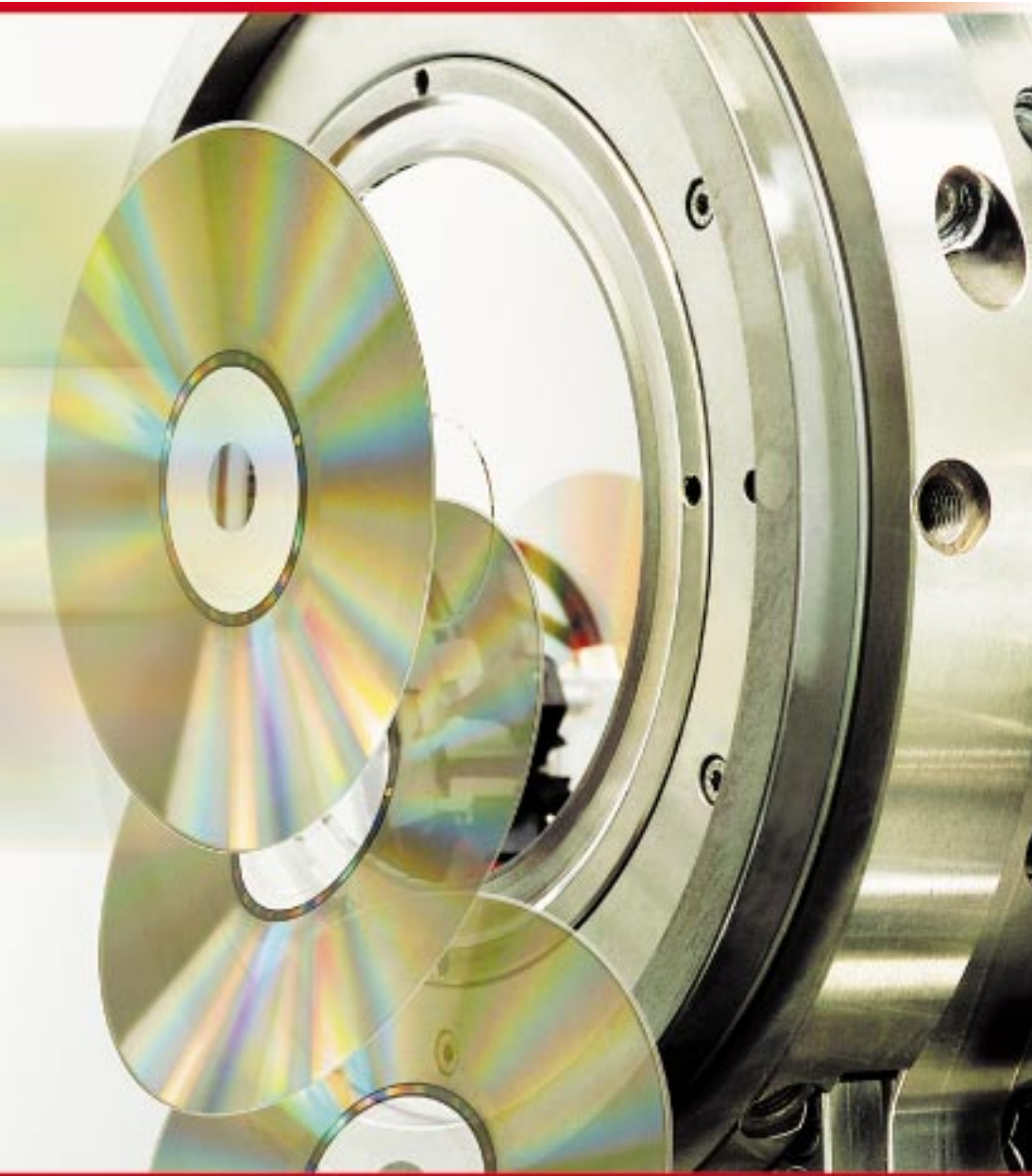


# Annual Report 2000



# P profile

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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

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# Financial Highlights

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

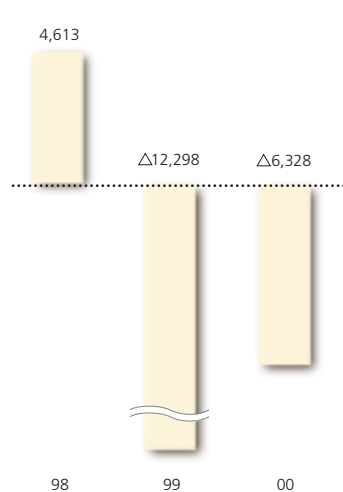
	Millions of yen (except per share amounts)			Thousands of U.S. dollars (except per share amounts)		
	1998	1999	2000	1998	1999	2000
Net sales	¥ 556,786	¥ 554,488	<b>¥ 566,668</b>	\$ 4,218,076	\$ 4,582,546	<b>\$ 5,345,925</b>
Net income (loss)	4,613	(12,298)	<b>(6,328)</b>	34,947	(101,636)	<b>(59,698)</b>
Net income (loss) per share of common stock (*)	7.83	(20.88)	<b>(10.74)</b>	0.06	(0.17)	<b>(0.10)</b>
Stockholders' equity	78,909	72,975	<b>64,829</b>	597,796	603,099	<b>611,594</b>
Total assets	748,017	723,673	<b>657,149</b>	5,666,796	5,980,769	<b>6,199,519</b>

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

**Net Sales** (¥ Million)



**Net Income** (¥ Million)



**Total Assets** (¥ Million)



# To Our Shareholders

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With the deepest gratitude to all our shareholders and customers, we are pleased to present our company's Annual Report for the fiscal year ended March 31, 2000.

During this fiscal year, the economy in Japan slowly began to show some signs of recovery, as the government's monetary and fiscal policy gave a much-needed boost to consumer spending and housing investment growth. Capital investment, on the other hand, remained sluggish, showing growth only in such limited areas as the semiconductor and IT industries. Since last autumn, the yen has also been appreciating gradually, increasing the severity of the domestic economic climate.

In this economic environment, we have been taking positive operational steps, with great emphasis placed on securing order bookings. As a result, we were able to see an increase in order bookings this term in the Mass-Produced Machinery group. The plastic processing machines, semiconductor encapsulation equipment, and laser systems produced by this group are in high demand among the flourishing information-technology related industries. Excellent results were also achieved once again by the Environmental Systems, Plants & Others group which received a major order for a bulk refuse treatment facility. On the downside, order bookings declined in both Industrial Machinery and Ship, Steel Structure & Precision Products groups as a result of the stagnant export conditions caused by the high yen — a problem further aggravated by a slack domestic market. Overall, consolidated order bookings totaled ¥496.8 billion, slightly down from the previous year. Non-consolidated orders totaled ¥294.3 billion, down 2% from the previous year.

Total sales, on the other hand, were up slightly. Consolidated sales climbed to ¥566.6 billion, up 2% from the previous fiscal year while non-consolidated sales could reach a record ¥362.1 billion, up 5% from the previous fiscal year. This growth can be largely attributed to the remarkable success of the Mass-Produced Machinery group and the production of numerous large-scale facilities by the Environmental Systems, Plants & Others group.

In terms of ordinary profits, we also performed well this term with consolidated ordinary gains increasing by ¥5.4 billion over the previous fiscal year while non-consolidated profits were ¥9.9 billion higher. These gains came as a result of group-wide efforts to improve commercial profits by expanding sales, cutting costs and expenditures, and by increasing earning capacity.

Overall, profits and losses were up slightly this year, with a net deficit this term of ¥6.3 billion through an improvement in consolidated profits and losses. In the area of non-consolidated profits and losses, we managed to come out ahead by ¥4 billion, even though we had to include the liquidation and losses of a number of affiliated companies whose financial situations were unacceptable.

As for dividends, we will distribute to our shareholders ¥3 per share since our non-consolidated business gained in this period.

## TO OUR SHAREHOLDERS

To deal with the difficult economic climate at home and abroad, we have developed a new three-year, medium-term management plan called "C21" aimed at growing a highly profitable business enterprise. Implemented in 1999, this plan focuses on developing management strategies based on the concepts of "Change", "Innovation" and "Responsiveness".

This term marked the first year of our "C21" plan. We have already made changes to our business management and are improving the earning capacities of all our business enterprises. Specific measures include a new "Executive Officer System" that — in conjunction with reforms to the board of directors — is designed to facilitate faster and more efficient decision-making and to establish more flexible and responsive corporate governance. Another new measure introduced group-wide is the vital management indicator, "Return On Invested Capital (ROIC)", which takes into account the importance of capital invested efficiency to create shareholder values. As part of our restructuring, we are putting special emphasis on strengthening the global presence of world-class divisions and products such as speed reducers/converters, plastic processing machines, laser processing systems, and cryocoolers. We are also consolidating and restructuring our business units, and integrating our production sites. To further increase our competitiveness and earning capacity, we are applying the SHI Management System to all our group companies. The SHI Management System consists of (1) realization of the customer's value by implementing the 6 sigma management tool, (2) asset reduction by adapting a "lean production system", (3) expansion of our product line by focusing our R&D efforts on profitable segments and (4) increment of profits by leveraging the latest information technology.

To expand our business in the future, we are targeting such areas as semiconductors, liquid crystal, information and communications, services /IT, and concentrating our management resources on such consolidated businesses as manufacturing equipment, systems, key components and functional components. We are also expanding our business in services and software development to create stronger brand value and customer loyalty. In its second year, plan "C21" will focus on promoting business model development to improve business value in all groups.

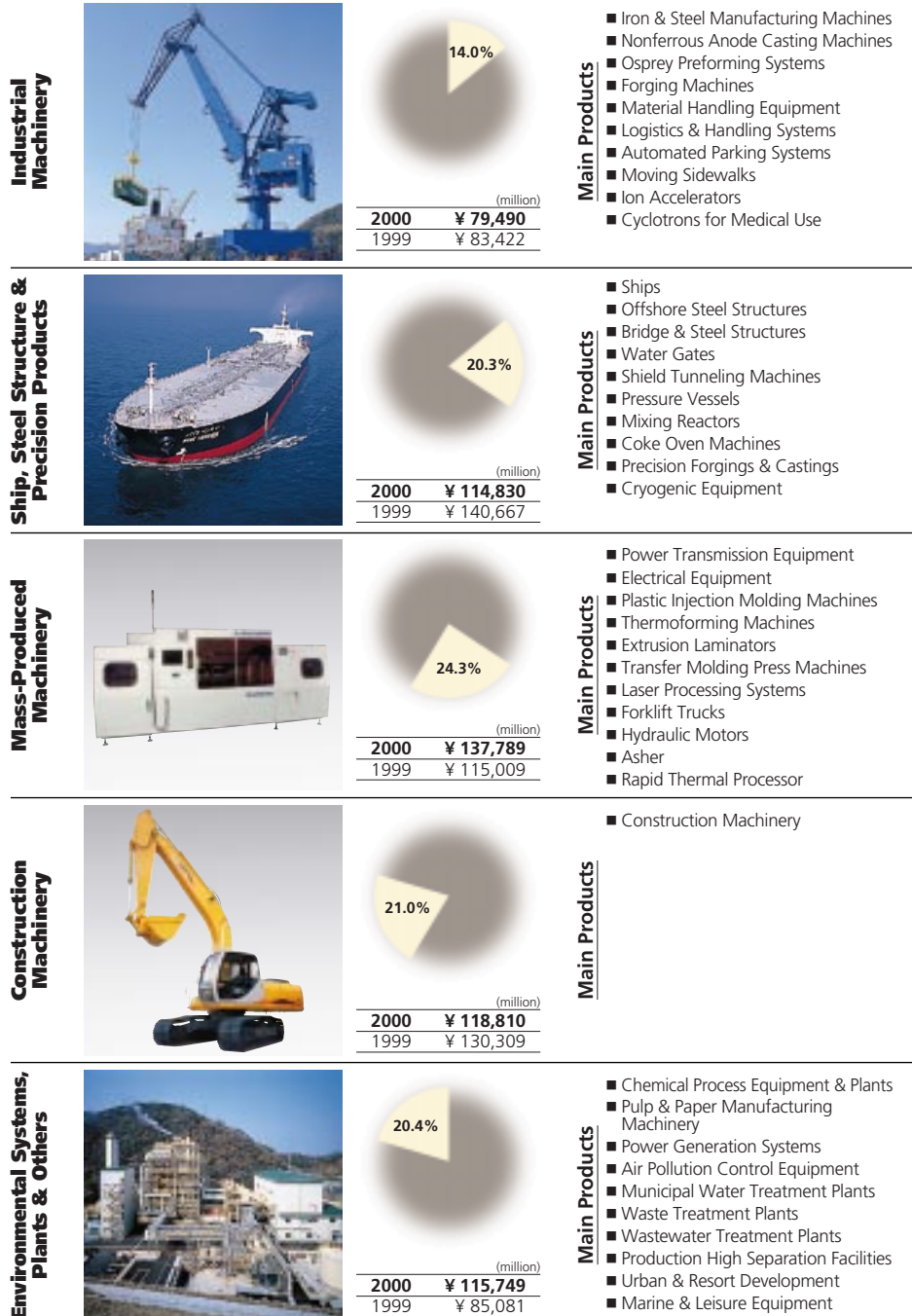
In conclusion, we would like to say once again how greatly we appreciate the support that all of you have given us over the years. We sincerely hope that you will continue to provide the same level of support in the years to come.



Mitoshi Ozawa  
Chairman of the Board

Yoshio Hinoh  
President and CEO

# Overview of Segments





## OVERVIEW OF SEGMENTS

(As of March 31, 2000)

- Electron Beam Accelerators
- Magnets
- SR Ring AURORA®
- Superconducting Equipment
- Plasma Coating System for FPDs (Flat Panel Displays)
- Space Cryo-Systems
- Paper Machines
- Machine Tools
- Industrial Turbines and Pumps

### 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.

### Main Markets

- Iron & Steel
- Port & Harbor
- Shipbuilding
- Electric Power
- Food Product
- Medicine
- Paper Making
- Automobile
- Space Exploitation
- Logistics & Handling

- Retail Electric Appliance
- Semiconductor
- Universities/Research Organizations
- Urban Developing
- New Transportation System

- XY Stages
- Defense Equipment
- Engines for Ships

### Major Units

- Sumiju Steel Construction & Engineering Co., Ltd.
- Marine United, Inc.
- Diesel United, Ltd.
- Oshima Shipbuilding Co., Ltd.
- Sumiju Techno Center Co., Ltd.
- Sumiju Yokosuka Kogyo Co., Ltd.
- Sumiju Tokki Service Co., Ltd.
- Sumiju Precision Casting Co., Ltd.
- SHI Tech-Max Co., Ltd.
- SHI Examination & Inspection, Ltd.

### Main Markets

- Marine Transport
- Transport Infrastructure Construction
- Aviation
- Petroleum/Petrochemistry
- Medical Equipment
- Semiconductor
- Defense

- Sumitomo Eaton Nova Corporation
- Sumitomo Eaton Hydraulics Co., Ltd.
- Sumitomo NACCO Material Handling Co., Ltd.
- Sumitomo Machinery Corporation of America
- Sumitomo (SHI) Cyclo Drive Europe, Ltd.
- Sumitomo (SHI) Cyclo Drive Asia Pacific Pte., Ltd.

### Major Units

- Sumitomo Heavy Industries PTC Sales Co., Ltd.
- Sumitomo Plastics Machinery Inc. of America
- S.H.I. Plastics Machinery (S) Pte., Ltd.
- SHI Plastics Machinery, Ltd.
- Sumitomo Heavy Industries Foundry & Forging Co., Ltd.
- Sumiju Technical Engineering Co., Ltd.
- SHI Control Systems, Ltd.

### Main Markets

- Electronics & Electrical
- Audio System
- Semiconductor
- Water Disposal
- Conveyance System
- Construction Machinery

- Sumitomo (S.H.I.) Construction Machinery Co., Ltd.
- Link-Belt Construction Equipment Company
- Sumitomo Kenki Hanbai Kitanihon Co., Ltd.
- Sumitomo Kenki Hanbai Kantou Co., Ltd.
- Sumitomo Kenki Hanbai Chubu Co., Ltd.

### Major Units

- Sumitomo Kenki Hanbai Koushinetsu Co., Ltd.
- Sumitomo Kenki Hanbai Kansai Co., Ltd.
- Sumitomo Kenki Hanbai Chushikoku Co., Ltd.
- Sumitomo Kenki Hanbai Kyushu Co., Ltd.
- SRM Co., Ltd.

### Main Markets

- Construction/Civil Engineering

- Import & Automobile Sales
- Software

### Major Units

- Izumi Food Machinery Co., Ltd.
- Lightwell Co., Ltd.
- Sumiju Environmental Engineering, Inc.
- SHI Designing & Manufacturing, Inc.
- Izumi Sogo Service Co., Ltd.
- SHI Finance, Ltd.
- Sumiju Plant Service Co., Ltd.
- Sumiju Environmental Designing, Inc.
- SHI Resort Development, Ltd.

### Main Markets

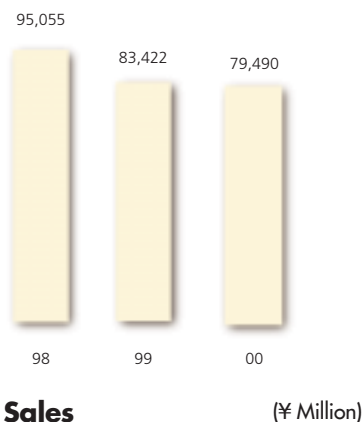
- Petrochemistry
- Paper Making
- Electric Power/IPP
- General Waste Treatment
- Industrial Waste Treatment
- Sewage/Industrial Effluent
- Leisure Exploitation

# Industrial Machinery

Capital investment in all sectors of manufacturing except for the electrical equipment industry declined relative to its level a year ago, making it a difficult year for our Industrial Machinery group. Total orders were ¥54,645 million, down 23.8% from the previous period, while sales dropped 4.8% to ¥79,490 million, despite the fact that we delivered a number of large iron and steel manufacturing machines.

In spite of steady demand, investment in the iron and steel industry has not yet recovered. Nonetheless, we did see some capital improvement in our iron and steel manufacturing machine sector thanks to efforts to increase productivity and quality. With the domestic market remaining weak, we focused on overseas business, successfully launching a number of new commercial operations. Our medium-thick slab continuous casting machines and rolling mills are now operating in various locations throughout Southeast Asia, Korea, and Europe.

Investment in car manufacturing-related industries — one of our primary markets in the forging machines sector — remained sluggish on the domestic front, although worldwide restructuring prompted a resurgence in growth internationally. To take advantage of this, Japanese-affiliated manufacturers established new operations in Europe and forged alliances with European manufacturers. As a result, we enjoyed brisk sales of auto forging presses in Europe — a market where these products are relatively new. We also received orders from Italian/German forging manufacturers for connecting rod auto forging press lines and crankshaft auto forging press lines. Keeping pace with our clients' globalization is leading us to new overseas markets.



Net Sales

(¥ Million)



Board Machine for Takasago Paper Co., Ltd.



## REVIEW OF OPERATIONS

In the area of paper-making machines, improvement in the demand-and-supply balance in the paper and pulp industry has spurred some recovery in capital investment. However, since this is mainly targeted on environmental investment or replacement investment in combination with disposal of existing equipment, demand is still relatively slow. Nevertheless, we have delivered a large number of “Soft calendars” to support client demands for adding value to products — for example, colorizing newspapers. We also delivered and activated board machines as an integrated plant.

In the areas of material handling equipment and logistics & handling systems, we received orders for continuous iron-ore unloaders and Goliath dockyard cranes, despite a drop in domestic demand of more than 25% from the previous year. Another important product in this area is our automated puzzle-style parking system for SOHO-type buildings. These are highly valued for their anti-noise/vibration measures, and have been adopted in many places in recent years. With increasing construction of highrises and other multi-use structures, we expect this system to help increase our sales on an ongoing basis in coming years.

More positive developments were seen in our quantum equipment, film formation deposition systems and cooling systems which are targeted on such growth areas as the medical services sector, semiconductor/flat panel sector, and space development sector. Order bookings improved 8% from the previous year while sales were up 4%. We have merged and streamlined our subsidiaries by focusing mainly on the engineering and maintenance sectors. This will strengthen the after-market support which will become increasingly important to machinery manufacturers in the future. With both order bookings and sales surpassing ¥10 billion, we are off to a good start.

Overall, the Industrial Machinery group has been facing some tough times recently. With most of our main clients coming from the fundamental equipment and materials industries, the stagnant growth in capital investment in these fields has inevitably had a negative impact on the group's performance. Ultimately, however, we expect to see more positive results as products in growth areas such as parking systems, quantum equipment, film formation deposition systems, cooling systems and after-market support begin to make a greater contribution to our business. The basic philosophy underlying plan “C21” is “Concentration of corporate resources in growth areas”. In line with this philosophy, our Industrial Machinery group is focusing on growth products in order to increase the profitability of these business units.



Tire-Mounted Level Luffing Jib Crane for Yamaguchi Prefecture Iwakuni Port



Goliath Crane for Imabari Shipbuilding Co., Ltd



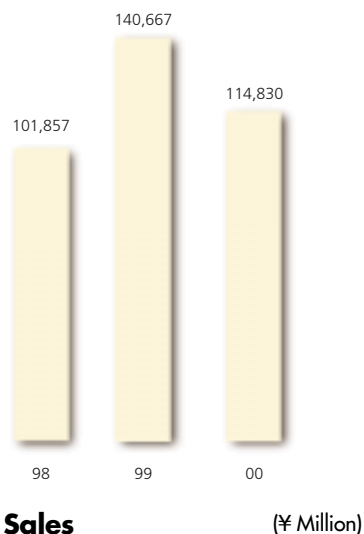
Sumitomo Metal Industries, LTD. Kashima Works

# Ship, Steel Structure & Precision Products

Currently, this sector's primary business is in the field of shipbuilding. This year, both total order bookings and sales were down from the previous term. Orders dropped by 23.6% from last year to ¥88,377 million while sales fell 18.4% to ¥114,830 million.

In spite of the fact that the world economy experienced a mild upswing in 1999, orders for new ships were adversely affected by the devaluation of the Korean won and the appreciation of the yen in 1999, with ship prices falling accordingly. Given these circumstances, we intend to increase profits by shifting the main emphasis of our business to vessels with high added value. Among the highlights of 1999 was the completion of "Ferry Toshima", at the Uraga shipyard. The ferry was built for Toshima-Mura village in Kagoshima prefecture. Toshima-Mura village is comprised of a chain of several islands ranging from Kagoshima to Amami-Oshima Island, commonly known as the Tokara islands. The ferry makes three voyages a week, providing an invaluable communications and transportation lifeline to the scattered islands. The vessel was designed with an emphasis on speed and comfort and can carry up to 200 passengers, as well as cars, medium-sized trucks and cargo containers.

In the steel bridge sector, the total construction budget has decreased recently with the completion of supersize projects in which we were involved such as the Honshu-Shikoku bridge. On the other hand, increasing market demands for lower cost construction have moved us to accelerate our restructuring drive. An example of this trend towards low-cost construction can be seen in the Japan Bridge Construction Association proposal to rationalize a 2-I girder steel bridge design for bridges with a span between 30 and 60 meters that would cost 15% less than a PC post-tension T-beam girder bridge. In response to these trends, we have implemented up-to-date technologies such as an on-site PC slab manufacturing mobile frame for 2-I girder type steel bridges, a tension control system for suspension cables on cable stayed bridges and arch bridges, as well as a new design concept that combines the upper and lower



"Pine Venture" Aframax Tanker

**Net Sales**

(¥ Million)

## REVIEW OF OPERATIONS

structures of pedestrian bridges. To better take advantage of our steel bridge technology, we are focusing on harbor structures such as hybrid caissons or submerged tunnels. And, in response to increasing social demands for maintenance and repair of older structures, we are also offering bridge structural diagnostic services. As demand for new large structures decreases in the future, becoming a more service-oriented company is indispensable to our future.

In the pressure vessels field, demand for coke drum facilities which convert heavy oil into light oil using a delayed coker process grew to meet increasing worldwide demand for light oil. We focused on this market, considering it a strategic market. In addition to our conventionally well-established prices and quality, we outclassed others with a shorter delivery time by incorporating the progressive manufacturing process called "lean production system". In 1999, we built 20 large-scale coke drums for overseas clients.

In the precision equipment field, the high technology we developed earlier is now beginning to meet the needs of the times. Our high-precision XY stage was first introduced to the market in 1998, and while its use is still not widespread, the volume of orders has been doubling on a year-on-year basis. The advanced technologies this system incorporates — such as an ultra-precision surface stage with 0.62 nm resolution power, gantry stage with excellent high-speed stability — as well as basic components such as low-ripple and low-thermal linear motors are rated very highly. We have also begun to expand a global service network, especially in the Cryocooler business, by establishing our first service facility in the United States, and adding a second one in Germany to serve as the center for our European operations. In conjunction with the Tanashi works, our main manufacturing and service center in Japan, we now have three of our most important markets covered, making it much easier to respond to service demands for delivered systems. In addition, our newly developed Pulse Tube Cryocoolers feature an innovative new design with no moving parts inside the cold head, simplifying maintenance and reducing total running costs. With our new international service network and expanded global presence, we look forward to seeing our technology become the global standard.

Our goal is to add higher value to our products and capitalize on the trend towards a more service-oriented economy in such mature industries as shipbuilding and steel bridge construction. At the same time, we will continue to build on the solid foundation we have established in the precision equipment field where the demand for high technology is increasing rapidly. Ultimately, this will result in a realignment of the ship, steel structure and precision products division, with the focus being on more commercially viable sectors. This will better enable us to meet our "ROIC (Return On Invested Capital)" target called for in our "C21" plan.



"Ferry Toshima"



Atami Port Hybrid Caisson



Ultra Precision XY Stage

# Mass-Produced Machinery

Operating in such growth areas as IT and the electronics & electrical industries, the Mass-Produced Machinery group is the focal point of our business strategy for the 21st century. Not surprisingly, this sector performed well above average in fiscal '99. Total order bookings rose to ¥138,466 million, up 24.6% over the previous year while sales climbed to ¥137,789 million, up 19.8%.

In the power transmission and electrical equipment sector, overall orders and sales fell off relative to their levels of the previous year. In spite of gains of 70% in the IT, semiconductor, and electronics and electrical fields, this sector as a whole experienced a net decline of 7–8%. However, orders have been increasing since the latter half of 1999, and we are looking forward to a recovery from next year onward. We expect this recovery to be fueled by accelerating sales of the new 6000 series Cyclo® speed reducer which features low noise, high-efficiency and space-saving, making it ideal for processing/assembling industries looking to cut power consumption without compromising efficiency. In the area of inverter-based controller technology, we established an independent company to better meet the requirements of our clients.

In the area of plastics processing, this year saw a major breakthrough. Our development and product strategy of focusing on high growth market segments finally paid off. Order bookings were up 60% from last year and sales rose 50%. To meet market needs, we introduced a new series of all-electric injection molding machines, including ultra-precision fast cycle all-electric injection molding machines for optical discs — a market that continues to enjoy exponential growth. The incorporation of



Net Sales

(¥ Million)



"SD35E" All-Electric Injection Molding Machine for Optical Discs

## REVIEW OF OPERATIONS

advanced new technologies also led to a 10% increase in orders for transfer molding presses, extrusion laminators, and thermoforming machines.

The laser system sector also performed well this year. Order bookings increased by 50% and sales increased by 20% thanks to high demand for our flagship laser drill models. These are now widely used for making holes in multi-layer printed circuit boards for cellular phones and package PCBs for computers. In response to market needs, we also introduced the “ $\mu$ LAVIA1200TW”, a new model specifically designed to make very small diameter holes.

In the semiconductor encapsulation field, we have begun selling plasma asher in cooperation with Eaton Corporation to take advantage of the uptrend in the game and cellular phone industries. In other developments, our affiliated company, Sumitomo Eaton Nova Corporation, which produces and sells ion implantation equipment, increased its sales by more than 80% over the previous year and has been flooded with new orders — especially for such unique products as our HC/LE models.

Overall, our Mass-Produced Machinery group has moved rapidly to meet market needs in all developed and affiliated products thanks to strategic investment of management resources. The success of the group dramatically exemplifies our “C21” plan — “Change”, “Innovation” and “Responsiveness”.



Okayama Gear Box Plant



“ $\mu$ LAVIA”



Flashcut System



Hyponic Drive

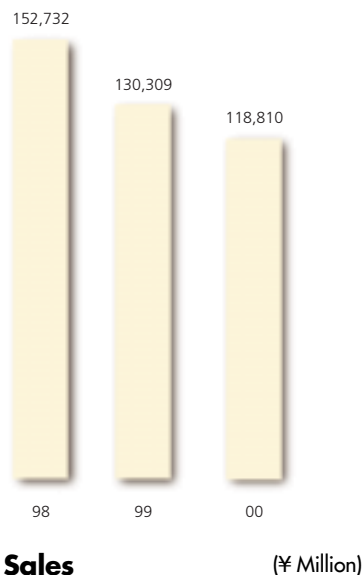


# Construction Machinery

SHI's construction machinery business revolves primarily around our leading line of hydraulic excavators, cranes, and road machinery. Total order bookings for this sector were ¥122,308 million, down 3.4% from the previous year, while sales added up to ¥118,810 million, down 8.8% from the previous year. Sumitomo (SHI) Construction Machinery Co., Ltd., the main operating division in this field, reduced its fixed costs by downsizing surplus manpower and reorganizing and restructuring sales subsidiaries to improve their performance. Additional support was provided in the form of financing and human resources to help the subsidiaries improve their business performance. As the key to improving results is to continuously bring attractive products to the market, we have been aggressive this year in introducing new products. These new products have been well received in the market and are already starting to make a positive contribution to our bottom line. In the years to come, we expect even more favorable performance as a result.

In keeping with our commitment to supporting our clients' economic efficiency and convenience while minimizing any adverse impact on the environment and society, all the products launched this year feature advanced new environmental conservation technologies, along with improved safety and operability.

This year, we introduced a wide selection of new models to the market: 15 hydraulic excavators, 2 hydraulic crawler cranes and 4 road machines. What's notable about our new series of hydraulic excavators is that our medium class (12 t–22 t) models have been completely redesigned. Equipped with our new "NEO" control system, they maintain the superior excavation power and speed that distinguished the previous models, while adding improved fuel efficiency, low noise, and excellent operability. Thanks to these improvements, the new models have helped increase our share of the medium-class market — by far the largest market for hydraulic excavators and firmly established our reputation as a leader in excavator design. Our 2 new small-class hydraulic crawler cranes also stand out for their versatility, reliability, safety, operability, and mobility.



"SC650-3" Crane

**Net Sales**

(¥ Million)



## REVIEW OF OPERATIONS

Our road machinery division has also pushed ahead with important new innovations. Most notable is a new mechanism incorporated in our main asphalt finishers that can quickly adjust pavement width to any point from 2.3 m to 6.0 m with no intermediary steps. Since there's no need to switch incrementally from one width to the next, this new system promises tremendous improvements in asphalt paving performance and quality.

In the environmental field — an area of growing concern worldwide — we used our hydraulic excavator technology to develop a mobile soil recycler which we showed at the "CONET '99 International Exhibition for Construction Equipment & Technology" last July. CONET is the largest construction machinery exhibition in Asia and our soil recycler was the focus of a great deal of excitement.

In the forklift field, we introduced a completely remodeled reach truck, as well as an all-new battery forklift and two remodeled battery forklifts, as well as a new mast for internal combustion trucks. These innovations are aimed at providing major improvements in operability, as well as safety upgrades through improved visibility.

In the years to come, we expect to steadily improve business performance by bringing new products and technologies to the market, by streamlining our organization and, as outlined in SHI's "C21" plan, by shifting our business emphasis to R&D and services rather than pursuing increased sales.



"HA60VV-3 J-Paver" Asphalt Finisher



"SH200-3 Neo-Power Pax" Excavator

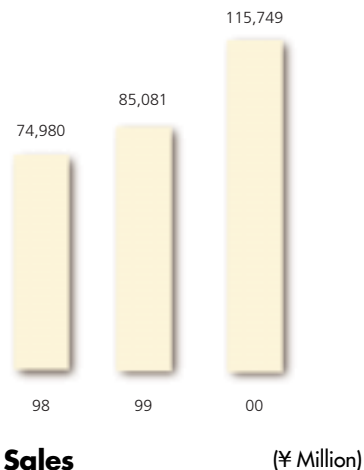
# Environmental Systems, Plants & Others

As a comprehensive manufacturer of environmental facilities for over 30 years, SHI has been continuously at the forefront in developing and introducing various new technologies to meet growing demand in this field. Today, with growing worldwide public concern for the environment, we are showing rapid growth in this area. Total order bookings this year were ¥93,038 million, up 22.8% over the previous year, while sales totaled ¥115,749 million, up 36.0%.

In 1977, we built our first large-scale continuous stoker furnace (375t/day) for incineration of municipal solid waste. We completed a second one (480t/day) in 1999, and are now building a third (315t/day). Widely regarded for their safety and reliability, these furnaces are attracting considerable interest thanks to the publication of public research verifying that our stoker furnaces have extremely low dioxin emissions. As a result we received our biggest order to date in November 1999 when the Tokyo Metropolitan government ordered a waste incineration plant capable of processing 600t/day. This brought total orders for the term to ¥28.2 billion.

Our strengths in this field lie not only in industrial and municipal waste incineration, but also in melting process. We are a pioneer in this method of disposal and completed an incineration and melting furnace facility this year that is the first industrial waste disposal center in Japan built with public sector participation. The facility uses slagging rotary kiln system with dioxin concentration in exhaust gas of less than 0.1 ng-TEQ/Nm<sup>3</sup>.

In the field of sludge recycling, we delivered several compost systems (for recycling night soil waste sludge and wastewater produced by the agricultural community to make fertilizer) and developed a high load denitrification treatment system for human-waste treatment and septic tank sludge.



The Ehime Prefecture Juridical Foundation Waste Disposal Center "ECONIX"

**Net Sales**

(¥ Million)

## REVIEW OF OPERATIONS

Sewerage is the core business of the Environmental plant section. This year we delivered unique systems such as a sand vacuum ejector conveyance system for final treatment plants and tunnel-system sewage treatment plants which use an oxygen aeration system.

We also completed a number of large-scale facilities such as an electric precipitator for a coal-fired power plant, a coal-fired power facility using a 61,000-KW circulation fluidized bed boiler, and Japan's biggest polystyrene production plant.

In the future, the Environmental plant section will increasingly focus on developing new methods to better support our clients in after-care maintenance/operation as well as in deliveries of our equipment and plants. The increased attention that we have been giving to after-market support in recent years has been paying off with steadily expanding business. In 1999, our two affiliated companies which handle after-market service and support, achieved growth of more than ¥11 billion in both order bookings and sales. We will continue to expand our business in this area as we deliver more equipment and plants.

Among the many varied activities of this group are software development and security services. In 1999, our software development companies achieved total order bookings surpassing ¥10 billion.

At the Environmental plant section, we are proud to be able to work in a field that is directly connected to helping provide a better quality of life for people and preserving the natural beauty and health of our planet. Using the advanced and unique technologies that have made us a leader in this industry, we look forward to making the world a better place as outlined in our "C21" plan and to making a profit while doing so.



Desulfurization Plant Absorber Module for Electric Power Development Co., Ltd



Itako/Ushibori Recycling Plant for Itako/Ushibori 2-cho Kankyo Eiseikumiai



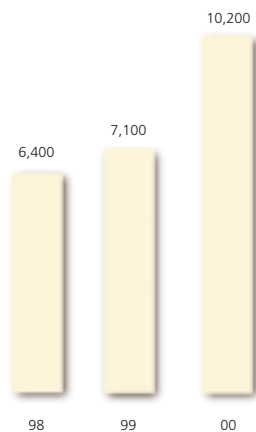
61MW CFB Power Plant for Sumitomo Osaka Cement Co., Ltd. Kochi Plant

# Research & Development

Research and Development activities provide the foundation we need to create innovative and competitive products. Working hand in hand with the development departments of our various divisions, the Technology Center has implemented a consistent, strategically focused R&D program aimed at maximizing our technological strengths and increasing our competitiveness in future high-growth markets. Current programs are emphasizing areas such as liquid crystal/semiconductor-based manufacturing systems, digital media equipment, and environmental equipment, with the focus on research and development of fine processing, mechatronics, cleaning and system technologies.

SHI's Technology Center boasts a Comprehensive Technical Laboratory established in April 1994, where assistance is provided for new product development and engineer training, as well as technical support for each operating division to assure that we maintain our position as one of the world's leaders in component technology. On January 1st, 2000, we established the Technical Development Center at the Technology Center. In cooperation with the operating divisions, this new center will focus on accelerated product development using the basic technologies we have already developed.

The research and development investment allocated this term was ¥10.2 billion, representing a 50% increase in the number of new products. Some of the highlights of this year's R&D efforts are described below.

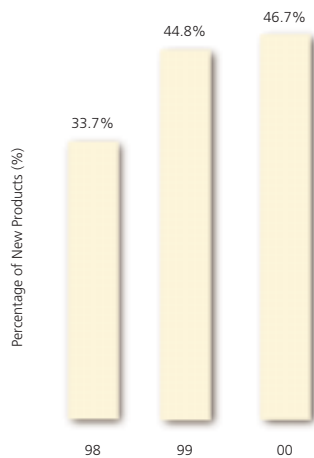


**Research and Development Investment** (¥ Million)

In the area of fine processing and mechatronics technologies, we have leveraged our advanced micro and precision machinery technologies to develop new products in the fields of liquid crystal/semiconductor-based manufacturing system and digital media equipment. New product lines in 1999 included an in-line ion plating film formation system for liquid crystal use as well as the "AURORA-2S", which features a high-efficiency compact beam line for X-ray lithography using new-generation exposure equipment. We also focused on the development of exposure/inspection ultra-high precision stage system for liquid crystal and semiconductor equipment use, successfully developing a long-stroke nanometer-level positioning stage.

Since last year, we have also developed mass production pilot units for dry wafer cleaning systems. These are intended to help boost our market share in semiconductor cleaning systems. We also expect to make further headway in the field of advanced wafer manufacturing thanks to the development of a double-disc grinding machine supporting 300-mm wafers.

SHI is rapidly establishing itself as a leader in the field of digital media and related technologies. We are currently focusing on the development of all-electric injection molding machines for manufacturing CDs, CD-Rs and DVDs and are introducing an all-electric optical disk injection molding machine called "SD35E" to the market.



**Percentage of New Products in New Business**



## REVIEW OF OPERATIONS

In the electronics area, we have introduced a high-precision drilling machine called “ $\mu$ LAVIA1200TW” which makes holes in printed circuit boards for cellular phones. We are also continuing with development of our annealing system for liquid crystal boards that is expected to be applicable to the manufacture of semiconductor materials as well.

Our core product, the Cyclo® speed reducer, is now in its 6000 series, finding uses in fields such as medical care, as well as in the production of liquid crystal and semiconductor materials by making use of fine processing and cleaning system technologies.

In addition to new product development, SHI conducts basic research in the fields of laser technology and micromachines aimed at consolidating our position in the information and communications industry in the 21st century. As the increase of laser technology applications in optical communications, micro-fabrication, and measurement is pushing demand for more advanced capabilities, we are participating in the Femtosecond Technology Project under the umbrella of the New Energy and Industrial Technology Development Organization (NEDO). The goal of this research is to develop a Laser-Compton femtosecond X-ray source for industrial imaging. As for micromachines, we are developing X-ray and laser-based micro-fabrication technology and, in collaboration with research organizations at home and abroad, we are working on a precision glass injection molding machine for optical devices. Taking advantage of our extensive cryogenic research and expertise in fields such as superconductivity, we are also developing cryocoolers for relay stations applied to mobile communications.



High-Efficiency Compact Beam Line for X-ray Lithography



Laser-Compton Femtosecond X-ray Source



Double-Disc Grinding Machine Supporting Wafers Up To 300 mm



Wafer Holder

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In the environmental technology development field, we are putting our next-generation waste disposal plant to practical use in conjunction with a demonstration gasification and melting furnace facility. While we are continuing to focus on technical development of waste reduction systems such as our incinerators for industrial waste, sewage sludge, etc., we are now working on development of total solutions that provide our clients with systematized operation, technical expertise, and maintenance information in treatment plants.

In the medical equipment field, we have developed medical image processing technology for the proton linear therapy equipment we first introduced in 1998. This new technology is helping us expand our markets even more rapidly. We have also launched a joint project with GE Medical Systems to bring the PET Cyclotron MINiTrace to the Japanese market. Thanks to these developments, as well as the introduction of 4KGM cryocoolers for medical equipment, we have received steady order bookings.

In the area of IT applications, we have improved our in-house infrastructure, by developing technology information management systems, EDI, PDM, knowledge management, HP and websites. In addition, we plan to expand our service capabilities by utilizing remote maintenance technology.

In the area of systems technology, we are carrying out company-wide standardization of our controller and regulatory systems as part of the SHI-Open project. At the same time, we are developing component technologies such as image processing and power electronics to help increase the competitiveness of our products.



Gasification & Melting Furnace



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# C Consolidated Balance Sheets

## ASSETS

	Millions of yen		Thousands of U.S.dollars (Note 1)
	2000	1999	2000
<b>Current assets:</b>			
Cash and time deposits (Notes 2 and 4) .....	¥ 43,295	¥ 57,410	\$ 408,443
Marketable securities (Notes 2, 4 and 11) .....	34,343	32,367	323,991
Trade receivables:			
Notes receivable (Note 4) .....	78,326	102,307	738,925
Accounts receivable .....	147,255	143,331	1,389,198
Allowance for doubtful accounts .....	( 1,672)	( 1,916)	( 15,774)
Inventories (Note 3) .....	144,741	169,035	1,365,481
Deferred income taxes (Note 6) .....	8,252	8,303	77,849
Prepaid expenses and other current assets .....	19,519	31,852	184,142
Total current assets .....	474,059	542,689	4,472,255
<b>Property, plant and equipment (Note 4):</b>			
Land .....	32,530	27,572	306,887
Buildings and yards .....	128,031	125,294	1,207,839
Machinery and equipment .....	171,835	167,923	1,621,085
Construction in progress .....	5,970	4,696	56,321
	338,366	325,485	3,192,132
Less accumulated depreciation .....	209,582	200,728	1,977,189
	128,784	124,757	1,214,943
<b>Investments, long-term loans and other assets:</b>			
Unconsolidated subsidiaries and affiliated companies (Note 11) .....	16,331	25,748	154,066
Other long-term loans receivable and investments (Note 4) .....	10,227	7,528	96,481
Other assets .....	23,916	22,161	225,623
Allowance for doubtful accounts .....	( 2,921)	( 4,065)	( 27,557)
	47,553	51,372	448,613
<b>Foreign currency translation adjustment .....</b>	6,753	4,855	63,708
	¥ 657,149	¥ 723,673	\$ 6,199,519

See accompanying notes.

## FINANCIAL STATEMENTS

March 31, 2000 and 1999

### LIABILITIES AND STOCKHOLDERS' EQUITY

	Millions of yen		Thousands of U.S.dollars (Note 1)
	2000	1999	2000
<b>Current liabilities:</b>			
Bank loans (Note 4) .....	¥ 141,273	¥ 148,037	\$ 1,332,764
Long-term debt due within one year (Note 4) .....	50,160	29,075	473,208
Commercial paper (Note 4) .....	31,718	46,930	299,227
Trade payables:			
Notes payable .....	59,760	56,467	563,774
Accounts payable .....	81,582	76,197	769,642
Advance payments received on contracts .....	51,413	67,539	485,028
Accrued expenses and other current liabilities .....	40,969	53,519	386,500
Total current liabilities .....	<b>456,875</b>	477,764	<b>4,310,143</b>
<b>Long-term debt due after one year (Note 4) .....</b>	<b>118,762</b>	163,157	<b>1,120,396</b>
<b>Employees' severance and retirement benefits (Note 5) .....</b>	<b>4,259</b>	3,455	<b>40,179</b>
<b>Other long-term liabilities .....</b>	<b>4,476</b>	1,425	<b>42,226</b>
<b>Minority interests .....</b>	<b>7,948</b>	4,897	<b>74,981</b>
<b>Contingent liabilities (Note 8)</b>			
<b>Stockholders' equity (Note 7):</b>			
Common stock, par value ¥50 per share:			
Authorized—1,200,000 thousand shares .....	30,872	30,872	291,245
Issued—588,697 thousand shares .....	26,752	26,752	252,377
Additional paid-in capital .....	7,206	15,352	67,981
Retained earnings .....	64,830	72,976	611,603
	1	1	9
Less treasury stock at cost, 3,512 shares (2,395 shares in 1999) .....	64,829	72,975	611,594
Total stockholders' equity .....	<b>¥ 657,149</b>	¥ 723,673	<b>\$ 6,199,519</b>

*See accompanying notes.*

# C Consolidated Statements of Operations

Years ended March 31, 2000 and 1999

	Millions of yen		Thousands of U.S.dollars (Note 1)
	2000	1999	2000
<b>Net sales (Notes 9)</b> .....	<b>¥ 566,668</b>	<b>¥ 554,488</b>	<b>\$ 5,345,925</b>
<b>Costs and expenses (Note 9):</b>			
Cost of sales .....	<b>473,798</b>	464,286	<b>4,469,793</b>
Selling, general and administrative expenses .....	<b>80,162</b>	80,572	<b>756,245</b>
	<b>553,960</b>	544,858	<b>5,226,038</b>
<b>Operating income (Note 9)</b> .....	<b>12,708</b>	9,630	<b>119,887</b>
<b>Other income (expenses):</b>			
Interest and dividend income .....	<b>2,406</b>	3,586	<b>22,698</b>
Interest expense .....	<b>(6,340)</b>	(8,123)	<b>(59,811)</b>
Loss on devaluation of securities .....	<b>(961)</b>	(2,585)	<b>(9,066)</b>
Gain on sale of securities-net .....	<b>1,001</b>	1,589	<b>9,443</b>
Gain on sale of property, plant and equipment-net .....	<b>4,221</b>	859	<b>39,821</b>
Foreign currency exchange gains (losses), net .....	<b>(557)</b>	(1,556)	<b>(5,255)</b>
Restructuring charges .....	<b>(3,991)</b>	(5,741)	<b>(37,651)</b>
Equity in earnings (losses) of affiliated companies .....	<b>968</b>	(1,109)	<b>9,132</b>
Other-net .....	<b>(6,645)</b>	(2,816)	<b>(62,689)</b>
	<b>(9,898)</b>	(15,896)	<b>(93,378)</b>
<b>Income (Loss) before income taxes</b> .....	<b>2,810</b>	(6,266)	<b>26,509</b>
<b>Income taxes (Note 6)</b>			
Current .....	<b>7,987</b>	9,582	<b>75,349</b>
Deferred .....	<b>866</b>	(3,035)	<b>8,170</b>
Total .....	<b>8,853</b>	6,547	<b>83,519</b>
<b>Minority interests in consolidated subsidiaries</b> .....	<b>(285)</b>	515	<b>(2,688)</b>
<b>Net loss</b> .....	<b>¥ (6,328)</b>	<b>¥ (12,298)</b>	<b>\$ (59,698)</b>

	Yen		U.S.dollars (Note 1)
	2000	1999	2000
<b>Amounts per share of common stock:</b>			
Net loss .....	<b>¥ (10.74)</b>	¥ (20.88)	<b>\$ (0.10)</b>
Diluted net income .....	—	—	—
Cash dividends applicable to the year .....	<b>3.00</b>	—	<b>0.03</b>

See accompanying notes.

# Consolidated Statements of Stockholders' Equity

## FINANCIAL STATEMENTS

Years ended March 31, 2000 and 1999

	Number of shares of common stock (Thousands)	Millions of yen		
		Common stock	Additional paid-in-capital	Retained earnings
<b>Balance at March 31, 1998</b>	588,697	¥ 30,872	¥ 26,752	¥ 21,286
Cumulative effect of adopting deferred income tax accounting	—	—	—	8,111
Increase due to change in numbers of consolidated subsidiaries and companies accounted for by the equity method	—	—	—	54
Net loss	—	—	—	(12,298)
Cash dividends paid (¥3 per share)	—	—	—	(1,766)
Bonuses to directors and corporate auditors	—	—	—	(35)
<b>Balance at March 31, 1999</b>	588,697	30,872	26,752	15,352
Increase due to change in numbers of consolidated subsidiaries and companies accounted for by the equity method	—	—	—	386
Decrease due to change in numbers of consolidated subsidiaries and companies accounted for by the equity method	—	—	—	(2,198)
Net loss	—	—	—	(6,328)
Bonuses to directors and corporate auditors	—	—	—	(6)
<b>Balance at March 31, 2000</b>	<b>588,697</b>	<b>¥ 30,872</b>	<b>¥ 26,752</b>	<b>¥ 7,206</b>

	Thousands of U.S. dollars (Note 1)		
	Common stock	Additional paid-in-capital	Retained earnings
<b>Balance at March 31, 1998</b>	\$ 291,245	\$ 252,377	\$ 200,811
Cumulative effect of adopting deferred income tax accounting	—	—	76,519
Increase due to change in numbers of consolidated subsidiaries and companies accounted for by the equity method	—	—	509
Net loss	—	—	(116,019)
Cash dividends paid (\$0.03 per share)	—	—	(16,660)
Bonuses to directors and corporate auditors	—	—	(330)
<b>Balance at March 31, 1999</b>	291,245	252,377	144,830
Increase due to change in numbers of consolidated subsidiaries and companies accounted for by the equity method	—	—	3,642
Decrease due to change in numbers of consolidated subsidiaries and companies accounted for by the equity method	—	—	(20,736)
Net loss	—	—	(59,698)
Bonuses to directors and corporate auditors	—	—	(57)
<b>Balance at March 31, 2000</b>	<b>\$ 291,245</b>	<b>\$ 252,377</b>	<b>\$ 67,981</b>

See accompanying notes.

# C Consolidated Statements of Cash Flows

Year ended March 31, 2000

	Millions of yen	Thousands of U.S.dollars (Note 1)
	2000	2000
<b>Cash flows from operating activities:</b>		
Income before income taxes .....	¥ 2,810	\$ 26,509
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation .....	14,648	138,189
Gain on sale of property, plant and equipment .....	(4,221)	(39,821)
Loss on disposal of property, plant and equipment .....	1,452	13,698
Gain on sale of securities .....	(1,001)	(9,443)
Loss on devaluation of securities .....	961	9,066
Equity in earnings of affiliated companies .....	(968)	(9,132)
Increase in allowances .....	28	264
Interest and dividend income .....	(2,406)	(22,698)
Interest expense .....	6,340	59,811
Changes in operating assets and liabilities:		
Decrease in notes and accounts receivable .....	4,172	39,358
Decrease in inventories .....	24,293	229,179
Increase in notes accounts payable .....	6,405	60,425
Other-net .....	3,195	30,142
Sub-total .....	55,708	525,547
Interest and dividend received .....	2,408	22,717
Payments for interest .....	(6,559)	(61,877)
Payments for income taxes .....	(10,372)	(97,849)
Other-net .....	(2,068)	(19,510)
Net cash provided by operating activities .....	39,117	369,028
<b>Cash flows from investing activities:</b>		
Increase in time deposits .....	(474)	(4,471)
Payments for securities .....	(368)	(3,472)
Proceeds from sale of securities .....	2,840	26,792
Payments for purchases of property, plants and equipment .....	(10,519)	(99,236)
Proceeds from sale of property, plants and equipment .....	5,061	47,745
Payments for purchases of securities which cause a change in the numbers of consolidated subsidiaries and companies .....	(15)	(141)
Proceeds from sale of securities which cause a change in the numbers of consolidated subsidiaries and companies .....	455	4,292
Payments for long-term loans receivables .....	(2,377)	(22,424)
Collection of long-term loans receivables .....	5,479	51,689
Other-net .....	(2,051)	(19,349)
Net cash used in investing activities .....	(1,969)	(18,575)
<b>Cash flows from financing activities:</b>		
Decrease in short-term loans .....	(11,527)	(108,745)
Decrease in commercial paper .....	(15,212)	(143,509)
Proceeds from long-term debt .....	6,868	64,792
Payments for long-term debt .....	(28,394)	(267,868)
Proceeds from issuance of bonds .....	1,000	9,434
Payments for redemption of bonds .....	(1,500)	(14,151)
Net cash used in financing activities .....	(48,765)	(460,047)
Effect of exchange rate changes on cash and cash equivalents .....	(620)	(5,849)
Net decrease in cash and cash equivalents .....	(12,237)	(115,443)
Cash and cash equivalents at beginning of year .....	57,410	541,603
Cash and cash equivalents at end of year (Note 2) .....	¥ 45,173	\$ 426,160

See accompanying notes.



## FINANCIAL STATEMENTS

Year ended March 31, 1999

	Millions of yen
	1999
<b>Cash flows from operating activities:</b>	
Net loss .....	¥ (12,298)
Adjustments to reconcile net loss to net cash provided by operating activities:	
Depreciation .....	14,076
Provision for employees' severance and retirement benefits .....	283
Equity in losses of affiliated companies .....	1,109
Decrease in minority interests .....	(889)
Bonuses to directors and corporate auditors .....	(35)
Changes in operating assets and liabilities:	
Decrease in notes and accounts receivable .....	19,479
Decrease in inventories .....	31,221
Decrease in notes and accounts payable .....	(11,548)
Increase in other current assets .....	(11,363)
Increase in other current liabilities .....	(18,735)
Other-net .....	48
Net cash provided by operating activities .....	11,348
<b>Cash flows from investing activities:</b>	
Payments for purchases of property, plants and equipment .....	(17,461)
Proceeds from sale of property, plants and equipment .....	3,807
Payments for investment securities .....	(3,356)
Proceeds from sale of investment securities .....	3,293
Decrease in marketable securities .....	7,029
Increase in long-term loans receivable and investments .....	(2,362)
Net cash used in investing activities .....	(9,050)
<b>Cash flows from financing activities:</b>	
Increase in long-term debt .....	55,604
Decrease in long-term debt .....	(61,739)
Increase in bank-loans .....	27,610
Cash dividends paid .....	(1,766)
Net cash provided by financing activities .....	19,709
<b>Net increase in cash and time deposits .....</b>	<b>22,007</b>
<b>Cash and time deposits at beginning of year .....</b>	<b>35,403</b>
<b>Cash and time deposits at end of year .....</b>	<b>¥ 57,410</b>
<b>Supplemental disclosures of cash flows information:</b>	
Cash paid during the year for:	
Interest .....	¥ 8,610
Income taxes .....	21,144

*See accompanying notes.*

# N

## otes to Consolidated Financial Statements

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### 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 the Japanese Commercial Code and in the Securities and Exchange Law, and in conformity with accounting principles and practices generally accepted in Japan, which are different from the accounting and disclosure requirements of International Accounting Standards. 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.

The accompanying consolidated financial statements are a translation of the audited consolidated financial statements of the Company which were prepared in accordance with accounting principles and practices generally accepted in Japan from the accounts and records maintained by the Company and its consolidated subsidiaries and were filed with the Minister of Finance ("MOF") 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 statement of cash flows for 1999 has been prepared for the purpose of inclusion in the consolidated financial statements although such statements were not customarily prepared in Japan and not required to be filed with MOF prior to 2000.

Also, consolidated statements of stockholders' equity have been prepared for inclusion in the consolidated financial statements, although such statements are not required to be filed with MOF.

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of the reader, using the prevailing exchange rate at March 31, 2000, which was ¥106 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 intercompany transactions and accounts have been eliminated.

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 accordance with the Revised Accounting Principles for Consolidated Financial Statements (the "Revised Accounting Principles"), effective for the year ended March 31, 2000, all companies are required to consolidate all significant investees which are controlled through substantial ownership of majority voting rights or existence of certain conditions.

Also, effective April 1, 1999, in accordance with the Revised Accounting Principles for Consolidated Financial Statements, all companies are required to account for, using equity method, investments in affiliated companies (all 20% to 50% owned and certain others 15% to 20% owned).

Previously, only majority-owned companies were consolidated and only investments in companies of which the Company owns 20% to 50% of the voting rights and has the ability to significantly influence financial, operational or business policies were accounted for using the equity method. The prior years' consolidated financial statements have not been restated.

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

Material intercompany balances, transactions and profits have been eliminated in consolidation.

#### Cash flow statement

In preparing the consolidated statement of cash flows for 2000, cash on hand, readily-available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents. Cash and time deposits were used for preparing the consolidated statement of cash flows for 1999. The Company prepared the 2000 consolidated cash flow statement as required by and in accordance with the "Standards for Preparation of Consolidated Cash Flow Statements, etc." effective from the year ended March 31, 2000. The 1999 consolidated cash flow statement, which was voluntarily prepared for the purpose of inclusion in the consolidated financial statements in a form familiar to readers outside Japan, has not been restated.

Significant differences in the consolidated cash flow statements for 2000 and 1999 include the use of income before income taxes in 2000 instead of net loss in 1999, additional disclosure in cash flows from operating activities in 2000 of payments for interest, payments for income taxes, interest and dividend received.

#### Marketable and investment securities

Listed securities, other than securities of subsidiaries and affiliated companies, are valued at the lower of cost or market. Recovery of write-downs is recognized. Other securities are valued at cost. Cost is calculated based on the moving average method.

#### Inventories

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

#### Property, plant and equipment and depreciation

Property, plant and equipment are carried at cost. Depreciation is computed primarily using the declining-balance method. In accordance with revisions of the Corporation Tax Law, buildings acquired after March 31, 1998 are depreciated using the straight-line method.

#### Allowance for doubtful accounts

The Company and domestic consolidated subsidiaries provide for doubtful accounts principally at an estimated amount of probable bad debt plus the maximum amount permitted to be charged to income under Japanese tax regulations. Foreign consolidated subsidiaries provide for doubtful accounts at an estimated amount of probable bad debt.

**Employees' severance and retirement benefits**

The Company has a non-contributory funded pension plan covering all employees. In general, the plan provides for pension payments for a period of 15 years to employees leaving the Company after 20 or more years of service.

Under certain conditions, participants may elect to receive the current value of their vested benefits in a lump-sum distribution. If employees with one or more years, but less than 20 years of service, leave the Company, they receive a lump-sum distribution.

Prior service costs under the non-contributory funded pension plan are amortized over 10 years.

Employees of certain domestic and overseas consolidated subsidiaries are covered primarily by funded pension plans. Employees of other domestic consolidated subsidiaries are covered primarily by unfunded retirement benefit plans.

**Foreign currency translation**

Cash and current receivables and payables denominated in foreign currencies are translated at the exchange rate prevailing on the balance sheet date. Other assets and liabilities denominated in foreign currencies are translated at the historical exchange rate.

Long-term debt with long-term forward exchange contracts is translated at the contracted forward rate. Unrealized exchange gains on forward exchange contracts are deferred and amortized over the periods of contracts.

Financial statements of overseas subsidiaries and affiliated companies are translated into Japanese yen at the exchange rate prevailing on the balance sheet date for all items, except that intercompany transactions and balances, which are translated at the historical exchange rate. Translation differences resulting from translation of the financial statements of consolidated subsidiaries are deferred in the balance sheet and those of the companies accounted for by the equity method are included in retained earnings.

**Sales**

Sales are principally recognized on a delivery basis except sales for long-term contracts with a contract amount not less than a certain amount which are recognized based on the percentage-of-completion method.

**2. Cash and cash equivalents**

Cash and cash equivalents at March 31, 2000 consisted of the following:

	Millions of yen	Thousands of U.S.dollars
	<b>2000</b>	<b>2000</b>
Cash and time deposits .....	¥ 43,295	\$ 408,443
Marketable securities .....	2,549	24,047
Time deposits over three months .....	(671)	(6,330)
Cash and cash equivalents .....	<b>¥ 45,173</b>	<b>\$ 426,160</b>

**Selling, general and administrative 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**

In accordance with the provisional rules of the JICPA's Accounting Committee Report No.12 "Practical Guidance for Accounting for Research and Development Costs. etc." (the "Report"), the Company accounts for software which was included in other assets (investments, long-term loans and other assets) in the same manner in 2000 as in 1999. Pursuant to the Report, however, the Company amortizes it using the straight-line method over the estimated useful life (five years).

**Research and development**

Research and development expenses are charged to income when incurred.

**Income taxes**

The Companies recognize tax effects of temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting. 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.

**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 as net loss was incurred.

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

### 3. Inventories

Inventories at March 31, 2000 and 1999 were as follows:

	Millions of yen		Thousands of U.S.dollars
	2000	1999	2000
Finished products and semi-finished products .....	¥ 37,681	¥ 39,497	\$ 355,481
Work in process .....	99,684	120,745	940,415
Raw materials and supplies .....	7,376	8,793	69,585
	<b>¥ 144,741</b>	<b>¥ 169,035</b>	<b>\$ 1,365,481</b>

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

Bank loans at March 31, 2000 and 1999 consisted of short-term notes, bearing interest principally at 0.6% and 0.6% per annum, respectively.

The Company and its consolidated subsidiaries have a yen domestic commercial paper program with a current maximum facility amount of ¥55,000 million (\$518,868 thousand). The amount outstanding under this program is subject to variation from time to time.

At March 31, 2000 and 1999, commercial paper principally bore an average annual interest rate of 0.19% and 0.79%, respectively.

Long-term debt at March 31, 2000 and 1999 consisted of the following:

	Millions of yen		Thousands of U.S.dollars
	2000	1999	2000
3.9% domestic bonds due in February 2004 .....	¥ 8,000	¥ 8,000	\$ 75,472
3.0% domestic bonds due in January 2005 .....	3,000	3,000	28,302
2.8% domestic bonds due in August 2001 .....	2,000	2,000	18,868
U.S. dollar variable rate demand industrial development revenue bonds due in January 2008 .....	796	904	7,509
U.S. dollar variable rate demand industrial development revenue bonds due in May 2008 .....	531	603	5,009
U.S. dollar variable rate demand industrial development revenue bonds due in January 2009 .....	—	723	—
U.S. dollar variable rate demand industrial development revenue bonds due in September 2010 .....	212	241	2,000
1.8% domestic mortgage bonds due in January 2000 .....	—	1,000	—
1.9% domestic mortgage bonds due in February 2000 .....	—	500	—
1.7% domestic mortgage bonds due in November 2005 .....	1,000	1,000	9,434
2.2% domestic mortgage bonds due in January 2006 .....	1,000	—	9,434
Euro-yen floating rate notes due in September 2000 .....	7,500	7,500	70,755
Euro-yen floating rate notes due in September 2001 .....	7,500	7,500	70,755
Euro-yen convertible bonds due in July 2001 .....	10,000	10,000	94,340
U.S. dollar loans from banks due serially through July 2001 with interest ranging from 6.5% to 6.8% in 2000 and 5.4% to 6.2% in 1999 .....	2,482	5,341	23,415
Loans principally from banks and insurance companies due serially through September 2015 with interest ranging from 1.6% to 7.3% in 2000 and 1.6% to 7.9% in 1999:			
Secured .....	13,115	8,911	123,726
Unsecured .....	111,786	135,009	1,054,585
	<b>168,922</b>	<b>192,232</b>	<b>1,593,604</b>
Less amount due within one year .....	50,160	29,075	473,208
Amount due after one year .....	<b>¥ 118,762</b>	<b>¥ 163,157</b>	<b>\$ 1,120,396</b>

The Euro-yen convertible bonds due in July 2001 are convertible currently at ¥435 (\$4.10) for the share through July 10, 2001. 22,989 thousand additional shares of common stock would be issued upon full conversion at the current conversion price.

## FINANCIAL STATEMENTS

The annual maturities of debt at March 31, 2000 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S.dollars
2001 .....	¥ 50,160	\$ 473,208
2002 .....	41,696	393,359
2003 .....	26,351	248,594
2004 .....	34,499	325,462
2005 .....	7,075	66,745
Thereafter .....	9,141	86,236

At March 31, 2000, 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
Notes receivable .....	¥ 3,837	\$ 36,198
Marketable equity securities at carrying value .....	3,661	34,538
Property, plant and equipment, at cost less accumulated depreciation .....	7,124	67,207
Other assets .....	32	302
	<u>¥ 14,654</u>	<u>\$ 138,245</u>

### 5. Employees' severance and retirement benefits

Unamortized prior service costs under the non-contributory funded pension plan, less related balance sheet accruals, amounted to ¥53,760 million (\$507,170 thousand) at September 30, 1999, the most recent valuation date.

Total charges with respect to employees' severance and retirement benefits were ¥9,029 million (\$85,179 thousand) in 2000 and ¥6,302 million (\$59,453 thousand) in 1999.

### 6. Income Taxes

The Company is subject to a number of income taxes, which, in the aggregate, indicate a statutory rate in Japan of approximately 42% and 47% for the years ended March 31, 2000 and 1999, 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, 2000 and 1999.

	2000	1999
Statutory tax rate	42.05%	47.68%
Increase (decrease) in tax rates resulting from:		
Temporary differences for a subsidiary's unrealized profit which exceeded its taxable income	—	(137.15)
Operating losses of subsidiaries not recognizing deferred income tax accounting	251.57	(17.35)
Effect of changing the normal statutory tax rate in Japan	—	(6.49)
Expenses not deductible for tax purposes	28.36	(4.36)
Per capital inhabitant tax	5.02	(2.50)
Indirect double taxation relief	(6.93)	—
Others	(5.09)	15.69
Effective tax rate	<u>314.98</u>	<u>(104.48)</u>

The significant components of deferred tax assets and liabilities at March 31, 2000 and 1999 were as follows:

	Millions of yen		Thousands of U.S.dollars
	2000	1999	2000
Deferred tax assets:			
Unrealized profit on tangible fixed assets .....	¥ 9,522	¥ 2,925	\$ 89,830
Operating loss carryforwards .....	6,170	1,623	58,207
Unrealized profit on inventories .....	1,198	2,331	11,302
Devaluation of marketable securities and investments .....	1,861	646	17,557
Allowance for warranty .....	1,652	1,040	15,585
Extra-depreciation .....	1,101	—	10,387
Excess bonuses accrued .....	1,043	—	9,840
Allowance for retirement and severance .....	865	—	8,160
Inventories .....	530	2,077	5,000
Others .....	3,931	4,350	37,085
Total deferred tax assets .....	27,873	14,992	262,953
Less-valuation allowance .....	(14,011)	(2,029)	(132,179)
Deferred tax assets-net .....	13,862	12,963	130,774
Deferred tax liabilities:			
Valuation difference of assets and liabilities of a subsidiary .....	(2,216)	—	(20,906)
Accelerated depreciation .....	(715)	—	(6,745)
Excess tax depreciation reserve .....	(545)	(633)	(5,142)
Special depreciation reserve .....	—	(582)	—
Others .....	(206)	(534)	(1,943)
Deferred tax liabilities .....	(3,682)	(1,749)	(34,736)
Net deferred tax assets .....	¥ 10,180	¥ 11,214	\$ 96,038

## 7. Stockholders' equity

Under the Commercial Code of Japan (the "Code"), at least 50% of the issue price of new shares, with a minimum of the par value thereof, 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 such reserve equals 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 available for cash dividends at March 31, 2000, subject to shareholders' approval, amounted to ¥12,380 million (\$116,792 thousand).

At June 26, 1998 annual meeting, the Company's stockholders approved the change in the articles of incorporation of the Company. From this date, the Company may acquire its own shares upon resolution of the Board of Directors, within the maximum limit of (1) 58,000 thousand shares to retire such shares and to offset the related purchase costs against retained earnings and (2) 82,000 thousand shares at less than ¥24,900 million (\$ 234,906 thousand) to retire shares and to offset the costs against additional paid-in capital.

## 8. Contingent liabilities

The Companies were contingently liable as endorsers of trade notes receivable discounted with banks in the amount of ¥776 million (\$7,321 thousand) at March 31, 2000. In addition, at the same date the Companies were contingently liable as guarantors of bank loans to unconsolidated subsidiaries and affiliated companies in the amount of ¥23,742 million (\$223,981 thousand) (net of guarantees by co-guarantors).



## FINANCIAL STATEMENTS

### 9. 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. The summary of net sales, costs and expenses, and operating income by segment of business activities for the years ended March 31, 2000 and 1999, and the summary of identifiable assets, depreciation expense and capital expenditures by segment of business activities for the years ended March 31, 2000 and 1999 were as follows:

		Millions of yen						
		Industrial machinery	Ship, steel structure & other specialized equipment	Mass-produced machinery	Construction machinery	Environmental protection facilities, plants & others	Elimination and / or corporate	Consolidated
<b>2000</b>								
<b>I</b>	Sales and operating income							
	Sales:							
	Unaffiliated customers	¥ 79,490	¥ 114,830	¥ 137,789	¥ 118,810	¥ 115,749	¥ —	¥ 566,668
	Intersegment	305	249	789	35	1,029	(2,407)	—
	Total	79,795	115,079	138,578	118,845	116,778	(2,407)	566,668
	Costs and expenses	79,357	115,006	125,057	123,120	113,827	(2,407)	553,960
	Operating income	¥ 438	¥ 73	¥ 13,521	¥ (4,275)	¥ 2,951	¥ —	¥ 12,708
<b>II</b>	Identifiable assets	¥ 86,159	¥ 105,322	¥ 147,866	¥ 186,048	¥ 96,743	¥ 35,011	¥ 657,149
	Depreciation expense	1,543	3,392	4,481	3,786	999	—	14,201
	Capital expenditures	1,186	2,002	4,756	8,378	1,510	—	17,832
<b>1999</b>								
<b>I</b>	Sales and operating income							
	Sales:							
	Unaffiliated customers	¥ 83,422	¥ 140,667	¥ 115,009	¥ 130,309	¥ 85,081	¥ —	¥ 554,488
	Intersegment	276	569	602	62	1,314	(2,823)	—
	Total	83,698	141,236	115,611	130,371	86,395	(2,823)	554,488
	Costs and expenses	85,255	137,585	109,434	131,949	83,458	(2,823)	544,858
	Operating income	¥ (1,557)	¥ 3,651	¥ 6,177	¥ (1,578)	¥ 2,937	¥ —	¥ 9,630
<b>II</b>	Identifiable assets	¥ 104,229	¥ 117,048	¥ 130,620	¥ 221,666	¥ 103,048	¥ 47,062	¥ 723,673
	Depreciation expense	1,756	3,493	4,470	3,629	823	—	14,171
	Capital expenditures	1,590	3,243	4,782	6,120	1,269	—	17,004
		Thousands of U.S. dollars						
		Industrial machinery	Ship, steel structure & other specialized equipment	Mass-produced machinery	Construction machinery	Environmental protection facilities, plants & others	Elimination and / or corporate	Consolidated
<b>2000</b>								
<b>I</b>	Sales and operating income							
	Sales:							
	Unaffiliated customers	\$ 749,906	\$ 1,083,302	\$ 1,299,896	\$ 1,120,849	\$ 1,091,972	\$ —	\$ 5,345,925
	Intersegment	2,877	2,349	7,443	330	9,708	(22,707)	—
	Total	752,783	1,085,651	1,307,339	1,121,179	1,101,680	(22,707)	5,345,925
	Costs and expenses	748,651	1,084,962	1,179,783	1,161,509	1,073,840	(22,707)	5,226,038
	Operating income	\$ 4,132	\$ 689	\$ 127,556	\$ (40,330)	\$ 27,840	\$ —	\$ 119,887
<b>II</b>	Identifiable assets	\$ 812,821	\$ 993,604	\$ 1,394,962	\$ 1,755,170	\$ 912,670	\$ 330,292	\$ 6,199,519
	Depreciation expense	14,557	32,000	42,274	35,717	9,424	—	133,972
	Capital expenditures	11,189	18,887	44,868	79,037	14,245	—	168,226

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 year ended March 31, 2000 and 1999 was as follows:

Millions of yen					
	Japan	North America	Other areas	Elimination and / or corporate	Consolidated
<b>2000</b>					
<b>I</b> Sales and operating income					
Sales:					
Unaffiliated customers	¥ 507,465	¥ 51,264	¥ 7,939	¥ —	¥ 566,668
Intersegment	19,748	361	910	(21,019)	—
Total	527,213	51,625	8,849	(21,019)	566,668
Costs and expenses	519,890	46,940	8,149	(21,019)	553,960
Operating income	¥ 7,323	¥ 4,685	¥ 700	¥ —	¥ 12,708
<b>II</b> Identifiable assets	¥ 564,580	¥ 40,518	¥ 10,999	¥ 41,052	¥ 657,149
<b>1999</b>					
<b>I</b> Sales and operating income					
Sales:					
Unaffiliated customers	¥ 484,090	¥ 61,588	¥ 8,810	¥ —	¥ 554,488
Intersegment	21,848	512	862	(23,222)	—
Total	505,938	62,100	9,672	(23,222)	554,488
Costs and expenses	500,332	56,571	11,177	(23,222)	544,858
Operating income	¥ 5,606	¥ 5,529	¥ (1,505)	¥ —	¥ 9,630
<b>II</b> Identifiable assets	¥ 614,841	¥ 47,413	¥ 11,921	¥ 49,498	¥ 723,673
Thousands of U.S. dollars					
	Japan	North America	Other areas	Elimination and / or corporate	Consolidated
<b>2000</b>					
<b>I</b> Sales and operating income					
Sales:					
Unaffiliated customers	\$ 4,787,406	\$ 483,623	\$ 74,896	\$ —	\$ 5,345,925
Intersegment	186,302	3,405	8,585	(198,292)	—
Total	4,973,708	487,028	83,481	(198,292)	5,345,925
Costs and expenses	4,904,623	442,830	76,877	(198,292)	5,226,038
Operating income	\$ 69,085	\$ 44,198	\$ 6,604	\$ —	\$ 119,887
<b>II</b> Identifiable assets	\$ 5,326,227	\$ 382,245	\$ 103,764	\$ 387,283	\$ 6,199,519

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, 2000 and 1999 were as follows.

Millions of yen				
	To North America	To Asia	To Other areas	Total
Overseas Sales	¥ 70,335 12.4 (%)	¥ 52,384 9.2 (%)	¥ 61,512 10.9 (%)	¥ 184,231 32.5 (%)
Thousands of U.S. dollars				
Overseas Sales	\$ 663,538	\$ 494,189	\$ 580,301	\$ 1,738,028

Other areas include mostly the United Kingdom, Germany and Singapore.

Overseas sales of the Companies for the year ended March 31, 1999 were ¥177,766 million (\$ 1,677,038 thousand) and accounted for 32.0% 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.

## FINANCIAL STATEMENTS

### 10. Information for certain leases

The summary of assumed amounts of acquisition cost, accumulated depreciation and net book value with respect to finance leases accounted for in the same manner as operating leases at March 31, 2000 was as follows:

	Millions of yen		
	Acquisition cost	Accumulated depreciation	Net book value
Machinery and equipment	¥ 11,320	¥ 6,673	¥ 4,647
Others	8,829	4,763	4,066
<b>Total</b>	<b>20,149</b>	<b>11,436</b>	<b>8,713</b>

	Thousands of U.S. dollars		
	Acquisition cost	Accumulated depreciation	Net book value
Machinery and equipment	\$ 106,792	\$ 62,953	\$ 43,839
Others	83,293	44,934	38,359
<b>Total</b>	<b>190,085</b>	<b>107,887</b>	<b>82,198</b>

Total expenses for finance leases which do not transfer ownership to lessees amounted to ¥4,074 million (\$38,434 thousand) and ¥3,387 million (\$31,953 thousand) for the years ended March 31, 2000 and 1999, respectively.

Future lease payments as of March 31, 2000 and 1999, inclusive of interest under such leases were as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Due within one year	¥ 3,562	¥ 2,630	\$ 33,604
Due after one year	5,151	4,177	48,594
<b>Total</b>	<b>¥ 8,713</b>	<b>¥ 6,807</b>	<b>\$ 82,198</b>

### 11. Market value information for securities

Book value, market value and net unrealized gains of quoted securities at March 31, 2000 and 1999, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999 (The Company only)	2000
Book value:			
Current	¥ 29,601	¥ 28,854	\$ 279,254
Non-current	1,446	2,811	13,642
	<b>31,047</b>	31,665	<b>292,896</b>
Market value:			
Current	51,868	45,789	489,321
Non-current	2,116	3,622	19,962
	<b>53,984</b>	49,411	<b>509,283</b>
Net unrealized gains	¥ 22,937	¥ 17,746	\$ 216,387

The Companies do not have any outstanding options or futures transactions.

## 12. 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 a stabilized profit. Interest rate swap transactions are made in order to minimize the risk of interest rate on borrowings changing upward.

The Companies deal with international financial institutions with higher credit ratings as counterparty 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 includes allowed transactions and maximum amount thereof. Counterparties of derivatives transactions are creditworthy financial institutions, and the Companies believe that the risk of default by the counterparties 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, 2000 and 1999 were as follows:

	Millions of yen		Thousands of U.S.dollars
	2000	1999 (The Company only)	2000
Contracted amount to be paid/received:			
To buy foreign currencies	¥ 2,223	¥ 153	\$ 20,972
To sell foreign currencies	2,950	3,770	27,830
Foreign exchange options	319	—	3,009
Fair value:			
To buy foreign currencies	2,189	139	20,651
To sell foreign currencies	2,579	3,769	24,330
Foreign exchange options	315	—	2,972
Net unrealized exchange loss	¥ 333	¥ 13	\$ 3,142

### (B) Interest rate swap and swaption agreements

Year ended March 31, 2000	Millions of yen		
	Contract amount	Fair value	Unrealized gain (loss)
Interest rate swaps:			
Receive fix/Pay float	¥ 1,000	¥ 22	¥ 22
Receive float/Pay float	1,000	(34)	(34)
Interest rate swaption:			
Receive float/Pay fix	2,000	8	8
	¥ 4,000	¥ (4)	¥ (4)

Year ended March 31, 1999 (The Company only)	Millions of yen		
	Contract amount	Fair value	Unrealized gain (loss)
Interest rate swaps:			
Receive fix/Pay float	¥ 1,000	¥ 41	¥ 41
Receive float/Pay float	1,000	(30)	(30)
Interest rate swaption:			
Receive float/Pay fix	1,000	14	14
	¥ 3,000	¥ 25	¥ 25

Year ended March 31, 2000	Thousands of U.S. dollars		
	Contract amount	Fair value	Unrealized gain (loss)
Interest rate swaps:			
Receive fix/Pay float	\$ 9,434	\$ 208	\$ 208
Receive float/Pay float	9,434	(321)	(321)
Interest rate swaption:			
Receive float/Pay fix	18,868	75	75
	\$ 37,736	\$ (38)	\$ (38)

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, 2000 and 1999, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the two years in the period ended March 31, 2000, 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, 2000 and 1999, and the consolidated results of their operations and their cash flows for each of the two years in the period ended March 31, 2000 in conformity with accounting principles generally accepted in Japan applied on a consistent basis during the periods, except as noted in the following paragraph.

As explained in Note 1, in the year ended March 31, 2000, Sumitomo Heavy Industries, Ltd. and subsidiaries prospectively adopted new Japanese accounting standards for consolidation and equity method accounting, and research and development costs.

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 K Co.*

Tokyo, Japan  
June 29, 2000

### Statement on Accounting Principles and Auditing Standards

This statement is to remind users that accounting principles and auditing standards and their application in practice may vary among nations and therefore could affect, possibly materially, the reported financial position and results of operations. The accompanying financial statements are prepared based on accounting principles generally accepted in Japan, and the auditing standards and their application in practice are those generally accepted in Japan. Accordingly, the accompanying consolidated financial statements and the auditors' report presented above are for users familiar with Japanese accounting principles, auditing standards and their application in practice.

# N etwork

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## Domestic Network

### Offices

- **Head Office**  
9-11, Kitashinagawa 5-chome,  
Shinagawa-ku, Tokyo 141-8686, Japan
- **Kansai Office**  
5-33, Kitahama 4-chome, Chuo-ku, Osaka  
541-0041, Japan
- **Tanashi Works**  
1-1, Yato-cho 2-chome, Tanashi-shi, Tokyo  
188-8585, Japan
- **Chiba Works**  
731-1, Naganumahara-machi, Inage-ku,  
Chiba-shi, Chiba 263-0001, Japan
- **Yokosuka Shipyard**  
19, Natsushima-cho, Yokosuka-shi,  
Kanagawa 237-8555, Japan
- **Uraga Shipyard**  
7, Uraga-cho 4-chome, Yokosuka-shi,  
Kanagawa 239-0822, Japan
- **Hiratsuka Works**  
63-30, Yuhigaoka, Hiratsuka-shi, Kanagawa  
254-8010, Japan
- **Nagoya Works**  
1, Asahi-machi 6-chome, Obu-shi, Aichi  
474-8501, Japan
- **Kyoto Works**  
35, Kitakanage-kakinokihara, Ooi-cho,  
Kameoka-shi, Kyoto 621-0017, Japan
- **Okayama Works**  
8230, Tamashima-Otoshima, Kurashiki-shi,  
Okayama 713-8501, Japan
- **Niihama Works**  
5-2, Sobiraki-cho, Niihama-shi, Ehime  
792-8588, Japan
- **Toyo Works**  
1501, Imazaike, Toyo-shi, Ehime 799-1393,  
Japan
- **Research & Development Center**  
63-30, Yuhigaoka, Hiratsuka-shi, Kanagawa  
254-8010, Japan
- **Laser Center**  
1-15, Kuryozutsumi, Hiratsuka-shi,  
Kanagawa 254-0801, Japan

## Subsidiaries

- **Sumitomo (S.H.I.) Construction Machinery Co., Ltd.**  
9-11, Kitashinagawa 5-chome,  
Shinagawa-ku, Tokyo 141-8686, Japan  
Principal business: Construction machinery
- **Shin Nippon Machinery Co., Ltd.**  
1-28, Shiba 2-chome, Minato-ku, Tokyo  
105-0014, Japan  
Principal business: Turbines, pumps,  
fasteners and blowers
- **Nihon Spindle Mfg. Co., Ltd.**  
2-30, Shioe 4-chome, Amagasaki-shi, Osaka  
661-8510, Japan  
Principal business: Spinning machinery and  
environmental protection equipment
- **Sumitomo Eaton Nova Corporation**  
4-15, Yato-cho 2-chome, Tanashi-shi, Tokyo  
188-0001, Japan  
Principal business: Semiconductor equipment,  
especially ion implantation systems
- **Sumitomo Eaton Hydraulics Co., Ltd.**  
8-6, Kaji-cho 1-chome, Chiyoda-ku, Tokyo  
101-0044, Japan  
Principal business: Hydraulic motors, pumps  
and power transmission equipment
- **Sumitomo NACCO Material Handling Co., Ltd.**  
75, Daito-cho 2-chome, Obu-shi, Aichi  
474-8555, Japan  
Principal business: Forklift trucks and logistic  
handling equipment
- **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
- **Lightwell Co., Ltd.**  
18-10, Moto-Asakusa 3-chome, Taito-ku,  
Tokyo 111-0041, Japan  
Principal business: Software and related  
equipment
- **Sumitomo Heavy Industries Foundry & Forging Co., Ltd.**  
16-4, Isoura-cho, Niihama-shi, Ehime  
792-0022, Japan  
Principal business: Castings and forgings



■ **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

■ **SHI Plastics Machinery, Ltd.**

9-11, Kitashinagawa 5-chome, Shinagawa-ku, Tokyo 141-8686, Japan  
Principal business: Plastics machinery

■ **Sumiju Environmental Engineering, Inc.**

9-11, Kitashinagawa 5-chome, Shinagawa-ku, Tokyo 141-8686, Japan  
Principal business: Maintenance and operation control for environmental systems and plants

■ **Sumitomo Heavy Industries Engineering and Services Co., Ltd.**

20-4, Higashigotanda 2-chome, Shinagawa-ku, Tokyo 141-0022, Japan  
Principal business: Design, production and distribution of general industrial machinery, as well as remodeling, repairs, inspection and maintenance

■ **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

■ **Marine United, Inc.**

1-1, Irifune 2-chome, Chuo-ku, Tokyo 104-0042, Japan  
Principal business: Design and construction of naval ships, merchant vessels and offshore structures

■ **Osaka Chain & Machinery, Ltd. Inc.**

16-1, Wakihama 4-chome, Kaizuka-shi, Osaka 597-0073, Japan  
Principal business: Power transmission equipment

**Overseas Network**

**Offices**

■ **Hong Kong Office**

2103A Tower 2, Lippo Centre, 89 Queensway, Hong Kong

■ **Sumitomo Heavy Industries (U.S.A.), Inc.**

666 Fifth Avenue 10th Floor, New York, N.Y. 10103-1099, U.S.A.

■ **Sumitomo Heavy Industries (Europe), Ltd.**

5th Floor, Bury House, 31 Bury Street, London EC 3A 5AR, U.K.

■ **Sumitomo Heavy Industries (South East Asia) Pte., Ltd.**

360 Orchard Road #10-04/05, International Building, Singapore 238869

**Subsidiaries**

■ **Sumitomo Machinery Corporation of America**

4200 Holland Boulevard, Chesapeake, Virginia 23323, U.S.A.

Principal business: Power transmission equipment

■ **Sumitomo (SHI) Cyclo Drive Europe, Ltd.**

Marfleet, Hull HU9 5RA, U.K.

Principal business: Power transmission equipment

■ **Sumitomo (SHI) Cyclo Drive Asia Pacific Pte., Ltd.**

No. 2 Tuas Link 2, Singapore 638551

Principal business: Power transmission equipment

■ **Sumitomo (SHI) Cyclo Drive Tianjin, Ltd.**

No. 7 Sanijing Road, Dongli Economic Development Zone, Tianjin, China

Principal business: Power transmission equipment

■ **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

■ **SHI Plastics Machinery (Europe) B.V.**

Breguetlaan 10A 1438 BC OUDE MEER, Netherlands

Principal business: Plastics machinery

■ **S.H.I. Plastics Machinery (S) Pte., Ltd.**

67 Ayer Rajah Crescent #01-15 to 26, Singapore 13950

Principal business: Plastics machinery

■ **SHI Plastics Machinery (TAIWAN) Inc.**

3F-1 687 Chung Shan North Road, Sec. 5, Taipei, Taiwan, R.O.C.

Principal business: Plastics machinery

■ **SHI Plastics Machinery (Hong Kong) Ltd.**

RM 601, Telford House, 12-16 Wang Hoi Road, Kowloon Bay, Hong Kong

Principal business: Plastics machinery

■ **SHI Plastics Machinery (Shanghai) Co., Ltd.**

Shanghai Waigaoqiao Free Trade Zone, 188 Headang Road, Second Floor, Department D Pu Dong New Area, Shanghai  
Principal business: Plastics machinery

■ **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

■ **Link-Belt Construction Equipment Company**

2651 Palumbo Drive, P.O. Box 13600, Lexington, Kentucky 40583-3600, U.S.A.

Principal business: Construction machinery

■ **LBX Company, LLC**

2651 Palumbo Drive, P.O. Box 14103, Lexington, Kentucky 40512-4103, U.S.A.

Principal business: Construction machinery

■ **SHI Machinery Service Hong Kong Ltd.**

2103A Tower 2, Lippo Centre, 89 Queensway, Central, Hong Kong  
Principal business: Maintenance service for harbor facilities

■ **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

# M anagement

(As of June 29, 2000)

## BOARD OF DIRECTORS



**Mitoshi Ozawa**  
Chairman of the Board



**Yoshio Hinoh**  
President and  
Chief Executive Officer



**Hiroyasu Taniguchi**  
Director



**Takaji Nakanishi**  
Director



**Noriyuki Yamasaki**  
Director



**Eiichi Fujita**  
Director



**Naoki Takahashi**  
Director



**Shuji Toyoda**  
Director

## CORPORATE AUDITORS

### **Masakazu Ozaki**

Standing Auditor

### **Tsuyoshi Saito**

Standing Auditor

### **Tsutomu Nishimura**

Auditor

### **Takako Yamada**

Auditor

## EXECUTIVE OFFICERS

### **Yoshio Hinoh**

President and Chief Executive Officer

### **Hiroyasu Taniguchi**

Director, Senior Executive Vice President

### **Yasufumi Uenoyama**

Executive Vice President

### **Takaji Nakanishi**

Director, Executive Vice President

### **Yukihito Takahashi**

Executive Vice President

### **Noriyuki Yamasaki**

Director, Executive Vice President

### **Eiichi Fujita**

Director, Executive Vice President

### **Harumi Ikuta**

Senior Vice President

### **Kenji Haruguchi**

Senior Vice President

### **Shigeya Oishi**

Senior Vice President

### **Masaaki Shiba**

Senior Vice President

### **Takahiko Otani**

Senior Vice President

### **Naoki Takahashi**

Director, Senior Vice President

### **Kensuke Shimizu**

Senior Vice President

### **Kohei Takase**

Senior Vice President

### **Yasuhiko Seike**

Senior Vice President

### **Yukio Kinoshita**

Senior Vice President

# C Corporate Data

(As of March 31, 2000)

<b>Head office:</b>	Sumitomo Heavy Industries, Ltd. 9-11, Kitashinagawa 5-chome, Shinagawa-ku, Tokyo 141-8686, Japan Tel: +81-3-5488-8335 Fax: +81-3-5488-8056 <a href="http://www.shi.co.jp">http://www.shi.co.jp</a>	
<b>Founded:</b>	1888	
<b>Incorporated:</b>	November 1, 1934	
<b>Paid-in Capital:</b>	¥30,871,651,300	
<b>Number of Employees:</b>	13,794 (Consolidated)	5,110 (Non-consolidated)
<b>Transfer Agent:</b>	The Sumitomo Trust and Banking Co., Ltd.	
<b>Stock Exchange Listings:</b>	Tokyo, Osaka, Nagoya, Kyoto	
<b>Shares Outstanding:</b>	588,696,680	
<b>Number of Shareholders:</b>	85,300	
<b>Major Shareholders:</b>	Sumitomo Life Insurance Company	5.08%
	The Sumitomo Bank, Ltd.	4.55%
	Nippon Life Insurance Company	3.28%
	The Chuo Trust and Banking Co., Ltd.	3.02%
	The Sumitomo Trust and Banking Co., Ltd.	2.99%
	The Mitsubishi Trust and Banking Co., Ltd. (trust account)	2.07%
	The Sumitomo Marine & Fire Insurance Co., Ltd.	1.99%
	The Daiwa Bank, Ltd. (trust account)	1.60%
	The Sumitomo Trust and Banking Co., Ltd. (trust account)	1.53%
	The Nomura Trust and Banking Co., Ltd. (trust account)	1.48%

Additional copies of this annual report and other information may be obtained by contacting:  
Public Relations Dept., Sumitomo Heavy Industries, Ltd.  
9-11, Kitashinagawa 5-chome, Shinagawa-ku, Tokyo 141-8686, Japan  
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