



Annual Report 2001

For the Year Ended March 31, 2001



Ishikawajima-Harima Heavy Industries Co., Ltd. (IHI), provides technology-oriented products and services to the industrial, private and public sectors.

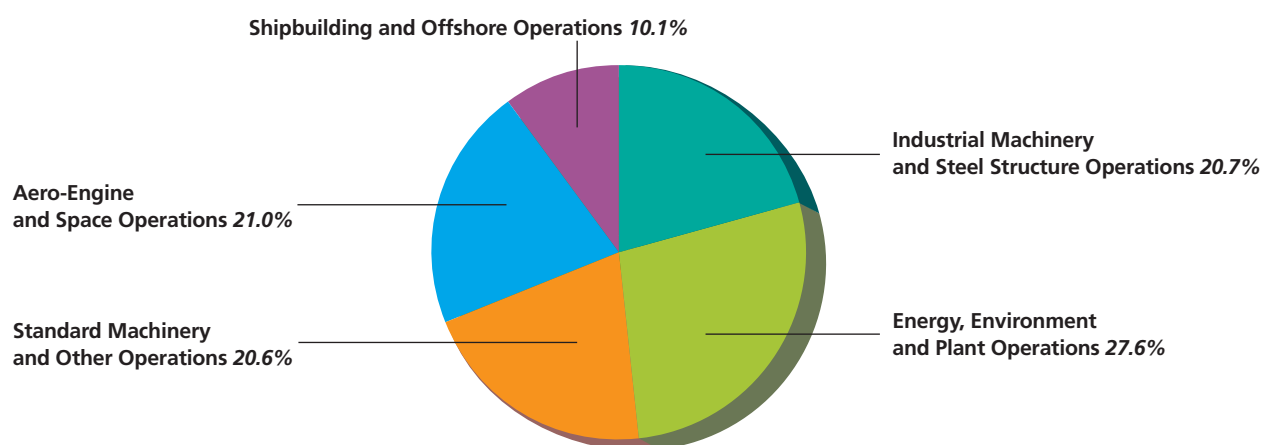
IHI researches, consults, engineers, manufactures and supplies an array of machinery, equipment, plants, structures, ships and offshore facilities.

The Company is at the forefront of manufacturing, energy, marine transportation, distribution, mechatronics, aerospace and environmental technologies.

IHI operates 16 domestic shipyards and works and maintains a domestic network of 10 branches and 24 sales offices.

The IHI Group includes 102 companies in Japan and 43 subsidiaries and joint ventures overseas.

[NET SALES BY SEGMENT]



Contents

Financial Highlights	1	Product Lineup	23
A Message from the President	2	Facilities	26
Review of Operations	4	Board of Directors	28
Research and Development Highlights	18	Financial Section	29
History of IHI	20	Directory	52
Timeline of IHI	21	Corporate Data	55
Organization	22		

Financial Highlights

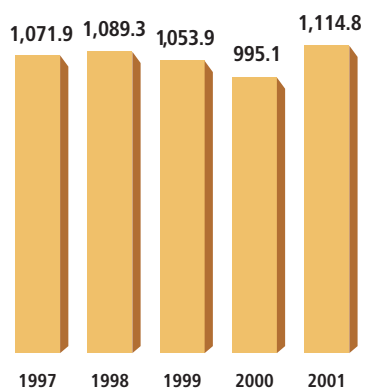
Years ended March 31, 2001, 2000 and 1999
Ishikawajima-Harima Heavy Industries Co., Ltd., and Consolidated Subsidiaries

	Millions of yen			Thousands of U.S. dollars
	2001	2000	1999	2001
Net sales	¥1,114,817	¥ 995,063	¥1,053,896	\$ 8,997,716
Operating income (loss)	39,947	(5,825)	17,895	322,414
Net income (loss)	9,205	(78,998)	5,818	74,293
Total assets	1,481,841	1,413,453	1,322,216	11,959,975
Total shareholders' equity	201,349	162,796	210,801	1,625,092

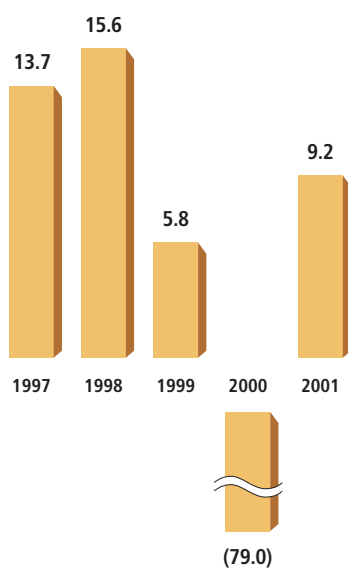
Per common share:	Yen			U.S. dollars
	¥	¥	¥	\$
Net income (loss)	7.09	(60.84)	4.48	0.057
Cash dividends	3.00	—	6.00	0.024

Note: For convenience only, U.S. dollar amounts in this report have been converted from yen at the rate of ¥123.90=US\$1, the approximate rate of exchange prevailing on March 31, 2001.

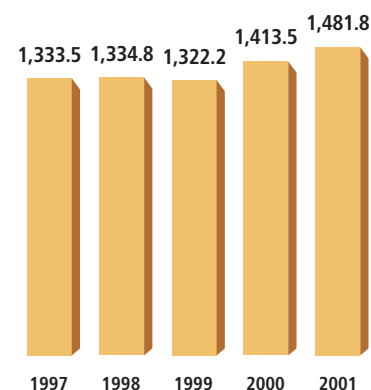
[NET SALES]
(billions of yen)



[NET INCOME (LOSS)]
(billions of yen)



[TOTAL ASSETS]
(billions of yen)



A Message from the President

During the fiscal year, from April 1, 2000, to March 31, 2001, the Japanese economy showed signs of a moderate recovery driven by capital investment in information technology (IT)-related industries and exports to the United States and Asia in the first half of the year. The economic recovery began to stall in the second half of the fiscal year, and eventually came to a standstill. In the global economy, the robust United States economy began to show a deceleration in activity, leading to a slowdown in economic expansion in Europe and Asia.

The business environment surrounding the heavy machinery and shipbuilding industries remained bleak with lackluster private capital investment outside of the IT sector and continued restraint in public investment.

In this operating environment, IHI focused efforts on strengthening profitability by thoroughly reducing costs while reviewing its business structure. As a result, consolidated aggregate orders advanced 11.3% to ¥1,041.6 billion and consolidated net sales climbed 12.0% to ¥1,114.8 billion mainly due to a substantial increase in orders in shipbuilding and offshore operations. Consequently, orders in hand at the end of the fiscal year amounted to ¥1,593.2 billion, up slightly from the previous fiscal year.

IHI made concerted efforts to improve profitability, including measures implemented under the Management Restructuring Plan, resulting in operating income of ¥39.9 billion and net income of ¥9.2 billion. Net cash provided by operating activities of ¥22.6 billion was more than offset by net cash used in investing activities of ¥60.6 billion, resulting in free cash flows of negative ¥38.0 billion.

Year-end cash dividends amounted to ¥3.00 per share, reflecting the rebound in performance and profits during the term.

The following is a summary of the performance in each segment. For details, please refer to the Review of Operations.

In industrial machinery and steel structure operations, orders grew 16.5% to ¥235.5 billion and sales climbed 21.6% to ¥230.9 billion. As a consequence, orders in hand were up 7.9% to ¥351.1 billion at the end of the period. An operating loss of ¥1.1 billion was posted.

In energy, environment and plant operations, orders edged down to ¥208.6 billion, while sales rose 18.8% to ¥307.6 billion. As a result, orders in hand dropped 20.4% to ¥564.1 billion at the end of the fiscal year. This segment posted operating income of ¥21.0 billion.

In standard machinery and other operations, orders declined 4.8% to ¥224.7 billion while sales grew 6.5% to ¥229.6 billion. Orders in hand totaled ¥77.6 billion at the end of the period, down 17.2% from the end of the previous fiscal year. This segment recorded operating income of ¥7.5 billion.

In aero-engine and space operations, total orders expanded 18.6% to ¥224.4 billion from an increase in orders for space equipment. This increase was partly the result of IHI Aerospace Co., Ltd. beginning operations from July 2000, which was formed from the transfer of Nissan Motor Co., Ltd.'s Aerospace Division to IHI. Sales in this segment advanced 18.8% to ¥233.9 billion, resulting in orders in hand of ¥375.7 billion at the end of the fiscal year, an increase of 36.8% compared with the end of the previous fiscal year. Operating income totaled ¥8.1 billion.

In shipbuilding and offshore operations, orders amounted to ¥148.3 billion, a substantial increase from the previous fiscal year.

Sales decreased 15.6% to ¥112.6 billion due to the absence of handing over a destroyer. Consequently, orders in hand at the end of the period climbed 25.2% to ¥224.4 billion. Operating income totaled ¥4.3 billion.

Harsh conditions are expected to persist in the operating environment encompassing IHI, as economic fundamentals will likely remain unchanged looking forward. The Company expects consolidated results for the fiscal year ending March 31, 2002, to comprise net sales of ¥1,100 billion, and net income of ¥8 billion.

●Management Policy

Based on the corporate philosophy of "Using technology for the benefit of society," IHI and Group companies have contributed to the creation of wealth in society by providing a diverse range of products that support industry and society, including industrial machinery, transportation equipment and social infrastructure in aerospace, energy and power plants, machinery, ships and other fields.

As a successor to the Management Restructuring Plan implemented in 1999, IHI created Management Policy 2001, a three-year plan spanning from April 1, 2001, to March 31, 2004. In particular, the plan sets targets for achieving consolidated aggregate orders of ¥1,160 billion, net sales of ¥1,150 billion, and return on invested capital (ROIC) of 5% by the fiscal year ending March 31, 2004. In addition, IHI aims to reduce interest-bearing debt to ¥450

billion on a consolidated basis by the end of the final year of the plan.

The following is the essence of Management Policy 2001:

(1) Secure and Expand Orders

IHI aims to achieve orders of more than ¥1,160 billion on a consolidated basis in the fiscal year ending March 31, 2004, by focusing efforts on reducing costs, strengthening engineering capabilities and increasing the use of IT. The Company plans to expand the field for systems integration by project, increase exports and enlarge the scale of parts production and maintenance operations for the IHI Group as a whole, targeting consolidated net sales of ¥370 billion for the fiscal year ending March 31, 2004, compared with consolidated net sales of approximately ¥290 billion at present.

(2) Bolster the Financial Structure

Applying firm management of cash flows in each business division, the Company plans to reduce interest-bearing debt to ¥450 billion on a consolidated basis by the end of the fiscal year ending March 31, 2004. As a part of its efforts to improve asset efficiency, IHI will promote the effective utilization of idle land Companywide and initiate the Toyosu Redevelopment Project.

(3) Review the Business Structure

Promoting the selection and concentration of business units, IHI will prioritize the allocation of management resources to 1) aero-engine and space operations, 2) on-site power generation system operations, 3) environment control and resource recycling system operations, 4) physical distribution systems and applied intelligent traffic systems (ITS) operations, and 5) standard machinery operations, such as automotive turbocharger and general-use packaged compressors.

(4) Promote Independent Business Divisions and Affiliated Companies

To further promote independent management in each business division, IHI will create a slimmer headquarters by transferring service functions to business divisions and spinning off service companies. Furthermore, the Company aims to fine-tune the business structure with special-purpose affiliated companies to establish a system that integrates every process from marketing to services in each operational unit of each business division.

By promoting the aforementioned measures, continuing to bolster technological capabilities and providing soci-



Mototsugu Ito

ety with high-quality cost-competitive products, IHI and Group companies are in position to develop into an advanced manufacturing and engineering corporate group.

We look forward to the support of our shareholders as we work toward these goals.

June 28, 2001

A handwritten signature in black ink that reads "Mototsugu Ito". The signature is written in a cursive, flowing style.

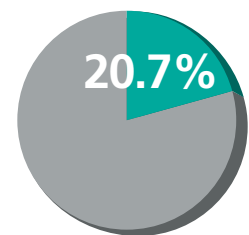
Mototsugu Ito
President and Chief Executive Officer

INDUSTRIAL MACHINERY AND STEEL STRUCTURE OPERATIONS

In industrial machinery and steel structure operations, the domestic market remained in an overall slump due to restricted public capital investment and continued weak private-sector capital investment. Moreover, market conditions for orders for exports remained severe as a result of intensified international cost competition.

In industrial machinery and steel structure operations, orders grew 16.5% to ¥235.5 billion and sales climbed 21.6% to ¥230.9 billion. As a consequence, orders in hand were up 7.9% to ¥351.1 billion at the end of the period. An operating loss of ¥1.1 billion was posted.

PERCENTAGE OF TOTAL NET SALES



● Industrial Machinery

In the industrial machinery category, in accordance with worldwide restructuring at primary customers in the steel-making, iron-making, paper-making and automobile industries, IHI is urgently reorganizing operations through the selection of promising products and the concentration of management resources in these promising areas.

Following global trends in restructuring, IHI decided to integrate its Pulp- and Paper-Making Machinery Division with Voith Paper Technology GmbH of Germany, a partner in paper-making machine technology. As a result, IHI established a new company in Japan to provide a complete range of paper-making machinery, including stock preparation equipment, paper-making machines, coating machines and super calender machines, as well as comprehensive services to support users in Japan.

In transfer feed presses for automobile manufacturing, the Company established IHI Press Technology GmbH in Germany to bolster its maintenance service and strengthen ties with users in the European market. We believe this venture will lead to increased orders there. In North America, IHI established IHI-Verson Press Technology LLC, a joint venture with a maintenance company of the C. Itoh Group. The venture has already received orders for two transfer feed presses from automobile manufacturers, and will produce them in Chicago. IHI plans to create new demand and expand maintenance operations in the North American market.

IHI has continued to concentrate efforts in new business fields, including manufacturing and inspection equipment for liquid crystal displays (LCD). Following market trends, the Company released the IHI-ISDR, ion shower doping equipment that can efficiently create thin-film transistors (TFT) on large-scale glass substrates to meet demands for larger, higher-resolution LCDs; the



Papermaking equipment provided by Voith IHI Paper Technology



High-pressure annealing system

high-speed, high-precision IHI-CFi, color filter inspection equipment for uneven colors; and a high-pressure annealing system for the mass production of low-temperature polycrystalline silicon TFTs, which are key to next-generation LCDs. At the same time, the Company began to construct specialized facilities for the development and testing of semiconductor and LCD-related equipment in the Yokohama area as a part of its effort to completely reorganize its R&D and engineering bases.

In the term under review, IHI completed the modernization of a hot-strip mill for Cia Siderurgica Nacional (CSN) in Brazil and finished a skin-pass mill for The Tata Iron & Steel Company Limited of India. IHI handed over two 4,500-ton transfer presses to General Motors Corporation (GM) of the United States. In addition, the Company supplied a large-scale turbo compressor for a liquid nitrogen production plant in Japan, and provided tunnel ventilation systems for an underwater tunnel in Tokyo Bay. IHI also completed the modernization of pulp- and paper-making machines for a domestic paper manufacturing company.

IHI received orders for three sets of automatic flatness control systems from aluminum foil makers in Japan and overseas. The Company also received orders from companies in China for one calender machine for tire production and one calender machine for polyvinyl chloride (PVC) film production. SNAM of Italy placed an order for three reciprocating compressors for LNG boil-off gas facilities.

Subsidiary Diesel United, Ltd. manufactures and sells diesel engines for ships. Diesel United registered sales for a total of 37 diesel engines for marine use, including five low-speed Sulzer RTA96C diesel engines, with a total output of 912,660 horsepower.

The Company also received orders for 37 diesel engines for marine use, including five low-speed Sulzer RTA 96C diesel engines, with a total output of 912,600 horsepower.



Large-scale turbo compressor for liquid nitrogen production plant



Diesel engine for ships

● Material-Handling and Physical Distribution Systems

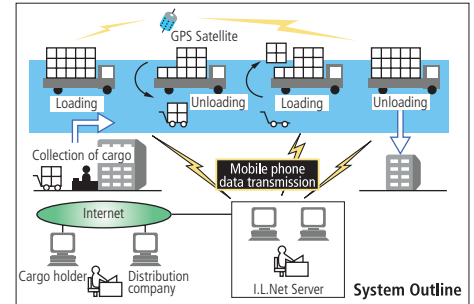
Positioned as a leading company in Japan for providing various material handling system and physical distribution systems such as automated warehouses, IHI has worked to incorporate information technology (IT) into the operation and control of existing and future systems. The Company plans to expand its sphere of business by enlarging the scope of IT applications.

For instance, we have begun experimenting with container-handling terminal systems incorporating intelligent traffic system (ITS) technology to increase the efficiency and automation of container handling. This initiative has resulted in the realization of unmanned operations for the entry of trailer trucks into the terminal area, and of loading procedures and guidance to unloading areas. We plan to use ITS technology to cover the entire range of operations at container-handling terminals. In physical distribution systems, reaching beyond its core strengths in handling and storage of various kinds of materials and products in factories and distribution centers, the Company has launched a business for controlling truck operation in a specific area by efficient collection and delivery of goods through the use of information technology. In the future, IHI plans to differentiate itself from other companies by offering total distribution systems for transportation including supply chain management (SCM).

During the term under review, IHI delivered five Super post Pana-max container cranes to Yokohama Port Development Public Corporation. In addition, the Company handed over two 2,700-ton-per-hour continuous ship unloaders for coal to the Tachibana-wan coal-fired thermal power station of Shikoku Electric Power Co., Inc. and Electric Power Development Co., Ltd. IHI recorded sales on a 2,000-ton-per-hour grab bucket type iron ore unloader for the Muroran Works of Nippon Steel Corporation.

Revenues were posted by the percentage-of-completion method for distribution systems delivered to several logistics centers of domestic manufacturers, including two container cranes for the Port Authority of Douala in Cameroon and a system of belt conveyors for transporting coal to the No. 4 and No. 5 Units of the Hekinan Thermal Power Station of Chubu Electric Power Co., Inc.

The Tokyo Electric Power Company, Incorporated (TEPCO) placed orders for a 30,000-ton coal storage silo, a 4,200-ton-per-hour reclaimer and an air-cushion rollerless conveyor for the No. 5 Unit of the Hirono Thermal Power Station. IHI received an order for a 3,000-ton-per-hour continuous ship unloader for ore and coal from Yawata Works of Nippon Steel Corporation. In addition, the Company received orders from Nissin Sugar Manufacturing Co., Ltd. for automated warehouses and automated picking systems that cope with SCM technology. Furthermore, several domestic customers placed orders for the construction of new automated warehouses.



Outline of I.L. Net



Experiments underway at ITS container-handling terminal



Super post Pana-max container cranes delivered to Yokohama Port Development Public Corp.

● Bridges, Gates and Shield Tunneling Machines

Increasing competition caused by declining demand in this segment has resulted in falling market prices. IHI is responding to these market conditions by reorganizing its production structure. As a consequence, the Company has consolidated its scattered production bases and Group companies for bridges as well as dam gates and river gates at Aichi Works and Kure-Shingu Works, respectively. Centered on ISMIC Co., Ltd., a company that maintains bridges and steel structures for the Group, the Company plans to expand its maintenance business in these areas. A substantial market exists for maintenance of the nation's highway network and the numerous bridges constructed since the 1960s. IHI expects bridge and gate maintenance work to compensate for the decline in new projects. As a part of our efforts to expand maintenance operations in these areas, we developed a road damage inspection vehicle that is able to survey road conditions while in motion. The new inspection vehicle will be released to market by March 2002.

Accumulating experience with such shore and bay structures as caissons, IHI is working to enlarge the range of applications for hybrid structures that combine steel and reinforced concrete. In addition, the Company plans to develop shield tunneling machines for extremely deep excavations, including a rotating shield machine that requires only one machine to excavate from straight to right angles, and a high-speed shield tunneling machine that is able to assemble primary lining tunnel segments while excavating tunnels.

During the fiscal year under review, IHI completed construction of the bridge crossing the Irtysh River in the Republic of Kazakhstan, with a total length of 1,100 meters and a main span of 750 meters, as well as 10.6 kilometers of connecting road. In a joint venture, the Company finished building a 373.5-meter portion of the Inabe River Bridge, one of Japan's longest bridges employing a precast, prestressed concrete deck plate, for the Japan Highway Public Corporation. IHI also built bridges and interchanges for highways in various regions in Japan. We supplied many gates in Japan, including gates for tide prevention, river gates and multipurpose dam gates.

Orders received during the term included several road bridges throughout Japan. IHI also won an order to work on a part of Tone River Bridge for the Joban Shinsen Line from Japan Railway Construction Public Corporation.



Suspension bridge with 750-meter main span crossing the Irtysh River in Kazakhstan



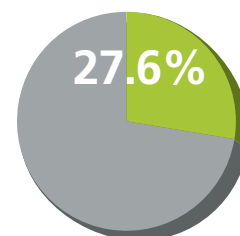
Inabe River Bridge, one of the longest precast, prestressed concrete deck bridges in Japan at 373.5 meters

ENERGY, ENVIRONMENT AND PLANT OPERATIONS

The domestic market for energy, environment and plant operations continued to contract, plagued by the prolonged economic downturn and excess capacity. Persistently poor conditions for exports were compounded by lackluster demand in Asian economies.

In energy, environment and plant operations, orders edged down to ¥208.6 billion, while sales rose 18.8% to ¥307.6 billion. As a result, orders in hand dropped 20.4% to ¥564.1 billion at the end of the fiscal year. This segment posted operating income of ¥21.0 billion.

PERCENTAGE OF TOTAL NET SALES



● Boilers and Energy Systems

The boilers- and energy systems-related business is a core business of the former land-based operations segment, which accounted for approximately 60% of net sales. Boilers for thermal power generation and components for nuclear power plants are mainstay products. However, future business prospects have dimmed as power companies are restricting capital investment due to slow growth in domestic demand for electricity.

Amid this operating environment, IHI aims to restructure its production structure and thoroughly reduce costs by procuring material globally, as well as develop overseas markets and expanding its maintenance business. The Company is working to develop and commercialize next-generation power generation systems, including advanced pressurized fluidized-bed combustion (A-PFBC) boiler combined-cycle systems and integrated coal gasification combined-cycle (IGCC) plants. In addition, IHI is focusing efforts on the early commercialization of such on-site power generation systems as fuel cells and micro gas turbine cogeneration equipment. We are also concentrating activities on expanding new business fields in semiconductors, LCD-related equipment and particle-accelerator-related equipment. The Company plans to overcome any difficulties posed by these initiatives by implementing the following measures:

- 1) Transfer the manufacturing line for piping systems for nuclear power generation plants and the prototype production line for molten carbonate fuel cells to a Aioi Works, which is dedicated to manufacturing boilers.
- 2) Consolidate three construction and engineering companies, which handle installation and construction projects for power generation plants and other plants, heavy machinery and large-scale structures, under Ishikawajima Plant Construction Co., Ltd. (IPC).
- 3) Initiate integrated maintenance services for independent power producers (IPP) and self-operated power generation plants and establish a company to provide maintenance services for facilities related to the nuclear fuel cycle.



Experimental facility for 360-MW coal-fired combined-cycle power plant for PFBC boiler



No. 1 Unit of Tachibana-wan coal-fired thermal power station

- 4) Backed by accumulated experience, IHI is working toward the early commercialization of next-generation power generation systems.
- 5) Along with Gas Technology Institute (GTI), IHI participated in the financing of Mosaic Energy, Limited Liability Company of the United States, for the development of Polymer Electrolyte Fuel Cells (PEFC) and introduced micro gas turbine technology for small on-site cogeneration systems.
- 6) The Company started construction of development and testing facilities for semiconductor and LCD-related equipment at Yokohama Works.

IHI recorded sales of a 1,050 MW boiler for the No. 1 Unit of Tachibana-wan power station and on a reformation and periodic inspection project for the No. 9 Unit of Nakoso Power Station of Joban Joint Power Co., Ltd.

IHI recorded revenue on the progress of the following projects in accordance with the percentage-of-completion method: a 600 MW boiler for No. 1 Unit of Isogo Power Station of Electric Power Development Co., Ltd., a 1,000 MW boiler for No. 4 and No. 5 Units of Hekinan Thermal Power Station of Chubu Electric Power Co., Inc., a 700 MW boiler for No. 4 Unit of Tomatoh-Atsuma Power Station of Hokkaido Electric Power Company, a 420 MW boiler for No. 3 and No. 4 Units of Callied C Power Station in Australia, and a 450 MW boiler for Tarong North Power Station in Australia.

Mirant and Sampra, Inc., an independent power producer in the United States, placed an order for nine heat recovery steam generators (HSRG) for combined-cycle power plants.

● Gas Turbines

IHI has answered demand for gas turbines at home and abroad through its lineup of aeroderivative gas turbines that range in output from 1,000 kW to 40,000 kW per unit. Through the following measures, the Company aims to double its gas turbine business by meeting a broader range of user needs. First, we added to our product lineup 9,000-kW- and 10,000-kW-class gas turbines through joint development with Allison Advanced Development Company (AADC) of the United States.

Second, we initiated a preparation production structure to slash costs related to the IHI-developed 2,000-kW IM270 gas turbine.

Third, we worked to expand the selection of equipment models for flexible cogeneration systems (FLECS), which are able to alter output in accordance with fluctuations in demand for electricity and steam, pioneered by the 4,000-kW to 6,000-kW IM400 gas turbine for cogeneration systems, and accelerate their deployment overseas.

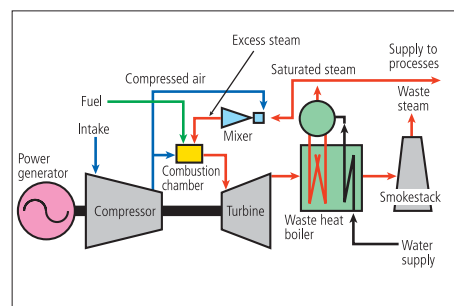
Fourth, we formed a partnership with Shinko Engineering Co., Ltd. to market their gas and diesel-engine-based small-scale cogeneration systems under 1,000 kW output.

Fifth, we endeavored to expand our maintenance business by promoting the installation of gas turbine plants and full-service maintenance centered on a remote monitoring system that uses the Internet.

During the term under review, IHI posted sales on four LM6000 gas turbines with a total output of 220 MW for Tanir Bavi Power Company Pvt. Ltd. of



2,000-kW-class IM270 gas turbine



FLECS diagram

India. The Company delivered a 25-MW LM2500 gas turbine and an 8-MW LM1600 gas turbine for emergency power generation to Tokyo Metropolitan Government. We also delivered a 23-MW LM2500 gas turbine to Maui Electric Company, Ltd. of the United States. The Company provided a 12-MW IM400-FLECS-E cogeneration system through a private finance initiative (PFI) to the Kanamachi Water Purification Plant.

Tokyo Metropolitan Government placed orders for two 25-MW LM2500 power generation facilities. In Australia, IHI received an order from Duke Energy Australia Pty. Ltd. for a 40-MW LM6000 gas turbine power generator.

● Environmental Control Systems, Chemical Plants and Storage Facilities

IHI considers the field of environmental preservation and resource recycling systems an area of strategic focus on par with aircraft engines and space-related operations. For several years, the Company has developed a succession of new technologies and systems while pioneering new markets. At the same time, we have worked to expand our sphere of business by entering the industrial waste disposal and resource recycling businesses. These efforts have steadily produced excellent results at home and abroad.

As a part of measures to further expand these businesses, IHI established SEC-IHI Desulfurization Engineering Co., Ltd. to provide flue gas DeSO_x plant engineering services in China in a joint venture with Shanghai Electric (Group) Corporation.

In research and development, aiming to build a power generation system that offers high efficiency and excellent cost performance by using refuse-derived fuel (RDF), IHI constructed a demonstration plant that employs a circulating fluidized-bed boiler as the core boiler. Accumulating data in a series of experiments, IHI has verified technology that is able to efficiently burn RDF, which contains a high portion of water compared with general fossil fuels. The Company has initiated sales of the new boiler.

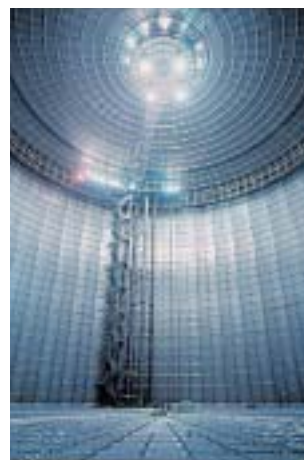
IHI officially named and launched domestic sales of *Mamizu-kun*, hydrothermal reaction equipment for processing organic industrial waste that was jointly developed with Shinryo Corporation last year. The Company fabricated a mobile demonstration system based on the equipment, and worked to expand sales by creating a structure that quickly responds to each user's specific requirements in treatment demonstrations.

During the fiscal year under review, IHI constructed a recycling center for large discarded items as well as bottles, cans and plastic bottles for Kashihara City in Japan. In addition, the Company finished a 200-ton-per-day plastic container compactor for a plastic recycling company in Japan, and completed a pharmaceuticals manufacturing plant for Takeda Ireland Limited.

IHI recorded revenue on the progress of the following projects in accordance with the percentage-of-completion method. IHI continued the construction of a 450-ton-per-day fluidized-bed municipal solid waste incineration plant for Okayama City in Japan. The Company recorded revenue on a flue gas DeSO_x plant for the 700 MW No. 2 Unit of the Tsuruga Power Station of Hokuriku Electric Power Company. IHI also worked on two flue gas DeSO_x plants for No. 3 and No. 4 Units, 550-MW each of the Hsinta Power Station in



Flue gas DeSO_x system for 700-MW power plant



200,000-kiloliter underground LNG storage tank, one of the largest in the world

Taiwan. The Company continued construction of an underground LNG storage tank with capacity of 200,000 kiloliters—one of the largest in the world—for Tokyo Gas Co., Ltd. IHI was also involved in constructing a prestressed concrete outer shell LNG aboveground tank with storage capacity of 180,000 kiloliters for Osaka Gas Co., Ltd. In addition, the Company worked on an order for a cement plant for Vietnam National Cement Corporation and a vertical coal pulverizer for a domestic power station.

During the term, the Company accepted its first order for 130-ton-per-day pyrolysis gasification melting system for processing municipal solid waste from Chita City in Japan. Pyrolysis gasification melting systems are expected to become the next generation of waste processing systems for their low impact on the environment.

IHI and Kawasaki Heavy Industries, Ltd. received an order from Omuta-Arao association for a 225-ton-per-day RDF production plant—one of the largest in Japan. IHI also received an order for a 120-ton-per-day coke bed ash melting furnace from a domestic industrial waste processing company. In addition, the Company received an order for two flue gas DeSO_x Plants for the Taichung Thermal Power Station No. 9 and No. 10 Units (550 MW output each) of Taiwan Power Company. IHI also won an order for a flue gas DeNO_x plant for No. 4 Unit (1,000 MW output) of the Hirono Thermal Power Station of The Tokyo Electric Power Company, Incorporated (TEPCO). Reliant Energy HL & P of the United States placed an order with IHI for a catalyst for seven units of gas-fired boilers flue gas DeNO_x Plants.

IHI, in an international consortium with Toyo Engineering Corporation (TEC) and Toyo Engineering India Ltd. (TEC's subsidiary in India), with Ballast Nedam International, a marine construction company in the Netherlands, received an order from Petronet LNG Limited in India for the construction of an LNG receiving terminal, which includes two LNG above-ground tanks with storage capacity of 148,000 kiloliters each.

Kirin Brewery Co., Ltd. placed an order at two of its domestic plants for internal circulation (IC) reactors for industrial wastewater processing systems utilizing anaerobic microorganisms with processing capacities of 2,750 cubic meters per day and 12,000 cubic meters per day, respectively. These systems achieve high efficiency by converting methane gas generated during the wastewater treatment process into energy. Demand is increasing for these systems as organic industrial waste treatment facilities from companies in the brewing, foods and paper pulp industries.



Urban-waste recycling center and automated sorting equipment for glass bottles



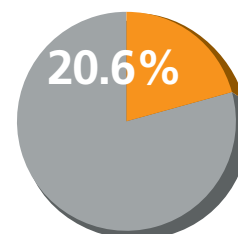
Vertical coal pulverizer for coal-fired thermal power station

STANDARD MACHINERY AND OTHER OPERATIONS

Results for standard machinery and other operations remained largely the same due to fierce cost competition, despite expectations of substantial expansion for certain products in both domestic and overseas markets in the future.

In standard machinery and other operations, orders declined 4.8% to ¥224.7 billion, while sales grew 6.5% to ¥229.6 billion. Orders in hand totaled ¥77.6 billion at the end of the period, down 17.2% from the end of the previous fiscal year. This segment recorded operating income of ¥7.5 billion.

PERCENTAGE OF TOTAL NET SALES



The standard machinery and other operations segment handles a diverse range of machinery and equipment that is mass-produced according to standard specifications, including parking systems, packaged compressors, turbochargers, centrifuges, filters, packaged boilers, material-handling systems, construction machinery, agricultural machinery and ozone-related equipment. IHI considers the segment to be one of the Company's strongest, and has accordingly prioritized the allocation of management resources. Last year, IHI added industrial-use laser processing equipment to its strategic product lineup of standard machinery. The Company also bolstered its lineup of micro gas turbines, for which substantial demand is expected, and cogeneration systems.

In parking systems, IHI installed a total capacity of 20,934 parking spaces for its multilevel parking structures, mechanical parking systems such as Tower Parking and Elevator Parking and Underground Parking, and multistoried parking systems. The Company received orders for additional parking systems with a total capacity of 24,503 vehicles.

Preparing for the spread of intelligent traffic systems (ITS), IHI is accumulating experience in the construction of parking management systems that use information technology and the provision of parking space availability information services. In addition, subsidiary Ishikawajima Construction Materials Co., Ltd. (IKK) has begun to expand sales of prefabricated multilevel structures that offer excellent cost performance.

In turbochargers for automobiles, IHI started to supply turbochargers to Automobiles Peugeot in addition to initiating delivery to Daimler Chrysler Corporation in Europe last year. Furthermore, the Company has concluded a contract to supply Mercedes-AMG GmbH with superchargers. In line with these new customers, IHI Turbo Italy SpA will expand annual production to 400,000 units during fiscal 2002, and plans to strengthen production capacity even further in the future.



Tower Parking facility in Takamatsu, Japan



Supercharger supplied to Mercedes-AMG

Established in Heidelberg, Germany in 1998, the Engineering Center for Turbochargers and Superchargers was restructured into a joint venture for the development, engineering and manufacturing in a partnership with Daimler Chrysler. The new company will fall under the jurisdiction of our production bases in Italy.

In packaged compressors, IHI released to the domestic market a high-pressure packaged turbo compressor of Cooper Turbocompressor, Inc. of the United States with discharge pressure of 10.5 kb/cm². On the other hand, IHI entered an agreement to supply its Tx Series of small-scale packaged turbo compressors to Cooper Turbocompressor for sale in the United States. In addition, IHI introduced the TRE Series of turbo compressors, which are greater in scale than the Tx Series and offer better efficiency in less space.

Based on a sales agreement with Nordex AG of Germany, IHI provides wind turbine generators in Japan. During the term, the Company delivered wind turbine generators with an output of 1,300 kW per unit, and developed a series of wind turbine generators with an output of 2,500 kW per unit to prepare for future demand for larger scale generators.

In ozone-related equipment, IHI initiated sales of sterilization and odor-removal equipment for agricultural drainage water processing facilities that sterilizes wastewater with high-density ozone and reuses excess ozone in odor-removal systems at wastewater treatment facilities.

In construction machinery, IHI Construction Machinery Ltd. (IK) began marketing the 7.6-ton model 80NX zero tail swing hydraulic excavator, which is easy to use in narrow workspaces due to its compact body.

In packaged boilers, IHI Packaged Boiler Co., Ltd. (IBK) began full-scale sales of a compact once through equipped with modern of “scale killer” physical processing water with electricity and magnetism by which scale and rust inside boilers and distribution pipes can be prevented.



TRE Series of packaged turbo compressors



1,300-kW wind-turbine generator in Kagoshima, Japan



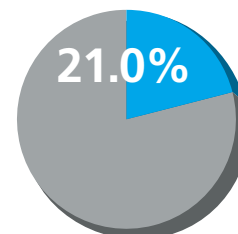
80NX hydraulic excavator

AERO-ENGINE AND SPACE OPERATIONS

In aero-engine and space operations, demand for aero-engines was relatively strong, despite shrinking defense budgets and a downswing in the U.S. economy.

The Company received orders from the Japan Defense Agency and from private-sector companies for the V2500 and CF34 turbofan engines. Total orders in aero-engine and space operations expanded 18.6% to ¥224.4 billion from an increase in orders for space equipment. This increase partly resulted from the July 2000 beginning of operations of IHI Aerospace Co., Ltd., which was formed from the transfer of Nissan Motor Co., Ltd.'s Aerospace Division to IHI. Sales in this segment advanced 18.8% to ¥233.9 billion, resulting in orders in hand of ¥375.7 billion at the end of the fiscal year, an increase of 36.8% compared with the end of the previous fiscal year. Operating income totaled ¥8.1 billion.

PERCENTAGE OF TOTAL NET SALES



A noteworthy event last year was the establishment of IHI Aerospace Co., Ltd. as a wholly owned subsidiary in July 2000 following the acquisition of the aerospace and defense device division of Nissan Motor Co., Ltd., a leading automobile manufacturer in Japan.

Through the acquisition, IHI added a ¥50-billion-a-year business to Group sales while supplementing its business line with such space systems as solid-fuel rockets, as well as such defense equipment as multiple-rocket launcher-business areas that the IHI Group lacked in the past.

In space utilization systems, the Company started an independent effort to develop satellite launch services using small-scale rockets.

In jet engines, IHI decided to participate as a risk- and revenue-sharing partner in a project undertaken by General Electric Company (GE) to develop the 115,000-pound-thrust GE90-115B turbofan engine, a larger version of the 90,000-pound-thrust GE 90 series turbofan engine. The GE90-115B turbofan engine has been selected to power the long-range Boeing 777 aircraft, raising expectations for substantial demand in the future.

IHI participates in several development and production projects for commercial engines, including the development of the V2500 turbofan engine, in an international consortium of companies from five countries. We are a risk- and revenue-sharing partner in the development of the CF34 series turbofan engine for GE and RB211 and Trent 700 and 800 turbofan engines for Rolls-Royce plc. IHI has filled orders for a total of more than 2,300 V2500 turbofan engines, which are becoming a revenue-generating business for the Company. Demand for the CF34 series turbofan engine is steadily expanding as it is increasingly employed in aircraft of regional airlines, that is, small short-range jet aircraft.

In engine maintenance, IHI continued to record sales on maintenance work and parts supply for V2500 turbofan engines of various airline companies, CF6 engines for A300 aircraft of domestic airline companies, and CFM56 turbofan engines for B737 aircraft of overseas airline companies.

We project that engine maintenance operations will grow in line with the increasing number of aircraft in service powered by the V2500, GE 90, CF34 and other turbofan engines that IHI has helped to develop and produce. In line



IA solid-fuel rocket (C) ISAS



GE 90 turbofan engine

with this thinking, we installed a maintenance line solely for V2500 turbofan engines at the Mizuho Aero-Engine Plant.

The following sales and orders were recorded for the aero-engine and space operations segment during the fiscal year under review.

IHI delivered to the Japan Defense Agency 13 F110 augmented turbofan engines for F-2 support fighters, 18 F3 turbofan engines for T-4 jet trainer aircraft, 18 T700 turboshaft engines for SH60J and UH60J antisubmarine and rescue helicopters, and digital electronic engine control (DEEC) systems for 31 F100 augmented turbofan engines installed in F-15 fighters. IHI continued to provide spare parts and maintain and overhaul these engines.

The Company registered sales on the delivery of six LM500 main propulsion gas turbine engines for patrol gunboats ordered in fiscal 1999 and four LM2500 main propulsion gas turbine engines for DD-Class destroyers ordered in fiscal 1997. IHI recorded sales using the percentage-of-completion method for an altitude test facility under construction for the Japan Defense Agency.

IHI received orders for 11 F110 augmented turbofan engines for F-2 support fighters, 13 F3 turbofan engines for T-4 jet trainer aircraft, and 34 T700 turboshaft engines for SH60J and UH60J antisubmarine and rescue helicopters. The Company continued to receive orders for the installation of DEEC systems in F100 augmented turbofan engines, as well as for the maintenance, overhauling and spare-parts-supply services for these engines.

The Japan Defense Agency placed orders for four LM2500 main propulsion gas turbine engines for DD-Class destroyers and nine LM500 main propulsion gas turbine engines for patrol gunboats, which were ordered in fiscal 2000.

IHI posted sales on the delivery of 235 sets of fan modules for V2500 turbofan engines installed in midsize A310- and A320-series passenger aircraft of Airbus Industry Co., Ltd. These fan modules were produced by IHI, supplied through Japanese Aero Engine Corporation (JAEC), a consortium of Japanese companies led by IHI, to International Aero Engine AG, which produce complete engines from those components, then sent to airline companies around the world.

IHI continued to record sales as a risk- and revenue-sharing partner on the supply of parts and components for GE 90 and CF34 turbofan engines made by GE and RB211 and Trent 700 and 800 turbofan engines produced by Rolls-Royce plc, as well as for V2500 turbofan engines.

Demand for the V2500 turbofan engine remained favorable, with orders for 257 units placed during the fiscal year under review. The Company continued to receive orders as a risk- and revenue-sharing partner for parts and components of GE 90 and CF34 turbofan engines made by GE and RB211 and Trent 700 and 800 turbofan engines produced by Rolls-Royce plc.

In space utilization systems, IHI delivered to the Tsukuba Space Center of National Space Development Agency of Japan (NASDA) flight modules of gradient heating furnace for microgravity experiments in semiconductor material crystal growth, which installed to the pressurized module of the Japan Experiment Module (JEM) *Kibou* as a part of the construction of the International Space Station (ISS).

We also supplied PFMs for exposed facilities used as experiment platforms to NASDA.

The experiment platforms will be launched aboard the space shuttle in January 2005 and attached to the ISS following system tests at the Tsukuba Space Center.



90-seat Bombardier CRJ900 regional jet plane with CF34-8C5 turbofan engines



Gradient heating furnace for pressurized facility of the JEM Kibou



Exposed facility of JEM Kibou

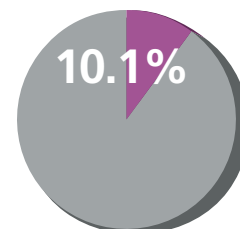
SHIPBUILDING AND OFFSHORE OPERATIONS

In shipbuilding and offshore operations, market conditions in marine transportation became favorable, marking the end of two years of sluggish results with increases in order volume both in Japan and overseas.

Orders for new ships including large-scale tankers and container ships totaled 16 vessels, or 2,320,000 deadweight tons. Combined with orders for ship repairs and offshore structures, these orders amounted to ¥148.3 billion, a substantial increase from the previous fiscal year.

Sales in shipbuilding and offshore operations decreased 15.6% to ¥112.6 billion because no large naval ships were delivered during the period despite the completion of 11 new vessels, or 1,960,000 deadweight tons, including five large-scale tankers. Consequently, orders in hand at the end of the period climbed 25.2% to ¥224.4 billion. This includes orders for 30 new vessels totaling 3,530,000 deadweight tons. Operating income amounted to ¥4.3 billion.

PERCENTAGE OF TOTAL NET SALES



IHI has decided to close its Tokyo Shipyard by the end of March 2002, which had constructed naval vessels, patrol boats, and passenger and car ferries and cargo ships, because of the constraints imposed upon ships to enter or leave the shipyard due to the construction of a new bridge for a redevelopment project in the surrounding area. In line with this move, shipbuilding capabilities of the Tokyo Shipyard will be transferred to the Yokohama Complex by March 31, 2002. Originally opened as a large-scale tanker shipyard in 1964, the Yokohama Complex halted construction of new ships in 1979 and has since operated as a commercial ship repair yard and as a production base for large-scale steel structures, mainly bridges. During the transfer, the new Yokohama Shipyard began operations of the new shipbuilding division in April 2001. With the added functions brought in by the transfer of activities from Tokyo Shipyard in commercial shipbuilding as well as naval vessels construction and repair, modernization has taken place at Yokohama Shipyard characterized by an information network based on state-of-the-art communication tools.

Research and development efforts at IHI have led to the development of a contra-rotating propeller (CRP) system that can be applied to large-scale container ships from 4,000 TEU containers up to 10,000 TEU container capacities. The CRP system is able to generate combined thrust from two contra-rotating propellers placed one after the other and rotating in opposite directions. Rotational velocity energy generated by the forward propeller is recovered by the aft propeller and changed to propulsion energy, resulting in more efficient thrust. IHI installed the CRP system on a 37,000-deadweight-ton bulk carrier in 1988 and on a 258,000-deadweight-ton VLCC tanker in 1993. The Company has ascertained that the installed CRP systems continue to perform in excellent condition and have resulted in energy savings of 14%-15% compared with con-



Shipbuilding operations restarted at Yokohama Shipyard



Contra-rotating propeller for VLCC

ventional propulsion systems. In the VLCC field, IHI came up with a new VLCC design for the largest ship that can traverse the Strait of Malacca, with more crude oil cargo intake compared with previous designs. In creating this new VLCC blueprint, IHI fully employed Ajisai, its 3-D computer-aided design/computer-aided manufacturing (CAD/CAM) system to take advantage of data on previous model designs to produce production-friendly drawings.

During the term under review, IHI delivered five double-hull 280,000-deadweight-ton class VLCCs, three 170,000-deadweight-ton class large-scale bulk carriers and one 48,000-deadweight-ton class medium-size bulk carrier. In addition, the Company completed for the Ministry of Land, Infrastructure and Transport (MLIT) (formerly the Ministry of Transport and the National Land Agency) one 4,663-gross-ton drag-suction dredge and oil recovery vessel and one work vessel.

IHI received orders for seven large-scale container ships with capacity of 6,200 containers, three large-scale container ships with 6,400-container capacity, three double-hull 280,000-deadweight-ton class VLCCs and two double-hull 300,000-deadweight-ton class VLCCs. The MLIT placed additional orders for one 4,200-gross-ton drag-suction dredge and oil recovery vessel. Further, an order was received for one 48,000-deadweight-ton class medium-size bulk carrier.



280,000-deadweight-ton VLCC



4,663-gross-ton drag-suction dredge and oil recovery vessel

RESEARCH AND DEVELOPMENT HIGHLIGHTS

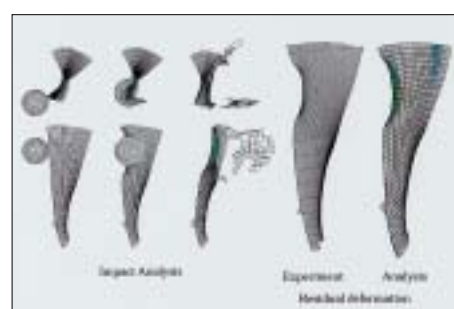
IHI places the highest priority on research and development (R&D) to maintain its technological leadership position in a wide array of fields.

Our R&D program is among the most extensive in the industry, and activities are coordinated closely with marketing divisions to accelerate commercialization.

Outlined in this section are some of the successes of our R&D program during the term.

Development of Method for Analyzing Turbofan Response to Bird Strikes

Commercial aircraft engines must offer resistance to foreign object damage (FOD) caused by collisions with such foreign objects as birds during takeoff and landing. For example, aircraft engines must be designed to sustain 75% thrust even after colliding with a 1.5-pound bird. Until now, engine designs have undergone simple assessments and actual testing to determine the outcome of collisions. Engineers have yearned for response estimation technology based on numerical simulations of fan blades being struck by birds. Accumulating data through materials testing of fan blades and bird models as well as countless impact tests, IHI has successfully developed a numerical simulation method that uses impact analysis codes. As a result, we can simulate the residual deformation of fan blades that was previously done in bird intake tests. IHI plans to boost the efficiency and advancement of jet engine development by applying the new technology to actual engines.



High-Pressure Annealing System

IHI has successfully developed and commercialized a high-pressure annealing system, a groundbreaking advancement in equipment for manufacturing low-temperature polycrystalline silicon thin-film transistors (TFT) used in liquid crystal displays. The system applies pressure to accelerate the oxidation speed. By increasing the pressure to 2MPa (19.6 kg/cm²), it is now possible to perform silicon oxidation in low temperatures under 600°C compared with 1000°C as used in former processes. This development has led to the possibility of utilizing excellent-quality thermal oxidation silicon films as gate insulators in the TFT manufacturing process. In addition, low-temperature film formation is now possible, allowing for the use of inexpensive glass substrates instead of expensive quartz substrates.

Furthermore, the new system reduces the number of defects in polycrystalline silicon films, therefore exceptionally improving the performance of TFTs.

IHI is commercializing the system for 400 x 500 mm substrates, and plans to bring to market a system compatible with 730 x 920 mm class substrates.



Vibration Control Equipment for Ship Superstructure

In the enlargement of VLCCs and bulk cargo carriers, the structure of crew quarters has been elevated compared with previous ship models, and is more susceptible to vibration from the main engines and propellers. To respond to the high-performance demands of reducing vibrations that may influence habitability and precise navigation systems, IHI developed new electromagnetic active vibration control equipment. This system reduces vibrations in the living quarters of the superstructure by driving a moving mass to reduce the vibrations with measurement sensors. IHI has furnished many customers with active and passive mass damper systems to reduce the oscillation of high-rise buildings and the rolling of

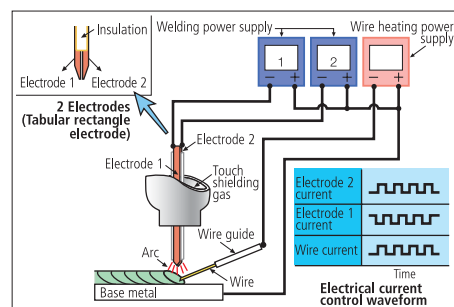


ships in the low-frequency range (0.1 to 0.5Hz). The newly developed equipment, however, is effective against a higher range of vibrations from approximately 5 to 10Hz on ship superstructures. Without such mechanical elements as gears, the newly developed equipment achieves high performance through the adoption of an electromagnetic actuator as the moving mass, including the electromagnetic coils themselves. The newly developed equipment, which has a moving mass weight of two tons and a stroke of ± 8 mm, was installed on the compass deck of the superstructure of a 280,000-ton VLCC to verify damping performance. Then we verified that the newly developed equipment reduced the vibration acceleration on the compass deck from approximately one half to one third. IHI is proceeding to install the newly developed equipment on various kinds of actual ships.

Development of IHI High-Efficiency TIG Welding Method and Manufacture of TIG Welding Equipment

The TIG welding method is capable of producing high-quality welds and is particularly well suited to positional welding, where consistent penetration can be achieved in all positions. However, one weakness of the process is that the deposition rates achieved are lower than for many other welding methods. When the technique is applied to thick wall pressure vessels and other large structures, narrow gap techniques are generally used. In such cases, it is important to have high deposition rates. In response to these needs, IHI has developed a high-efficiency TIG welding method, which employs two electrodes within a single torch. This system is shown to produce consistent penetration in the groove wall and a high deposition rate. This welding method features connections to two separate electrodes from two welding power supplies. The simultaneous production of two arcs from one torch has made high-electric-current welding possible.

In the fiscal year under review, IHI set a target of applying the newly developed welding method to 9% Ni steel LNG storage tanks. The Company has manufactured automated welding equipment after developing various element technologies that allowed for 1) a compact welding head, 2) digital control of arc length, 3) arc sensing and 4) high-frequency arc start equipment.



Self-Burning Internal Melting Furnace

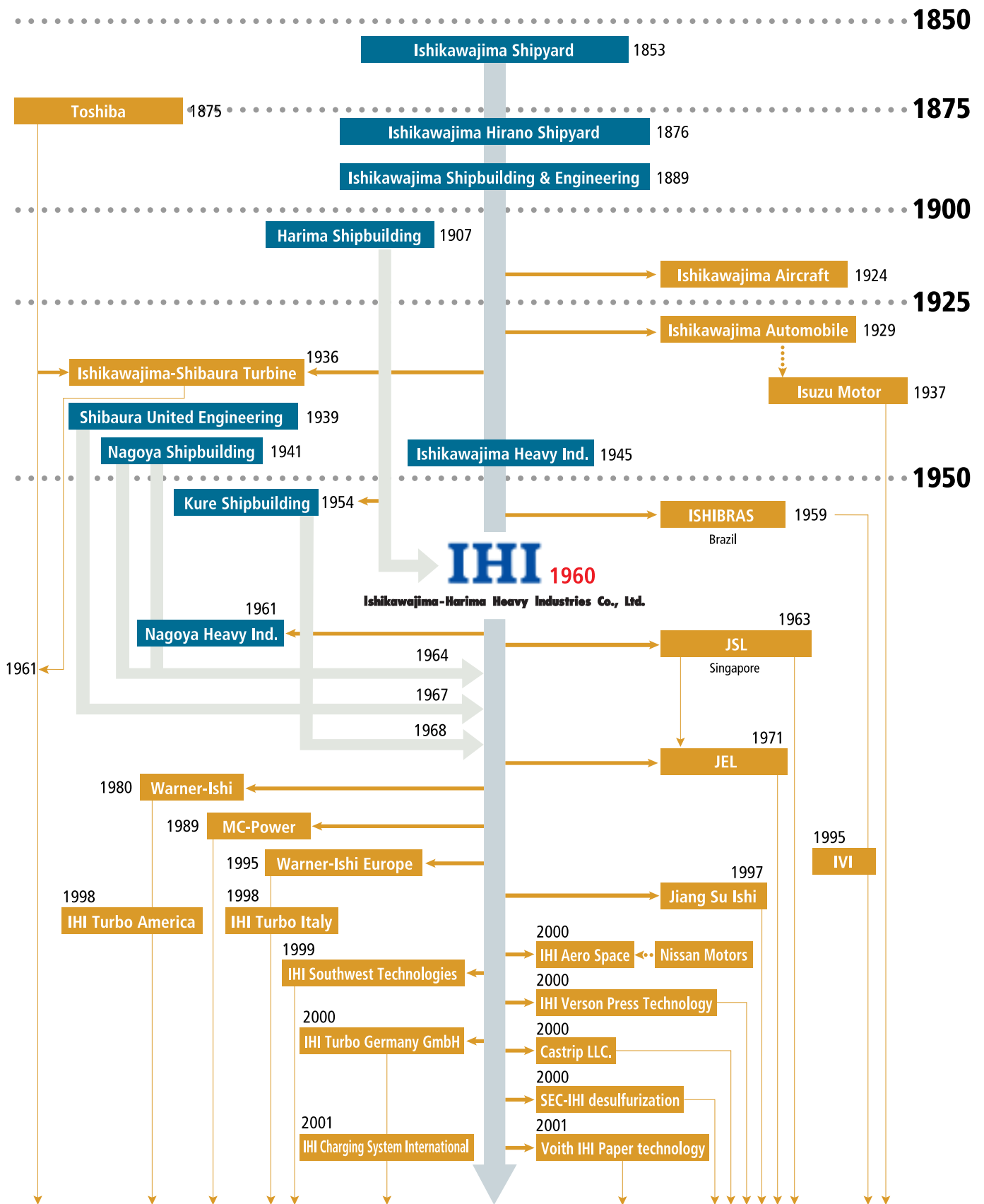
Melting waste incineration ash at temperatures above 1300°C allows for the reduction of volume required for final disposal. Although large quantities of fuel are required to melt waste ash, the ash-melting furnace (using residual carbon combustion) effectively uses the incineration heat of unburned particles contained in incineration ash as a heat source for melting. As a result, compared with other methods, the ash-melting furnace features a compact size and low fuel expenditures, and offers the possibility of expansion onto existing incineration facilities.

In fiscal 2000, the technical development division and environment and plant operations jointly developed a test furnace with an ash processing capacity of 12 tons per day, shared responsibility in developing technology to bolster the competitiveness of the furnace and undertook empirical testing. As a result, the cost advantages of melt processing have been improved by achieving efficient heating using the swirling flow of combustion gas. In addition, coarse ash is completely melted in a slag pool, thus producing high-quality slag.

Furthermore, substantial improvements in heat transfer and fluid flow simulation technology for combustion and melting has significantly contributed to the design of a furnace for Camtechs Co., Ltd.



History of IHI

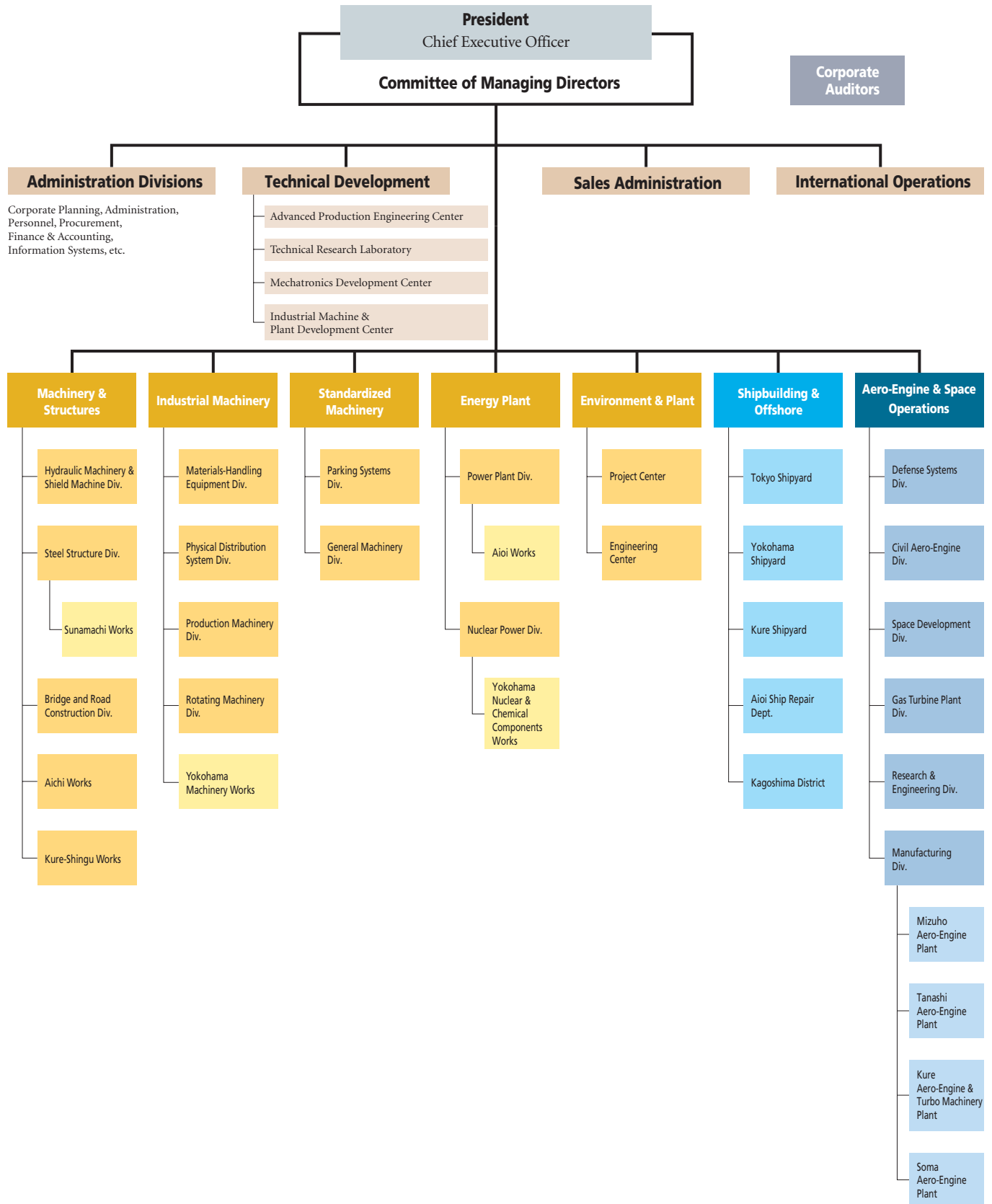


Timeline of IHI

1853)	1853 Established Ishikawajima Shipyard 76 Established Ishikawajima Hirano Shipyard 89 Founded Ishikawajima Shipyard, Ltd. 93 Changed Company name to The Ishikawajima Shipbuilding & Engineering Co., Ltd., Tokyo (Ishikawajima S&E)
1900s)	1907 Established Harima Shipbuilding & Engineering Co., Ltd. (Harima S&E); later merged with the Company 11 Completed business agreement with Shibaura Works (now Toshiba Corp.) 24 Established Ishikawajima Aircraft Manufacturing Co., Ltd. (which later became New Tachikawa Aircraft Co., Ltd.) 29 Established Ishikawajima Automobile Co. (later Isuzu Motors Ltd.) by spinning off the automobile manufacturing section 36 Established Ishikawajima-Shibaura Turbine Co., Ltd. (IST) as a joint venture with Toshiba in the production of land-based steam turbines 39 Founded Shibaura United Engineering Co., Ltd. (SUECO), to produce rolling mills, through a joint venture with Toshiba and United Engineering & Foundry in the United States 41 Established Nagoya Shipbuilding Co., Ltd. (Nagoya Shipbuilding) 45 Changed Company name to Ishikawajima Heavy Industries Co., Ltd. (Ishikawajima Heavy Ind.)
1950s	1950 Inaugurated Toshio Doko as Company president 54 Founded Kure Shipbuilding & Engineering Co., Ltd. (Kure S&E); later merged with the Company 59 Established ISHIBRAS in a joint venture in Brazil
1960s	1960 Merged Ishikawajima Heavy Ind. and Harima S&E; inaugurated Ishikawajima-Harima Heavy Industries Co., Ltd. (IHI) 63 Established Jurong Shipyard Ltd. (JSL) in a joint venture with the government of Singapore 64 Founded Heavy Machinery Works in Yokohama 64 Merged Nagoya Heavy Ind. and Nagoya Shipbuilding 64 Established Yokohama Shipyard for large-scale shipbuilding 67 Merged with SUECO 68 Merged with Kure S&E 68 Established Yokohama Nuclear & Chemical Components Works
1970s	1971 Established Jurong Engineering Private Ltd. (JEL) in Singapore in a joint venture with JSL 71 Founded IHI Engineering Australia Pty. Ltd. (IEA) 72 Established Ishikawajima Europe BV (IE) in the United Kingdom 73 Founded Chita Shipyard (now Aichi Works) 74 Established IHI Marine BV (IMBV) in the Netherlands 75 Established Felguera-IHI SA (FI) in Spain 77 Established IHI Marine Engineering Singapore Private Ltd. 77 Established IHI Inc. in the United States
1980s	1980 Established Warner-Ishi Corp. (WI) in a joint venture with Borg-Warner Automotive Inc. in the United States 82 Established IHI (HK) Limited (IHL) in Hong Kong 88 Established Diesel United, Ltd. in a joint venture with Sumitomo Heavy Industries Ltd. (SHI) 89 Participated in the capitalization of M-C Power Corp. (MCP) in the United States
1990s	1992 Established IHI Europe Ltd. (IEL) in the United Kingdom 95 Established IHI Technical Consulting Co., Ltd. (ITECH) in Taiwan 95 Founded Marine United Inc. (MU), which performs engineering for ships and naval vessels with SHI 95 Inaugurated Industrias Verolme-Ishibras S.A. (IVI) in a joint venture between ISHIBRAS and Emaq-Verolme Estaleiros 95 Founded Warner-Ishi Europe S.p.A. (WIE) in Italy 96 Founded Environment & Plant operations 96 Established IHI Philippines Inc. (IPI) in the Philippines 97 Established Jiang Su Ishi Turbo Company Ltd. (JIT) in China 98 Established the Environmental Technical Center 98 Established a jet engine and gas turbine component factory in Soma 99 Founded Standardized Machinery operations 99 Established IHI Southwest Technologies, Inc. in the United States to undertake nondestructive inspections 99 Established two subsidiaries to engage in industrial waste processing business
2000s	2000 Established joint venture with The Broken Hill Proprietary Company Limited (BHP) of Australia and Nucor Corporation of the United States to license strip-casting technology 00 Purchased Nissan Motor's Aerospace and Defense Divisions and established IHI Aero Space Co., Ltd. 00 Integrated three construction companies into Ishikawajima Plant Construction Co., Ltd. 00 Established IHI Verson Press Technology LLC, in U.S. 00 Established IHI Turbo Germany GmbH., in Germany 00 Established SEC-IHI De-sulfurization Process Co., Ltd in China 01 Established joint venture Voith IHI Paper Technology Co., Ltd. in Japan 01 Established joint venture IHI Charging Systems International GmbH in Germany

Organization

(As of July 1, 2001)



Product Lineup

Industrial Machinery and Steel Structure Operations Energy, Environment and Plant Operations Standard Machinery and Other Operations



Boilers for power plants



LNG storage tanks



Urban waste incinerators



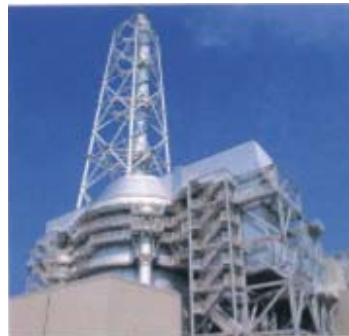
Container cranes



Reactor pressure vessels



LPG plants



Air pollution prevention systems



Continuous unloaders



Gas turbine cogeneration systems



Cement plants



Sewage treatment systems



Automated warehousing systems

Power Plants

- Boilers for power plants
- Industrial boilers
- Fluidized-bed combustion boilers
- Waste-heat recovery boilers
- Components for nuclear power plants
- Radioactive waste management systems
- Gas turbine power generation systems
- Diesel power generation systems
- Cogeneration systems
- Wind power generation systems
- Fuel cells
- Micro gas turbines

Storage Facilities

- LNG and LPG storage tanks
- Low-temperature storage tanks
- Spherical tanks
- Floating roof tanks

Process Plants

- Oil and gas processing plants
- Chemical plants
- Pharmaceutical plants
- Cement plants
- Equipment for chemical plants
- Cooling towers
- Vertical pulverizing mills

Environmental Control and Disaster Prevention

- Solid waste treatment systems
- Air pollution prevention systems
- Sewage treatment systems
- Noise reduction systems
- Pollution prevention ships
- Mass damper systems
- Seismic isolation floors

Material-Handling Equipment

- Container cranes
- Unloaders
- Stackers
- Reclaimers
- Ship loaders
- Bulk material-handling systems
- Overhead traveling cranes

Physical Distribution Systems

- Automated warehousing systems
- Conveyor transfer systems
- Sorting systems
- Picking systems
- Automated guided vehicles

Bridges and Steel Structures

- Bridges
- Gates and penstock
- Hangar dock systems
- Boarding bridges
- Floating breakwaters
- Steel structures for buildings
- Stone for buildings

Construction Machinery

- Shield tunneling machines
- Segment assembly robots
- Jib climbing cranes
- Batcher plants
- Hydraulic power shovels
- Mobile concrete pumps
- Truck and crawler cranes



Bridges



Jib climbing cranes



Transfer feed presses



TFT array checkers



Gates



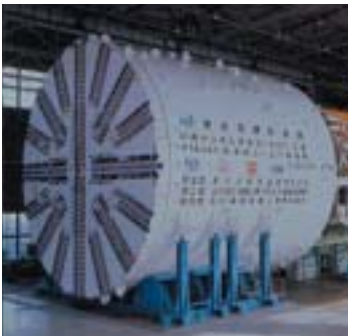
Hot strip mills



Automotive turbochargers



Parking systems



Shield tunneling machines



Paper-making machines



Turbo compressors



Real estate

Industrial Machinery

Iron and steelmaking plants
 Electric arc furnaces
 Pulp- and paper-making machines
 Transfer feed presses
 Hot presses
 Rubber and plastic calender machines
 Vacuum heat treatment furnaces
 High-pressure food processing equipment
 Thin-film forming equipment
 Pumps
 Compressors
 Blowers
 Industrial robots
 Semiconductor photomask, LCD processing & inspection equipment

Mass-Produced Machinery

Turbochargers
 Separators
 Filters
 Packaged compressors
 Refrigerators
 Tunnel ventilation fans
 Stepping motors
 Stepping cylinders
 Rotary encoders
 Ozonizers

Facilities & Products for Civic Use

Air conditioning and heating equipment
 Agricultural machinery
 Packaged boilers
 Hoists
 Parking systems
 Moving walkways and footbridges
 Movable stadium seats and retractable domes
 Ozone-based deodorizing and disinfecting equipment
 Dish and utensil washers
 Wave pools and flow-generating equipment
 Fire fighting pumps and emergency water-purifying equipment

Mechatronics Products and R&D Facilities

Robots
 Simulators
 Control systems
 Failure diagnosis and preventative maintenance systems
 Optical and beam technology equipment
 R&D and experiment facilities

Business Development

Real estate
 Marinas
 Biotechnology
 Management of leisure and sports facilities
 Systems engineering

Aero-Engine and Space Operations

Shipbuilding and Offshore Operations



Production of jet engines



Materials testing systems for space environments



Very large crude oil carriers



Passenger ships



Maintenance of jet engines



Exposed facilities for JEM



SPB-type LNG carriers



Destroyers



Parts for jet engines



Liquid hydrogen turbopumps



Container ships



Diesel engines

Jet Engines

- Turbofan engines
- Turboprop engines
- Turboshaft engines
- Turbojet engines
- Jet engine parts
- Precision casting products
- Maintenance of jet engines
- Jet engine test cells

Space Development

- Rocket propulsion systems
- Rocket control systems
- Satellite propulsion systems
- Satellite control systems
- Equipment for utilization of space environments
- Space station-related equipment
- Ground test facilities
- Ground support facilities

Shipbuilding and Offshore Development

- Ships
- Floating cranes
- Dredgers
- On-board machinery and equipment
- Offshore development systems and equipment
- Ship electronic control systems



Soma Aero-Engine Plant

Site area: 226,185 m²
 Products & services: Parts of jet engines and gas turbines
 Certificate: ISO 9001 and Air Agency Certificate (Repair Station) (FAA)
 Location: 2-1, Onodai 1-chome, Soma-shi, Fukushima 976-0001, Japan
 Tel. +81-244-37-3712



Tanashi Aero-Engine Plant

Site area: 93,402 m²
 Products & services: Parts of jet engines, gas turbines and space development equipment
 Certificates: ISO 9001 and ISO 14001
 Location: 5-1, Mukodai-cho 3-chome, Tanashi-shi, Tokyo 188-8555, Japan
 Tel. +81-424-60-1111



Mizuho Aero-Engine Plant

Site area: 155,030 m²
 Products & services: Assembly and overhauling of jet engines, gas turbines and space development equipment
 Certificates: ISO 9001, ISO 14001, Air Agency Certificate (Repair Station) (FAA) (JAA) and Air Agency Certificate (Production) (FAA)
 Location: 229, Tonogaya, Mizuho-cho, Nishi-Tamagun, Tokyo 190-1297, Japan
 Tel. +81-425-68-7000



Tokyo Shipyard

Site area: 169,130 m²
 Products & services: Naval vessels, cruise ships and special cargo vessels
 Certificate: ISO 9001
 Location: 1-1, Toyosu 2-chome, Koto-ku, Tokyo 135-8731, Japan
 Tel. +81-3-3534-2607



Sunamachi Works

Site area: 63,774 m²
 Products & services: Bridges, gates, steel structures, offshore structures and airport facilities
 Certificate: ISO 9001
 Location: 3-43, Shinsuna 2-chome, Koto-ku, Tokyo 136-0075, Japan
 Tel. +81-3-3648-1511



Yokohama Nuclear & Chemical Components Works

Site area: 173,664 m²
 Products & services: Reactor pressure vessels, containment vessels and heat exchangers for nuclear power plants
 Certificates: N, NPT, NA, U, U2, S (ASME) ISO 9001, ISO 14001
 Location: 1, Shin-Nakahara-cho, Isogo-ku, Yokohama-shi, Kanagawa 235-8501, Japan
 Tel. +81-45-759-2704

Yokohama Machinery Works

Site area: 111,198 m²
 Products & services: Rolling mills, presses, pulp, paper and plastic machinery and rotating machinery
 Certificates: ISO 9001, ISO 14001
 Location: 1, Shin-Nakahara-cho, Isogo-ku, Yokohama-shi, Kanagawa 235-8501, Japan
 Tel. +81-45-759-2410



Yokohama Shipyard

Site area: 320,000 m²
 Products & services: Naval Vessele, cruise ships, special cargo vessele and repairing
 Certificate: ISO9001
 Location: 1, Shin-Nakahara-cho, Isogo-ku, Yokohama-shi, Kanagawa 235-8501, Japan
 Tel. +81-45-759-2643



Aichi Works

Site area: 733,767 m²
 Products & services: Deck machinery, steel structures and shield tunneling machines
 Certificates: ISO 9001, ISO 14001 and DECK CRANES MANUFACTURERS (NK)
 Location: 11-1, Kitahama-cho, Chita-shi, Aichi 478-8650, Japan
 Tel. +81-562-31-8000



Aioi Works

Site area: 134,139 m²
 Products & services: Boilers, pressure vessels for chemical plants and prefabricated piping systems
 Certificates: ISO 9001, ISO 14001 and S, U, U2 (ASME)
 Location: 5292, Aioi, Aioi-shi, Hyogo 678-0041, Japan
 Tel. +81-791-24-2206

Aioi Ship Repair Shop

Site area: 285,600 m²
 Products & services: Ship conversion and repairing
 Certificate: ISO 9001
 Location: 5292, Aioi, Aioi-shi, Hyogo 678-0041, Japan
 Tel. +81-791-24-2402

Aioi Casting Workshop

Site area: 22,916 m²
 Products & services: Casting products for machinery
 Certificates: Casting products manufacturer (LRS, NK, DNV, CR, GL)
 Location: 5292, Aioi, Aioi-shi, Hyogo 678-0041, Japan
 Tel. +81-791-24-2701



Kure Shipyard

Site area: 370,746 m²
 Products & services: Ship building, conversion and repairing
 Certificates: ISO 9001, CERTIFICATE OF APPROVAL OF MANUFACTURERS (NK) and ISO 14001
 Location: 2-1, Showa-cho, Kure-shi, Hiroshima 737-0027, Japan
 Tel. +81-823-26-2105

Kure Aero-Engine & Turbo Machinery Plant

Site area: 36,427 m²
 Products & services: Parts of gas turbine power plants, jet engines and gas turbines
 Certificates: ISO 9001, ISO 14001 and Air Agency Certificate (Repair Station) (FAA)
 Location: 2-1, Showa-cho, Kure-shi, Hiroshima 737-0027, Japan
 Tel. +81-823-26-2105



Kure-Shingu Works

Site area: 115,894 m²
 Products & services: Bridges, gates, steel structures and equipment for chemical plants
 Certificates: ISO 9002 and ISO 14001
 Location: 5-17, Hikari-machi, Kure-shi, Hiroshima 737-0831, Japan
 Tel. +81-823-26-1228



Kagoshima District

Site area: 203,500 m²
 Products & services: Steel structures, bridges, material-handling equipment and industrial machinery
 Location: 2-1, Nanatsu-shima, Kagoshima-shi, Kagoshima 891-0132, Japan
 Tel. +81-99-284-6111

Board of Directors

(As of June 28, 2001)

President and Chief Executive Officer

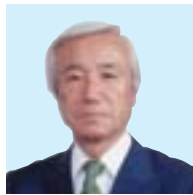


Mototsugu Ito

Executive Vice Presidents



Eiji Inoue



Eiichiro Iwamoto



Tadaaki Yamazaki

Managing Directors



Katsuji Minato



Koichi Kyo



Nobuhiro Shimizu



Koki Kinoshita



Kazuo Kanaya



Naoteru Tsuda



Reiji Ishimoto



Jyunichi Hamanaka

Director and Senior Counselor



Kosaku Inaba

Directors

Hiroshi Katayama
Teiichi Tamaki
Fumio Sato

Sachio Fujimoto
Takayasu Kato

Yoshikazu Kobayashi
Hiroyoshi Hiraga

Susumu Nagano
Yukiya Nakagawa

Isao Nakao
Hiromasa Omura

Yasuo Shinohara
Seiji Hatae

Corporate Auditors

Koichi Ichida

Hideaki Kobayashi

Koichiro Ejiri

Sugiichiro Watari

Contents

30	Financial Review
32	Consolidated Balance Sheets
34	Consolidated Statements of Operations
35	Consolidated Statements of Shareholders' Equity
36	Consolidated Statements of Cash Flows
38	Notes to the Consolidated Financial Statements
51	Report of Certified Public Accountants

Financial Review

Operating Results

During the fiscal year under review, consolidated net sales for IHI rose 12.0% to ¥1,114.8 billion. The Company posted growth in sales in each business segment except shipbuilding and offshore operations. Domestic sales advanced 15.4% to ¥891.2 billion, accounting for 79.9% of consolidated net sales, compared with 77.6% last term.

Cost of sales as a percentage of net sales was 85.3%, compared with 88.2% a year earlier, leading to a 39.8% increase in gross profit to ¥163.5 billion. Selling, general and administrative expenses rose 0.6% to ¥123.6 billion, which was 11.1% of net sales, compared with 12.3% in the previous term. As a result of the above factors, operating income of ¥39.9 billion was recorded, compared with an operating loss of ¥5.8 billion a year earlier.

Results by segment were as follows. Sales of industrial machinery and steel structure operations were ¥230.9 billion, accounting for 20.7% of net sales. This segment recorded an operating loss of ¥0.8 billion. Sales of energy, environment and plant operations totaled ¥307.6 billion, or 27.6% of net sales. Operating income for the segment was ¥21.3 billion. For standard machinery and other operations, sales amounted to ¥229.6 billion, comprising 20.6% of net sales. Operating income for the segment was ¥7.4 billion. Aero-engine and space operations posted sales of ¥234.0 billion, representing 21.0% of net sales. Operating income for the segment was ¥8.0 billion. Sales

of shipbuilding and offshore operations were ¥112.7 billion, or 10.1% of net sales. Operating income amounted to ¥4.4 billion.

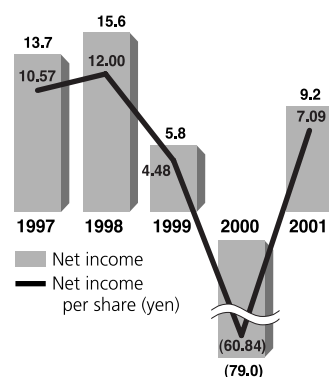
During the fiscal year under review, IHI signed an agreement for the transfer of Nissan Motor Co., Ltd.'s Aerospace Division to a wholly owned subsidiary of IHI. As part of IHI's management policy to select and concentrate businesses, the agreement provides IHI with Nissan's aerospace business, a field of potential growth. With very little overlap, management believes that the transferred operations, valued at ¥30.6 billion, are highly complementary to IHI's current operations.

Interest expense in excess of interest and dividend income was ¥3.5 billion, compared with ¥1.8 billion during the previous fiscal year. Other, net expenses dropped to ¥18.3 billion, compared with ¥120.0 billion in the previous term, owing to the absence of provision for employees' retirement allowances posted in accordance with the adoption of new accounting standards in the previous term. As a result, income before income taxes and minority interests amounted to ¥18.1 billion, compared with loss before income taxes and minority interests of ¥127.6 billion during the previous fiscal year.

Current income taxes increased 184.8% to ¥11.3 billion, while deferred income taxes of ¥2.5 billion were recorded. Net income of ¥9.2 billion was posted, compared with a net loss of ¥79.0 billion last year. Net income

[Net Income and Net Income per Share]

(billions of yen/yen)



per share was ¥7.09, compared with net loss per share of ¥60.84 a year earlier. Management decided to resume cash dividends of ¥3.00 per share.

Cash Flows

Net cash provided by operating activities was ¥22.6 billion. Primary sources of cash included net income before income taxes of ¥18.1 billion, depreciation and amortization of ¥38.9 billion and decrease in inventories of ¥53.6 billion.

Net cash used in investing activities amounted to ¥60.6 billion. The largest use of cash was purchases of property, plant and equipment and intangible fixed assets of ¥36.8 billion, and outlay from transfer of aerospace division from Nissan Motor Co., Ltd of ¥30.6 billion.

Net cash provided by financing activities totaled ¥40.3 billion. The largest source of cash was proceeds from issuance of long-term debt of ¥71.2 billion and proceeds from issuance of debentures of ¥20.0 billion.

As a result of these activities, cash and cash equivalents, end of year totaled ¥122.4 billion.

Financial Position

IHI maintains a sound financial position. The Company's strategy is to cover investments with funds from operating activities, supported by external financing as needed.

During the fiscal year under review, IHI made capital

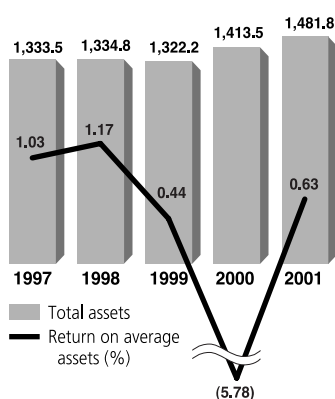
expenditures of ¥39.4 billion, and depreciation expense was ¥38.9 billion. Interest-bearing debt (defined as short-term loans and current portion of long-term loans and debentures, and long-term loans and debentures) rose 11.4% to ¥454.9 billion.

Cash and time deposits fell 35.1% to ¥65.2 billion and marketable securities declined 35.8% to ¥51.9 billion. Deferred income taxes in current assets totaled ¥22.4 billion, an increase of 11.0% from the previous fiscal year. These negative factors were partially offset by an increase of 17.5% in trade receivables to ¥355.2 billion. Total current assets were down 4.2% to ¥943.9 billion. Net property, plant and equipment grew 7.3% to ¥295.8 billion. Total investments soared 66.3% to ¥226.9 billion, owing to an increase in investment securities. Total assets grew 4.8% to ¥1,481.8 billion.

Total current liabilities were ¥825.1 billion, a decline of 2.7% owing to lower levels of advances from customers. Total long-term liabilities rose 13.7% to ¥439.2 billion, owing primarily to an increase in long-term loans and debentures. Total shareholders' equity was ¥201.3 billion, an increase of 23.7%.

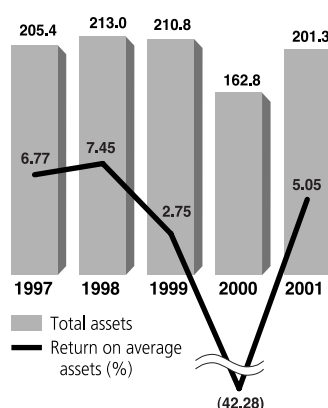
[Total Assets and Return on Average Assets]

(billions of yen/%)



[Total Shareholders' Equity and Return on Average Equity]

(billions of yen/%)



Consolidated Balance Sheets

March 31, 2001 and 2000
Ishikawajima-Harima Heavy Industries Co., Ltd., and Consolidated Subsidiaries

	March 31		
	2001	2000	2001
	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS			
Current assets:			
Cash and time deposits (Note 7)	¥ 65,215	¥ 100,507	\$ 526,352
Marketable securities (Notes 3 and 7)	51,913	80,833	418,991
Trade receivables (Note 7)	355,189	302,194	2,866,739
Less allowance for doubtful receivables	(1,734)	(3,799)	(13,995)
Inventories (Notes 4 and 7)	403,921	430,587	3,260,056
Deferred income taxes (Note 9)	22,442	20,209	181,130
Other current assets	46,906	54,775	378,579
Total current assets	943,852	985,306	7,617,852
Property, plant and equipment (Notes 6 and 7):			
Buildings and structures	278,981	270,607	2,078,725
Machinery and equipment	398,576	372,594	3,389,855
Land (Note 13)	83,987	75,235	677,861
Construction in progress	6,026	2,768	48,636
Less accumulated depreciation	(471,795)	(445,466)	(3,807,869)
Net property, plant and equipment	295,775	275,738	2,387,208
Intangible assets	15,283	15,138	123,349
Investments:			
Investment securities (Notes 4 and 7)	146,310	30,725	1,180,872
Deferred income taxes (Note 9)	34,701	59,402	280,073
Other	60,281	59,720	486,529
Less allowance for doubtful receivables	(14,361)	(13,368)	(115,908)
Less allowance for valuation of investment securities	—	(50)	—
Total investments	226,931	136,429	1,831,566
Other:			
Foreign exchange translation adjustments	—	842	—
Total other	—	842	—
Total assets	¥1,481,841	¥1,413,453	\$11,959,975

The accompanying notes to the consolidated financial statements are an integral part of these statements.

	March 31		
	2001	2000	2001
	Millions of yen		Thousands of U.S. dollars (Note 1)
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Trade payables	¥ 308,471	¥ 291,626	\$ 2,489,677
Short-term loans (Notes 6 and 7)	177,519	180,364	1,432,760
Current portion of long-term loans and debentures (Note 6)	42,309	43,447	341,477
Advances from customers	197,681	253,660	1,595,488
Accrued income taxes	10,060	3,872	81,195
Accrued expenses (Note 8)	54,414	45,724	439,177
Reserve for loss on sales contracts	1,926	9,949	15,545
Other current liabilities	32,723	19,755	264,108
Total current liabilities	825,103	848,397	6,659,427
Long-term liabilities:			
Long-term loans and debentures (Notes 6 and 7)	235,081	184,719	1,897,345
Allowance for employees' retirement benefits (Note 16)	172,053	177,001	1,388,644
Deferred tax liabilities from revaluation of land (Note 13)	4,189	3,548	33,810
Other long-term liabilities	27,856	20,953	224,826
Total long-term liabilities	439,179	386,221	3,544,625
Contingent liabilities (Note 11)			
Minority interests in consolidated subsidiaries	16,210	16,039	130,831
Shareholders' equity:			
Common stock, par value ¥50 per share:			
Authorized: 3,300,000,000 shares			
Issued: 1,298,495,152 shares	64,925	64,925	524,011
Capital surplus	15,756	14,861	127,167
Retained earnings	88,073	83,010	710,839
Unrealized holding gain on other securities	34,509	—	278,523
Foreign exchange translation adjustments	(1,914)	—	(15,448)
Less treasury stock, at cost	(0)	(0)	(0)
Total shareholders' equity	201,349	162,796	1,625,092
Total liabilities and shareholders' equity	¥1,481,841	¥1,413,453	\$11,959,975

Consolidated Statements of Operations

Years ended March 31, 2001 and 2000
Ishikawajima-Harima Heavy Industries Co., Ltd., and Consolidated Subsidiaries

	Years ended March 31		
	2001	2000	2001
	Millions of yen		Thousands of U.S. dollars (Note 1)
Net sales	¥1,114,817	¥ 995,063	\$8,997,716
Cost of sales	951,290	878,067	7,677,885
Gross profit	163,527	116,996	1,319,831
Selling, general and administrative expenses	123,580	122,821	997,417
Operating income (loss)	39,947	(5,825)	322,414
Other income (expense):			
Interest and dividend income	3,124	3,603	25,214
Interest expense	(6,584)	(5,396)	(53,140)
Other, net (Note 12)	(18,339)	(120,012)	(148,015)
Income (loss) before income taxes and minority interests	18,148	(127,630)	146,473
Income taxes:			
Current	(11,316)	(3,974)	(91,332)
Deferred	2,451	51,502	19,782
Income (loss) before minority interests	9,283	(80,102)	74,923
Minority interests in consolidated subsidiaries	(78)	1,104	(630)
Net income (loss)	¥ 9,205	¥ (78,998)	\$ 74,293
	2001	2000	2001
	Yen		U.S. dollars (Note 1)
Amounts per share:			
Net income (loss)	¥ 7.09	¥ (60.84)	\$ 0.057
Cash dividends	3.00	—	0.024

The accompanying notes to the consolidated financial statements are an integral part of these statements.

Consolidated Statements of Shareholders' Equity

Years ended March 31, 2001 and 2000
Ishikawajima-Harima Heavy Industries Co., Ltd., and Consolidated Subsidiaries

	(Thousands)		(Millions of yen)			
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Unrealized holding gain on other securities	Foreign exchange translation adjustments
Balance at March 31, 1999	1,298,495	¥64,925	¥10,359	¥135,517	¥ —	¥ —
Net loss for the year	—	—	—	(78,998)	—	—
Prior period adjustments for tax-effect accounting	—	—	—	26,635	—	—
Capitalization of revaluation excess	—	—	4,502	—	—	—
Bonuses to directors and corporate auditors	—	—	—	(144)	—	—
Balance at March 31, 2000	1,298,495	64,925	14,861	83,010	—	—
Net income for the year	—	—	—	9,205	—	—
Capitalization of revaluation excess	—	—	895	—	—	—
Increase resulting from inclusion of subsidiaries in consolidation	—	—	—	679	—	—
Decrease resulting from inclusion of affiliates accounted for by the equity method	—	—	—	(634)	—	—
Decrease resulting from exclusion of subsidiary accounted for by the equity method	—	—	—	(80)	—	—
Increase resulting from inclusion of subsidiaries in consolidation	—	—	—	—	—	—
Cash dividends	—	—	—	(3,895)	—	—
Change for the year	—	—	—	—	34,509	(1,914)
Bonuses to directors and corporate auditors	—	—	—	(212)	—	—
Balance at March 31, 2001	1,298,495	¥64,925	¥15,756	¥ 88,073	¥34,509	¥(1,914)

(Thousands of U.S. dollars) (Note 1)

Balance at March 31, 2000	\$524,011	\$119,943	\$669,976	\$ —	\$ —
Net income for the year	—	—	74,293	—	—
Capitalization of revaluation excess	—	7,224	—	—	—
Increase resulting from inclusion of subsidiaries in consolidation	—	—	5,480	—	—
Decrease resulting from inclusion of affiliates accounted for by the equity method	—	—	(5,117)	—	—
Decrease resulting from removal of subsidiary accounted for by the equity method	—	—	—	—	—
Increase resulting from inclusion of subsidiaries in consolidation	—	—	(646)	—	—
Cash dividends	—	—	(31,436)	—	—
Change for the year	—	—	—	278,523	15,448
Bonuses to directors and corporate auditors	—	—	(1,711)	—	—
Balance at March 31, 2001	\$524,011	\$127,167	\$710,839	\$278,523	\$(15,448)

The accompanying notes to the consolidated financial statements are an integral part of these statements.

Consolidated Statements of Cash Flows

Years ended March 31, 2001 and 2000
Ishikawajima-Harima Heavy Industries Co., Ltd., and Consolidated Subsidiaries

	Years ended March 31		
	2001	2000	2001
	Millions of yen		Thousands of U.S. dollars (Note 1)
Operating Activities:			
Net income (loss) before income taxes	¥18,148	¥(127,630)	\$146,473
Depreciation and amortization	38,914	35,505	314,076
Amortization of long-term prepaid expenses	3,563	3,155	28,757
Increase (decrease) in allowance for bad debts	(1,080)	519	(8,717)
Increase (decrease) in allowance for employees' bonuses	932	(3,655)	7,522
Increase (decrease) in reserve for guaranteed contracts	1,854	431	14,964
Increase (decrease) in accrued losses on sales contracts	(8,023)	9,949	(64,754)
Increase (decrease) in accrued employees' retirement allowances	(6,247)	102,045	(50,420)
Interest and dividends income	(3,124)	(3,603)	(25,214)
Interest expense	6,584	5,396	53,140
Loss (gain) on foreign exchange	125	(499)	1,009
Loss on disposal of property, plant and equipment	1,565	2,010	12,631
Gain on sale of marketable and investment securities	(2,186)	(12,219)	(17,643)
Loss on valuation of marketable and investment securities and golf club memberships	4,018	2,337	32,429
Equity in losses (earnings) of unconsolidated subsidiaries and affiliates	26	(586)	210
Changes in operating assets and liabilities			
Notes and accounts receivable	(49,897)	(2,810)	(402,720)
Advances received	(59,904)	(35,725)	(483,487)
Inventories	53,606	51,064	432,655
Advance payments	12,926	2,448	104,326
Notes and accounts payable	9,282	5,995	74,915
Other current assets	(1,455)	1,222	(11,743)
Other current liabilities	8,415	1,339	67,918
Accrued consumption taxes	2,516	2,024	20,307
Directors' and corporate auditors' bonuses	(156)	(195)	(1,259)
Others	(26)	(3,252)	(210)
Subtotal	30,376	35,265	245,165
Interest and dividends received	3,737	3,461	30,161
Interest paid	(6,341)	(5,334)	(51,178)
Income taxes paid	(5,161)	(5,855)	(41,655)
Net cash provided by (used in) operating activities	22,611	27,537	182,493
Investing Activities:			
Net decrease (increase) in time deposits due more than three months	(34)	(199)	(274)
Purchases of marketable and investment securities	(3,867)	(17,358)	(31,211)
Proceeds from sale of marketable and investment securities	4,492	18,936	36,255
Outlay from transfer of aerospace division from Nissan Motor Co., Ltd.	(30,592)	—	(246,909)
Proceeds from consolidation of new subsidiary due to acquisition	—	948	—
Purchases of property, plant and equipment and intangible fixed assets	(36,787)	(37,074)	(296,909)
Proceeds from sale of property, plant and equipment	2,274	2,297	18,354
Net decrease (increase) in short-term loans	(239)	601	(1,929)
Increase in long-term loans	(2,234)	(209)	(18,031)
Decrease in long-term loans	1,788	804	14,431
Decrease (increase) in other non-current assets	813	(437)	6,562
Increase (decrease) in other fixed liabilities	3,773	1,202	30,452
Net cash provided by (used in) investing activities	(60,613)	(30,489)	(489,209)
Financing Activities:			
Net increase (decrease) in short-term debt	(4,047)	12,523	(32,663)
Proceeds from issuance of long-term debt	71,170	23,510	574,415
Repayment of long-term debt	(46,507)	(21,135)	(375,359)
Proceeds from issuance of debentures	20,000	30,000	161,421
Dividends paid	—	(3,895)	—
Dividends paid to minority interests	(335)	(334)	(2,704)
Net cash provided by (used in) financing activities	40,281	40,669	325,110

Years ended March 31

	2001	2000	2001
	Millions of yen		Thousands of U.S. dollars (Note 1)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	¥ 126	¥ 356	\$ 1,017
Net Increase (Decrease) in Cash and Cash Equivalents	2,405	38,073	19,411
Cash and Cash Equivalents, Beginning of Year	119,092	80,597	961,195
Increase in Cash and Cash Equivalents from Consolidation of Non-consolidated Subsidiaries	894	422	7,215
Cash and Cash Equivalents, End of Year	¥122,391	¥119,092	\$987,821

Note: A reconciliation of cash and cash equivalents to the amounts shown in the consolidated balance sheets is as follows:

	March 31	
	2000	1999
	Millions of yen	
Cash and Cash Equivalents, Beginning of Year		
Cash and time deposits	¥100,507	¥ 73,670
Time deposits due more than three months	(875)	(676)
Investment trust including marketable securities	300	5,905
Sales under agreement to repurchase including marketable securities	19,160	1,698
Cash and cash equivalents	¥119,092	¥ 80,597

	March 31		
	2001	2000	2001
	Millions of yen		Thousands of U.S. dollars (Note 1)
Cash and Cash Equivalents, End of Year			
Cash and time deposits	¥ 65,215	¥100,507	\$526,352
Time deposits due more than three months	(909)	(875)	(7,337)
Convertible time deposits included in marketable securities	21,700	—	175,141
Commercial paper including marketable securities	6,066	300	48,959
Investment trust including marketable securities	23,932	19,160	193,156
Sales under agreement to repurchase included in other current assets (short-term loans)	6,387	—	51,550
Cash and cash equivalents	¥122,391	¥119,092	\$987,821

Notes to the Consolidated Financial Statements

Ishikawajima-Harima Heavy Industries Co., Ltd., and Consolidated Subsidiaries

1. Basis of financial statements

The accompanying consolidated financial statements of Ishikawajima-Harima Heavy Industries Co., Ltd. (the "Company") and consolidated subsidiaries (together the "Companies") have been prepared from the financial statements filed with the Prime Minister as required by the Japanese Securities and Exchange Law in accordance with accounting principles and practices generally accepted in Japan, which may differ in some material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan. Certain reclassifications have been made in the accompanying consolidated financial statements to facilitate understanding by readers outside Japan.

The Company has prepared the consolidated statements of shareholders' equity for the purpose of inclusion in this report, although such statements are not customarily

prepared in Japan.

The Companies have adopted new accounting standards for consolidation, research and development costs and tax-effect accounting effective the year ended March 31, 2000, and for employees' retirement benefits, financial instruments and foreign currency transactions effective the year ended March 31, 2001, in the preparation of the consolidated financial statements.

The U.S. dollar amounts are included solely for convenience and are stated, as a matter of arithmetical computation only, at the rate of U.S.\$1=¥123.90, the rate of exchange prevailing on March 31, 2001. These translations should not be construed as representations that the Japanese yen amounts actually represent, or have been or could be converted into U.S. dollars at that or any other rate.

2. Significant accounting policies

(a) Scope of consolidation

The consolidated financial statements for the years ended March 31, 2001 and 2000 include the accounts of the Company and 51 and 45 subsidiaries, respectively.

For the years ended March 31, 2001 and 2000, 55 and 50 subsidiaries, respectively, were excluded from the scope of the consolidation. The exclusion of these subsidiaries has not had a material effect on the consolidated financial statements.

(b) Application of the equity method of accounting

The consolidated financial statements for the year ended March 31, 2001, included 5 affiliates and March 31, 2000, included 4 unconsolidated subsidiaries and 3 affiliates in the scope of the application of the equity method of accounting.

For the years ended March 31, 2001 and 2000, investments in 50 and 46 unconsolidated subsidiaries and 34 and 36 affiliates, respectively, were stated at cost because they did not have a material effect on the consolidated financial statements.

(c) Consolidated subsidiaries having different fiscal year-ends

As Star Farm Machinery Mfg. Co., Ltd. closes its books of account annually on September 30, it prepares its interim financial statements for consolidation as of March 31.

IHI Inc., IHI Turbo America CO. and SOUTH-POINT MARINE S.A. close their books of account annually on December 31, and KAISHO MARINE S.A. closes its books of account annually on January 1, and no particular financial reports are prepared for consolidation to match the parent company's fiscal year. However, certain adjustments are made for important transactions occurring during the three months ended March 31.

(d) Sales recognition

Net sales from contracts are recognized at the time the

contracts are completed, except that net sales for projects with construction lasting more than two years and revenue of more than ¥5 billion are recorded by the percentage-of-completion method.

(e) Allowance for doubtful receivables

The allowance for doubtful receivables is provided based on historical default rates, plus additional estimated amounts to cover specific uncollectible receivables.

(f) Inventories

Finished goods, work in process and contracts in process are stated at identified cost, and raw materials and supplies are stated at the lower of cost or market, cost being determined by the moving-average method.

(g) Securities

Held-to-maturity securities are either amortized or accumulated to face value.

Investment securities in non-consolidated subsidiaries and affiliates are stated at cost as determined by the moving-average method.

Other securities with market prices available are carried at market value as of the balance-sheet data, with the cost of sale computed by the moving-average method. The difference between the acquisition cost and the carrying value of other securities, including unrealized gains and losses, is recognized as a component of the shareholders' equity under "Net unrealized holding gain on the other securities." Other securities without market price available are stated at the cost by the moving-average method.

Effective the year ended March 31, 2001, the Companies adopted a new accounting standard for financial instruments ("Opinion Concerning Establishment of Accounting Standard for Financial Instruments" issued by the Business Accounting Deliberation Council (the "BADC") on January

22, 1999). The effect of this change was to decrease income before income taxes and minority interests by ¥845 million (\$6,820 thousand) compared with the amount which would have been recorded by the method applied in the previous year.

This accounting standard for financial instruments requires the Companies to classify their securities into the following four categories: trading, held-to-maturity, non-consolidated affiliates and other. At the beginning of the year, the Companies reviewed the classification of all their securities. The Companies had no trading securities. Based on this classification, trading, held-to-maturity securities and other with a maturity of less than one year have been included in current assets. All other securities have been included in investment securities as non-current assets. As a result, securities in current assets decreased by ¥60,660 million (\$489,588 thousand) and investment securities increased by ¥60,660 million (\$489,588 thousand) at the beginning of the year.

(h) Property, plant and equipment and intangible assets
Depreciation of plant and equipment is computed by the declining-balance method, except that the straight-line method is adopted for office buildings used as rentals and buildings acquired on or after April 1, 1998, based on the estimated useful lives of the assets as stipulated by the Corporation Income Tax Law and the related regulations of Japan.

Amortization of intangible assets is computed by the straight-line method.

(i) Leases

Non-cancelable lease transactions of the Companies are accounted for by the operating lease accounting method regardless of whether such leases are classified as operating or finance leases, except that lease agreements which stipulate the transfer of ownership of the leased property to the lessee are accounted for as finance leases.

(j) Financial instruments

The Companies do not hold derivative financial instruments for trading purposes. Derivative financial instruments held by the Companies are comprised principally of foreign exchange contracts to hedge currency risk and interest swaps to hedge interest risk.

Japanese GAAP provides for two general accounting methods for hedging financial instruments. One method is to recognize the changes in fair value of a hedging instrument in earnings in the period of the change as a gain or loss together with the offsetting loss or gain on the hedged item attributable to the risk being hedged. The other method is to defer the gain or loss over the period of the hedging contract together with the offsetting loss or gain deferral of the hedged items. The Company and its consolidated subsidiaries have adopted the latter accounting method.

With forward foreign exchange contracts, however, the Company recognizes changes in fair value of a hedging instrument in earnings in the period of the change as a gain or loss together with the offsetting loss or gain on the hedged item attributable to the risk being hedged.

The amounts of interest income or expense under the swap agreements are accrued and recognized as interest related to the assets and liabilities over the contract period.

The Companies have entered into primarily interest-rate swap agreement and forward foreign exchange contracts, in order to hedge interest rate and foreign exchange risks.

The Companies use the above-defined method consistently throughout the hedge period, to assess at inception of the hedge and on an ongoing basis whether the ineffective part of the hedge is expected.

(k) Employees' retirement benefits

Allowance for employees' retirement benefits are provided for based on the projected retirement benefits obligation and the pension fund assets.

The transition differences from the initial adoption of the new accounting standard are amortized over five years in principle.

Actuarial losses (gains) are amortized (accumulated) from the next fiscal year using the straight-line method over a certain number of years within the average remaining work period of employees.

Effective the year ended March 31, 2001, the Companies adopted a new accounting standard for retirement benefits ("Opinion Concerning Establishment of Accounting Standard for Retirement benefits" issued by the BADC on June 1998). The effect of this change was to decrease income before taxes and minority interests by ¥4,952 million (\$39,968 thousand) compared with the amount which would have been recorded by the method applied in the previous year.

(l) Foreign currency translations

The assets, liabilities, income and expenses recognized in intercompany transactions with the Company are translated at the exchange rate used by the Company, and the others are translated at the rate of each balance sheet date.

The difference from the results of this exchange have been included as a component of the shareholders' equity under "Foreign exchange translation adjustment".

Effective the year ended March 31, 2001, the Companies adopted a new accounting standard for foreign exchange translation ("Opinion Concerning Establishment of Accounting Standard for retirement benefits" issued by the BADC on October 1999). The effect of this change was not material.

(m) Accrued losses on sales contracts

Among sales orders on hand at the balance sheet date, for projects in which the estimated cost is expected to exceed the

amount of the sales order by a wide margin, accrued losses on sales contracts are recognized at the estimated aggregate amount of such losses.

(n) Income taxes

Deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax bases of the assets and liabilities, and are measured using the enacted tax rates and laws, announced by the fiscal year-end.

(o) Elimination of intercompany investments and relevant shareholders' equity

At the date of acquisition, the cost of the Companies' investment in a subsidiary is allocated to the subsidiary's individual identifiable assets and liabilities on the basis of their fair value. Any difference between the cost of the Companies' investment and the Companies' share in the amount allocated to individual identifiable assets and liabilities is amortized through the estimated effective period of the investment, with the exception that when the amount of the resulting difference is immaterial, it is changed or credited to income as incurred.

(p) Appropriations of retained earnings

Appropriations of retained earnings with respect to each year ended March 31 are retroactively reflected in the consolidated financial statements for each applicable period on the assumption that the shareholders' approval relating to such appropriations is retroactively effective at each year end.

(q) Cash and cash equivalents

The Company and its subsidiaries substantially consider all highly liquid low risk investments purchased with original maturities of three months or less to be cash equivalents.

(r) Net income (loss) and dividends per share

Net income (loss) per share of common stock is based upon the weighted average number of shares of common stock outstanding during each period. Cash dividends per share shown for each period in the consolidated statements of operations represent the dividends applicable to the respective year.

3. Marketable securities and investment securities

A summary of marketable securities and investment securities at March 31, 2000, was as follows:

	March 31 2000
	(Millions of yen)
Common stock listed on stock exchanges	
Marketable securities:	
Book value	¥ 61,960
Market value	146,678
Investment securities:	
Book value	¥ 2,069
Market value	4,312

A summary of held-to-maturity securities with market prices at March 31, 2001, was as follows:

	March 31					
	2001			2001		
	Amount recorded in the balance sheet	Market prices	Difference	Amount recorded in the balance sheet	Market prices	Difference
	(Millions of yen)			(Thousands of U.S. dollars)		
Held-to-maturity securities whose market prices exceed their amount recorded in the balance sheet:						
Public bonds	¥ —	¥ —	¥—	\$ —	\$ —	\$—
Corporate bonds	—	—	—	—	—	—
Other	2,000	2,010	10	16,142	16,223	81
Total	¥2,000	¥2,010	¥10	\$16,142	\$16,223	\$81

At March 31, 2001, other securities with stated market prices were summarised as follows:

	March 31					
	2001			2001		
	Aquisition cost	Amount recorded in the balance sheet	Difference	Aquisition cost	Amount recorded in the balance sheet	Difference
(Millions of yen)			(Thousands of U.S. dollars)			
Others securities whose market values recorded in the balance sheet exceed their aquisition costs:						
Equity securities	¥52,423	¥113,881	¥61,458	\$423,107	\$919,136	\$496,029
Debt securities	3	4	1	24	32	8
Other	224	225	1	1,808	1,816	8
Subtotal	¥52,650	¥114,110	¥61,460	\$424,939	\$920,984	\$496,045
Other securities whose market values recorded in the balance sheet do not exceed their acquisition costs:						
Equity securities	¥ 9,645	¥ 7,682	¥(1,963)	\$ 77,845	\$ 62,002	\$(15,843)
Debt securities	2	2	0	16	16	0
Other	393	328	(65)	3,172	2,647	(525)
Subtotal	10,040	8,012	(2,028)	81,033	64,665	(16,368)
Total	¥62,690	¥122,122	¥59,432	\$505,972	\$985,649	\$479,677

A summary of other securities which were sold in the year ended March 31, 2001, was as follows:

	March 31, 2001					
	2001			2001		
	Selling prices	Amount of gain on sales	Amount of loss on sales	Selling prices	Amount of gain on sales	Amount of loss on sales
(Millions of yen)			(Thousands of U.S. dollars)			
Other securities	¥995	¥753	¥—	\$8,031	\$6,077	\$—

At March 31, 2001, securities without stated market prices were mainly summarised as follows:

	March 31	
	2001	2001
	Amount recorded in the balance sheet	Amount recorded in the balance sheet
(Millions of yen)		(Thousands of U.S. dollars)
Held-to-maturity securities		
Negotiable certificate of deposit	¥20,700	\$167,070
Commercial paper	3,466	27,974
Other securities		
Bond investment trusts	23,232	187,506
Unlisted equity securities except for those traded on the over-the-counter market	10,101	81,525
Commercial paper	2,600	20,985
Negotiable certificate of deposit	1,000	8,071
Other	¥ 499	\$ 4,027

The contractual maturities of held-to-maturity and other securities as of March 31, 2001, were as follows:

	March 31					
	2001			2001		
	Due within one year	Due after one year through five years	Due after five years	Due within one year	Due after one year through five years	Due after five years
(Millions of yen)			(Thousands of U.S. dollars)			
Debt securities						
Public bonds	¥ —	¥ —	¥ —	\$ —	\$ —	\$ —
Corporate bonds	—	2	4	—	16	32
Commercial paper	6,066	—	—	48,959	—	—
Other	—	—	2,000	—	—	16,142
Other						
Negotiable certificate of deposit	21,700	—	—	175,141	—	—
Other	499	138	100	4,027	1,114	807
Total	¥28,265	¥140	¥2,104	\$228,127	\$1,130	\$16,981

4. Inventories

Inventories at March 31, 2001 and 2000, were summarised as follows:

	March 31		
	2001	2000	2001
	(Millions of yen)		(Thousands of U.S. dollars)
Finished goods	¥ 23,438	¥ 21,833	\$ 189,169
Contracts in process	301,482	347,502	2,433,269
Work in process	23,672	7,708	191,057
Raw materials and supplies	55,329	53,544	446,562
Total	¥403,921	¥430,587	\$3,260,057

5. Depreciation of plant and equipment

Depreciation of most plant and equipment is computed by the declining-balance method; however, the Company and certain consolidated subsidiaries partially adopt the straight-line method.

The estimated useful lives for depreciation of major items of plant and equipment are summarized as follows:

	March 31
	2001
Buildings and structures:	
Metal-frame manufacturing buildings	31–38
Building berths	24
Docks	45
Machinery and equipment	10–12

6. Short-term bank loans and long-term loans and debentures

The weighted interest rates on short-term bank loans were 0.98 per cent at March 31, 2001, and 0.79 per cent at March 31, 2000.

Long-term loans and debentures at March 31, 2001 and 2000, consisted of the following:

	March 31		
	2001	2000	2001
	(Millions of yen)		(Thousands of U.S. dollars)
Banks, insurance companies, bearing interest rates from 0.2 per cent to 7.7 per cent	¥160,232	¥146,100	\$1,293,237
Government-owned banks, bearing interest rates from 2.1 per cent to 5.8 per cent	25,779	10,471	208,063
National and local government agencies, bearing interest rates from 0 per cent to 0.3 per cent	796	889	6,425
Debentures, bearing interest rates from 1.1 per cent to 1.9 per cent	90,000	70,000	726,392
Others, bearing interest rates from 0 per cent to 5.6 per cent	583	706	4,705
Less current portion	(42,309)	(43,447)	(341,477)
Net long-term loans and debentures	¥235,081	¥184,719	\$1,897,345

The aggregate annual maturities of long-term loans and debentures at March 31, 2001, were summarized as follows:

	March 31	
	(Millions of yen)	(Thousands of U.S. dollars)
Year ending March 31,		
2002	¥ 42,309	\$ 341,477
2003	60,901	491,533
2004	66,667	538,071
2005	25,240	203,713
2006 and after	82,273	664,028
Total	¥277,390	\$2,238,822

7. Assets pledged as collateral

The following assets were pledged as collateral at March 31, 2001 and 2000:

	March 31		
	2001	2000	2001
	(Millions of yen)		(Thousands of U.S. dollars)
Cash and time deposits	¥ 71	¥ —	\$ 573
Trade receivables	675	437	5,448
Inventories	3	—	24
Marketable securities	—	362	—
Buildings and structures	1,803	454	14,552
Machinery and equipment	17,345	55	139,992
Land	9,016	1,174	72,768
Investment securities	788	—	6,360
Property, plant and equipment pledged as industrial factory foundation	16,376	16,197	132,171
Total	¥46,077	¥18,679	\$371,888

The obligations collateralized by the above assets at March 31, 2001 and 2000, were as follows:

	March 31		
	2001	2000	2001
	(Millions of yen)		(Thousands of U.S. dollars)
Short-term bank loans	¥11,948	¥ 8,479	\$ 96,433
Long-term debt	34,428	4,734	277,869
	¥46,376	¥13,213	\$374,302

8. Accrued expenses

Included in accrued expenses were allowances for employees' bonuses of ¥22,359 million (\$180,460 thousand) and ¥21,300 million at March 31, 2001 and 2000, respectively.

9. Deferred tax assets and liabilities

Significant components of the Companies' deferred tax assets and liabilities at March 31, 2001 and 2000, were as follows:

	March 31		2001 (Thousands of U.S. dollars)
	2001	2000	
	(Millions of yen)		
Deferred tax assets:			
Allowances for employees' bonuses	¥ 4,837	¥ 2,464	\$ 39,040
Accrued losses on sales contracts	810	4,184	6,538
Reserve for guaranteed contracts	3,086	2,208	24,907
Employees' retirement allowances	52,714	49,198	425,456
Elimination of unrealized profits	6,804	7,532	54,915
Net loss carried forward	4,594	13,839	37,078
Other	18,609	10,371	150,194
Valuation allowance	(8,938)	(9,863)	(72,139)
	82,516	79,933	665,989
Deferred tax liabilities:			
Depreciation	380	386	3,067
Unrealized holding gain on other securities	24,929	—	201,203
Other	142	93	1,146
	25,451	479	205,416
Net deferred tax assets	¥57,065	¥79,454	\$460,573

10. Research and development expenses

Research and development expenses, included in product cost, and selling, general and administrative expenses, were

¥22,644 million (\$182,760 thousand) ¥20,502 million for the years ended March 31, 2001 and 2000.

11. Contingent liabilities

Contingent liabilities for trade notes receivable discounted and endorsed in the ordinary course of business amounted to ¥1,090 million (\$8,797 thousand) and ¥1,810 million at March 31, 2001 and 2000, respectively. Contingent liabilities for guarantees of debts of unconsolidated subsidiaries and others amounted to ¥15,999 million (\$129,128 thousand) and ¥21,203 million at March 31, 2001 and 2000, respectively.

Contingent liabilities arising from similar guarantees of debts amounted to ¥27,189 million (\$219,443 thousand) and

¥23,871 million at March 31, 2001 and 2000, of which ¥20,314 million (\$163,955 thousand) and ¥16,177 million at March 31, 2001 and 2000, were for employee housing loans which were secured by life insurance and loan insurance, and therefore, the Companies were at low risk.

Unsecured debentures of 4.25 per cent of the Company due through 2000 were in substance redeemed by a debt assumption agreement and the debt amounting to ¥30,000 million was contingently liable at March 31, 2000.

12. Other income (expense)—other, net

Other income (expense)—other, net consists of the following:

	Years ended March 31		
	2001	2000	2001
	(Millions of yen)		(Thousands of U.S. dollars)
Gain on sales of securities	¥ 2,197	¥ 12,219	\$ 17,732
Gain (loss) on foreign exchange	3,957	(3,754)	31,937
Reversal of allowance for doubtful receivables	245	—	1,977
Write-downs of marketable and investment securities	(1,003)	(2,010)	(8,095)
Loss on disposal of property, plant and equipment	—	(3,702)	—
Equity in (losses) earnings of unconsolidated subsidiaries and affiliates	(26)	586	(210)
Provision for employees' retirement allowances	—	(102,799)	—
Provision for employees' retirement allowances for prior period	(5,476)	—	(44,197)
Accrued losses on sales contracts	—	(9,949)	—
Loss on liquidation of subsidiaries and affiliates	—	(1,303)	—
Extraordinary retirement benefits	(2,771)	(1,275)	(22,365)
Other, net	(15,462)	(8,025)	(124,794)
Total	¥(18,339)	¥(120,012)	\$(148,015)

The loss of ¥1,303 million in the above "Loss on liquidation of subsidiaries and affiliates" for 2000 related to Nagoya Shipbuilding & Steel Structure Co., Ltd., M-C POWER CORPORATION, and ANA-IHI Aero Engines Co., Ltd.

The loss of ¥2,771 million and ¥1,275 million in the above "Extraordinary retirement benefits" for 2001 and 2000 related to IHI Amtec Co., Ltd. for 2001 and Ishikawajima Construction Machinery Co., Ltd. and Ishikawajima Ship &

Chemical Plant Co., Ltd. for 2000.

The above "Reversal of allowance for doubtful receivables" for 2001 is the total of ¥1,370 million (\$11,057 thousand) of reversal and ¥1,125 million (\$9,080 thousand) of provision.

The above "Provision for employees' retirement allowances for prior year" for 2001 related to the initial adoption of the new accounting standards in Japan.

13. Revaluation of land

In accordance with the "Law Concerning Revaluation of Land" enacted on March 31, 1998, land used for business owned by one of the consolidated subsidiaries has been revalued.

"Deferred tax liabilities from revaluation of land"

Book value of land before revaluation	¥ 2,532 million (\$ 20,436 thousand)
Book value of land after revaluation	¥12,567 million (\$101,429 thousand)
Date of revaluation	March 31, 2000 and September 30, 2000

The differences between the market value of land at the end of the fiscal year that was revalued in the previous fiscal year

relates to this revaluation; and the minority interests related to the unrealized gain from revaluation, net of deferred tax, was included by ¥450 million (\$3,632 thousand). The remainder of the unrealized gain was included in capital surplus.

and book value following revaluation was ¥621 million (\$5,012 thousand).

14. Leases

(a) Finance leases (Lessee)

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased property as of March 31, 2001 and 2000, which would

have been reflected in the balance sheets if finance lease accounting had been applied to the finance leases currently accounted for by the operating lease accounting method:

	March 31		
	2001	2000	2001
	(Millions of yen)		(Thousands of U.S. dollars)
Acquisition costs:			
Buildings and structures	¥ 53	¥ 53	\$ 428
Machinery and equipment	10,718	8,242	86,505
Others	141	261	1,138
Total	¥10,912	¥8,556	\$88,071
Accumulated depreciation:			
Buildings and structures	¥ 27	¥ 25	\$ 218
Machinery and equipment	5,516	4,915	44,520
Others	114	219	920
Total	¥ 5,657	¥5,159	\$45,658
Net book value:			
Buildings and structures	¥ 26	¥ 28	\$ 210
Machinery and equipment	5,202	3,327	41,985
Others	27	42	218
Total	¥ 5,255	¥3,397	\$42,413

Concerning the above finance lease transactions, lease payments, estimated depreciation expense, which is calculated as ten-ninths of the amount computed by the declin-

ing-balance method over the respective lease terms and assuming a 10% scrap value, and estimated interest expense for the years ended March 31, 2001 and 2000, were as follows:

	Years ended March 31		
	2001	2000	2001
	(Millions of yen)		(Thousands of U.S. dollars)
Lease payments	¥1,965	¥1,929	\$15,860
Estimated depreciation expense	1,698	1,780	13,705
Estimated interest expense	148	143	1,195

Future minimum lease payments subsequent to March 31, 2001 and 2000, for finance leases accounted for as

operating leases were summarised as follows:

	March 31		
	2001	2000	2001
	(Millions of yen)		(Thousands of U.S. dollars)
Within one year	¥1,829	¥1,619	\$14,762
Thereafter	4,832	3,118	38,999
Total	¥6,661	¥4,737	\$53,761

(b) Operating leases (Lessee)
The future minimum lease payments subsequent to March

31, 2001 and 2000, for non-cancelable operating leases were summarised as follows:

	March 31		
	2001	2000	2001
	(Millions of yen)		(Thousands of U.S. dollars)
Within one year	¥ 513	¥ 513	\$ 4,140
Thereafter	3,149	3,653	25,416
Total	¥3,662	¥4,166	\$29,556

(c) Finance leases (Lessor)

The following amounts are the acquisition costs, accumulated depreciation and net book value of property leased to

others under finance leases at March 31, 2001 and 2000, to which the Companies have adopted the operating lease accounting method:

	March 31		
	2001	2000	2001
	(Millions of yen)		(Thousands of U.S. dollars)
Acquisition costs:			
Buildings and structures	¥5,375	¥4,910	\$43,382
Machinery and equipment	2,224	2,205	17,950
Others	1	—	8
Total	¥7,600	¥7,115	\$61,340
Accumulated depreciation:			
Buildings and structures	¥1,897	¥1,504	\$15,311
Machinery and equipment	1,171	1,111	9,451
Others	0	—	0
Total	¥3,068	¥2,615	\$24,762
Net book value:			
Buildings and structures	¥3,478	¥3,406	\$28,071
Machinery and equipment	1,053	1,094	8,499
Others	1	—	8
Total	¥4,532	¥4,500	\$36,578

Concerning the above finance leases, the lease payments, depreciation expense and estimated interest income for the years ended March 31, 2001 and 2000, were as follows:

	Years ended March 31		
	2001	2000	2001
	(Millions of yen)		(Thousands of U.S. dollars)
Recorded lease payments	¥745	¥860	\$6,013
Recorded depreciation expense	720	798	5,811
Estimated interest income, assuming that the finance lease accounting had been adopted	146	161	1,178

Future minimum lease payments subsequent to March 31, 2001 and 2000, for finance lease transactions accounted

for by the operating lease accounting method were summarised as follows:

	March 31		
	2001	2000	2001
	(Millions of yen)		(Thousands of U.S. dollars)
Within one year	¥ 430	¥ 512	\$ 3,471
Thereafter	5,293	5,740	42,720
Total	¥5,723	¥6,252	\$46,191

(d) Operating leases (Lessor)

Future minimum lease payments subsequent to March 31,

2001 and 2000, for non-cancelable operating leases were summarised as follows:

	March 31		
	2001	2000	2001
	(Millions of yen)		(Thousands of U.S. dollars)
Within one year	¥141	¥109	\$1,138
Thereafter	45	249	363
Total	¥186	¥358	\$1,501

15. Derivatives

(a) Foreign currency

The Companies have entered into forward foreign exchange and options contracts to hedge foreign currency

transactions. At March 31, 2000, the forward foreign exchange contracts outstanding were as follows:

	March 31 2000
	(Millions of yen)
Selling foreign exchange contracts	
Contract amounts	¥ 7,523
Market value	7,417
Unrealised gains	¥ 106
Buying foreign exchange contracts	
Contract amounts	¥12,861
Market value	12,420
Unrealised losses	¥ (441)

The Companies had no outstanding forward foreign exchange contracts in fiscal 2001, as hedge accounting was

applied to all derivative transactions.

(b) Interest rate

The Companies have no outstanding interest-rate swap agreements at March 31, 2000.

The Company had no outstanding interest-rate swap agreements in fiscal 2001, as hedge accounting was applied to all derivative transactions.

16. Retirement Benefits

The Company and domestic subsidiaries have defined benefit pension plans and certain overseas subsidiaries have lump-sum retirement payment plans. In addition, an

employee, if eligible, may receive additional payments under the plans.

The following information is a summary of the plans:

Retirement benefit obligation:

	March 31, 2001	
	(Millions of yen)	(Thousands of U.S. dollars)
Projected benefit obligation	¥(202,404)	\$(1,633,608)
Fair value of plan assets	2,969	23,963
Funded status	(199,435)	(1,609,645)
Unrecognized transition obligation	18,043	145,626
Unrecognized actuarial loss	9,339	75,375
Obligation recognized in the consolidated balance sheet	(172,053)	(1,388,644)
Allowance for employees' retirement benefits	¥(172,053)	\$(1,388,644)

Components of net periodic pension cost:

	Year ended March 31, 2001	
	(Millions of yen)	(Thousands of U.S. dollars)
Service cost-benefits earned during the year	¥ 8,603	\$ 69,435
Interest cost on projected benefit obligation	6,725	54,278
Expected return on assets	(49)	(395)
Amortization of transition obligation	5,476	44,197
Additional payments	2,771	22,365
Net periodic pension cost	¥23,256	\$189,880

Assumptions used in the actuarial calculation were:

Actuarial cost method:	Projected unit credit method
Discount rate:	3.0%
Expected rate of return:	1.5%
Amortization period for actuarial loss:	14 years (within the employees' average remaining years of service)
Amortization period for transition obligation:	5 years

17. Segment information

(a) Industry segments

Industry segment information of the Companies for the years ended March 31, 2001 and 2000, is shown below:

	Year ended March 31, 2001					Total	Eliminations and Corporate	Consolidated
	(1)	(2)	(3)	(4)	(5)			
(Millions of yen)								
Sales and operating income								
Sales to outside customers	¥230,911	¥307,628	¥229,641	¥233,953	¥112,684	¥1,114,817	¥ —	¥1,114,817
Intersegment sales and transfers	16,499	9,175	26,395	5,464	1,420	58,953	(58,953)	—
Total	247,410	316,803	256,036	239,417	114,104	1,173,770	(58,953)	1,114,817
Operating expenses	248,229	295,512	248,664	231,387	109,748	1,133,540	(58,670)	1,074,870
Operating income (loss)	¥ (819)	¥ 21,291	¥ 7,372	¥ 8,030	¥ 4,356	¥ 40,230	¥ (283)	¥ 39,947

Assets, depreciation expense and capital expenditures

Assets	¥253,056	¥251,642	¥334,863	¥295,980	¥112,481	¥1,248,022	¥233,819	¥1,481,841
Depreciation expense	5,849	4,598	12,238	13,164	2,987	38,836	78	38,914
Capital expenditures	4,742	5,238	12,902	12,168	4,390	39,440	(83)	39,357

	Year ended March 31, 2000					Total	Eliminations and Corporate	Consolidated
	(1)	(2)	(3)	(4)	(5)			
(Millions of yen)								
Sales and operating income								
Sales to outside customers	¥189,956	¥259,015	¥215,669	¥196,914	¥133,509	¥ 995,063	¥ —	¥ 995,063
Intersegment sales and transfers	14,705	13,250	20,574	940	1,074	50,543	(50,543)	—
Total	204,661	272,265	236,243	197,854	134,583	1,045,606	(50,543)	995,063
Operating expenses	216,580	279,610	228,183	187,376	140,011	1,051,760	(50,872)	1,000,888
Operating income (loss)	¥(11,919)	¥ (7,345)	¥ 8,060	¥ 10,478	¥ (5,428)	¥ (6,154)	¥ 329	¥ (5,825)

Assets, depreciation expense and capital expenditures

Assets	¥220,639	¥306,469	¥343,539	¥211,529	¥ 97,998	¥1,180,174	¥233,279	¥1,413,453
Depreciation expense	4,630	4,671	11,634	11,626	2,723	35,284	221	35,505
Capital expenditures	8,532	4,815	12,104	12,087	3,733	41,271	173	41,444

	Year ended March 31, 2001					Total	Eliminations and Corporate	Consolidated
	(1)	(2)	(3)	(4)	(5)			
(Thousands of U.S. dollars)								
Sales and operating income								
Sales to outside customers	\$1,863,689	\$2,482,873	\$1,853,438	\$1,888,241	\$909,475	\$ 8,997,716	\$ —	\$ 8,997,716
Intersegment sales and transfers	133,164	74,052	213,035	44,100	11,461	475,812	(475,812)	—
Total	1,996,853	2,556,925	2,066,473	1,932,341	920,936	9,473,528	(475,812)	8,997,716
Operating expenses	2,003,462	2,385,085	2,006,973	1,867,530	885,779	9,148,829	(473,527)	8,675,302
Operating income (loss)	(6,609)	171,840	59,500	64,811	35,157	324,699	(2,285)	322,414

Assets, depreciation expense and capital expenditures

Assets	\$2,042,421	\$2,031,009	\$2,702,687	\$2,388,862	\$907,837	\$10,072,816	\$1,887,159	\$11,959,975
Depreciation expense	47,207	37,111	98,773	106,247	24,108	313,446	630	314,076
Capital expenditures	38,273	42,276	104,132	98,208	35,432	318,321	(670)	317,651

Notes: i The Companies operate in five industry segments as follows: —

- (1) Industrial Machinery and Steel Structure Operations
Iron and steel manufacturing equipment, diesel engines, material handling systems, physical distribution and factory automation systems, bridges and others
- (2) Energy, Environment and Plant Operations
Boilers, gas turbines, components for nuclear power plants, environmental control systems, storage facilities and others
- (3) Standard Machinery and Other Operations
Mass-produced machinery, parking systems, agricultural machinery, construction machinery, financing and service industry and others
- (4) Aero-Engine and Space Operations
Jet engines, space-related equipment and others
- (5) Shipbuilding and Offshore Operations
Shipbuilding, ship repairs, offshore structures, marine transport and others

ii Operating expenses are entirely allocated to each industry segment.

iii Corporate assets, which amounted to ¥268,415 million (\$2,166,384 thousand) and ¥254,430 million as of March 31, 2001 and 2000, respectively, mainly consisted of cash, time deposits, marketable securities and insurance premiums paid of the Company and deferred income taxes.

iv Consolidated operating expenses represent cost of sales and selling, general and administrative expenses shown in the accompanying consolidated statements of operations.

v Change in components segments

Effective April 1, 2000, the Company divided the segment of applied Land-based operations into three segments: Industrial Machinery and Steel Structure Operations, Energy, Environment and Plant Operations and Standard Machinery and Other Operations.

This change was made to reflect more adequately the actual business of the Companies.

The information by industry segments for the year ended March 31, 2000, have been restored by the same categories as those presented for the year ended March 31, 2001.

vi Effective April 1, 2000, the Company adopted new accounting standards for retirement benefits. Compared with previous accounting methods, the effect of this change was to decrease operating expenses of Industrial Machinery and Steel Structure Operations; Energy, Environment and Plant Operations; Standard Machinery and Other Operations; Aero-Engine and Space Operations; and Shipbuilding and Offshore Operations by ¥98 million (\$791 thousand), ¥169 million (\$1,364 thousand), ¥40 million (\$323 thousand), ¥44 million (\$355 thousand) and ¥70 million (\$565 thousand), respectively, and to increase operating income by the same amounts.

(b) Overseas sales

	Year ended March 31, 2001					
	Europe	Asia	North America	Central and South America	Others	Total
	(Millions of yen)					
Overseas sales	¥32,111	¥37,875	¥68,614	¥62,648	¥22,402	¥223,650
Overseas sales as a percentage of consolidated net sales	2.9%	3.4%	6.2%	5.6%	2.0%	20.1%
	Year ended March 31, 2000					
	Europe	Asia	North America	Central and South America	Others	Total
	(Millions of yen)					
Overseas sales	¥37,071	¥41,445	¥74,285	¥50,100	¥20,143	¥223,044
Overseas sales as a percentage of consolidated net sales	3.7%	4.2%	7.5%	5.0%	2.0%	22.4%
	Year ended March 31, 2001					
	Europe	Asia	North America	Central and South America	Others	Total
	(Thousands of U.S. dollars)					
Overseas sales	\$259,169	\$305,690	\$553,785	\$505,634	\$180,807	\$1,805,085

Note: The countries included in each segment are as follows: —

(1) Europe.....England, Germany, France, Italy, Holland, Spain, Norway, C.I.S., Turkey, etc.

(2) AsiaChina, Taiwan, Korea, Thailand, Singapore, Malaysia, Indonesia, Philippines, India, Pakistan, etc.

(3) North America.....U.S.A., Canada

(4) Central and South AmericaBrazil, Panama, etc.

Report of Certified Public Accountants

Certified Public Accountants

Hibiya Kokusai Bldg.
2-2-3, Uchisaiwai-cho
Chiyoda-ku, Tokyo 100-0011
C.P.O. Box 1196, Tokyo 100-8641

Phone: 03-3503-1100
Fax: 03-3503-1197

The Board of Directors

Ishikawajima-Harima Heavy Industries Co., Ltd.

We have audited the consolidated balance sheets of Ishikawajima-Harima Heavy Industries Co., Ltd. and consolidated subsidiaries as of March 31, 2001 and 2000, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years then ended, all expressed in yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied 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 accompanying consolidated financial statements, expressed in yen, present fairly the consolidated financial position of Ishikawajima-Harima Heavy Industries Co., Ltd. and consolidated subsidiaries at March 31, 2001 and 2000, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles and practices generally accepted in Japan applied on a consistent basis.

As described in Note 1 to the consolidated financial statements, Ishikawajima-Harima Heavy Industries Co., Ltd. and consolidated subsidiaries have adopted new accounting standards for consolidation, research and development costs and tax-effect accounting effective the year ended March 31, 2000, and for employees' retirement benefits, financial instruments and foreign currency translations effective the year ended March 31, 2001, in the preparation of their consolidated financial statements.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2001, are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

Century Ota Showa & Co.

Century Ota Showa & Co.

Tokyo, Japan
June 28, 2001

See Note 1 to the consolidated financial statements which explains the basis of preparing the consolidated financial statements of Ishikawajima-Harima Heavy Industries Co., Ltd. and consolidated subsidiaries under Japanese accounting principles and practices.

Offices

(As of July 1, 2001)

PARIS

35, Avenue Franklin-Roosevelt,
75008 Paris, FRANCE
TEL: +33-1-4359-3017
FAX: +33-1-4289-0566

PIRAEUS

3rd Floor 7, Akti Miaouli Street, Piraeus,
GREECE
TEL: +30-1-422-4294
FAX: +30-1-422-4297

ALGER

22, Rue Ali-Bedjaoui, El-Biar, Alger,
ALGERIE (Mailing Address) IHI B.P.102
El-Biar, Alger
TEL: +213-2-92-43-99
FAX: +213-2-92-14-36

NEW DELHI

15th Floor, Dr.Gopal Das Bhawan,
28 Barakhamba Road,
New Delhi-110001, INDIA
TEL: +91-11-332-5095
FAX: +91-11-332-2480

BANGKOK

8th Floor, Thaniya Building, 62 Silom
Road, Bangkok 10500, THAILAND
TEL: +66-2-236-3490
FAX: +66-2-236-7340

HANOI

5th Floor, Metropole Centre 56Ly Thai To
Street, Hanoi, VIETNAM
TEL: +84-4-934-5305
FAX: +84-4-934-5303

KUALA LUMPUR

Letter Box No.52, 22nd Floor, UBN Tower,
10 Jln.P.Ramlee, 50250
Kuala Lumpur, MALAYSIA
TEL: +60-3-232-1255
FAX: +60-3-232-1418

JAKARTA

Mid Plaza II, 17th Floor, Jl, Jendral
Sudirman Kav. 10-11 Jakarta 10220,
INDONESIA
TEL: +62-21-570-7701
FAX: +62-21-570-7705

MANILA

Unit 1104 West Tower, Philippine Stock
Exchange Center, Exchange Road, Ortigas
Center Pasig City, Metro Manila,
REPUBLIC OF THE PHILIPPINES
TEL: +63-2-638-9604
FAX: +63-2-637-3568

BEIJING

Room 2203, China World Trade Center,
No.1 Jian Guo Men Wai Avenue, Beijing,
CHINA
TEL: +86-10-6505-4997
FAX: +86-10-6505-4350

SHANGHAI

15th Floor, HSBC Tower, 101 Yincheng
East Road, Pudong New Area, Shanghai,
CHINA 200120
TEL: +86-21-6841-1717
FAX: +86-21-6841-1919

TAIPEI

Room 1202, Chia Hsin Building, No.96
Section 2, Chung Shan North Road,
Taipei, TAIWAN
TEL: +886-2-2542-5520
FAX: +886-2-2542-4362

SEOUL

631 Korea Chamber of Commerce &
Industry B/D 45, 4-ka,
Namdaemun-Ro Chung-ku, Seoul,
100-094, KOREA
TEL: +82-2-753-8605
FAX: +82-2-755-4772

SAO PAULO

Av. Bernardino de Campos, No.98,
7 Andar, CEP 04004-040, Sao Paulo, S.P.
BRASIL
TEL: +55-11-3884-0362
FAX: +55-11-3884-8619

Main Overseas Subsidiary Companies

LONDON

IHI Europe Ltd.

Floor 9A, No. 1 Minster Court, Mincing
Lane, London EC3R 7YA, U.K.
TEL: +44-20-7626-1010
FAX: +44-20-7626-0078

LONDON

Ishikawajima Europe B.V.

Floor 9A, No. 1 Minster Court, Mincing
Lane, London EC3R 7YA, U.K.
TEL: +44-20-7626-1010
FAX: +44-20-7626-0078

ROTTERDAM

IHI Marine B.V.

Glashaven 10A, 3011 XH Rotterdam,
THE NETHERLANDS
TEL: +31-10-411-6406
FAX: +31-10-411-6412

HEIDELBERG

IHI Charging Systems International GmbH

Haberstrasse 24, 69126 Heidelberg,
GERMANY
TEL: +49-6221-3096-100
FAX: +49-6221-3096-111

HEIDELBERG

IHI Press Technology GmbH

Haberstrasse 24, 69126 Heidelberg,
GERMANY
TEL: +49-6221-3096-180
FAX: +49-6221-3096-111

SINGAPORE

IHI Marine Engineering (Singapore) Pte. Ltd.

27 Tanjong Kling Road, Singapore, 628052
SINGAPORE
TEL: +65-268-7360
FAX: +65-265-0780

MANILA

IHI Philippines, Inc.

Room 1104, West Tower, PSE Center,
Exchange Road, Ortigas Center, Pasig City,
REPUBLIC OF THE PHILIPPINES
TEL: +63-2-631-0986
FAX: +63-2-631-1962

HONG KONG

IHI (HK) Ltd.

Room 501, Soundwill Plaza, 38 Russell
Street, Causeway Bay, HONG KONG
TEL: +852-2522-4093
FAX: +852-2845-2497

(As of July 1, 2001)

TAIPEI

IHI Technical Consulting Co., Ltd.

Room 1202, Chia Hsin Building,
No. 96 Section 2, Chung Shan North
Road, Taipei, TAIWAN
TEL: +886-2-2542-5520
FAX: +886-2-2542-4362

SYDNEY

IHI Engineering Australia Pty. Ltd.

15th Floor, 213-219 Miller Street, North
Sydney, N.S.W. 2060,
AUSTRALIA
TEL: +61-2-9957-4777
FAX: +61-2-9922-3638

NEW YORK

IHI Inc.

280 Park Avenue, West Building 30th
Floor, New York, NY 10017, U.S.A.
TEL: +1-212-599-8100
FAX: +1-212-599-8111

NEW YORK

IHI Power-Systems America Inc.

280 Park Avenue, West Building 30th
Floor, New York, NY 10017, U.S.A.
TEL: +1-212-599-8116
FAX: +1-212-599-8116

NEW YORK

IHI Press Technology America, Inc.

280 Park Avenue, West Building 30th
Floor, New York, NY 10017, U.S.A.
TEL: +1-212-599-8100
FAX: +1-212-599-8111

DETROIT

IHI International Inc.

(Branch of IHI Inc.)
755 West Big Beaver Road, Top of Troy,
Suite 350, 3rd Floor, Troy, MI 48084,
U.S.A.
TEL: +1-248-244-9370
FAX: +1-248-244-9062, 2037

SHELBYVILLE

IHI TURBO AMERICA Co.

Route 16 West, R. R. 3, Box 36, Shelbyville,
IL 62565-0580, U.S.A.
TEL: +1-217-774-9571
FAX: +1-217-774-3834

SAN ANTONIO

IHI Southwest Technologies Inc.

6220 Culebra Road, Suite 177, San
Antonio, TX, 78238-5166, U.S.A.
TEL: +1-210-256-4100
FAX: +1-210-521-2311

Consolidated Subsidiaries

1) Paid-in Capital (millions of yen)

2) Products & Services

Chiba Warehouse Co., Ltd. (CSK)

1) 40
2) Warehouse business

Diesel United, Ltd. (DU)

1) 480
2) Engineering, manufacturing and main-
tenance of diesel engines

Gokoh Seisakusho Co., Ltd. (GS)

1) 350
2) Engineering and manufacturing of steel
structures

IHI Aerospace Co., Ltd. (IA)

1) 4,000
2) Sales, engineering and manufacturing
of space development and defence
system

IHI Amtec Co., Ltd. (AMTEC)

1) 480
2) Shipbuilding and repairing

IHI Construction Machinery Ltd. (IK)

1) 2,700
2) Engineering, manufacturing and sales
of construction machinery

IHI Granitech Co., Ltd. (IGC)

1) 300
2) Processing of stone materials for build-
ing walls and floors

IHI Inc.

1) US\$2,000 thousand
2) Sales of land-based machinery,
plant facilities, ships and offshore struc-
tures

IHI Kure Marine Construction Co., Ltd. (KMC)

1) 150
2) Engineering and construction of ship
hull structures

IHI Logistic Technology Co., Ltd. (ILT)

1) 200
2) Engineering, construction and
maintenance service for physical
distribution systems

(As of March 31, 2001)

IHI Machinery Engineering Co., Ltd. (IMEC)

1) 15
2) Engineering for material-handling
equipment and industrial machinery

IHI Marine Co., Ltd. (IMC)

1) 416
2) Consulting and engineering for ship-
building, ship repair, supply of marine
equipment

IHI Marine Coating Co., Ltd. (IMAC)

1) 100
2) Painting and coating works for ship-
building, steel structures

IHI Master Metal Co., Ltd. (IMM)

1) 10
2) Sales and production of super-alloys
master ingot

IHI Packaged Boiler Co., Ltd. (IBK)

1) 400
2) Sales and maintenance service of pack-
aged boilers

IHI Structure Maintenance and Improvement Company (ISMIC)

1) 120
2) Engineering, maintenance and repair of
bridges, gates and steel structures

IHI Systems Co., Ltd. (ISS)

1) 180
2) Development and operation, main-
tenance service for information systems

IHI Trading Inc. (IT)

1) 200
2) Sales of various kinds of machinery

IHI Turbo America Co.

1) US\$7,700 thousand
2) Manufacturing of automotive
turbochargers

INC Engineering Co., Ltd. (INC)

1) 250
2) Consulting, engineering and
construction of noise and vibration
suppressing equipment

Ishikawajima Compressor Service Co., Ltd. (ICP)

- 1) 100
- 2) Engineering, installation and maintenance of compressors and blowers

Ishikawajima Construction Machinery Sales Co., Ltd. (IKTH)

- 1) 25
- 2) Sales and maintenance service for construction machinery

Ishikawajima Construction Materials Co., Ltd. (IKK)

- 1) 1,665
- 2) Engineering, manufacturing and installation of pre-cast concrete materials

Ishikawajima Factoring Co., Ltd.

- 1) 200
- 2) Established T.F.I. Co., Ltd. and transferred all operations

Ishikawajima Hanyoki Service Co., Ltd. (IHS)

- 1) 1,033
- 2) Engineering and maintenance service for air conditioners and industrial machinery

Ishikawajima Industrial Machinery Co., Ltd. (IIM)

- 1) 480
- 2) Engineering, manufacturing and sales of industrial machinery

Ishikawajima Inspection & Instrumentation Co., Ltd. (IIC)

- 1) 220
- 2) Non-destructive inspection service and manufacturing of related devices

Ishikawajima Iwakuni Seisakusho Co., Ltd. (IS)

- 1) 400
- 2) Engineering and manufacturing of industrial furnaces

Ishikawajima Jet Service Co., Ltd. (IJS)

- 1) 200
- 2) Installation and maintenance service for gas turbines and jet engines

Ishikawajima Kankyo Engineering Co., Ltd. (IKE)

- 1) 200
- 2) Operation and maintenance service for environment control equipment

Ishikawajima Kogyo Co., Ltd. (IKC)

- 1) 480
- 2) Real estate management, insurance agent business and data processing service

Ishikawajima Mass-Produced Machinery Co., Ltd. (IHK)

- 1) 1,760
- 2) Manufacturing of turbochargers and packaged compressors

Ishikawajima Plant Construction Co., Ltd. (IPC)

- 1) 500
- 2) Engineering and construction of power plants and process plants

Ishikawajima Plant Engineering & Construction Co., Ltd. (IPEC)

- 1) 50
- 2) Engineering and manufacturing of chemical plant equipment

Ishikawajima Precision Castings Co., Ltd. (ICC)

- 1) 450
- 2) Engineering and manufacturing of precision casting

Ishikawajima Seiki Co., Ltd. (ISK)

- 1) 400
- 2) Sales, engineering and manufacturing of gearing system

Ishikawajima Shibaura Machinery Co., Ltd. (ISM)

- 1) 4,207
- 2) Engineering and manufacturing of small-size engines and agricultural machinery

Ishikawajima Ship & Chemical Plant Co., Ltd. (ISC)

- 1) 1,410
- 2) Engineering and construction of ships and steel structures

Ishikawajima System Technology Co., Ltd. (IST)

- 1) 80
- 2) Development and engineering of control systems for plants and machinery

Ishikawajima Transport Machinery Co., Ltd. (IUK)

- 1) 2,647
- 2) Engineering, manufacturing and maintenance for material-handling equipment, parking systems

Kaisho Marine S. A.

- 1) 500
- 2) Marine transportation

Kaisho Shipping Co., Ltd. (KS)

- 1) 450
- 2) Marine transportation

Kanamachi Purification Plant Energy Service Co., Ltd. (KESCO)

- 1) 240
- 2) Sales and generation of electric power and process steam

Kanto Segment Co. (KTS)

- 1) 135
- 2) Manufacturing of pre-cast concrete materials

Kotobuki Iron Works Co., Ltd.

- 1) 76
- 2) Engineering and manufacturing of machineries and steel structures

PC BRIDGE Co., Ltd. (PCK)

- 1) 504
- 2) Prestressed concrete product manufacture, sales, construction work design, execution, etc.

Reprography and Consultants, Ltd. (REPRO)

- 1) 50
- 2) Printing, copying and data processing

South-Point Marine S. A.

- 1) 236
- 2) Marine transportation

Star Farm Machinery Mfg. Co., Ltd. (SFM)

- 1) 500
- 2) Manufacturing of attachment for agricultural machinery

TFI Corporation (TFI)

- 1) 200
- 2) Financing, factoring

Tokyo Wan Tochi Co., Ltd. (TTK)

- 1) 48
- 2) Real estate and management of marinas

Corporate Data

(As of March 31, 2001)

Head Office	Ishikawajima-Harima Heavy Industries Co., Ltd. Shin Ohtemachi Building, 2-1, Ohtemachi 2-chome, Chiyoda-ku, Tokyo 100-8182, Japan Tel: +81-3-3244-5111 Fax: +81-3-3244-5131 Internet home page: http://www.ihi.co.jp/index-e.html
Founded	1853
Incorporated	1889
Number of Employees	11,842
Transfer Agent	The Chuo Mitsui Trust and Banking Company, Ltd.
Consolidated Subsidiaries	51
Nonconsolidated Subsidiaries	55
Affiliates	39* (Note*: Includes five affiliates applying the equity method of accounting)
Stock Exchange Listings	Tokyo, Osaka, Nagoya, Fukuoka, Sapporo
Shares Outstanding	1,298,495,152
Number of Shareholders	94,821
Major Shareholders	Japan Trustee Services Bank, Ltd. (Trust Account) 6.43% The Chuo Mitsui Trust and Banking Company, Limited., General Trust (Toshiba Account) 4.26% The Daiichi Mutual Life Insurance Company 3.77% Mizuho Trust & Banking Co., Ltd., Employee Retirement Benefit Trust (Daiichi Kangyo Bank Account) 3.54% Nippon Life Insurance Company 3.42% Asahi Mutual Life Insurance Company 2.77% Sumitomo Life Insurance Company 1.89% The Chuo Mitsui Trust and Banking Company, Limited 1.78% The Industrial Bank of Japan, Limited 1.60% Sakura Bank, Ltd. 1.54%
Independent Auditors	Century Ota Showa & Co.



Ishikawajima-Harima Heavy Industries Co., Ltd.

HEAD OFFICE: Shin Ohtemachi Building, 2-1, Ohtemachi 2-chome, Chiyoda-ku, Tokyo 100-8182, JAPAN
TEL: +81-3-3244-5111 FAX: +81-3-3244-5131 TLX: IHIHQT J22232 Internet home page: <http://www.ihl.co.jp/index-e.html>