steel sintering plants.

As a result of sales activities in line with this strategy in the past four years, we received various orders in fiscal 2000 and fiscal 2001, including one for BHP (Australia) which will be completed on March 2003, one for Nippon Steel Corporation (Oita, Japan) which will be completed on October 2003, and two for POSCO (Korea) which will be completed on October 2004.

We also delivered a dry Sox removal system for Electric Power Development Company's 600 MW New Isogo Thermal Power Plant as an environmental system, which was completed in March 2002. This system has been smoothly operating since it started operation in April 2002.

Strategies for fiscal 2002

As for facilities removing SOx, NOx and dioxin utilizing activated char, demand for environmental facilities for the domestic steel sintering plants is aniticipated to be saturated in a few years. We will promote sales in overseas markets, mainly in Europe, by seeking various opportunities mainly for steel sintering plant environmental facilities.

Also, with electricity related facilities, we will explore demand for coal-fired power generating plants in South East Asia and seek opportunities for EP and ash handling system. We will promote these strategies ensuring profitability with enhanced efficiency.

Municipal Organic Waste Treatment System

Research & Development

Research and Development Center in Yokosuka

1. Research and Development Strategies

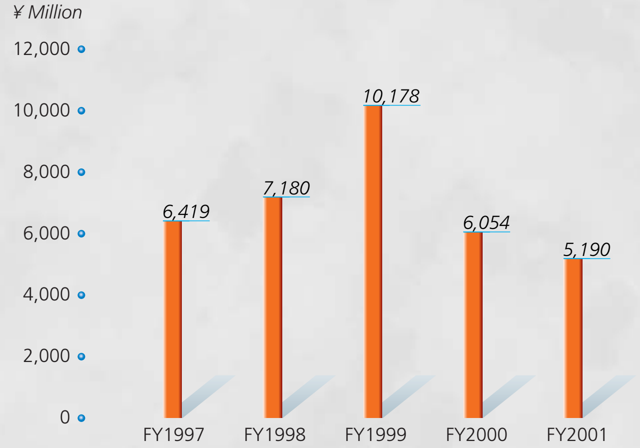
Research and development (R&D) activities are essential to SHI, as cutting-edge technological capabilities are our No.1 competence bolstering our whole business. We are committed to maintain and further reinforce our competitive market position by constantly improving product quality, launching new products and creating new business. The Corporate Technology Operations Group is promoting strategic R&D, working closely with the development departments of each division.

Current R&D programs emphasize our strategic business areas such as semiconductor and LCD (Liquid Crystal Display) manufacturing equipment, digital media and optical communication component manufacturing systems, medical equipment and environmental equipment. We focus on research and development of fine processing and precise mechanical automation (mechatronics) systems, as well as cryogenic and environmental technology.

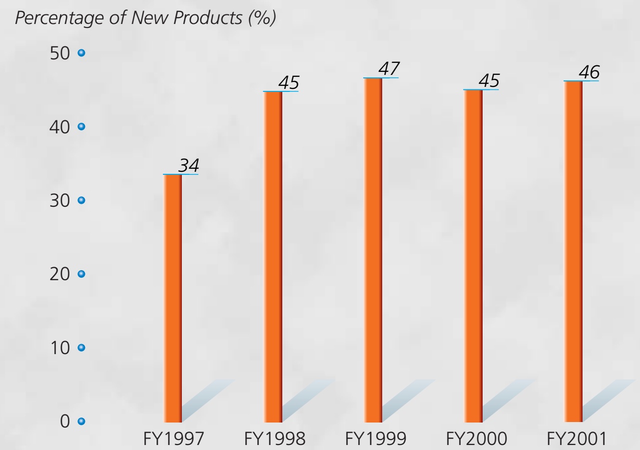
Our R&D investments in fiscal 2001 totaled ¥5.2 billion, with strategically focused investments in highly profitable new business product development and modification of current product models. This resulted in a substantial contribution of new products to total sales. New products account for 46% of our business in the strategic business areas mentioned above.

We have enhanced the efficiency and effectiveness of our R&D activities by concentrating R&D bases. Construction of our new R&D Center facility in Yokosuka, where we develop next generation products, was completed in September 2001. The Company will promote product competitiveness and reduce development time by turning the yard into the center for cutting edge technology R&D and business, in addition to Yokosuka Shipyard's traditional shipbuilding. The new center has about 20% more floor space and more than double the clean space of our previous R&D Center in Hiratsuka, which was transferred to Yokosuka. Other research institutions and high technology divisions will be transferred there as well by the Fall of 2002.

Research and Development Investment (Non-Consolidated)



Percentage of New Products in New Business (Non-Consolidated)



2. Recent Major Achievements in R&D

Semiconductor-Related Developments

We commercialized high-performance semiconductor wafer dry-cleaners with argon aerosol used in semiconductor and LCD manufacturing. We also developed various types of precision positioning devices for manufacturing and inspection systems of semiconductor and liquid crystal devices and optical communication components, including precision stages with complete non-contact drive with linear motor and air bearing.

Digital Media-Related Equipment

In the digital media equipment market, we developed a glass molding machine leveraging technical experience with plastic injection molding for precision optic components to meet demands for optical glass components with higher precision and higher productivity, such as digital camera lenses and pick-up lenses for DVD players.

Cryocooled magnet for research use

Optical Communications Equipment

In the optical communication components field, we are working on commercialization of a micro mirror unit for optical switches, which is a Micro-Electro-Mechanical Systems (MEMS) application part, and development of Metal Injection Molding (MIM) parts for optical devices. We are also improving measuring equipment used in the development of Organic EL (Electro Luminescence), targeted as the next generation display equipment.

Technology for the Medical Field

In the medical field, we put an RI compound synthesis system for PET (Positron Emission Tomography) onto the Japanese market faster than competitors and are ready for an expected increase in demand due to extended health insurance coverage from April 2002. We are still continuing to reinforce the product lines with modifications of the RI compound synthesis system and Cyclotron

In addition to new product development, we have been working on the development of basic technology such as lasers, MEMS and cryogenic technology. We participate in the NEDO* (New Energy Development Organization) project and continue to research femtosecond laser technology, important in optical communication and microfabrication. We are also working on the development of a user-friendly helium-free super-conducting magnet, utilizing long fostered cryogenic technology in order to make facilities simple and reduce costs of operation.

*Government-sponsored organization for development of alternative energies.

3. Commercialization of Technology

Sales Expansion in the Compact geared motor Market

In the power transmission and controls market, our main product market, we aim to expand sales in the compact geared motor market with the Altax α series, with its motor shaft and gear head output shaft on a concentric axes, and the HYPONIC NEO series, with its motor shaft made integral with the hypoid pinion. In addition, we started selling the Astero series, compact geared motor, with a separate motor shaft and gear head, by expanding our sales target, from general industrial usage to consumers. Both are highly evaluated.

Reinforcement of Power Facility Construction Capabilities

In the energy-related field, we will market a circulate fluidized-bed (CFB) steam generator in December 2001 leveraging a technical tie-up with Foster Wheeler Energy International, Inc. in the U.S. Through this tie-up, we will reinforce engineering capacity for private power generation facility construction and expect orders from domestic cement and pulp industries, and Southeast Asian countries.

Waste Solutions

In the environment field, we have been concentrating on the development of volume reduction technology for waste, such as incinerators for industrial waste and sewage sludge. We are also developing total solution systems to provide operation know-how and maintenance information for a waste disposal storage facility.

IT Solutions

In the IT (Information Technology) field, we implemented the enhancement of our in-house infrastructure, such as technical information management, EDI (Electronic Data Interchange), PDM (Product Data Management), knowledge management and WEB sites. We also started offering services using remote monitoring technology. In addition, we developed an in-house mailing system (sMOBILE) based on the Internet and JAVA, for third-generation mobile digital communication terminals, and sold it as packaged software, which enjoyed good sales.

FINANCIAL STATEMENTS

Contents

Consolidated Balance Sheets

Years ended March 31, 2002 and 2001

ASSETS

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2002	2001	2002
Current assets:			
Cash and deposits (Note 2)	¥ 40,150	¥ 36,715	$ 301,877
Marketable securities (Note 2)	1,195	330	8,984
Trade receivable:			
Notes receivable	41,427	52,781	311,480
Account receivable	152,522	145,184	1,146,784
Allowance for doubtful accounts	(3,807)	(5,630)	(28,628)
Inventories (Note 3)	109,921	130,620	826,475
Deferred income taxes (Note 5)	6,488	6,727	48,782
Prepaid expenses and other current assets	23,153	27,525	174,086
Total current assets	371,049	394,252	2,789,840
Property, plant and equipment:			
Land	118,165	33,976	888,458
Buildings and yards	117,997	119,642	887,196
Machinery and equipment	139,167	151,866	1,046,371
Construction in progress	4,660	5,361	35,040
	379,989	310,845	2,857,065
Less accumulated depreciation	180,231	191,710	1,355,125
Total property, plant and equipment	199,758	119,135	1,501,940
Investments, long-term loans and other assets:			
Unconsolidated subsidiaries and affiliated companies	13,840	16,272	104,058
Long-term loans receivable and investments (Note 10)	19,536	27,315	146,890
Deferred income taxes	11,283	6,964	84,831
Other assets	27,382	30,098	205,886
Allowance for doubtful accounts	(7,944)	(14,264)	(59,727)
Total Investments, long-term loans and other assets	64,097	66,385	481,938
	¥ 634,904	¥ 579,772	$ 4,773,718

See accompanying notes.

LIABILITIES AND STOCKHOLDERS' EQUITY

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2002	2001	2002
Current liabilities:			
Bank loans (Note 4)	¥ 147,048	¥132,838	$ 1,105,627
Long-term debt due within one year (Note 4)	21,876	27,620	164,479
Commercial paper (Note 4)	9,296	49,520	69,895
Trade payable:			
Notes payable	54,233	54,957	407,767
Accounts payable	73,375	69,779	551,693
Advance payments received on contracts	32,706	44,686	245,907
Accrued expenses and other current liabilities	38,665	35,139	290,715
Total current liabilities	377,199	414,539	2,836,083
Long-term debt due after one year (Note 4)	116,332	114,346	874,673
Employees' severance and retirement benefits (Note 12)	9,732	8,166	73,176
Deferred income taxes on revaluation reserve for land	32,352	—	243,248
Other long-term liabilities	4,027	5,074	30,282
Minority interests	7,768	7,598	58,408
Contingent liabilities (Note 7)			
Stockholders' equity (Note 6):			
Common stock:			
Authorized-1,200,000 thousand shares Issued-588,697 thousands shares	30,872	30,872	232,118
Additional paid-in capital	26,752	26,752	201,141
Revaluation reserve for land, net of income taxes	44,585	—	335,225
Accumulated deficit	(10,327)	(23,407)	(77,645)
	91,882	34,217	690,839
Unrealized gains (losses) on securities, net of income taxes	(319)	2,049	(2,401)
Foreign currency translation adjustments	(4,065)	(6,216)	(30,561)
Less treasury stock at cost, 46,811 shares (3,505 shares in 2001)	(4)	(1)	(29)
Total stockholders' equity	87,494	30,049	657,848
	¥ 634,904	¥579,772	$ 4,773,718

See accompanying notes.

Consolidated Statements of Operations

Years ended March 31, 2002 and 2001

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2002	2001	2002
Net sales (Note 8)	¥ 517,138	¥ 513,753	$ 3,888,253
Costs and expenses (Note 8):			
Cost of sales	430,399	434,544	3,236,085
Selling, general and administrative expenses	72,564	71,724	545,587
	502,963	506,268	3,781,672
Operating income (Note 8)	14,175	7,485	106,581
Other income (expenses):			
Interest and dividend income	1,128	1,316	8,480
Interest expense	(4,978)	(5,960)	(37,429)
Loss on devaluation of securities	(1,715)	(356)	(12,894)
Gain on sale of securities-net	756	6,897	5,682
Gain on sale of property, plant and equipment-net	5,658	16,972	42,540
Gain on securities contributed to employee retirement benefit trust	1,225	12,049	9,215
Foreign currency exchange gains, net	180	1,947	1,358
Restructuring charges	—	(33,804)	—
Amortization of net transition obligation of severance and retirement benefits	(5,980)	(27,456)	(44,963)
Equity in earnings of affiliated companies	1,394	2,229	10,484
Other-net	(6,941)	(10,961)	(52,192)
	(9,273)	(37,127)	(69,719)
Income (Loss) before income taxes	4,902	(29,642)	36,862
Income taxes (Note 5)			
Current	4,354	4,635	32,735
Deferred	(1,567)	(5,024)	(11,780)
Total	2,787	(389)	20,955
Minority interests in consolidated subsidiaries	(465)	641	(3,499)
Net income (loss)	¥ 1,650	¥ (28,612)	$ 12,408

	Yen		U.S. dollars (Note 1)
	2002	2001	2002
Amounts per share of common stock:			
Net income (loss)	¥ 2.80	¥ (48.60)	$ 0.02
Diluted net income	—	—	—
Cash dividends applicable to the year	—	—	—

See accompanying notes.

Consolidated Statements of Stockholders' Equity

Years ended March 31, 2002 and 2001

	Number of shares of common stock (Thousand)	Millions of yen Common stock	Additional paid-in capital	Revaluation reserve for land, net of income taxes	Retained earnings (Accumulated deficit)	Unrealized gains (losses) on securities, net of income taxes	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2000	588,697	¥ 30,872	¥ 26,752	¥ —	¥ 7,206	—	—	¥ 1
Increase due to change in numbers of consolidated subsidiaries and companies accounted for by the equity method	—	—	—	—	—	—	—	—
Decrease due to change in numbers of consolidated subsidiaries and companies accounted for by the equity method	—	—	—	—	(1,997)	—	—	—
Net loss	—	—	—	—	(28,612)	—	—	—
Adjustment from translation of foreign currency financial statements	—	—	—	—	—	—	(6,216)	—
Adoption of new accounting standard for financial instruments	—	—	—	—	—	2,049	—	—
Treasury stock	—	—	—	—	—	—	—	(0)
Bonuses to directors and corporate auditors	—	—	—	—	(4)	—	—	—
Balance at March 31, 2001	588,697	¥ 30,872	¥ 26,752	¥ —	¥(23,407)	¥ 2,049	¥ (6,216)	¥ 1
Increase due to change in numbers of consolidated subsidiaries and companies accounted for by the equity method	—	—	—	—	1,143	—	—	—
Increase due to adjustment for the adoption of the law concerning revaluation reserve for land	—	—	—	—	11,020	—	—	—
Decrease due to change in numbers of consolidated subsidiaries and companies accounted for by the equity method	—	—	—	—	(721)	—	—	—
Revaluation of land used for business	—	—	—	44,585	—	—	—	—
Net income	—	—	—	—	1,650	—	—	—
Adjustment from translation of foreign currency financial statements	—	—	—	—	—	—	2,151	—
Adjustment for unrealized losses on securities	—	—	—	—	—	(2,368)	—	—
Treasury stock	—	—	—	—	—	—	—	3
Bonuses to directors and corporate auditors	—	—	—	—	(12)	—	—	—
Balance at March 31, 2002	**588,697**	**¥ 30,872**	**¥ 26,752**	**¥ 44,585**	**¥(10,327)**	**¥ (319)**	**¥ (4,065)**	**¥ 4**

	Number of shares of common stock (Thousand)	Thousands of U.S. dollars (Note 1) Common stock	Additional paid-in capital	Revaluation reserve for land, net of income taxes	Accumulated deficit	Unrealized gains (losses) on securities, net of income taxes	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2001	588,697	$232,118	$201,141	$ —	$(175,999)	$15,407	$(46,737)	$ 4
Increase due to change in numbers of consolidated subsidiaries and companies accounted for by the equity method	—	—	—	—	8,591	—	—	—
Increase due to adjustment for the adoption of the law concerning revaluation reserve for land	—	—	—	—	82,861	—	—	—
Decrease due to change in numbers of consolidated subsidiaries and companies accounted for by the equity method	—	—	—	—	(5,417)	—	—	—
Revaluation of land used for business	—	—	—	335,225	—	—	—	—
Net income	—	—	—	—	12,408	—	—	—
Adjustment for translation of foreign currency financial statements	—	—	—	—	—	—	16,176	—
Adjustment for unrealized losses on securities	—	—	—	—	—	(17,808)	—	—
Treasury stock	—	—	—	—	—	—	—	25
Bonuses to directors and corporate auditors	—	—	—	—	(89)	—	—	—
Balance at March 31, 2002	**588,697**	**$232,118**	**$201,141**	**$335,225**	**$ (77,645)**	**$(2,401)**	**$(30,561)**	**$ 29**

See accompanying notes.

Consolidated Statements of Cash Flows

Years ended March 31, 2002 and 2001

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2002	2001	2002
Cash flows from operating activities:			
Income (Loss) before income taxes	¥ 4,902	¥ (29,642)	$ 36,862
Adjustments to reconcile net income (loss) before income taxes to net cash provided by (used in) operating activities:			
Depreciation	11,902	12,916	89,492
Gain on sale of property, plant and equipment	(5,658)	(16,972)	(42,537)
Loss on disposal of property, plant and equipment	627	2,582	4,716
Gain on sale of securities	(756)	(6,897)	(5,683)
Loss on devaluation of securities	1,715	356	12,894
Amortization of net transition obligation of severance and retirement benefit	—	21,739	—
Gain on securities contributed to employee retirement benefit trust	(1,225)	(12,049)	(9,215)
Increase in allowance for retirement benefits	4,692	3,907	35,278
Equity in earnings of unconsolidated subsidiaries and affiliated companies	(1,394)	(2,229)	(10,484)
(Decrease) Increase in allowances	(8,311)	13,963	(62,490)
Interest and dividend income	(1,128)	(1,316)	(8,480)
Interest expense	4,978	5,960	37,429
Changes in operating assets and liabilities:			
Decrease in notes and accounts receivable	3,785	7,915	28,461
Decrease in inventories	31,752	16,732	238,740
Increase (Decrease) in notes and accounts payable	424	(18,156)	3,189
Other – net	563	(3,958)	4,223
Sub-total	46,868	(5,148)	352,395
Interest and dividend received	1,197	1,251	8,999
Payments for interest	(4,994)	(5,883)	(37,553)
Payments for income taxes	(3,235)	(6,022)	(24,320)
Other – net	(1,028)	(1,154)	(7,734)
Net cash provided by (used in) operating activities	38,808	(16,957)	291,787

See accompanying notes.

	2002 (Millions of yen)	2001 (Millions of yen)	2002 (Thousands of U.S. dollars (Note 1))
Cash flows from investing activities:			
Decrease in time deposits	50	123	374
Payments for securities	(1,363)	(735)	(10,248)
Proceeds from sale of securities	4,846	16,458	36,437
Payments for purchases of property, plant and equipment	(16,223)	(9,961)	(121,981)
Proceeds from sale of property, plant and equipment	12,850	19,561	96,615
Payment for purchases of securities which increased the number of consolidated subsidiaries	(1,382)	558	(10,390)
Proceeds from sale of securities which reduced the number of consolidated subsidiaries	—	705	—
Payments for long-term loans receivables	(1,374)	(3,182)	(10,328)
Collection of long-term loans receivables	394	5,809	2,961
Other – net	(1,141)	223	(8,571)
Net cash (used in) provided by investing activities	(3,343)	29,560	(25,131)
Cash flows from financing activities:			
Increase (Decrease) in short –term loans	12,360	(8,902)	92,937
Increase (Decrease) in commercial paper	(40,224)	17,802	(302,436)
Proceeds from long-term debt	37,702	39,175	283,471
Payments for long-term debt	(32,236)	(50,212)	(242,377)
Payments for redemption of bonds	(10,566)	(17,500)	(79,444)
Payments for dividends	—	(1,766)	—
Other-net	179	—	1,343
Net cash used in financing activities	(32,785)	(21,403)	(246,506)
Effect of exchange rate changes on cash and cash equivalents	271	123	2,034
Net increase (decrease) in cash and cash equivalents	2,951	(8,677)	22,184
Cash and cash equivalents at beginning of year	36,496	45,173	274,405
Net increase from the change in consolidated companies	1,399	—	10,523
Cash and cash equivalents at end of year (Note 2)	¥ 40,846	¥ 36,496	$ 307,112

See accompanying notes.

Notes to Consolidated Financial Statements

1. Significant accounting policies

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

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

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

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

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers, using the prevailing exchange rate at March 31, 2002, which was ¥133 to U.S.$1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

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

Investments in significant affiliated companies are accounted for by the equity method.

The difference between costs and net assets acquired of subsidiaries and affiliated companies, consolidated or accounted for by the equity method, are deferred and amortized over 5 years so long as the amounts are significant. In case of amounts being insignificant, such amounts are charged or credited to income as incurred.

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

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

Marketable and Investment Securities – Effective April 1, 2000, the Companies adopted new Japanese accounting standards for financial instruments. Held-to-maturity debt securities are stated at amortized cost. Equity securities issued by subsidiaries and affiliated companies are stated at moving-average cost. Available-for-sale securities with fair market values are stated at fair market value. (Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of the stockholders' equity. Realized gains on sale of such securities are computed using the moving- average cost.) Unlisted available-for-sale securities are stated at cost based on moving-average method.

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

Effective April 1, 2001, some subsidiaries of construction machinery segment changed the accounting policy and adopted the lower of cost or market using the specific identification method, for the valuation of certain finished products, instead of the previously used cost method using the specific identification method.

The companies adopted this method in order to cope with recent price down and rapid change of market, and make sound financial condition.

As a result of changing the accounting policy, income before income taxes decreased by ¥434 million ($3,263 thousand).

Property, plant and equipment and depreciation – Property, plant and equipment are carried at cost except for certain land revalued. Depreciation is computed primarily using the declining-balance method, except that buildings acquired after March 31, 1998 are depreciated using the straight-line method.

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

Foreign consolidated subsidiaries provide for doubtful accounts, based on the estimation of the probable bad debts' amount.

Revaluation Reserve for Land – The Company revaluated land used for business operations on March 31, 2002 in accordance with Enforcement Ordinance for the Law Concerning Revaluation Reserve for Land effective march 31, 1998. As a result of the revaluation, the land, which previously had book value of ¥32,412million ($243,700 thousand), was revaluated at ¥109,349 million ($822,173 thousand), which is determined primarily based on real estate tax value. The Company recorded ¥44,585 million ($335,225 thousand) as revaluation reserve for land in stockholders' equity section, after reflecting deferred income tax effects of ¥32,352 million ($ 243,248 thousand) which was recognized as long-term liabilities.

Two lots, which are scheduled to be sold, are excluded from the above revaluation. Their book values amounted to ¥608 million ($4,572thousands).

Employees' severance and retirement benefits – Effective April 1, 2000, the Companies adopted new Japanese accounting standards for employees' severance and retirement benefits. In order to provide for retirement benefits to be paid to employees, the amount considered to have accrued as at the end of the term is stated based on the estimated amount of retirement benefit obligations and pension plan assets as at the end of the term.

The "net transition obligation" arising from adopting the new accounting standards as of April 1, 2000, amounted to ¥52,657 million ($395,920 thousand), of which ¥21,739 million ($163,448 thousand) was recognized as an expense as a result of the contribution of investment securities worth ¥21,739 million ($163,448 thousand) to the employee retirement benefit trust and ¥2,178 million ($16,374 thousand) was charged to income by some of the consolidated subsidiaries in the year ended March 31, 2001. The remaining net transition obligation amounting to ¥28,740 million ($216,098 thousand) is recognized as expenses in equal amounts primarily over 5 years commencing with the year ended March 31, 2001.

The actuarial gains (losses) will be recognized in expenses in equal amounts over a period within the average remaining service year of employees (mainly 12 years) commencing with the next year of the accrual.

Sales – Sales in 2001 were principally recognized on a delivery basis except those for long- term (over 1 year) contracts of ¥3 billion or more, which are recognized, based on the percentage-of-completion method.

Effective April 1, 2001, the Company changed contract-amount criterion for applying the percentage-of-completion method for long-term contract from ¥3 billion or more to ¥1 billion or more.

As a result of this change, in the year ended March 31, 2002, sales revenue increased by ¥1,750 million ($13,154 thousands), and income before income taxes increased by ¥156 million ($1,169 thousands).

Selling, general and administration expenses – The Company allocates a certain portion of selling, general and administrative expenses (expenses other than those relating to management division, which are corporate-wide expenses) to work in process.

Software costs – The Company amortizes costs of software for its own use using the straight-line method over the estimated useful life (five years).

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

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

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

Bond issuance expense – Bond issuance expense is charged to income in the year incurred.

Foreign currency translation – Effective April 1, 2000, the Companies adopted the revised accounting standard for foreign currency translation. Receivables and payables denominated in foreign currencies are translated into Japanese yen at the year-end rates.

Derivatives and hedge accounting – Effective April 1, 2000, the Companies adopted new Japanese accounting standards for financial instruments. Derivative financial instruments are stated at fair value and changes in the fair value are recognized as gains or losses unless derivative financial instruments are used for hedging purposes. If derivative financial instruments are used as hedges and meet certain hedging criteria, the Company and its consolidated subsidiaries (the "Companies") defer recognition of gains or losses resulting from changes in fair value of derivative financial instruments until the related losses or gains on the hedged items are recognized.

However, in cases where forward foreign exchange contracts are used as hedges and meet certain hedging criteria, forward foreign exchange contracts and hedged items are accounted for in the following manner.

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

a) The difference, if any, between the Japanese yen amount of the hedged foreign currency receivable or payable translated using the spot rate at the inception date of the contract and the book value of the receivable or payable is recognized in the income statement in the period which includes the inception date, and

b) The discount or premium on the contract (that is, the difference between the Japanese yen amount of the contract translated using the contracted forward rate and that translated using the spot rate at the inception date of the contract) is recognized over the term of the contract.

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

Also, if interest rate swap contracts are used as hedge and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

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

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

Cash dividends applicable to the year represent the actual amount declared as applicable to the respective years.

2. Cash and cash equivalents

Cash and cash equivalents as of March 31, 2002 and 2001 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2002	2001	2002
Cash and deposits	¥ 40,150	¥ 36,715	$ 301,877
Marketable securities	1,195	330	8,984
Time deposit over three months	(499)	(549)	(3,749)
Cash and cash equivalents	¥ 40,846	¥ 36,496	$ 307,112

3. Inventories

Inventories as of March 31, 2002 and 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2002	2001	2002
Finished products and semi-finished products	¥ 30,395	¥ 29,242	$ 228,535
Work in process	68,148	90,062	512,388
Raw materials and supplies	11,378	11,316	85,552
	¥ 109,921	¥ 130,620	$ 826,475

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

Bank loans at March 31, 2002 and 2001 consisted of short-term notes, bearing interest principally at 0.6% per annum, respectively.

A consolidated subsidiary has a yen domestic commercial paper program with a current maximum facility amount of ¥ 10,000 million ($ 75,188 thousands). The amount outstanding under this program is subject to variation from time to time.

At March 31, 2002 and 2001, commercial paper principally bore an average annual interest rate of 0.29% and 0.23%, respectively. Long-term debt at March 31, 2002 and 2001 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2002	2001	2002
3.9 % domestic bonds due in February 2004	¥ 8,000	¥ 8,000	$ 60,150
3.0 % domestic bonds due in January 2005	3,000	3,000	22,556
2.8 % domestic bonds due in August 2001	—	2,000	—
U.S. dollar variable rate demand industrial development revenue bonds due in January 2008	200	929	1,504
U.S. dollar variable rate demand industrial development revenue bonds due in May 2008	660	574	4,961
U.S. dollar variable rate demand industrial development revenue bonds due in September 2010	—	248	—
1.7 % domestic mortgage bonds due in November 2005	1,000	1,000	7,519
2.3 % domestic mortgage bonds due in January 2006	1,000	1,000	7,519
Euro-yen floating rate notes due in September 2001	—	7,500	—
U.S. dollar loans from banks	—	250	—
Loans principally from banks and insurance companies due serially through March 2015 with interest ranging from 0.9 % to 9.32 % in 2002			
Secured	4,365	6,143	32,819
Unsecured	119,983	111,322	902,124
	138,208	141,966	1,039,152
Less amount due within one year	21,876	27,620	164,479
Amount due after one year	¥ 116,332	¥ 114,346	$ 874,673

Annual maturities of long-term debt as of March 31, 2002 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars (Note 1)
2003	¥ 21,876	$ 164,479
2004	45,057	338,776
2005	22,812	171,520
2006	31,980	240,448
2007	9,770	73,460
Thereafter	6,713	50,469

At March 31, 2002, assets pledged as collateral for bank loans, secured long-term loans from banks and insurance companies and domestic mortgage bonds were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Cash deposit	¥ 300	$ 2,257
Notes receivables	252	1,897
Marketable equity securities at carrying value	1,147	8,628
Property, plant and equipment, at cost less accumulated depreciation	8,362	62,872
Inventories	356	2,676
	¥ 10,417	$ 78,330

5. Income Taxes

The Company is subject to a number of income taxes, which, in the aggregate indicate a statutory tax rate in Japan of approximately 42% and 42% for the years ended March 31, 2002 and 2001, respectively.

The following table summarizes the significant differences between the statutory tax rate and the Company's effective tax rate for financial statement purposes for the year ended March 31, 2002.

	2002
Statutory tax rate	42.05%
Increase (Decrease) in tax rates resulting from:	
Expenses not deductible for tax purposes	17.83%
Per capital inhabitant tax	2.52%
Income not counted for tax purpose	(2.25%)
Elimination of dividend received	4.30%
Equity in earnings of affiliated companies	(11.68%)
Adjustment of gain on sales of stock of affiliated company	9.70%
Amortization of consolidation adjustment account	(3.71%)
Operating losses of subsidiaries not recognizing deferred income tax accounting	(3.76%)
Others	1.85%
Effective tax rate	56.85%

The Company reported loss before income taxes for the year ended March 31, 2001 and therefore such table has not been prepared for 2001.

Significant components of deferred tax assets and liabilities as of March 31, 2002 and 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2002	2001	2002
Deferred tax assets:			
Excess bonuses accrued	¥ 1,147	¥ 1,380	$ 8,626
Allowance for doubtful accounts	3,187	7,040	23,964
Allowance for warranty	1,336	1,269	10,046
Allowance for retirement and severance	8,261	6,192	62,113
Inventories	2,849	2,486	21,420
Unrealized profit on inventories	673	825	5,058
Devaluation of marketable securities and investments	1,004	2,487	7,545
Excess depreciation	1,163	1,204	8,743
Operating loss carry forwards	6,800	4,270	51,130
Allowance for loss on restructuring	973	—	7,318
Net unrealized holding gain on securities	942	—	7,082
Unrealized profit on tangible fixed assets	—	424	—
Others	3,959	2,678	29,766
Total deferred tax assets	32,294	30,255	242,811
Less-valuation allowance	(12,933)	(14,260)	(97,239)
Deferred tax assets-net	19,361	15,995	145,572
Deferred tax liabilities:			
Difference on revaluation of assets and liabilities of subsidiaries	(1,911)	(2,689)	(14,367)
Accelerated depreciation	(932)	—	(7,010)
Excess tax depreciation reserve	(121)	(482)	(907)
Net unrealized holding gains on securities	(676)	(1,885)	(5,080)
Others	(28)	(13)	(214)
Deferred tax liabilities	(3,668)	(5,069)	(27,578)
Net deferred tax assets	15,693	10,926	117,994

6. Stockholders' equity

Under the Commercial Code of Japan (the "Code"), at least 50% of the issue price of new shares, is required to be designated as stated capital. The portion which is to be designated as stated capital is determined by resolution of the Board of Directors. Proceeds in excess of the amounts designated as stated capital are credited to additional paid-in capital. The maximum amount that the Company can distribute as dividends is calculated based on the unconsolidated financial statements of the Company in accordance with the Code. Under the Code, certain amounts of retained earnings equal to at least 10% of cash dividends and bonuses to directors and corporate auditors must be set aside as a legal reserve until the total amount of additional paid in capital and legal reserve equals 25% of common stock. Prior to the revision in the Code effective October 1, 2001, such appropriations as a legal reserve were required until the amount of legal reserve equaled 25% of common stock. The reserve is not available for dividends but may be used to reduce a deficit by resolution of the shareholders or may be capitalized by resolution of the Board of Directors. The legal reserve is included in the retained earnings. As a result of the legal reserve requirement, the retained earnings of the Company is not available for cash dividends at March 31, 2002. At June 26, 1998 annual meeting, the Company's stock-holders approved the change in the articles of incorporation of the Company, that the Company may acquire its own shares after June 26 1998, upon resolution of the Board of Directors, within the maximum limit of (1) 58,000 thousand shares to retire such shares and to offset related purchase costs against retained earnings and (2) 82,000 thousand shares at less than ¥24,900 million ($ 187,218 thousand) to retire shares and to offset costs against additional paid-in capital.

7. Contingent liabilities

The Companies were contingently liable as endorsers of trade notes receivable discounted with banks in the amount of ¥1,051 million ($7,901 thousand) at March 31, 2002. In addition, at the same date the Companies were contingently liable as guarantors of bank loans to unconsolidated subsidiaries and affiliated companies and employees in the amount of ¥20,444 million ($153,718 thousand) (net of guarantees by co-guarantors).

8. Segment information

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

A summary of net sales, costs and expenses, and operating income by segment of business activities for the years ended March 31, 2002 and 2001, and a summary of identifiable assets, depreciation expense and capital expenditures by segment of business activities for the years ended March 31, 2002 and 2001 were as follows:

Millions of yen

2002	Industrial machinery	Ship, steel structure & other specialized equipment	Mass-produced machinery	Construction machinery	Environmental protection facilities, plants & others	Elimination and / or corporate	Consolidated
I Sales and operating income							
Sales:							
Unaffiliated customers	¥ 72,161	¥ 79,714	¥ 135,602	¥ 98,641	¥ 131,019	¥ —	¥ 517,137
Intersegment	354	116	717	167	2,237	(3,591)	—
Total	72,515	79,830	136,319	98,808	133,256	(3,591)	517,137
Costs and expenses	73,417	76,292	129,856	98,794	128,222	(3,619)	502,962
Operating income	¥ (902)	¥ 3,538	¥ 6,463	¥ 14	¥ 5,034	¥ 28	¥ 14,175
II Identifiable assets	¥ 57,557	¥ 125,405	¥ 175,629	¥ 123,605	¥ 122,348	¥ 30,360	¥ 634,904
Depreciation expenses	1,126	1,772	4,811	2,747	1,446	—	11,902
Capital expenditures	1,703	1,566	6,470	4,418	1,393	—	15,550
2001							
I Sales and operating income							
Sales:							
Unaffiliated customers	¥ 66,029	¥ 94,043	¥ 157,669	¥ 112,602	¥ 83,410	¥ —	¥ 513,753
Intersegment	184	3,839	1,636	35	1,138	(6,832)	—
Total	66,213	97,882	159,305	112,637	84,548	(6,832)	513,753
Costs and expenses	70,087	99,436	145,861	117,359	80,479	(6,954)	506,268
Operating income	¥ (3,874)	¥ (1,554)	¥ 13,444	¥ (4,722)	¥ 4,069	¥ 122	¥ 7,485
II Identifiable assets	¥ 60,789	¥ 78,384	¥ 158,779	¥ 128,002	¥ 118,138	¥ 35,680	¥ 579,772
Depreciation expenses	1,215	2,017	4,586	3,974	1,124	—	12,916
Capital expenditures	708	1,643	8,602	2,379	973	—	14,305

Thousands of U.S. dollars

2002	Industrial machinery	Ship, steel structure & other specialized equipment	Mass-produced machinery	Construction machinery	Environmental protection facilities, plants & others	Elimination and / or corporate	Consolidated
I Sales and operating income							
Sales:							
Unaffiliated customers	$ 542,564	$ 599,357	$ 1,019,568	$ 741,659	$ 985,105	$ —	$ 3,888,253
Intersegment	2,660	874	5,387	1,253	16,824	(26,998)	—
Total	545,224	600,231	1,024,955	742,912	1,001,929	(26,998)	3,888,253
Costs and expenses	552,007	573,629	976,359	742,809	964,080	(27,212)	3,781,672
Operating income	$ (6,783)	$ 26,602	$ 48,596	$ 103	$ 37,849	$ 214	$ 106,581
II Identifiable assets	$ 432,757	$ 942,891	$ 1,320,526	$ 929,358	$ 919,914	$ 228,272	$ 4,773,718
Depreciation expenses	8,463	13,322	36,178	20,654	10,875	—	89,492
Capital expenditures	12,800	11,769	48,651	33,221	10,476	—	116,917

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

(B) Information by geographic area for the years ended March 31, 2002 and 2001 was as follows:

					Millions of yen
2002	Japan	North America	Other areas	Elimination and / or corporate	Consolidated
I Sales and operating income					
Sales:					
Unaffiliated customers	¥ 459,807	¥ 43,790	¥ 13,540	¥ —	¥ 517,137
Intersegment	16,012	618	1,078	(17,708)	—
Total	475,819	44,408	14,618	(17,708)	517,137
Costs and expenses	460,669	45,858	,14,126	(17,691)	502,962
Operating income	¥ 15,150	¥ (1,449)	¥ 491	¥ (17)	¥ 14,175
II Identifiable assets	¥ 539,916	¥ 44,249	¥ 15,201	¥ 35,538	¥ 634,904
2001					
I Sales and operating income					
Sales:					
Unaffiliated customers	¥ 448,764	¥ 54,469	¥ 10,520	¥ —	¥ 513,753
Intersegment	21,558	413	942	(22,913)	—
Total	470,322	54,882	11,462	(22,913)	513,753
Costs and expenses	465,373	52,686	11,074	(22,865)	506,268
Operating income	¥ 4,949	¥ 2,196	¥ 388	¥ (48)	¥ 7,485
II Identifiable assets	¥ 491,324	¥ 40,491	¥ 10,561	¥ 37,396	¥ 579,772

					Thousands of U.S. dollars
2002	Japan	North America	Other areas	Elimination and / or corporate	Consolidated
I Sales and operating income					
Sales:					
Unaffiliated customers	$ 3,457,196	$ 329,250	$ 101,807	$ —	$ 3,888,253
Intersegment	120,393	4,646	8,104	(133,143)	—
Total	3,577,589	333,896	109,911	(133,143)	3,888,253
Costs and expenses	3,463,674	344,795	106,214	(133,011)	3,781,672
II Operating income	$ 113,915	$ (10,899)	$ 3,697	$ (132)	$ 106,581
Identifiable assets	$ 4,059,525	$ 332,696	$ 114,295	$ 267,202	$ 4,773,718

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

(C) Overseas sales of the Companies for the years ended March 31, 2002 and 2001 was as follows.

				Millions of yen
2002	To North America	To Asia	To Other areas	Total
Overseas Sales	¥ 64,374	¥ 36,050	¥ 48,934	¥ 149,358
	12.4%	7.0%	9.5%	28.9%
				Thousands of U.S. dollars
Overseas Sales	$ 484,019	$ 271,052	$ 367,922	$ 1,122,993

Other areas include mostly the United Kingdom, Germany.

Overseas sales of the Companies for the year ended March 31, 2001 were ¥147,143 million ($ 1,106,337 thousand) and accounted for 28.6% of consolidated net sales.

Overseas sales consist of export sales by the Company and its domestic consolidated subsidiaries as well as sales by overseas consolidated subsidiaries.

(D) The effects of the change on segment information
As explained in Note 1, some subsidiaries of construction machinery segment adopted the lower of cost or market using the specific identification method, to the valuation of certain finished products, instead of the previously used cost based on specific identification basis.

The effects of the change on the construction machinery segment are to decrease operating income taxes by ¥434 million ($3,263 thousand).

And the effects of the change on Japan segment are to decrease operating income taxes by ¥434 million ($3,263 thousand).

As explained in Note 1, effective April 1, 2001, the Company changed the contract-amount criterion for applying the percentage-of-completion method from ¥3 billion or more to ¥1 billion or more.

The effects of the changes on the ship, steel structure & other specialized equipment segment are to increase net sale by ¥1,116 million ($8,389 thousand) and operating income by ¥96 million ($723 thousand) and those on the environmental protection facilities, plants & others are to increase net sale by ¥634 million ($4,765 thousand) and operating income by ¥60 million ($446 thousand). And the effects of the change on Japan segment are to increase net sales by ¥1,750 million ($13,154 thousand) operating income by ¥156 million ($1,169 thousand).

As explained in Note 1, the Company revaluated certain land used for business operations on March 31, 2002 in accordance with Enforcement Ordinance for the Law Concerning Revaluation Reserve for Land effective March 31, 1998.

As a result of the changes, identifiable assets are to increase ¥6,118 million ($45,999 thousand) on the industrial machinery segment, ¥38,538 million ($289,761 thousand) on the ship, steel structure & other specialized equipment segment, ¥31,271 million ($235,118 thousand) on the mass produced machinery segment , ¥3,637 million ($27,349 thousand) on the construction machinery segment , ¥8,393 million ($63,106 thousand) on the environmental protection facilities, plants & others segment, and ¥87,957 million ($661,333 thousand) on Japan segment.

9. Information for certain leases

The summary of assumed amounts of acquisition cost, accumulated depreciation and net book value with respect to finance leases accounted for in the same manner as operating leases as of March 31, 2002 was as follows:

	Millions of yen		
	Acquisition cost	Accumulated depreciation	Net book value
Machinery and equipment	¥ 24,724	¥ 11,201	¥ 13,523
Others	310	184	126
Total	¥ 25,034	¥ 11,385	¥ 13,649

	Thousands of U.S. dollars		
	Acquisition cost	Accumulated depreciation	Net book value
Machinery and equipment	$ 185,895	$ 84,220	$ 101,675
Others	2,330	1,382	948
Total	$ 188,225	$ 85,602	$ 102,623

Total lease payments for finance leases which do not transfer ownership to lessees amounted to ¥4,846 million ($36,433 thousand) and ¥3,854 million ($28,974 thousand) for the years ended March 31, 2002 and 2001, respectively.

Future lease payments as of March 31, 2002 and 2001, inclusive of interest under such leases were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2002	2001	**2002**
Due within one year	**¥ 4,184**	¥ 3,384	**$ 31,455**
Due after one year	**9,465**	6,828	**71,168**
Total	**¥ 13,649**	¥ 10,212	**$ 102,623**

10. Securities

(A) The following tables summarize book values of securities not stated at fair value as of March 31, 2002 and 2001:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2002	2001	2002
Held-to-maturity debt securities:			
Non-listed corporate bonds	¥ 2,000	¥ 2,000	$ 15,038
Government / municipal bonds	—	6	—
Available-for-sale securities:			
Non-listed equity securities	4,857	5,548	36,518
Others	1,046	—	7,865
Total	¥ 7,903	¥ 7,554	$ 59,421

(B) The following tables summarize acquisition costs, book values and fair values of securities with fair value as of March 31, 2002 and 2001:

Available-for-sale securities	Millions of yen		Thousands of U.S. dollars (Note 1)
	2002	2001	2002
Acquisition value:			
Equity securities	¥ 11,498	¥ 15,779	$ 86,450
Bonds	15	46	114
Others	99	161	747
Total	11,612	15,986	87,311
Book value:			
Equity securities	10,853	19,281	81,600
Bonds	17	58	130
Others	97	124	728
Total	¥ 10,967	¥ 19,463	$ 82,458
Differences:			
Equity securities	(645)	3,502	(4,850)
Bonds	2	12	16
Others	(2)	(37)	(18)
Total	¥ (645)	¥ 3,477	$ (4,852)

(C) Total sales amounts of available-for-sale securities sold in the year ended March 31, 2002 amounted to ¥2,412 million ($18,139 thousand) and the net gains amounted to ¥661 million ($4,970 thousand).

(D) The following tables summarize maturities of available-for-sale securities and held to maturity securities with maturities as of March 31, 2002

					Millions of yen
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years	Total
Bonds	—	¥ 26	¥ 2,000	—	¥ 2,026
Total	—	¥ 26	¥ 2,000	—	¥ 2,026

					Thousands of U.S. dollars
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years	Total
Bonds	—	$ 193	$ 15,038	—	$ 15,231
Total	—	$ 193	$ 15,038	—	$ 15,231

11.Derivatives information

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

(A) Forward foreign exchange contracts
The aggregate amounts contracted to be paid/received and the fair values of forward foreign exchange contracts in Japanese yen of the Companies at March 31, 2002 and 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2002	2001	**2002**
Contracted amount to be paid/received:			
To buy foreign currencies	—	—	—
To sell foreign currencies	**¥ 2,397**	$ 1,267	**$ 18,025**
To buy foreign exchange options	—	900	—
To sell foreign exchange options	—	900	—
Fair value	—	—	—
To buy foreign currencies	—	—	—
To sell foreign currencies	**2,480**	1,361	**18,653**
To buy foreign exchange options	—	0	—
To sell foreign exchange options	—	(15)	—
Net unrealized exchange loss	**¥ (83)**	$ (110)	**$ (628)**

(B) Interest rate swap and swaption agreements

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

Year ended March 31, 2001			Millions of yen
	Contract amount	Fair value	Unrealized gain(loss)
Interest rate swaps:			
Receive fix/Pay float	—	—	—
Received float/Pay fix	600	(18)	(18)
	¥ 600	¥ (18)	¥ (18)

Year ended March 31, 2002			Thousands of U.S. dollars
	Contract amount	Fair value	Unrealized gain(loss)
Interest rate swaps:			
Receive fix/Pay float	—	—	—
Received float/Pay fix	4,511	(140)	(140)
	$ 4,511	$ (140)	$ (140)

12. Information regarding retirement benefits

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2002	2001	**2002**
(1) Projected benefit obligation	**¥ (76,884)**	¥ (76,608)	**$ (578,072)**
(2) Fair value of pension assets	**14,539**	20,035	**109,312**
(3) Fair value of employee retirement benefit trust	**17,037**	18,965	**128,101**
(4) Unfunded projected benefit obligation	**(45,308)**	(37,608)	**(340,659)**
(5) Unrecognized net transition obligation	**17,011**	22,950	**127,905**
(6) Unrecognized actuarial difference	**16,996**	6,512	**127,791**
(7) Unrecognized prior service cost	**1,578**	39	**11,865**
(8) Prepaid pension benefit expenses	**(9)**	(59)	**(72)**
(9) Allowance for severance and pension benefit	**(9,732)**	(8,166)	**(73,170)**

2.Included in the statements of operation for the years ended March 31, 2002 and 2001 are the following severance and pension benefit expenses:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2002	2001	**2002**
(1) Service costs	**¥ 4,303**	¥ 4,230	**$ 32,351**
(2) Interest cost on projected benefit obligation	**2,527**	2,260	**19,004**
(3) Expected return on plan assets	**(1,002)**	(867)	**(7,536)**
(4) Amortization of net transition obligation	**5,980**	29,649	**44,962**
(5) Recognized actuarial differences	**489**	35	**3,678**
(6) Recognized prior service cost	**195**	9	**1,468**
(7) Severance and pension benefit expense	**12,492**	35,317	**93,927**

3.Assumptions for calculating:

	2002	2001
(1) Allocation of the estimated amount of all retirement benefits to be paid at the future retirement date	Equally to each service year using the estimated number of total service years	
(2) Assumed discount rate	**2.5%**	3.0%
(3) Expected rate of return on plan assets	**4.0%**	4.0%
(4) Amortization of period of actuarial gain/loss	**12years**	12 years
(5) Amortization period of unrecognized net transition obligation	**5years**	5 years

Report of Independent Public Accountants

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

We have audited the accompanying consolidated balance sheets of Sumitomo Heavy Industries, Ltd. (a Japanese corporation) and subsidiaries as of March 31, 2002 and 2001, and the related consolidated statements of operations, stockholders' equity and cash flows for the years then ended, expressed in Japanese yen. Our audits were made in accordance with generally accepted auditing standards in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of Sumitomo Heavy Industries, Ltd. and subsidiaries as of March 31, 2002 and 2001, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan (Note 1) applied on a consistent basis during the periods, except as noted in the following paragraph.

As explained in Note 1, effective April 1, 2001, Sumitomo Heavy Industries, Ltd. and subsidiaries changed the method of accounting for long-term contracts and the valuation and accounting method for certain finished products, with which we concur. Also, as explained in Note 1, effective April 1, 2000, Sumitomo Heavy Industries, Ltd. and subsidiaries prospectively adopted new Japanese accounting standards for financial instruments, employees' severance and retirement benefits, and foreign currency translation.

Also, in our opinion, the U.S. dollar amounts in the accompanying consolidated financial statements have been translated from Japanese yen on the basis set forth in Note 1.

Asahi & Co.

Tokyo, Japan
June 27, 2002

Network

【Domestic Network】

Offices

Head Office
9-11, Kitashinagawa 5-chome, Shinagawa-ku, Tokyo 141-8686, Japan
Tel: 81-3-5488-8000
URL: http://www.shi.co.jp

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

Tanashi Works
1-1, Yato-cho 2-chome, Nishitokyo-shi, Tokyo 188-8585, Japan
Tel: 81-424-68-4104

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

Yokosuka Works
19, Natsushima-cho,Yokosuka-shi, Kanagawa 237-8555, Japan
Tel: 81-468-69-1842

Uraga Shipyard
7, Uraga-cho 4-chome, Yokosuka-shi, Kanagawa 239-0822, Japan
Tel: 81-468-46-2114

Hiratsuka Works
63-30, Yuhigaoka, Hiratsuka-shi, Kanagawa 254-8010, Japan
Tel: 81-463-21-8400

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

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

Niihama Works
512, Sobiraki-cho, Niihama-shi, Ehime 792-8588, Japan
Tel: 81-897-32-6211

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

Research & Development Center
19, Natsushima-cho, Yokosuka-shi, Kanagawa 237-8555, Japan
Tel: 81-468-69-2300

Laser Center
1-15, Kuryozutsumi, Hiratsuka-shi, Kanagawa 254-0801, Japan
Tel: 81-463-21-8478

Subsidiaries

Sumitomo (S.H.I.) Construction Machinery Co., Ltd.
9-11, Kitashinagawa 5-chome, Shinagawa-ku, Tokyo 141-8686, Japan
Principal business:Holding Company of Sumitomo(S.H.I.) Construction Machinery Sales Co., Ltd. and Sumitomo(S.H.I.) Construction Machinery Manufacturing Co., Ltd.
Tel: 81-3-5421-8600
URL: http://www.sumitomokenki.co.jp
100% owned subsidiary

Sumitomo Heavy Industries Construction Crane Co., Ltd.
9-11, Kitashinagawa 5-chome, Shinagawa-ku, Tokyo 141-8686, Japan
Principal business:Manufacture and sa1es of construction crane
Tel: 81-3-5421-8549
URL: http://www.sumitomocrane.com
100% owned subsidiary

Shin Nippon Machinery Co., Ltd.
1-28, Shiba 2-Chome, Minato-ku, Tokyo 105-0014, Japan
Principal business:Steam turbines, pumps and fasteners
Tel: 81-3-3454-1211
URL: http://www.snm.co.jp
50.07% owned subsidiary

Nihon Spindle Mfg. Co., Ltd.
2-30, Shioe 4-chome, Amagasaki-shi, Hyogo 661-8510, Japan
Principal business:Spinning machinery and environmental protection equipment
Tel: 81-6-6499-5551
URL: http://www.spindle.co.jp
23.4% owned subsidiary

Sumitomo Eaton Nova Corporation
4-15, Yato-cho 2-chome, Nishitokyo-shi, Tokyo 188-0001, Japan
Principal business:Semiconductor equipment, especially ion implantation systems
Tel: 81-424-68-3216
50% owned subsidiary

Sumitomo NACCO Materials Handling Co., Ltd.
75, Daitoh-cho 2-chome, Obu-shi, Aichi 474-8555, Japan
Principal business: Forklift trucks and other materials handling equipments
Tel: 81-562-48-5251
URL: http://www5.mediagalaxy.co.jp/sumitomonacco
50% owned subsidiary

Izumi Food Machinery Co., Ltd.
2-18, Awaza 2-chome, Nishi-ku, Osaka-shi, Osaka 550-0011, Japan
Principal business: Food processing machinery and related equipment
Tel: 81-6-6543-3500
URL: http://www.izumifood.co.jp
50% owned subsidiary

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

Synex Corporation
240 Nagatake Tsukui-machi, Tsukui-gun, Kanagawa 220-0204, Japan
Principal business:Automold system for semiconductor devices and its mold die-set
Tel: 81-42-784-7512
100% owned subsidiary

Sumitomo Heavy Industries Himatex Co., Ltd.
16-4,Isoura-cho, Niihama-shi, Ehime 792-0002, Japan
Principal business:Castings, rolls and bimetallic cylinders
Tel: 81-897-32-6482
URL: http://www.shiff.co.jp
100% owned subsidiary

Sumitomo Heavy Industries PTC Sales Co., Ltd.
2-2-900, Umeda 1-chome, Kita-ku, Osaka-shi, Osaka 530-0001, Japan
Principal business:Power transmission equipment
Tel: 81-6-6346-0821
100% owned subsidiary

SHI Plastics Machinery, Ltd.
9-11, Kitashinagawa 5-chome, Shinagawa-ku, Tokyo 141-8686, Japan
Principal business: Plastics Machinery
Tel: 81-3-5421-8425
100% owned subsidiary

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

Sumitomo Heavy Industries Engineering & Services Co., Ltd.
9-11, Kitashinagawa 5-chome, Shinagawa-ku, Tokyo 141-8686, Japan
Principal business:Design, production and distribution of general industrial machinery, as well as remodeling, repairs, inspection and maintenance
Tel: 81-3-5421-8441
100% owned subsidiary

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

Marine United, Inc.
1-1, Irifune 2-chome, Chuo-ku, Tokyo 104-0042, Japan
Principal business:Design and construction ofnaval ships, merchant vessels and offshore structures
Tel: 81-3-5543-4800
50% owned subsidiary

Osaka Chain & Machinery, Ltd.
16-1, Wakihama 4-chome, Kaizuka-shi, Osaka 597-8555, Japan
Principal business:Power transmission Equipment
Tel: 81-724-31-3021
URL: http://www.seisa.co.jp
53.53% owned subsidiary

【Overseas Network】

Offices

Sumitomo Heavy Industries (U.S.A.), Inc.
666 Fifth Avenue Suite 1002, New York, N.Y. 10103-1099, U.S.A.
Tel: 1-212-459-2477
100% owned subsidiary

Sumitomo Heavy Industries (Europe), Ltd.
5th Floor, Bury House, 31 Bury Street, London EC 3A 5AR, U.K.
Tel: 44-20-7621-0100
100% owned subsidiary

Subsidiaries

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

Sumitomo (SHI) Cyclo Drive Europe, Ltd.
Marfleet, Kingston upon Hull HU9 5RA, U.K.
Principal business:Power transmission equipment
Tel: 44-1482-788022
URL: http://www.smcyceuro.com
100% owned subsidiary

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

Sumitomo (SHI) Cyclo Drive China, Ltd.
No.7 Sanjing Road, Dong1i Economic Development Zone, Tianjin, China
Principal business:Power transmission Equipment
Tel: 86-22-2499-3501
URL: http://www.cyclodrive.com/china
100% owned subsidiary

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

SHI Plastics Machinery (Europe) B.V.
Breguetlaan 10A, 1438 BC OUDE MEER, Netherlands
Principal business:Plastics machinery
Tel: 31-20-65-33-111
URL: http://www.spm-europe.com
100% owned subsidiary

S.H.I. Plastics Machinery (S) Pte., Ltd.
67 Ayer Rajah Crescent #01-15 to 26, Singapore 139950
Principal business:Plastics machinery
Tel: 65-2779-7544
URL: http://www.spm-singapore.com
100% owned subsidiary

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

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

SHI Plastics Machinery (Shanghai) Co., Ltd.
Second Floor, Department D
Shanghai Waigaoquiao Free Trade Zone
188 Headang Road
Pu Dong New Area, Shanghai
Principal business:Plastics machinery
Tel: 86-21-6445-0405
URL: http://www.spm-northasia.com
100% owned subsidiary

SHI Plastics Machinery (Malaysia) Sdn.Bhd.
9th Floor Menara PKNS, Blok A PJ Jalan Yong Shook Lin 46050, Petaling Jaya, Selangor, Malaysia
Principal business:Plastics machinery
Tel: 60-3-7958-2079
49% owned subsidiary

Sumitomo (SHI) Cryogenics of America, Inc.
870 Cambridge Drive, Elk Grove Village, Il 60007, U.S.A.
Principal business:Service and sales of cryocooler
Tel: 1-847-290-5801
100% owned subsidiary

SHI Cryogenics Europe GmbH
Dolivostrasse 9, D-64293 Darmstadt, Germany
Principal business:Service and sales of cryocooler
Tel: 49-6151-860610
100% owned subsidiary

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

LBX Company, LLC
2333 Alumni Park Plaza ,Lexington,Kentucky 40517,U.S.A.
Principal business:Construction machinery
Tel: 1-859-245-3955
URL: http://www.lbxco.com
50% owned subsidiary

SHI Machinery Service Hong Kong Ltd.
Unit 4105, Level 41, Tower, Metroplaza, No.223 Hing Fong Road, Kwai Chung, New Territories, Hong Kong
Principal business:Maintenance service for harbor cranes
Tel: 852-2521-8433
100% owned subsidiary

SHI Designing & Manufacturing Inc.
4th & 5th Floor Fems Tower One, 1289 Zobel Roxas Avenue Cor., South Superhighway, Manila, Philippines
Principal business:Project implementation - from basic design through detailed design to sales
Tel: 632-525-8338
100% owned subsidiary

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

Management *(As of June 27, 2002)*

Board of Directors

Yoshio Hinoh*
President and Chief Executive Officer

Eiichi Fujita*
Director

Noriyuki Yamasaki*
Director

Naoki Takahashi
Director

Kensuke Shimizu
Director

Hiroyasu Taniguchi
Director

Tsuyoshi Saito
Director

Tsutomu Nishimura
Director

* *a director with representative rights*

Yoshio Hinoh*
President and Chief Executive Officer

Eiichi Fujita*
Director

Noriyuki Yamasaki*
Director

Naoki Takahashi
Director

Kensuke Shimizu
Director

Hiroyasu Taniguchi
Director

Tsuyoshi Saito
Director

Tsutomu Nishimura
Director

Corporate Auditors

Shuji Toyoda
Standing Auditor

Yoshimasa Funato
Standing Auditor

Takako Yamada
Auditor

Mohachi Sugiyama
Auditor

Exeucutive Officers

Yoshio Hinoh
President and Chief Executive Officer

Eiichi Fujita
Director, Senior Executive Vice President

Noriyuki Yamasaki
Director, Senior Executive Vice President

Naoki Takahashi
Director, Executive Vice President

Kensuke Shimizu
Director, Executive Vice President

Takahiko Otani
Senior Vice President

Yasuhiko Seike
Senior Vice President

Yukio Kinoshita
Senior Vice President

Yasuo Naide
Senior Vice President

Shigeru Nisugi
Senior Vice President

Akihiko Yoshii
Senior Vice President

Yoshinobu Nakamura
Senior Vice President

Shinji Nishimura
Senior Vice President

Hiroyasu Taniguchi
Director, Vice President

Corporate Data

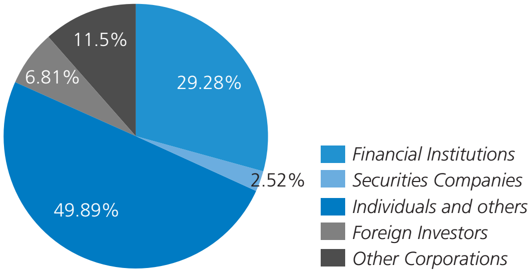
Head office	: Sumitomo Heavy Industries, Ltd. 9-11, Kitashinagawa 5-chome, Shinagawa-ku, Tokyo 141-8686, Japan Tel : +81-3-5488-8336 Fax : +81-3-5488-8056 URL : http://www.shi.co.jp
Founded	: 1888
Incorporated	: November 1, 1934
Paid-in Capital	: ¥ 30,871,651,300
Number of Employees	: 12,457 (Consolidated) 4,331 (Non-consolidated)
Transfer Agent	: The Sumitomo Trust and Banking Co., Ltd.
Stock Exchange Listings	: Tokyo, Osaka, Nagoya
Shares Outstanding	: 588,696,680
Number of Shareholders	: 96,922

Major Shareholders :

Sumitomo Mitsui Banking Corporation	4.51%
Sumitomo Life Insurance Company	4.11%
Nippon Life Insurance Company	3.11%
Stock Sharing Group consisting of Trade Partners	1.81%
The Sumitomo Trust and Banking Co., Ltd.	1.69%
Mitsui Sumitomo Insurance Co., Ltd.	1.65%
UFJ Trust Bank Ltd. (trust account A)	1.51%
The Industrial Bank of Japan, Ltd.	1.45%
Sumitomo Corporation	1.43%
The Mitsubishi Trust and Banking Corporation (trust account)	1.36%

Breakdown of Shareholders as of March 31, 2002

Types of sharehloders	Number of shares (unit 1,000)
Financial Institutions	172,324
Securities Companies	14,837
Individuals and others	293,713
Foreign Investors	40,104
Other Corporations	67,716



"Other Corporations" category also includes treasury stock and government institution.
Number of shares are rounded down to the nearest 1,000.

Additional copies of this annual report and other information may be obtained by contacting

Corporate Communications Department, Sumitomo Heavy Industries, Ltd.
9-11, Kitashinagawa 5-chome, Shinagawa-ku, Tokyo 141-8686, Japan
Tel: +81-3-5488-8336 Fax: +81-3-5488-8056

Additional information to readers of Annual Report 2002

In the Notes to Consolidated Financial Statements for the years ended March 31, 2002 and 2001 of Sumitomo Heavy Industries, Ltd., Note 6. Stockholders' equity (page 34) explains purchases and retairements of treasury stock introduced by a clause in the articles of incorporation approved by the annual meeting of Stockholders of the Company held at June 26, 1998. At June 27, 2002, the annual meeting of Stockholders of the Company resolved the deletion of this clause in accordance with the abolition of the related law.

Sumitomo Heavy Industries, Ltd.
http://www.shi.co.jp

PRINTED WITH SOY INK™
Printed in Japan O041 Ⓔ 021