

Annual Report 2005

For the Year Ended March 31, 2005



Explore
the Engineering
Edge



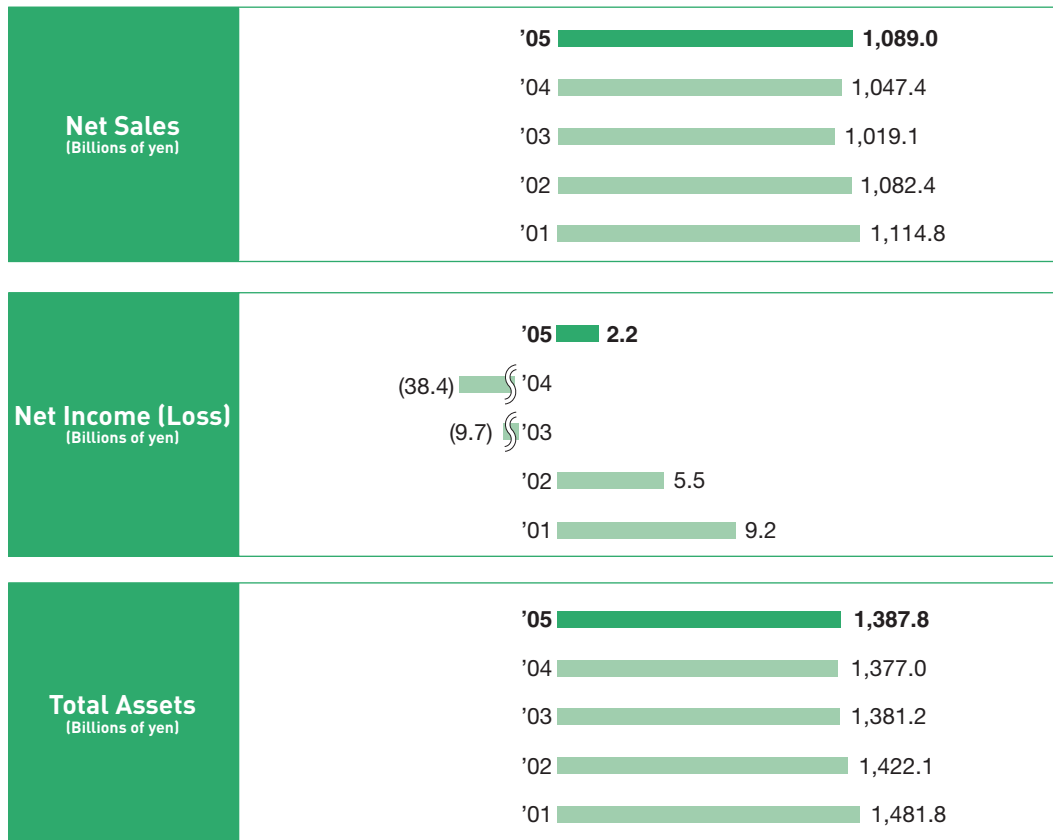
Financial Highlights

Years ended March 31, 2005, 2004 and 2003
Ishikawajima-Harima Heavy Industries Co., Ltd. and Consolidated Subsidiaries

	Millions of yen			Thousands of U.S. dollars
	2005	2004	2003	2005
Net sales	¥1,089,047	¥1,047,441	¥1,019,061	\$ 10,141,047
Operating income (loss)	10,619	(23,230)	24,640	98,883
Net income (loss)	2,180	(38,354)	(9,672)	20,300
Total assets	1,387,838	1,377,021	1,381,240	12,923,345
Total shareholders' equity	153,716	151,550	171,323	1,431,381

Amounts per share:	Yen			U.S. dollars
Net income (loss)	¥ 1.56	¥ (29.67)	¥ (7.57)	\$ 0.015
Cash dividends	—	—	1.50	—

Note: For convenience only, U.S. dollar amounts in this report have been converted from yen at the rate of ¥107.39=US\$1, the approximate rate of exchange prevailing on March 31, 2005.





The Year in Review

In the first half of the fiscal year ended March 31, 2005, the Japanese economy showed signs of a recovery supported by robust exports to mainly China, continuing strong exports from the fiscal year ended March 31, 2004, as well as growth in private-sector demand, especially digital consumer electronics. In the second half of the fiscal year ended March 31, 2005, however, the Japanese economy came to a standstill, as corporate earnings were squeezed by an increase in prices for crude oil, steel and other materials due to worldwide supply shortages, and business conditions were adversely affected by the strong yen, a deceleration in overseas economies and IT-related inventory adjustments.

The global economy remained steady overall. The economies of the United States and Europe recovered steadily. Although growth in China was slowed slightly as the government applied measures to keep the economy from overheating, economic growth in Asia continued to be strong.

Amid these economic conditions, the IHI Group engaged in business restructuring and made every effort to increase profitability by thoroughly reducing costs.

As a result, IHI recorded a slight increase in orders to ¥1,159.0 billion and growth in net sales of 4.0% to ¥1,089.0 billion compared with the previous fiscal year. As of March 31, 2005, orders on hand totaled ¥1,426.0 billion, an increase of 2.9% from a year earlier.

The Company posted operating income of ¥10.6 billion and net income of ¥2.1 billion, owing to worsened profitability in some projects in Shipbuilding and Offshore Operations.

IHI decided to forego dividend payments at the end of the first half of the fiscal year ended March 31, 2005, due to the urgent need for stable management. Although the Company secured a certain level of profits during the fiscal year under review, IHI has also regrettably decided to forgo year-end dividends due to unstable management conditions. Our proposal to carry forward the entire amount of unappropriated retained earnings was approved at the Ordinary General Meeting of Shareholders on June 28, 2005.

Consolidated Performance of Each Segment

Business segment results for the fiscal year ended March 31, 2005, are highlighted in the Review of Operations.

Financial Position

As of March 31, 2005, total assets stood at ¥1,387.8 billion, an increase of ¥10.8 billion year on year, owing to an increase in trade receivables resulting from sales growth in Energy and Plant Operations and Industrial Machinery Operations, as well as an increase in prepaid expenses stemming from higher overseas projects. Total liabilities rose ¥8.1 billion year on year to ¥1,213.9 billion, reflecting an increase in interest-bearing debt and advances from customers. Shareholders' equity grew ¥2.1 billion to ¥153.7 billion, owing to an increase in retained earnings from the posting of net income. The balance of interest-bearing debt was ¥443.3 billion, up ¥24.9 billion from the end of the previous fiscal year.

Net cash used in operating activities was ¥4.4 billion, compared with net cash provided by operating activities of ¥36.1 billion in the previous fiscal year, owing to an increase in notes and accounts receivable, prepaid expenses and corporate taxes. Net cash used in investing activities totaled ¥4.1 billion, compared with net cash provided by investing activities of ¥39.4 billion in the previous fiscal year, owing to an increase in purchases of property, plant and equipment. Combining cash used in operating activities and investing activities, free cash flow was a negative ¥8.5 billion. Net cash provided by financing activities was ¥24.6 billion, compared with net cash used in financing activities of ¥36.8 billion in the previous fiscal year, owing to an increase in borrowings. In aggregate, cash and cash equivalents, end of fiscal year, totaled ¥139.6 billion, up ¥16.9 billion from the previous year-end.

Outlook for Fiscal Year Ending March 31, 2006

The world economy is expected to continue on a recovery undertone, supported by the resilient U.S. economy and growth in Asia, especially China. In the Japanese economy, strong private-sector demand is likely to be reinforced by a recovery in private-sector capital investment, a rebound in consumer spending and improvement in employment conditions. Nevertheless, a conservative outlook prevails on the future direction of the Japanese economy as concerns are growing about the incessant rise in crude oil prices and material prices such as steel.

Based on this outlook, IHI estimates consolidated net sales of ¥1,080 billion, operating income of ¥23 billion and net income of ¥2.5 billion for the fiscal year ending March 31, 2006. On a non-consolidated basis, the Company targets net sales of ¥590 billion, operating income of ¥19 billion and net income of ¥3 billion.

Alleged Violation of Antimonopoly Law in Bridge Bid-Rigging Incident

On June 15, 2005, IHI was accused of bid rigging of bridge construction projects in violation of the Antimonopoly Law in Japan. A judgement into this matter is underway. While the results of the judgement are unforeseen at this time, IHI is taking these allegations seriously given the gravity of the situation. To our shareholders, we truly regret the concern these events have caused.

Going forward, IHI is determined to restore its credibility as quickly as possible through a stringent review of its internal compliance structure and measures to reinforce and thoroughly instill compliance.

In consideration of these efforts, we ask for the continued support and guidance of our shareholders.

June 28, 2005



Mototsugu Ito
President and Chief Executive Officer

An Interview with President Ito



What are the fundamental management policies of the IHI Group?

* * * * *

Based on the management philosophy of “Using technology for the benefit of society,” IHI and Group companies have contributed to the creation of wealth in society through the provision of various products and services that support society and industry. These products and services include social infrastructure, industrial machinery, transportation systems, materials handling machinery and physical distribution systems, iron and steel-making machinery, power plants, chemical plants, ships, aero-engines, and aerospace development equipment. Prioritizing the improvement of customer satisfaction in our corporate activities, we are making concerted efforts to build relationships of trust with our customers in areas that afford direct contact. At the same time, we are working on the advancement of technologies and product quality to fulfill the genuine needs of customers.

What is IHI’s basic policy on dividends?

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Management at IHI emphasizes the stable distribution of dividends, and determines cash dividends by taking into consideration the level of retained earnings necessary to strengthen the business foundation and to ensure the future stability of dividends.

Which management benchmarks does IHI use for its targets?

* * * * *

Our Management Policy 2004, formulated in August 2004, is based on the core concept of raising corporate value with earnings-dominated management while fulfilling our social responsibilities. Consolidated targets under this policy for the fiscal year ending March 31, 2007, call for net sales of ¥1,150 billion and operating income of ¥50 billion.

Could you explain IHI’s medium-term management strategy and any issues faced by the Company?

* * * * *

Based on the Management Policy 2004, IHI has positioned 2004 and 2005, starting in the fiscal year under review, as a period for rebuilding management. We are implementing measures to secure corporate growth and earnings while making concerted efforts to reduce fixed costs. Toward securing corporate growth and earnings under our management policy from the fiscal year ending March 31, 2007, we are strengthening our marketing capabilities, ascertaining profits when receiving orders, thoroughly reducing costs especially in procurement, and bolstering our project management structure to improve the profitability of projects under construction. In this way, IHI is reinforcing its corporate structure through measures to bolster competitiveness and enhance profitability. As a part of these measures, IHI aims to strengthen competitiveness and concentrate the management resources of the Group to respond to diversifying market needs. To this end, IHI decided to transfer its materials handling machinery and mechanical parking systems businesses to subsidiary Ishikawajima Transport Machinery Co., Ltd. In the rolling mills business, IHI established subsidiary IHI Metaltech Co., Ltd. in a business collaboration agreement with VAI (Voest Alpine Industrie AG) in Austria.

With regards to restructuring in production, IHI is building a new foundation for the steel structures business and integrating the offices of affiliated companies in the space development business. In the shipbuilding and offshore structures businesses, we are reinforcing manufacturing facilities while renovating the production structure to ensure profitable operations and spark an earnings recovery.

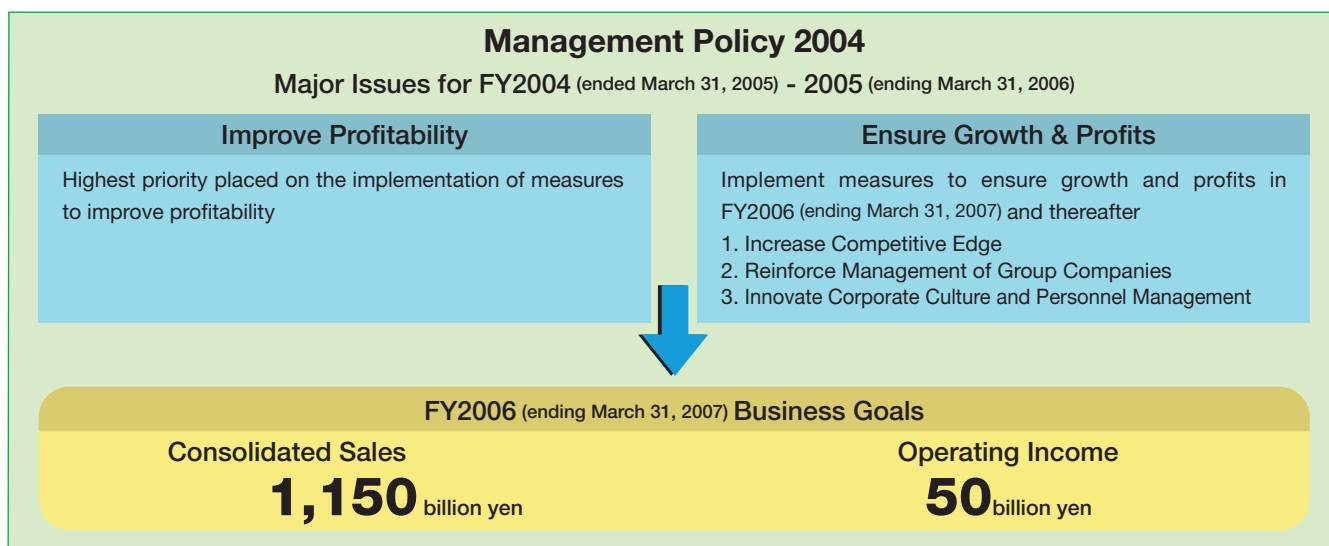
Could you explain IHI's basic philosophy on corporate governance?

* * * * *

IHI defines corporate governance as a system that helps to ensure the maximization of corporate value and to raise management efficiency through the most effective deployment of the Company's capabilities. To establish and reinforce excellent corporate governance, IHI aims to modernize its compliance structure in recognition of the need for a business execution oversight system, and to ensure that laws are strictly observed and the appropriate procedures are taken in the internal corporate decision-making process.

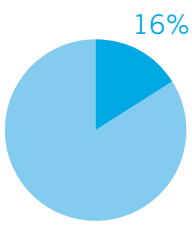
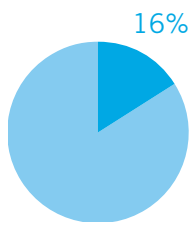
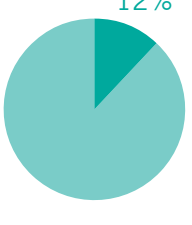
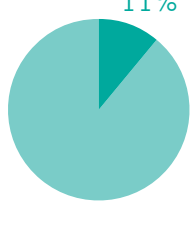
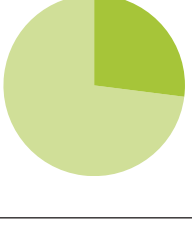
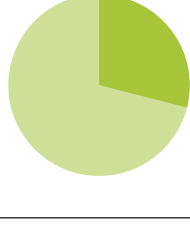
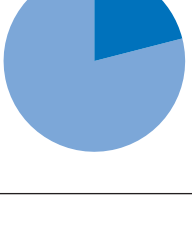
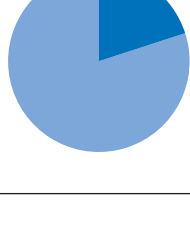
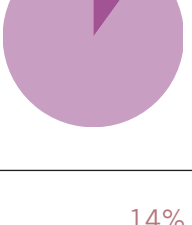
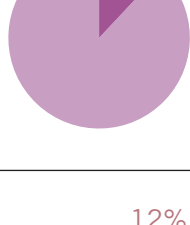
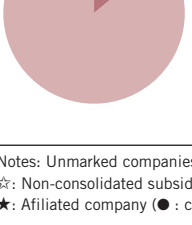
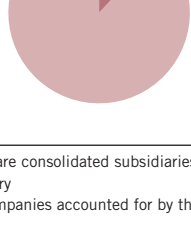


- Notes: 1. The amounts shown in this annual report have been rounded down to the nearest base unit.
2. Statements made in this annual report with respect to IHI's current plans, estimates, strategies and beliefs, and other statements that are not historical facts are forward-looking statements about the future performance of IHI and are subject to risks and uncertainties. These statements are based on management's assumptions and beliefs in light of the information currently available to it and therefore readers should not place undue reliance on them. IHI cautions that a number of important factors, such as government policies, general economic conditions and exchange rates, could cause actual results to differ materially from those discussed in the forward-looking statements.



IHI at a Glance

		Net Sales	Orders
	Logistics Systems and Structures Operations	(Billions of yen) '05  188.2 '04  202.7 '03  216.8 '02  208.8	(Billions of yen) '05  185.4 '04  183.8 '03  172.5 '02  168.0
	Industrial Machinery Operations	(Billions of yen) '05  143.9 '04  129.7 '03  105.5 '02  129.2	(Billions of yen) '05  129.3 '04  121.0 '03  99.1 '02  80.1
	Energy and Plant Operations	(Billions of yen) '05  314.9 '04  268.8 '03  273.6 '02  321.7	(Billions of yen) '05  331.7 '04  324.9 '03  209.5 '02  189.2
	Aero-Engine and Space Operations	(Billions of yen) '05  238.3 '04  241.4 '03  243.8 '02  239.4	(Billions of yen) '05  233.9 '04  220.5 '03  219.3 '02  244.3
	Shipbuilding and Offshore Operations	(Billions of yen) '05  122.1 '04  118.0 '03  113.3 '02  108.3	(Billions of yen) '05  143.3 '04  142.0 '03  118.0 '02  124.6
	Other Operations	(Billions of yen) '05  162.1 '04  173.1 '03  161.4 '02  161.4	(Billions of yen) '05  135.1 '04  146.6 '03  141.6 '02  136.2

'05 Net Sales by Segment	'05 Orders by Segment	Group Companies		Main Products
 <p>16%</p>	 <p>16%</p>	Ishikawajima Transport Machinery Ishikawajima Construction Materials Ishikawajima Ship & Chemical Plant ★Kansai Segment Kanto Segment Gokoh Seisakusho Niigata Transys	PC Bridge IHI Logistics Technology ISMIC	<ul style="list-style-type: none"> •Material handling systems •Physical distribution and factory automation systems •Parking systems •Bridges •and others
 <p>12%</p>	 <p>11%</p>	Voith IHI Paper Technology Ishikawajima Iwakuni Seisakusho Ishikawajima Industrial Machinery Ishikawajima Seiki ★Kondo Iron Works ★Turbo Systems United ● JH Corporation Ishikawajima Machinery Engineering Ishikawajima Mass-Produced Machinery	IHI Charging Systems International GmbH IHI Charging Systems International S.p.A. IHI Turbo America IHI Turbo (Thailand) Ishikawajima Hanyoki Service Ishikawajima Compressor Service	<ul style="list-style-type: none"> •Iron and steel manufacturing equipment •Turbochargers •Mass-produced machinery •and others
 <p>27%</p>	 <p>29%</p>	IHI Packaged Boiler Kotobuki Iron Works Niigata Power Systems ★PT Cilegon Fabricators ● NICO Precision Ishikawajima Kankyo Engineering Ishikawajima Inspection & Instrumentation Ishikawajima Plant Engineering & Construction	Ishikawajima Plant Construction ★FELGUERA-IHI S.A. ☆IHI ENGINEERING AUSTRALIA ★JURONG ENGINEERING ● ISHI POWER SDN. BHD. Kanamachi Purification Plant Energy Service Nagoya Plastic Handling	<ul style="list-style-type: none"> •Boilers •Gas turbines •Components for nuclear power plants •Environmental control systems •Storage facilities •and others
 <p>21%</p>	 <p>20%</p>	IHI Aerospace Ishikawajima Precision Castings IHI Master Metal INC Engineering Ishikawajima Jet Service		<ul style="list-style-type: none"> •Jet engines •Space-related equipment •and others
 <p>10%</p>	 <p>12%</p>	IHI Marine United IHI Amtec IHI Kure Marine Construction IHI Marine		<ul style="list-style-type: none"> •Shipbuilding •Ship repairs •Offshore structures •and others
 <p>14%</p>	 <p>12%</p>	IHI Scube Ishikawajima Kougyo Ishikawajima Factoring ★Kaisho Shipping ● ★Tachihi Kaihatsu ● Chiba Warehouse TFI Corporation Tokyo-Wan Tochi Reprography and Consultants ☆IHI Logistics ☆Ishikawajima Technical Training Institution	IHI Construction Machinery Ishikawajima Shibaura Machinery ☆San-Etsu ★New Tachikawa Aircraft Star Farm Machinery Manufacturing Diesel United IHI Trading Ishikawajima Construction Machinery Sales IHI INC. ISHIKAWAJIMA EUROPE B.V.	<ul style="list-style-type: none"> •Diesel engines •Agricultural machinery •Construction machinery •Construction materials •Financing and service •Marine transport •and others

Notes: Unmarked companies are consolidated subsidiaries

☆: Non-consolidated subsidiary

★: Affiliated company (● : companies accounted for by the equity method)

Review of Operations

Logistics Systems and Structures Operations

In Logistics Systems and Structures Operations, the orders environment remained extremely challenging in Japan with a continued decline in public spending and severe price competition among rivals in the private sector, compounded by higher prices for steel and other materials as well as delays in material deliveries.

Under these conditions, IHI's intense efforts to win orders resulted in orders for the segment totaling ¥185.4 billion, a slight increase compared with the previous fiscal year. Sales of Logistics Systems and Structures Operations decreased 7.2% to ¥188.2 billion. As a result, orders on hand as of March 31, 2005, totaled ¥217.6 billion, a rise of 3.1% from a year earlier. Operating loss was ¥3.1 billion, owing to worsened profitability on transportation machinery and lower profits due to a decline in sales of bridges and shield tunneling machines.

Start of Excavation with Completion of Large Shield Tunneling Machine for Akita Chuo Expressway Project in Akita Prefecture

For an order received in 2003, IHI completed in April 2004 a large-scale slurry shield tunneling machine with a diameter of 12.4 meters at its Aichi Works, and started excavation in March 2005 for the Akita Chuo Expressway expansion project in Akita Prefecture. The Akita Chuo Expressway is being expanded in preparation for the Akita National Sports Festival to be held in 2007. This is the first time a shield tunneling machine is being used on a large-scale civil works project outside the Tokyo metropolitan area, Kansai region and Chubu region. In addition to this shield tunneling machine, IHI has also received its first overseas order for a Double-O Tube (DOT) shield tunneling machine for tunnel construction work on the M8 subway line in Shanghai, China in May 2002, which was followed by an order in April 2003 for three DOT shield tunneling machines for tunnel construction work on the L4 subway line there. The Company continues to receive orders for its shield tunneling machines in Japan and abroad.



Completed large-scale shield tunneling machine for the Akita Chuo Expressway project

Order Received for APM System for Hong Kong International Airport

IHI has received its first overseas order related to an Automated People Mover (APM) system. The Airport Authority Hong Kong placed orders with IHI to upgrade the existing APM system at the Hong Kong International Airport. In June 2004, IHI, in cooperation with subsidiary Niigata Transys Co., Ltd. (NTS) and MTR Corporation of Hong Kong, received an order from the Airport Authority Hong Kong for 12 cars and peripheral facilities for the existing APM system at the Hong Kong International Airport. Stretching approximately 750 meters, the APM system provides transportation between the concourse and the passenger terminal building. As the main contractor, IHI will oversee the entire project, and NTS will manufacture the vehicles. The APM system is scheduled to go into service in January 2006. This is the first overseas order IHI has received for an APM system since NTS was founded in February 2003 and launched the IHI Group into the transportation business. Furthermore, in November 2004, IHI received an order from the Airport Authority Hong Kong for a new APM system between the existing passenger terminal building and the SkyPlaza building at the Hong Kong International Airport. Encouraged by this order, IHI will collaborate with NTS and aggressively promote its APM system operations in prominent markets of Asia and North America.



Rolling stock on order

World's First Curved Rubber Belt Moving Walkway for Matsumoto Performing Arts Center in Matsumoto-city, Nagano Prefecture

The curved rubber belt moving walkway IHI delivered to the Matsumoto Performing Arts Center in Matsumoto-city, Nagano, in March 2004, continues to operate flawlessly. IHI originally received the order for the walkway, with a total length of 45 meters and speed of 30 meters per minute, in February 2001. The moving walkway connects the first and third floors of the entrance hall in the performing arts center. Overcoming difficulties in developing a curved moving belt, IHI succeeded in satisfying requirements for handicap access by eliminating steps at the boarding and disembarking points, while crafting a highly sensible design that blends in with the architecture of the performing arts center. The moving walkway's beautiful design and handicap accessibility have been well regarded by visitors to the performing arts center. With this accomplishment, IHI became the first company in the world to have delivered a curved rubber belt moving walkway.



World's first curved rubber belt moving walkway

Industrial Machinery Operations

In Industrial Machinery Operations, demand was relatively strong for industrial machinery on the back of higher private-sector investment.

Under these circumstances, orders advanced 6.8% to ¥129.3 billion as a result of rigorous efforts to secure orders. Sales in this segment rose 11.0% to ¥143.9 billion compared with the previous fiscal year. As a result, orders on hand as of March 31, 2005, grew 5.6% year on year to ¥87.8 billion. Operating income was ¥2.0 billion.

Completed new No. 1 Blast Furnace at Sumitomo Metal Industries, Ltd.'s Kashima Steel Works—First major furnace built in Japan for these 25 years

In January 2002, IHI received an order from Sumitomo Metal Industries, Ltd. (SMI) to construct the No. 1 Blast Furnace at the Kashima Steel Works. We completed the furnace in September 2004. The new blast furnace boasts an inner volume of 5,370 cubic meters, making it the third largest in Japan and the fourth largest in the world. It also marks the first blast furnace in excess of 4,000 cubic meters to be constructed in Japan for 25 years. With the operation of the new blast furnace, Kashima Steel Works expanded its annual crude steel production capacity from seven to eight million tons. With the exception of the basic foundation and some equipment supplied by SMI, IHI was in charge of everything from engineering, to the construction of the blast furnace while working closely with SMI. IHI achieved a perfect safety record during the 2,370,000 labor hours from the start of equipment installation, to completion of the blast furnace.



The new No. 1 blast furnace at Kashima Steel Works

Sales Launched for One of World's Largest Ship Turbochargers

IHI affiliate Turbo Systems United Co., Ltd. has started selling the TPL91-B in Japan and Taiwan as one of the world's largest turbochargers for 2-stroke engines on very large container vessels.

The TPL91-B was jointly developed by IHI and ABB Turbo Systems, which sells the turbocharger in Europe and South Korea. Engineered for very large container vessels with 8,000TEU cargo capacity, for which demand has expanded recently, the TPL91-B has a compressor pressure ratio of 4.2 and maximum airflow volume of 55 cubic meters per second. ABB Turbo Systems has already received orders for more than 75 TPL91-B turbochargers, and shipped its first TPL91-B turbocharger in June 2004 for the large container ship built by Hyundai Heavy Industries Co., Ltd. Turbo Systems United Co., Ltd. sells the TPL series in Japan and Taiwan, and has already received orders for 500 units.



TPL91-B ship turbocharger

Establishment of IHI Metaltech Co., Ltd. in Rolling Mill Business

IHI Metaltech Co., Ltd. was established on June 1, 2005, to handle sales, engineering, procurement, installation and after sales service in the rolling mill business. The new company aims to strengthen and develop the rolling mill business to improve customer satisfaction.

Furthermore, IHI has signed a collaboration agreement with VOEST-ALPINE Industrieanlagenbau GmbH & Co (VAI) of Austria in the field of continuous slab and bloom casting as well as for ferrous and non-ferrous rolling mills and process lines.

This collaboration will be handled for IHI by the new company.

Outline of the new company is as follows:

1. Company name: IHI Metaltech Co., Ltd.
2. President: Hiromasa Ohmura
3. Capital: ¥290 million (100% owned by IHI)
4. Head office: Tokyo, Japan



Signing a collaboration agreement with VOEST-ALPINE Industrieanlagenbau GmbH & Co

Energy and Plant Operations

In Energy and Plant Operations, energy and nuclear power equipment remained under challenging conditions in the Japanese market. Despite sales negotiations on projects overseas, harsh price competition continued unabated. In plant equipment, signs of an upturn emerged in Japan, while there was an increase in large-scale capital investment projects overseas.

In these operating conditions, orders rose 2.1% to ¥331.7 billion from the previous fiscal year as a result of aggressive efforts to win orders. Segment sales advanced 17.1% to ¥314.9 billion. Accordingly, orders on hand rose 7.2% to ¥477.6 billion compared with the end of the previous fiscal year. This segment recorded operating income of ¥6.7 billion.

Strong Overseas Orders for LNG Terminals

In June 2004, IHI received an order for an LNG terminal (receiving terminal) from Chinese Petroleum Corporation, the national oil company of Taiwan. To be constructed near Taichung Harbor in Taiwan, the receiving terminal is a large-scale facility of three 160,000 cubic meters of volume LNG storage tanks. In December 2004, IHI received another order for an LNG receiving terminal from Sempra Energy, a power company in the United States. The receiving terminal will be the largest in the United States with three 160,000 cubic meters of volume LNG storage tanks for an annual receiving capacity of 7.5 million tons. With demand rising for LNG around the world, many companies are planning to build LNG receiving terminals. IHI has extensive experience constructing LNG receiving terminals in Japan, and since 2000 IHI has received orders for LNG receiving terminals in India and Mexico. The Company is also gaining experience in LNG storage tanks in the Middle East and Europe. IHI is planning to market its LNG receiving terminals and storage tanks in overseas regions where demand will expand actively.



LNG receiving terminal built in India

Large GTL (Gas-To-Liquids) Reactors to Qatar

From the Yokohama Nuclear & Chemical Components Works, IHI delivered two large reactors with a total length of approximately 60 meters, diameter of approximately 10 meters and weight of approximately 2,000 tons to Oryx GTL in Qatar. Based on proprietary GTL technologies developed by the Sasol Group, these reactors are for the first commercial-scale GTL plant under construction in an African country other than the Republic of South Africa.

Oryx GTL is a joint venture between Sasol, a petroleum company based in South Africa, and Qatar Petroleum, a state enterprise in Qatar. Under construction in the Ras Laffan Industrial City, the GTL plant is to supply high-quality GTL diesel and GTL naphtha from the first quarter of 2006 at a rate of 34,000 barrels per day.

IHI and Sasol formed an alliance in 2002 for the design, fabrication and supply of the GTL reactors. IHI has extensive engineering experience in the energy and chemicals fields.



Shipment of large GTL reactor

Completion of Large-Scale Wind Turbine Generators with Total Output of 10,400 kW for Kagoshima Prefecture

IHI has completed construction on the Muregaoka Wind Farm for Minami-Kyushu Clean Energy Co., Ltd. (MCE) in Kagoshima City. The Muregaoka Wind Farm has a total power output of 10,400 kW and comprises eight wind turbine generators with a rated output of 1,300 kW. The scope of the project is based on an EPC contract, which includes IHI's involvement in engineering, procurement, on-site construction, basic civil engineering and the installation of approximately 270 meters of 66 kV power lines.

A wholesaler of electricity generated by wind turbine generators, MCE was established through financing by IHI and four private-sector companies in Kagoshima led by Shimadzu Co., Ltd., a traditional company includes management of historic site. The operation is also the first wind power sales business in which IHI was responsible for the construction and sale of wind power generation equipment.

The wind farm was built in the mountain forests of Muregaoka near Kagoshima City. All electric power generated by the eight wind turbine generators, with a rotation wingspan diameter of 60 meters and towers 60 meters in height, is sold to Kyushu Electric Power Co., Inc.



Wind turbine generators for Muregaoka Wind Farm

Aero-Engine and Space Operations

In Aero-Engine and Space Operations, aero-engines continued to face harsh conditions in the defense sector, adversely affected by budget reductions for air force equipment. In the civil sector, however, there were positive signs with a steady increase in the volume of passenger traffic spurred on by a recovery in the world economy, despite concerns for the impact of higher jet fuel prices on the management of airline companies as a result of higher crude oil prices. IHI officially decided to participate in the GEnx jet engine project for new mid-size civil aircraft under development at The Boeing Company and Airbus.

Against this backdrop, IHI made concerted efforts and acquired orders from the Japan Defense Agency (JDA) for F110 and T700 engines as well as F100 engine components, as well as orders from the civil sector for V2500, CF34 engine modules and GE90 engine parts. Adding orders for related equipment, total orders were ¥233.9 billion, an increase of 6.1% from the previous fiscal year. Sales in the segment edged down slightly to ¥238.3 billion. Accordingly, orders on hand as of March 31, 2005, totaled ¥333.3 billion, a slight increase from the end of the previous fiscal year. Operating income grew 39.3% to ¥13.0 billion.

Participation in Development of GEnx Jet Engine

In October 2004, IHI signed a basic agreement with General Electric Co. in the United States to participate as a program partner in the development of a new jet engine (GEnx engine) for Boeing's next-generation 787 passenger aircraft. IHI will participate in the engineering, development, production and maintenance of the jet engine for an approximate 15% share of the work. IHI will contribute to the development of the GEnx jet engine, with General Electric taking the lead in development. Producing 55,000 to 70,000 pounds of thrust, the jet engine will be used on the Boeing 787 aircraft under development with the target of starting commercial flights in 2008. In charge of the low-pressure turbine and several stages of compressor airfoils, IHI aims to contribute substantially to the development of this next-generation high-performance jet engine by applying its 3D CAD and other advanced engineering technologies. At the same time, IHI aims to expand the scale of its civil jet engine business and improve its technological capabilities.



Conceptual drawing of the GEnx jet engine

Acquired Engine Type Certification for CF34-10E Jet Engine for 90 to 110-Seat Regional Aircraft

The U.S. Federal Aviation Administration (FAA) has awarded engine type certification to the CF34-10E, a civil aircraft jet engine featuring the latest technology that IHI helped develop.

Using cutting-edge technology, the CF34-10E jet engine has a lower impact on the environment with 12% fewer NOx emissions than conventional jet engines, as well as reductions of more than 10% in operating costs compared with existing aircraft due to better fuel economy.

The CF34-10E jet engine will be exclusively installed on the 90 to 118-seat EMBRAER 190 and EMBRAER 195 aircraft currently under development at Embraer, Ltd. in Brazil. This class of aircraft is referred to as a regional jet aircraft that meets needs for short-distance travel between small- and medium-size cities. Demand is expanding for this class of aircraft in Europe and the United States.



CF34-10E jet engine

Successful Launch of H-IIA Rocket No. 7

The Japan Aerospace Exploration Agency's (JAXA) seventh H-IIA Launch Vehicle with the multi-functional transport satellite-1 replacement (MTSAT-1R) satellite onboard was successfully launched from Tanegashima Space Center on February 26, 2005. IHI Group plays a key role, and its responsibilities cover the liquid-hydrogen and liquid-oxygen turbopumps that supply fuel to the LE-7A first-stage engine and LE-5B second-stage engine, as well as to the two solid rocket boosters (SRB-A) that perform initial-stage acceleration of the launch vehicle.

MTSAT-1R was successfully separated and placed into the required orbit.

IHI will continue to seek the expansion of its space business.



H-IIA rocket No. 7 (©: RSC)

Shipbuilding and Offshore Operations

In Shipbuilding and Offshore Operations, overall shipbuilding demand remained strong, owing to resurgence in overall shipping activity worldwide. However, a prudent outlook is warranted for new orders as a majority of shipyards have secured sufficient work volume and prices continue to increase as supply and demand conditions tighten for the procurement of steel and other materials.

Under these conditions, IHI received orders for 10 new ships, comprising six large-scale tankers, two mid-size bulk carriers, one defense destroyer and one defense cruiser, for a total of 1,830,000 deadweight tons. Adding orders for ship repair and maintenance, total orders came to ¥143.3 billion, a slight increase from the previous fiscal year. Sales grew 3.5% to ¥122.1 billion with the completion of a total of 12 ships of 1,730,000 deadweight tons, including four large-scale tankers, three container ships, and five mid-sized bulk carriers. As of March 31, 2005, orders on hand amounted to ¥284.6 billion, a slight decline from the end of the previous fiscal year, including orders for 40 ships at 5,580,000 deadweight tons. This segment posted an operating loss of ¥13.5 billion, owing to a deterioration in profitability on offshore projects and new ships.

Completed and Delivered SANHA LPG FPSO

IHI's subsidiary, IHI Marine United Inc. (IHIMU) built and delivered "SANHA LPG FPSO" to Single Buoy Moorings Inc (SBM) of Monaco at its Kure Shipyard in November 2004. SANHA LPG FPSO is the world's first and largest new built 135,000 m³ Liquefied Petroleum Gas Floating Production Storage and Offloading Unit (LPG FPSO) equipped with IHIMU's proprietary Self-supporting Prismatic-shape IMO Type-B (SPB) Tanks of low temperature steel for LPG storage. The FPSO, owned by SBM, engages in production of LPG from associated gas and export of LPG to shuttle tankers at Sanha Condensate Complex, offshore Angola operated by Cabinda Gulf Oil Company Limited represented by Chevron Corporation. The FPSO is hooked up at the site by SBM and started operation in May 2005.

IHIMU will continue aiming to aggressively expand its business of SPB Tanks for LPG and LNG, for which demand is dramatically increasing recently.

87,000MTDW Type Over-Panamax Bulk Carrier ("Future-87")

IHI Marine United Inc. (IHIMU) is going to deliver the first vessel of 87,000MTDW Type Over-Panamax Bulk Carrier ("Future-87"), to be named "ALAM PADU," at its Yokohama Shipyard on April 5, 2005.

The vessel is the largest type of IHIMU's standard bulk carriers, so-called "F-series," which have added up to more than 380 numbers since 1967. There is a strong demand for bulk carriers recently, and IHIMU has developed the Future-87 to meet the special requirements of shipowners. It is characteristic of the design to have over-panamax breadth (36.50m) and seven cargo holds. IHIMU is planning to build another 11 sister vessels at its Yokohama Shipyard.

Continuous Newbuilding of Very Large Container Carriers

IHI Marine United Inc. (IHIMU) undertook to build continuously 12 very large container carriers with more than 8,000TEU capacity as from the year 2004.

At IHIMU Kure Shipyard, the third 8,450TEU type container carrier for P&O Nedlloyd B.V. is under construction. This 8,450TEU type is the largest container carrier ever built in Japan and one of the largest container carriers operating in the world today. There is a strong demand for container carriers recently, and IHIMU expects this demand to continue steadily in the future.

It is known that advanced technology and expertise are required for engineering and building such a large container carrier, and IHIMU, using expertise acquired through long experience, will continue to build not only container carriers but also tankers (VLCCs) and bulk carriers in the future.



"SANHA LPG FPSO" under tow



"ALAM PADU" Over-panamax bulk carrier



Very large container carrier for P&O Nedlloyd B.V.

Other Operations

In Other Operations, demand remained favorable for agricultural machinery. However, in the real estate business, rental income fell on the Toyosu Center Building, which was securitized in the previous fiscal year. As a result, orders decreased 7.9% to ¥135.1 billion. Sales in this segment declined 6.4% to ¥162.1 billion. As a result, orders on hand fell 8.1% to ¥24.9 billion. Operating income fell to ¥4.9 billion.

Completion of Electronically Controlled Engine with World's Highest Output

On June 2, 2004, IHI affiliate Diesel United had completed a common rail, electronically controlled diesel engine (flex engine) with the world's highest output.

The 12-cylinder, low-speed diesel engine 12RT-flex96C boasts an output of 68,640 kW (93,360 horsepower), which had been installed into a 7,500-TEU container carrier, constructed by IHI Marine United at Kure Shipyard for P&O Nedlloyd, that has handed over in December 2004.

The flex engine features computer-controlled fuel injection and timing for optimum efficiency. Compared with machine-controlled camshafts, electronically controlled engines are able to precisely and flexibly control fuel flow for optimal fuel burning conditions. As a result, the engine is able to reduce fuel costs and NOx emissions.

Diesel United has received more than 20 orders for electronically controlled engines, and aims to expand orders amid a tightening of environmental regulations to reduce NOx emissions.



12RT-flex96C diesel engine

Development of iL Viewer-F, Welding Monitoring System

IHI has developed the iL Viewer-F, a compact flash-lamp welding monitoring system that costs one-third that of previous equipment. The iL Viewer-F is based on technology used in welding monitoring technology, an independently developed welding area viewer able to confirm welding conditions in real time by showing on the same screen the welding area and conditions of surrounding areas during welding and cutting operations with laser welding and other welding equipment.

The iL Viewer-F uses a flash lamp instead of pulse laser as a lighting source. Welding image quality is the same as before, and real time monitoring is possible during welding and cutting operations, contributing to the improvement of product quality control and welding technology. Since a laser is not used, handling and maintenance is easier, and also realizes a more compact body and lightening.

IHI plans to sell iL Viewer-F as a stand-alone products and also as a component integrated with welding processing systems and laser oscillators to research institutions and automotive industries and other customers.



Welding monitoring system "iL Viewer-F"

Development and Sale of eZ-2000, a New Ozone Air Purifier with Carbon Silk Filters

IHI affiliate Ishikawajima Shibaura Machinery (ISM) had developed and begun selling the eZ-2000, a new ozone air purifier with carbon silk filters, a first in the industry.

Since being the first in Japan in 1996 to receive approval for its ozone disinfectant equipment for pharmaceutical sanitation, IHI and ISM have provided more than 30 models of ozone disinfectant and deodorizer equipment to medical institutions, welfare facilities, preschools and kindergartens. In 2003, IHI donated ozone disinfectant equipment to China to help combat the Severe Acute Respiratory Syndrome (SARS) outbreak there.

The eZ-2000 is the first ozone air purifier to incorporate carbon silk filters, a new material with strong antibacterial and chemical substance absorption capabilities. With the installation of HEPA filters as final stage protection, the eZ-2000 offers a hybrid structure with higher dust filtration functionality for cleaner air, upgrading it to the highest specifications possible for use in operating rooms and clean rooms.

Ozone is an environmentally friendly disinfectant that leaves no residual gases, and the only running cost is the minimal cost of electricity. We expect demand for ozone air purifiers to increase in the future.



"eZ-2000" Ozone air purifier

Research and Development Highlights

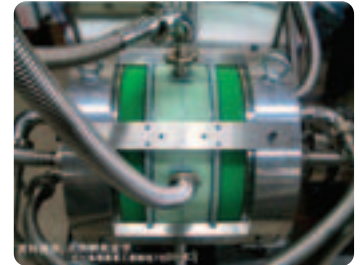
R&D Policy

IHI conducts research and development with three basic goals; “to pioneer new fields of leading-edge technologies,” “to advance common fundamental technologies,” and “to integrate technologies to develop new types of products.” By making constant efforts to increase efficiency, reliability and durability, while reducing the burden on the environment, we have achieved steady results that are leading to greater contributions to society through new technologies. Research and development is the foundation of IHI.



Development of a Superconductor Motor

As head of an academic-industrial consortium of eight companies, IHI was the first company in the world to successfully develop all superconductor motor both field and armature are superconducting coil with an output of 500kW that uses liquid nitrogen as a coolant for superconducting wires, a technological feat that was previously thought unattainable. Using proprietary technologies developed by the consortium, the entire motor is superconductive for virtually no energy loss. A superconductor motor with 5,000kW output would boast energy savings of approximately 400kW over conventional electrical motors and would be one-tenth the size. Our superconductor motor uses both sides of the motor axis, the same as in conventional electrical motors, a technological achievement that was previously thought impossible in other superconductor motors. By connecting several motors to the same axis, it is possible to attach three 500kW motors for a total output of 1,500kW. In addition, our superconductor motor operates very quietly, a feature desired by hospitals and other facilities. Using our superconductor motor as a ship propulsion system would reduce carbon dioxide emissions by approximately 11% annually, making it more environmentally friendly than conventional motors.



Superconductor motor

3D Laser Radar Railroad Crossing Obstacle Detection System

In collaboration with East Japan Railway Company (JR East), IHI has developed an obstacle detection system able to detect people and vehicles on a railroad crossing. The detection system features 3D laser radar developed by IHI that is able to quickly and precisely detect the position of any object on a railroad crossing. The detection equipment is able to reliably sense objects outdoors, even in bad weather when it is raining or snowing, and it is not affected by sunshine.

To satisfy the stringent reliability requirements for use as a railroad safety device, IHI developed a self-diagnosis function that determines when the equipment is unable to detect obstructions due to malfunction or bad weather conditions. In addition, the self-diagnosis function warns of degrading equipment performance and components and sends maintenance alerts before the equipment fails.



3D Laser radar



*Dimensions:
560mm W x 240mm H x 280mm D*

3D Measurement Technology Using Digital Imagery

At factory and construction sites, there are strong needs for highly precise 3D measurement technology able to measure the 3D shapes of manufactured objects, gaps between components, and the positioning of equipment installations. However, existing measurement methods are impractical for these applications, in terms of simplicity, the measurement time including preparation, or the system cost. To solve these problems, IHI has developed a vision metrology method that is simple to use. The vision metrology method calculates in 3D the coordinates of an object based on images taken from several fixed-point cameras or a single hand-held camera. Prior to taking the images, a highly precise correction to the distortion of the camera lens effectively reduces the number of images that need to be taken and increases measurement accuracy. Using this method, IHI developed a remote measurement system with video cameras installed in radioactive environments. In addition, IHI was able to significantly reduce costs by applying it to manifold position measurement for the replacement of the Tokai Vitrification Facility (TVF) No. 2 glass melter. IHI plans to aggressively use the vision metrology method at factories and construction sites in the future.



Manifold created from measurement results

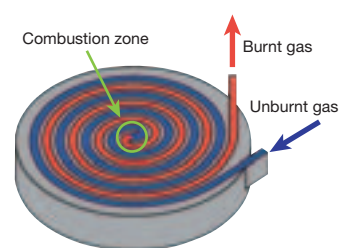
Micro combustor for Heat Sources

Electrical heaters create heat through the conversion of electricity that was originally generated from the heat of such primary energy sources as petroleum. Electrical heaters are generally used as small and medium-sized heat sources, and they are extremely inefficient for not directly using heat. Heat from burning fuels cannot be directly used because it is difficult to stably burn fuel in a small space and control the temperature. As combustion heating devices, micro combustors are the solution to these problems. Micro combustors solve these problems by using heat-recirculation technologies that collect the heat from exhaust gas, which had been discarded until now, to preheat unburnt gas (an air-fuel mixture) before it is burned (see "Concept of Microcombustor"). IHI has developed prototype micro-combustors with diameters ranging from 64mm to the size of a ¥500 coin to investigate characteristics such as ignition, start-up time, load control and emission properties. The results of these tests have shown that it is possible to control temperatures in increments of 1°C within a range of 400°C and 900°C. Compared to the thermal efficiency of electrical heaters, the micro combustor is about twice as efficient from a primary energy source basis.

In the future, IHI believes the micro-combustor can be used as a reformer heat source for compact fuel cells and as emergency heat sources. The micro combustor may also be used in applications that require precise temperature control such as semiconductor heating furnaces.



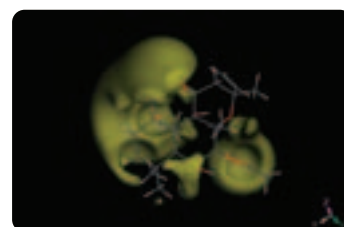
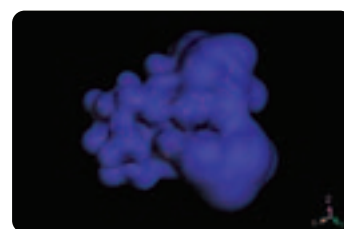
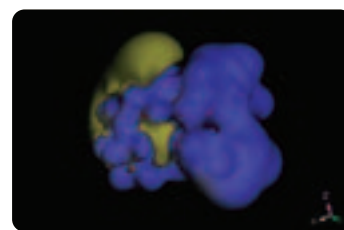
A micro combustor the size of a ¥500 coin



Concept of Microcombustor

Application of Quantum Theory in the Drug Discovery Field: The First Principle of Molecular Dynamics

The properties of physical matter, including chemical bonding, electrical properties (thermo-electricity and electrical conductivity), magnetism and optical response are due to the atomic nucleus and the electrons around the nuclei. Quantum mechanics is the only method available to explore matter at the atomic level. Based on quantum mechanics, IHI has been searching for new functional materials by using the first principle of molecular dynamics. IHI has extensive experience in the design, synthesis and evaluation of new inorganic materials including hard coating materials, thermoelectric materials, light-emitting devices, photocatalysts and solar cells. As a new application of the first principle of molecular dynamics to the drug discovery, IHI has worked in cooperation with Professor Y. Ishikawa at the Department of Physiology and Medicine, Yokohama City University, School of Medicine (also the New Jersey Medical School) to investigate the effect of medicines on the autonomic nerve, such as forskolin that directly stimulates important enzyme proteins (Adenylyl Cyclase) of controlling the autonomic nerve system. This research resulted in the identification of a relationship between the electrostatic potential of the specific derivatives and type-specific regulation of enzyme proteins such as Adenylyl Cyclase. The right figures show the results of an analysis of the electrostatic potential of forskolin. In the future, IHI plans to conduct similar analyses of various drug candidates, and to expand the application of the quantum mechanical approach in the field of drug discovery.



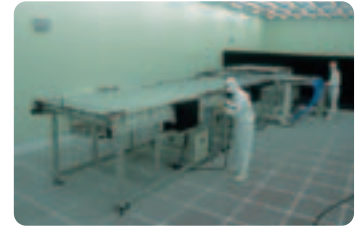
Isosurface of electrostatic potential of forskolin. The blue isosurface is the positive sign. The yellow is the negative sign. The top is isosurface of total electrostatic potential. The center is the positive. The bottom is the negative.

Transport Systems for Glass Substrates in Clean Environments

Capital investment in manufacturing lines has increased considerably in line with the growing popularity of flat panel displays (FPD) such as LCDs and plasma displays. IHI designs and manufactures transport systems for glass substrates used on FPD production lines in clean environments.

The size of glass substrates used in FPDs is expanding every year in tandem with increases in display size. To maintain production efficiency, however, transport systems must conserve space and operate at high speeds.

IHI contributes to the improvement of its customers' productivity through the development and provision of new technologies for noncontact transport technologies and robotless transport systems.



Noncontact glass substrate transport system for clean environments

Automated Mooring and Discharge System for Large-Scale Dredging and Oil Recovery Vessel "Kaisho-Maru"

The automated mooring and discharge system for the Kaisho-Maru helps the vessel discharge sediment dredged up along the Kanmon Channel. In order to maintain the water depth of the Kanmon Channel, a strategic point for marine traffic, the Kaisho-Maru berth at a landing pier to unload dredged sediment for reuse as land filler. At night or during bad weather, however, this unloading work becomes quite difficult for the ship's crew and the mooring personnel on the berth. For this reason, IHI commercialized the world's first automated mooring and discharge system, dispensing with personnel on the berth, discharging sediment and departing the pier.

The system comprises three major components. The first is an automated landing pier guidance system that uses control guidance technology to guide an approaching vessel in from approximately 800 meters out while compensating for wind, wave and current. The second is an automated mooring system that moors vessels without the help of personnel through two suckers installed on the landing pier. The third is an automated discharge system for moving dredged sediment from the vessel to land. The commercialization of this system has contributed to increased efficiency and safety in moving dredged sediment from vessels to land, as well as reducing personnel expenses on the landing pier.



Automated mooring and discharge system

- ① Automated landing pier system
- ② Automated mooring system
- ③ Automated discharge system

New Anti Corrosion Construction Method for Marine Steel Structures

IHI and subsidiary IHI Amtec Co., Ltd. have developed the IHI Electrocoating System (IECOS), a non-painting corrosion protection method for marine steel structures such as steel sheet piles and steel pipe piles. We aim to commercialize this new corrosion protection method as a part of our comprehensive maintenance services for marine steel structures. IECOS prevents rusting on the surface of marine steel structures through the electrochemical reaction of magnesium and calcium ions in seawater, which applies a coating to steel structures using a process that conducts electricity from an external power source through seawater. IECOS has many benefits, including the ability to prevent the corrosion of any kind of steel structure in seawater and reduced labor man-hours with electricity forming an anticorrosion film. In addition, IECOS is easy on the environment, as the anticorrosion film is derived from seawater elements. It is also possible to apply IECOS on complex structures in tight places that thwart conventional coating methods. IECOS is a maintenance-free film that repairs itself over time. The integrity of the film coating can easily be affirmed with a visual checkup, making it easy to inspect the completeness of its application.



Before execution of IECOS



After execution of IECOS

Corporate Governance and Compliance

(As of June 28, 2005)

Basic Philosophy on Corporate Governance

Fundamental Policies for Corporate Governance

IHI defines corporate governance as a system designed to maximize corporate value by increasing the efficiency of management to leverage the Company's capabilities as much as possible.

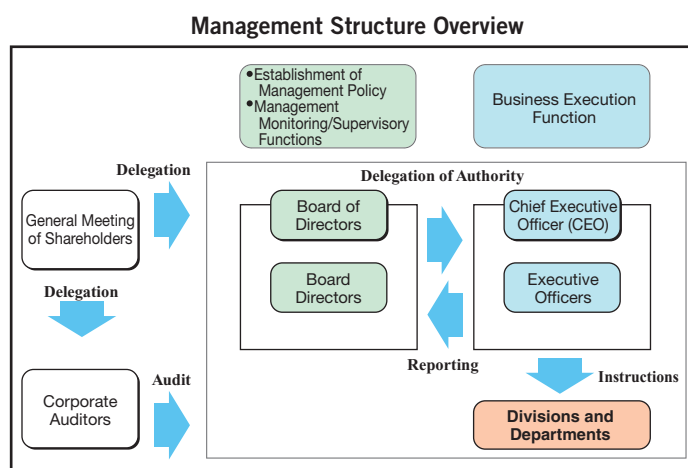
To establish and strengthen a system of excellent corporate governance, IHI aims to enhance its compliance structure based on the necessity for a system to observe internal decision making and business execution that is made in accordance with laws and regulations as well as acceptable procedures.

Corporate Governance Measures

Measures for Corporate Governance

1. Management Organization

- IHI has 11 directors, one of which is an outside director
- IHI has five auditors, three of which are outside auditors.
- There are no conflicts of interest between IHI and its outside director or outside auditors.
- IHI has 24 executive officers, 10 of which also serve as directors, who form the core management in charge of business execution.
- The Management Committee supports the decision making and business execution of the Chief Executive Officer (CEO), who designates members of the committee.



2. Internal Controls and Risk Management

- IHI has strengthened its auditing structure for evaluating contractual and technological risks prior to accepting an order through the establishment of the Contract Legal Department and the Technology Evaluation Committee.
- To prevent a worsening in profitability after accepting an order, IHI is concentrating efforts on enhancing its project management structure for processes, costs and quality in its business divisions and departments to eradicate unprofitable projects.
- IHI has established the Compliance Committee and opened a compliance hotline as an internal communications channel. To increase awareness of compliance issues, IHI disburses its Compliance Guide and also holds training sessions for its all directors and employees.

3. Audits

- Within the Internal Auditing Department, IHI has established the Auditing Office with nine auditors as an organization under the direct control of the president. IHI conducts audits of all business activities from the perspectives of compliance and fairness of business execution.
- Auditors oversee business execution by interviewing directors and attending meetings of the Board of Directors and the Management Committee in accordance with auditing policies set by the Board of Auditors.
- Auditors regularly exchange information and opinions with the independent auditors and receive reports on auditing results.
- Auditors exchange information and periodically receive reports from the Auditing Office.
- IHI employs Ernst & Young ShinNihon as its independent auditor. The names of the Certified Public Accountants affiliated with the independent auditor and their number of continuous years auditing IHI are as follows:

Takuo Sato (six years)
Tatsutaro Ishitsuka (13 years)
Takeshi Akimoto (two years)

IHI has 11 Certified Public Accountants and 11 accounting assistants involved in accounting audits.

IHI and its subsidiaries pay the following compensation to the independent auditor.

	Payment
1. Total compensation paid to independent auditor by IHI and its subsidiaries	¥253 million
2. Of the amount in 1. above, total compensation paid for audit certification according to Article 2-1 of the Certified Public Accountant Law.	¥247 million
3. Of the amount in 2. above, compensation paid to the independent auditor by IHI.	¥43 million

IHI Intellectual Properties

(As of March 31, 2005)

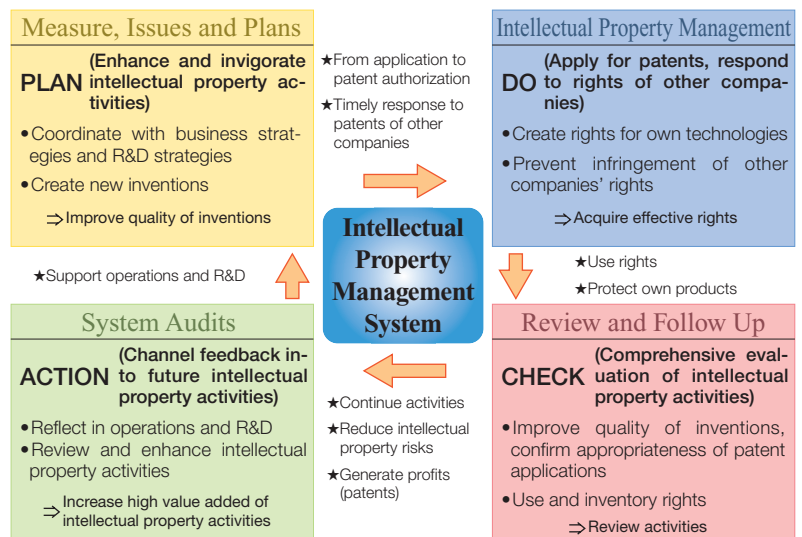
Basic Policy on Intellectual Property

Based on its Management Policy 2004, IHI is concentrating efforts on strengthening its intellectual property competitiveness by way of the following three measures.

1. Invigorate intellectual property activities in each business division and improve internal organizational structures
2. Promote intellectual property activities while coordinating with business strategies and R&D strategies
3. Thorough risk management of intellectual property

Support Structure for Intellectual Property

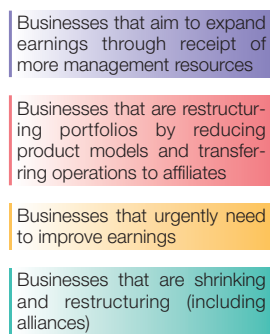
IHI is deploying an intellectual property management system Companywide by enhancing its organizational structure with the addition of a Chief Intellectual Property Officer (CIPO) in each business division. Based on this system, IHI is creating an internal structure for steadily pursuing intellectual property activities in each division.



Patent Applications

Based on this basic policy, IHI applies for patents in line with its business strategy.

We are concentrating our patent applications in business fields that were identified in the Management Policy 2004 to receive more management resources in an aim to expand earnings. We are making every effort to secure intellectual property rights by building a robust patent network.



Risk Management

From the initial stages of R&D to the release of products, IHI makes concerted efforts to thoroughly search and analysis the patents of other companies to prevent patent lawsuits. A lawsuit brought against IHI in April 2000 seeking damages for patent infringement by one of its products (down coiler) was subsequently dropped by the plaintiff in November 2004.

Environmental Efforts

Topics

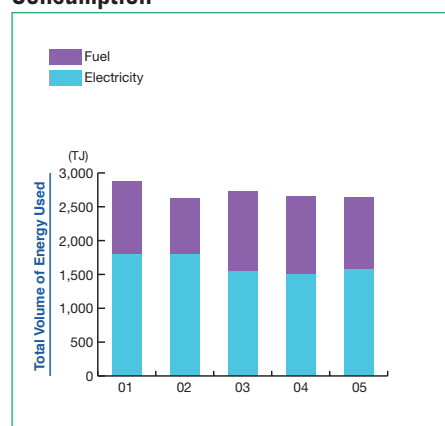
IHI makes concerted efforts to reduce waste volume and to improve recycling as a part of its environmental management system.

Through measures targeting zero waste, IHI achieved zero emissions at its Yokohama District in March 2004 as well as at the Mizuho Aero-Engine Plant, Tanashi Aero-Engine Plant, and the Soma Aero-Engine Plant in the Aero-Engine and Space Operations in September 2004, with regard to waste headed to final disposal by recycling 100% of the waste generated there.

For the three remaining districts, the Company plans to achieve zero emissions by the end of the fiscal year ending March 31, 2006.

IHI's Approach to Reducing Environmental Impact and Protecting the Environment Through Production Activities

Volume of Electricity and Fuel Consumption



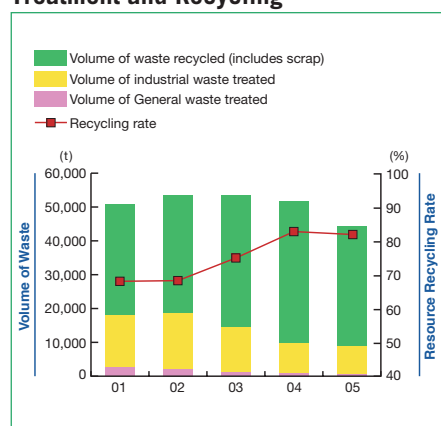
Trends in Total Volume of Energy Used

During fiscal year ended March 31, 2005, IHI's total energy consumption, in terms of electricity and fuel used, rose slightly from the previous fiscal year due to an increase in operations. IHI is working to achieve targets for reducing energy consumption within the framework of its environmental management system.

Note: Total energy consumption is the sum of purchased electricity (excluding private electric generation) and fuels consumed. Total electricity consumption is the sum of purchased electricity and private electric generation. Fuel consumption volume includes fuels for private electric generators.

Note: Figures are for years ended March 31 of respective years.

Volume of Waste Generation, Treatment and Recycling

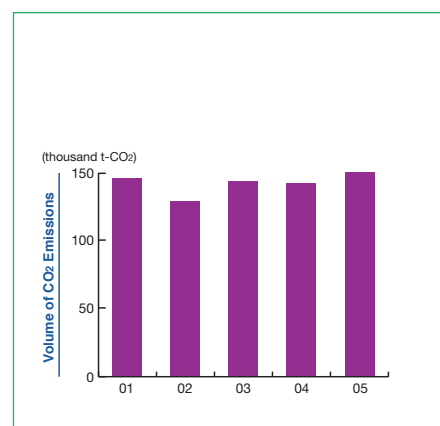


Results in Processing and Recycling Waste

The volume of waste generated by IHI's plants and offices declined from the previous fiscal year. Efforts to step up recycling resulted in a reduction in waste disposal volume. However, a lower volume of waste generated also led to a decrease in recycled material volume. Accordingly, the recycling ratio decreased one percentage point to 82%.

Note: The volume of waste generated is the total volume of general waste and industrial waste. Scrap sold with a market value is also included.

Volume of CO2 Emissions



Trends in Volume of CO2 Emissions

In the fiscal year ended March 31, 2005, CO2 emissions were approximately 150,000 tons (41,000 tons using carbon conversion), largely unchanged from the previous fiscal year, reflecting efforts to conserve energy at plants and offices.

Management of Chemical Substances

In the fiscal year ended March 31, 2005, most of the chemical substances emitted mainly into the atmosphere comprised xylene, toluene and ethylbenzene, which are used as paint solvents for ships and bridges.

To reduce emissions of these chemical substances, IHI focused efforts on installing catalytic combustion equipment in paint facilities, using water soluble paint that does not include solvents, using airless paint guns and reducing the volume of disposed paint.

IHI Group Product Lineup

Logistics Systems and Structures Operations



Container cranes



Continuous unloaders



Automated warehousing systems



Parking systems



Bridges



Gates



Shield machines



Automated people movers

Material handling systems

Container cranes
Unloaders
Stackers
Reclaimers
Coal handling systems
All-weather material handling systems
Electric overhead traveling cranes
Level luffing cranes
Jib climbing cranes
Floating cranes
Deck cranes
Electric hoists

Physical distribution and factory automation systems

Automated warehousing systems
Storage systems
Conveyor transfer systems
Sorting systems
Equipment for physical distribution systems
Automated material handling systems for FPD and semiconductor industries

Parking systems and products for civil use

Parking systems
Moving walkways

Bridges and steel structures

Bridges
Pedestrian bridges
Gates for river and sea coast
Subaqueous tunnel
Hybrid caissons
Aircraft maintenance facilities
Boarding bridges
Floating breakwaters
Steel structures for buildings

Tunneling machinery

Shield machines
Automatic segment assembling systems

Construction materials

Reinforced concrete segments

Transportation systems

Automated people mover
Light rail transit/light rail vehicle
Rolling stock
Snow plow machinery

Industrial Machinery Operations



Blast furnace plants



Vacuum heat treatment furnaces



Paper making machines



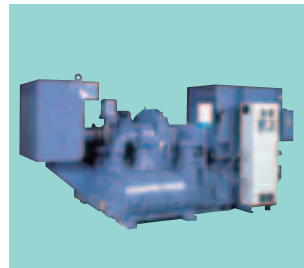
Transfer feed presses



LNG reciprocating compressors



Automotive turbochargers



Turbo compressors



Screw decanter centrifuges

Industrial machinery

Blast furnace plant
Rolling mills
Industrial furnaces
Pulp and paper production plants
Presses
Rubber/plastic processing machines
Advanced materials processing equipment
Vacuum heat treatment facilities
Pumps
Compressors
Blowers

Mass-produced machinery

Turbochargers
Superchargers
Separators
Filters
Dewatering equipment
Compressors
Tunnel ventilation fans
Fueling equipment
High-temperature heating system

Energy and Plant Operations



Boilers for power plants



Industrial boilers



Reactor pressure vessel



Air pollution prevention systems



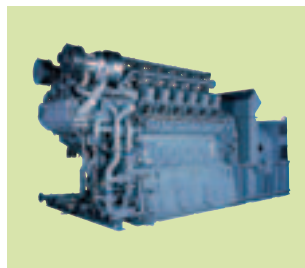
LNG storage tanks



Pharmaceutical plants



Ion implanter



Gas engines

Energy

Boilers for power plants
 Industrial boilers
 Fluidized-bed combustion boilers
 Waste-heat recovery boilers
 Coal gasification combined cycle power facilities
 Diesel power generation systems
 Cogeneration systems
 Wind power generation systems
 Fuel cells
 Solar cell systems

Components for nuclear power plants

Components for nuclear power plants
 Radioactive waste management systems
 Primary containment vessels
 Reactor pressure vessels

Environmental control and disaster prevention systems

Solid waste treatment systems
 Critical water and hydrothermal reaction equipment
 Air pollution prevention systems
 Wastewater treatment systems
 Seismic isolation floor systems
 Mass damper systems

Storage systems and process plants

Storage facilities
 Oil and gas processing plants
 Chemical plants
 Pharmaceutical plants
 Cement plants
 Ultrafine grinding mills
 Chemical plant equipment
 Cooling towers
 Desalination plants

Semiconductor, LCD panel equipment and R&D facilities

Semiconductor and LCD panel equipment
 X-ray inspection equipment
 Great variety of robots
 Great variety of simulators
 Preventative maintenance systems
 Optical and beam technology equipment
 R&D facilities
 Experiment facilities

Power systems and others

Diesel engines
 Gas engines
 Gas turbines
 Generating sets
 Steerable propellers

Aero-Engine and Space Operations



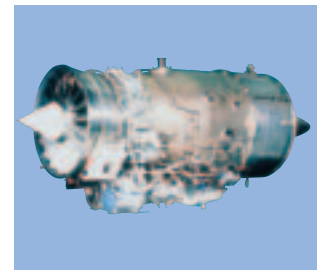
V2500 turbofan engines



CF34 turbofan engines



GE90 turbofan engines



F3 turbofan engines



F110 turbofan engines



Gas turbine power plants



GX launch vehicle (image)



International space station KIBO (©JAXA)

Jet engines

Turbofan engines
 Turboshaft engines
 Turbojet engines
 Turboprop engines
 Jet engine maintenance
 Jet engine test cells
 Jet engine parts

Gas turbine power generation systems

Gas turbine power generation systems

Space development

Rocket
 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

Others

Noise reduction systems

Shipbuilding and Offshore Operations

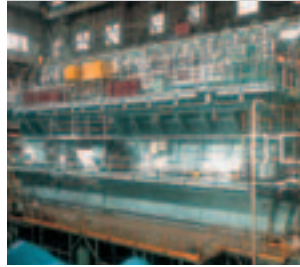
Other Operations



Very large crude oil carriers



SPB-type LNG carriers



Diesel engines



Agricultural machines



Container ships



Bulk carriers



Refuse compactors



Mini excavators



Passenger car ferries



Naval vessels



Crawler cranes



Lawn management machines



Side drag suction hopper dredgers with spilt oil recovery devices



Floating LPG production, storage, and offloading facility



Ozone deodorizers



Computer systems

Ships (Shipbuilding)

- Oil tankers
- LNG/LPG carriers
- Container ships
- Bulk carriers
- Passenger ships and ferries
- Naval vessels
- Coast guard ships
- Research vessels
- Work vessels
- Dredgers
- Oil recovery ships
- Pollution prevention ships

Ship repairs

Offshore structures

- Offshore development equipment
- LPG/LNG FPSO units
- LPG FSO units

Engines

- Diesel engines
- Gasoline engines

Agricultural machinery

- Tractor
- Tractor implements
- Lawn maintenance machinery
- Refuse compactor

Construction machinery

- Excavators
- Crawler/ all-terrain cranes
- Concrete batching and mixing plants
- Concrete pumps

Equipment for civil use

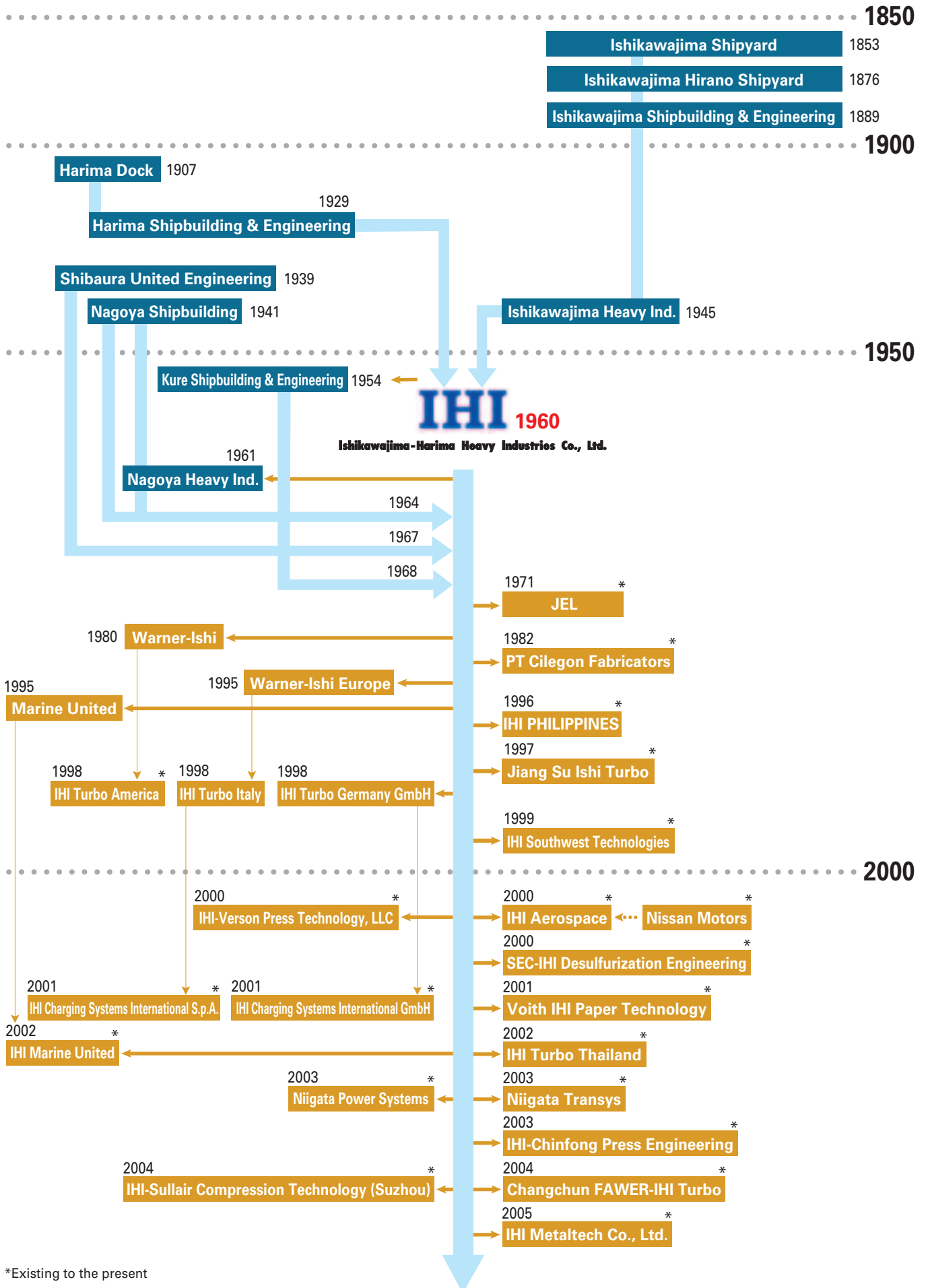
- Ozone deodorizer
- Dishwashers
- Disaster prevention equipment
- Water-purifying equipment

Financing and service industry

Marine transport

Others

History of IHI



*Existing to the present

Timeline of IHI

1800s	<p>1853 Established Ishikawajima Shipyard</p> <p>76 Established Ishikawajima Hirano Shipyard</p> <p>89 Established Ishikawajima Shipbuilding & Engineering Co., Ltd., Tokyo (Ishikawajima S&E)</p>
1900s	<p>1907 Established Harima Dock Co., Ltd.; later renamed to Harima Shipbuilding & Engineering (Harima S&E) and merged with the Company</p> <p>39 Established Shibaura United Engineering Co., Ltd. (SUECO), to produce rolling mills, through a joint venture with Toshiba and United Engineering & Foundry in the United States; later merged with the Company</p> <p>41 Established Nagoya Shipbuilding Co., Ltd. (Nagoya Shipbuilding); later merged with the Company</p> <p>45 Changed Company name to Ishikawajima Heavy Industries Co., Ltd. (Ishikawajima Heavy Ind.)</p>
1950s	<p>1954 Established Kure Shipbuilding & Engineering Co., Ltd. (Kure S&E); later merged with the Company</p>
1960s	<p>1960 Merged Ishikawajima Heavy Ind. and Harima S&E; inaugurated Ishikawajima-Harima Heavy Industries Co., Ltd. (IHI)</p> <p>61 Established Nagoya Heavy Ind.</p> <p>64 Merged Nagoya Heavy Ind. and Nagoya Shipbuilding</p> <p>67 Merged with Shibaura United Engineering</p> <p>68 Merged with Kure S&E</p>
1970s	<p>1971 Established Jurong Engineering Private Ltd. (JEL) in Singapore in a joint venture with JSL</p> <p>71 Established IHI Engineering Australia Pty. Ltd. (IEA)</p> <p>72 Established Ishikawajima Europe BV (IE) in the United Kingdom</p> <p>74 Established IHI Marine BV (IMBV) in the Netherlands</p> <p>75 Established Felguera-IHI SA (FI) in Spain</p> <p>77 Established IHI Marine Engineering Singapore Private Ltd.</p> <p>77 Established IHI INC. in the United States</p>
1980s	<p>1980 Established Warner-Ishi Corp. (WI) in a joint venture with Borg-Warner Automotive Inc. in the United States</p> <p>82 Established IHI (HK) Limited (IHL) in Hong Kong</p> <p>82 Established PT Cilegon Fabricators</p> <p>88 Established Diesel United, Ltd. in a joint venture with Sumitomo Heavy Industries Ltd. (SHI)</p>
1990s	<p>1992 Established IHI Europe Ltd. (IEL) in the United Kingdom</p> <p>95 Established IHI Technical Consulting Co., Ltd. (ITCC) in Taiwan</p> <p>95 Established Marine United Inc. (MU), which performs engineering for ships and naval vessels with SHI</p> <p>95 Established Warner-Ishi Europe S.p.A. (WIE) in Italy</p> <p>96 Established IHI PHILIPPINES, INC. (IPI) in the Philippines</p> <p>97 Established Jiang Su Ishi Turbo Company Ltd. (JIT) in China</p> <p>98 Established the Environmental Technical Center</p> <p>98 Established IHI Turbo Germany GmbH., in Germany</p> <p>98 Established IHI Turbo America, as a successor of Warner Ishi</p> <p>98 Established IHI Turbo Italy, as a successor of Warner Ishi Europe</p> <p>99 Established IHI Southwest Technologies, Inc. in the United States to undertake nondestructive inspections</p> <p>99 Established two subsidiaries to engage in industrial waste processing business</p>
2000s	<p>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</p> <p>00 Purchased Nissan Motor's Aerospace and Defense Divisions and established IHI Aerospace Co., Ltd.</p> <p>00 Integrated three construction companies into Ishikawajima Plant Construction Co., Ltd.</p> <p>00 Established IHI-Verson Press Technology, LLC, in the United States</p> <p>00 Established SEC-IHI Desulfurization Engineering Co., Ltd. in China</p> <p>01 Established joint venture Voith IHI Paper Technology Co., Ltd. in Japan</p> <p>01 Established joint venture IHI Charging Systems International GmbH, as a successor of IHI Turbo Germany</p> <p>01 Established Beijing Municipal Ishikawajima Shield Engineering Limited Company; joint venture for manufacturing & selling shield tunneling machines</p> <p>01 IHI Turbo Italy became a subsidiary company of IHI Charging Systems International GmbH, and renamed to IHI Charging Systems International S.p.A.</p> <p>02 Established joint venture IHI Turbo Thailand, for manufacturing & selling turbochargers.</p> <p>02 Project formulated for redevelopment of land at site of former plant in Toyosu district of Tokyo</p> <p>02 Shipbuilding & Offshore Operations spun off as a separate company, IHI Marine United Inc.</p> <p>03 Established Niigata Power Systems Co., Ltd. and Niigata Transys Co., Ltd. to take over and carry on a portion of the business of Niigata Engineering Co., Ltd.</p> <p>03 Aerospace development operations integrated with IHI Aerospace Co., Ltd.</p> <p>03 Established IHI-Chinfong Press Engineering Co., Ltd.</p> <p>04 Established Changchun FAWER-IHI Turbo Co., Ltd.</p> <p>04 Established IHI-Sullair Compression Technology (Suzhou) Co., Ltd.</p> <p>05 Established IHI Metaltech Co., Ltd.</p>

IHI Group Facilities

Parent Company



Soma Aero-Engine Plant

Products & services: Parts of jet engines, gas turbines and space development equipment
 Certificates: JIS Q 9100 (including JIS Q 9001/ISO 9001), Air Agency Certificate (FAA Repair Station) and ISO 14001



Tanashi Aero-Engine Plant

Products & services: Parts of jet engines, gas turbines and space development equipment
 Certificates: JIS Q 9100 (including JIS Q 9001/ISO 9001), JIS Q 14001 (ISO 14001) and ISMS



Mizuho Aero-Engine Plant

Products & services: Assembly and overhauling of jet engines, gas turbines and space development equipment
 Certificates: JIS Q 9100 (including JIS Q 9001/ISO 9001), Air Agency Certificate (FAA Repair Station), Approval Certificate (Maintenance Organization) (EASA), ISO 14001 and ISMS



Sunamachi Works

Products & services: Bridges, gates, steel structures, offshore structures and airport facilities
 Certificate: ISO 9001



Yokohama Nuclear & Chemical Components Works

Products & services: Reactor pressure vessels, containment vessels, heat exchangers for nuclear power plants, reactors and towers for chemical plants
 Certificates: ASME(N, NPT, U, U2, NA, NS, N3, S), ISO 9001 and ISO 14001



Yokohama Machinery Works

Products & services: Rolling mills, presses, paper and plastic machinery and rotating machinery
 Certificates: ISO 9001 and ISO 14001



Aichi Works

Products & services: Bridges, shield tunneling machines, deck machinery and steel structures
 Certificates: ISO 9001, ISO 14001, AISC (Cbr, F, P1) and Deck Cranes Manufacturers (NK)



Aioi Works

Products & services: Boilers, pressure vessels for chemical plants and prefabricated piping systems
 Certificates: ISO 9001, ISO 14001 and ASME(S, U, U2)



Aioi Workshop

Products & services: Steel structures and offshore structures
 Certificate: ISO 9001 and ISO14001



Aioi Casting Workshop

Products & services: Casting products for machinery
 Certificates: ISO 14001 and Casting products manufacturer (LRS, NK, DNV, CR, GL)



Kure Aero-Engine & Turbo Machinery Plant

Products & services: Parts of gas turbine power plants, jet engines and gas turbines
 Certificates: JIS Q 9100 (including JIS Q 9001/ISO 9001), Air Agency Certificate (FAA Repair Station) and ISO 14001



Kure Shingu Works

Products & services: Bridges, gates, steel structures and equipment for chemical plants
 Certificates: ISO 9001 and ISO 14001

Affiliates



IHI Marine United
Yokohama Shipyard
Products & services: Naval vessels, cruise ships, special cargo vessels and repairing
Certificates: ISO 9001 and ISO 14001



IHI Marine United
Kure Shipyard
Products & services: Shipbuilding, conversion and repairing
Certificates: ISO 9001, JIS Q 9001, NK and ISO 14001



IHI Aerospace
Tomioka Plant
Products & services: Launch vehicles, other space equipment systems and defense rocket systems
Certificates: JIS Q 9100 (including JISQ 9001/ISO 9001), ISO 14001 and ISMS



Ishikawajima Shibaura Machinery
Matsumoto Factory
Products & services: Compact tractors and engines
Certificates: ISO 9001 and ISO 14001



Ishikawajima Mass-Produced Machinery
Tatsuno Works
Products & services: Turbochargers, compressors and aircraft parts
Certificates: DNV, CCS, QS 9000 and ISO 14001



IHI Construction Machinery
Yokohama Plant
Products & services: Mini excavators, hydraulic shovels, crawler cranes, batching plants and others
Certificate: ISO 9001 and JIS Q 9001



Niigata Power Systems
Ohta Plant
Products & services: Diesel engines, gas engines, dual-fuel engines and Z-peller propulsion systems
Certificates: ISO 9001 and ISO 14001



Niigata Transys
Niigata Transcom Plant
Products & services: Rolling stocks, automated people movers, light-rail vehicles and snow plows
Certificate: ISO 9001



Star Farm Machinery Manufacturing
Chitose Works
Products & services: Hay and grass harvesting equipment



Ishikawajima Iwakuni Seisakusho
Iwakuni Works
Products & services: Blast furnace shells and tops, vacuum furnaces, new material producing furnaces and electric arc furnaces
Certificate: ISO 9001



Ishikawajima Industrial Machinery
Motomiya Works
Products & services: Stock preparation machinery and systems
Certificate: ISO 9001



PT Cilegon Fabricators (INDONESIA)
Products & services: Boilers, steel structures, container cranes and pressure vessels
Certificates: ISO 9001 and ASME (S, U, PP)



IHI Turbo America (U.S.A.)
Products & services: Automotive turbochargers and superchargers
Certificate: ISO 9001 and QS 9000



IHI Turbo Thailand (THAILAND)
Products & services: Automotive turbochargers
Certificate: ISO 14001 and QS 9000



IHI Charging Systems International (ITALY)
Products & services: Automotive turbochargers
Certificates: ISO 9001, AUSO, QS 9000, VDA 6.1 and ISO/TS 16949



Jiang Su Ishi Turbo (CHINA)
Products & services: Automotive turbochargers
Certificate: ISO 9002

Corporate Officers

(As of June 28, 2005)

President



Mototsugu Ito
(Chief Executive Officer)

Executive Vice Presidents



Isao Nakao
(Senior Executive Officer)



Teiichi Tamaki
(Senior Executive Officer)



Yukiya Nakagawa
(Senior Executive Officer)

Board Directors



Yasuo Shinohara
(Managing Executive Officer)



Yasuhiro Inagawa
(Managing Executive Officer)



Koichiro Kuwabara
(Managing Executive Officer)



Tsuguharu Asayama
(Managing Executive Officer)



Yasuyuki Watanabe
(Managing Executive Officer)



Kazuaki Kama
(Managing Executive Officer)



Fumio Sato

Corporate Auditors

Hiroyoshi Hiraga

Teruo Naruoka

Takeo Inokuchi

Kiyooki Shimagami

Nobuo Ohashi

Executive Officers

Mototsugu Ito

Isao Nakao

Yasuo Shinohara

Kazuaki Kama

Hirotohi Kiyofuji

Kuniaki Hongo

Yuji Hiruma

Teiichi Tamaki

Yasuhiro Inagawa

Yusuke Tasaka

Yoshiaki Shimojo

Tetsuo Chikata

Yukiya Nakagawa

Koichiro Kuwabara

Motoki Yoshinaga

Toshihiko Ohsumi

Kimiaki Gotoh

Tsuguharu Asayama

Sakae Ando

Jun'ichi Sato

Mitsukatsu Asaoka

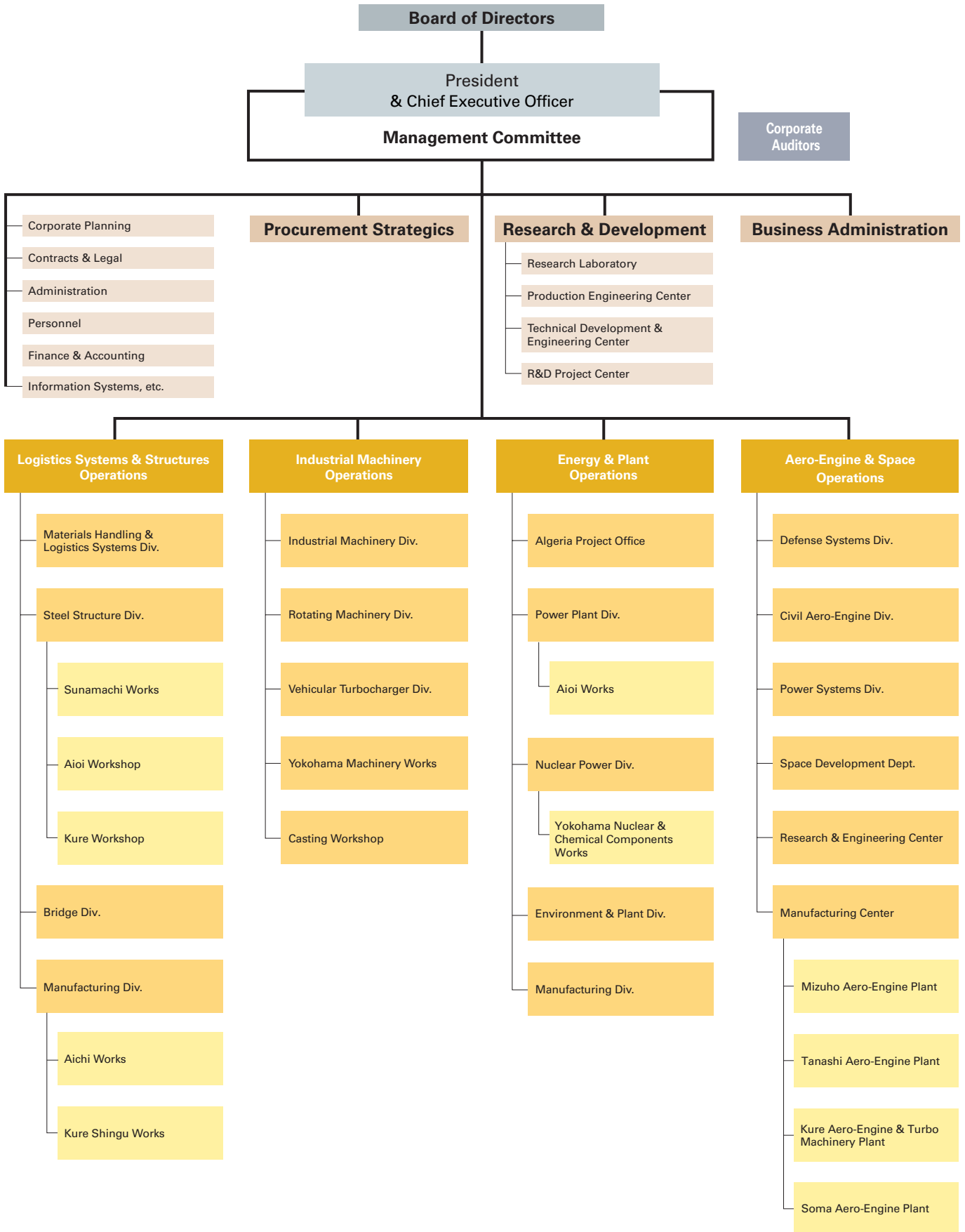
Yasuyuki Watanabe

Mutsumi Maruyama

Toshiro Takei

Organization

(As of July 1, 2005)



Directory

(As of July 1, 2005)

Offices

PARIS

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FAX: +66-2-236-7340

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Main Overseas Subsidiaries

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IHI Press Technology GmbH
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TEL: +49-6221-3096-180
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HEIDELBERG

IHI Charging Systems International GmbH
Haberstrasse 24, 69126 Heidelberg, GERMANY
TEL: +49-6221-3096-100
FAX: +49-6221-3096-123

CHONBURI

IHI Turbo (Thailand) Co., Ltd.
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SAN ANTONIO

IHI Southwest Technologies Inc.
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RIO DE JANEIRO

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Financial Section

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

Consolidated Six-Year Summary

	Millions of yen					
	2005	2004	2003	2002	2001	2000
For the year:						
Net sales	¥1,089,047	¥1,047,441	¥1,019,061	¥1,082,402	¥1,114,817	¥ 995,063
Cost of sales	962,127	950,136	878,260	932,415	951,290	878,067
Gross profit	126,920	97,305	140,801	149,987	163,527	116,996
Operating income (loss)	10,619	(23,230)	24,640	27,233	39,947	(5,825)
Income (loss) before income taxes and minority interests	15,112	(39,001)	(6,521)	11,487	18,148	(127,630)
Net income (loss)	2,180	(38,354)	(9,672)	5,539	9,205	(78,998)
At year-end:						
Total assets	¥1,387,838	¥1,377,021	¥1,381,240	¥1,422,110	¥1,481,841	¥1,413,453
Current assets	937,250	905,325	875,264	886,738	943,852	985,306
Net property, plant and equipment	234,887	246,406	287,096	307,677	295,775	275,738
Current liabilities	752,951	744,218	741,404	791,496	825,103	848,397
Long-term liabilities	460,960	461,574	447,870	427,087	439,179	386,221
Total shareholders' equity	153,716	151,550	171,323	187,589	201,349	162,796
Amounts per share (yen):						
Net income (loss)	¥ 1.56	¥ (29.67)	¥ (7.57)	¥ 4.27	¥ 7.09	¥ (60.84)
Cash dividends	—	—	1.50	3.00	3.00	—
Shareholders' equity	118.40	116.73	131.96	144.47	155.06	125.37
Other data:						
Number of employees	21,847	22,768	23,575	22,980	24,311	24,363
Number of shares issued (millions)	1,298	1,298	1,298	1,298	1,298	1,298
Ratios:						
Return on average assets (%)	0.16	(2.78)	(0.69)	0.38	0.64	(5.78)
Return on average equity (%)	1.43	(23.76)	(5.39)	2.85	5.06	(42.29)
Total shareholders' equity ratio (%)	11.08	11.01	12.40	13.19	13.59	11.52

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34	Consolidated Balance Sheets	54	Report of Independent Auditors
36	Consolidated Statements of Operations		
37	Consolidated Statements of Shareholders' Equity		
38	Consolidated Statements of Cash Flows		

Financial Review

Operating Results

During the year under review, IHI's consolidated net sales increased 4.0% to ¥1,089.0 billion. Although sales decreased in logistics systems and structures operations, aero-engine and space operations and other operations, these declines were offset by sales growth in industrial machinery operations, energy and plant operations, and shipbuilding and offshore operations. Overseas sales climbed 20.1% to ¥339.9 billion, representing 31.2% of consolidated net sales. Domestic sales decreased 2.0% to ¥749.1 billion, accounting for 68.8% of consolidated net sales, compared with 73.0% last term.

Cost of sales as a percentage of net sales fell from 90.7% in the previous year to 88.3%. Gross profit, accordingly, surged 30.4% to ¥126.9 billion. Selling, general and administrative expenses declined 3.5% to ¥116.3 billion, and as a percentage of net sales were 10.7%, a deterioration from 11.5% in the previous term. As a result of the foregoing, the Company recorded operating income of ¥10.6 billion, compared with an operating loss of ¥23.2 billion in the previous year.

Turning to the performance of industry segments, sales of logistics systems and structures operations totaled ¥176.2 billion, representing 16.2% of net sales. This segment posted an operating loss of ¥3.2 billion. In industrial machinery operations, sales amounted to ¥124.5 billion, making up 11.4% of net sales. Operating income for the segment was ¥2.1 billion. In energy and plant operations, sales were ¥301.2 billion, or 27.7% of net sales. Operating income for the segment was ¥6.8 billion. Aero-engine and space operations recorded sales of

¥233.2 billion, accounting for 21.4% of net sales. Operating income for the segment was ¥13.0 billion. Sales in the shipbuilding and offshore operations segment were ¥121.0 billion, or 11.1% of net sales. Operating loss totaled ¥13.6 billion. Other operations turned in sales of ¥132.9 billion, which was 12.2% of net sales. Operating income in this segment was ¥4.9 billion.

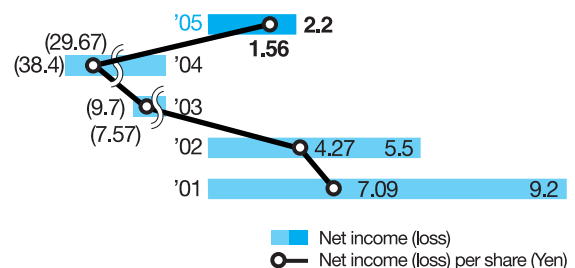
Interest expense exceeded interest and dividend income by ¥0.3 billion, down from ¥2.1 billion in the previous year. Other, net, income was ¥4.8 billion, compared with other, net, expenses of ¥13.7 billion in the previous year. The Company recorded income before income taxes and minority interests of ¥15.1 billion, compared with a loss of ¥39.0 billion in the previous year.

Current income taxes fell 41.3% to ¥7.3 billion, and deferred income taxes of ¥5.3 billion were recorded, compared with ¥13.1 in the previous term. IHI posted net income of ¥2.2 billion, compared with a net loss of ¥38.4 billion in the previous term. Consequently, net income per share was ¥1.56. Based on these results, IHI decided to forgo cash dividends for the year under review.

Cash Flows

Net cash used in operating activities was ¥4.4 billion, compared with net cash provided by operating activities of ¥36.2 billion in the previous year. Principal sources of cash included depreciation and amortization of ¥31.2 billion and income before income taxes and minority interests of ¥15.1 billion. The main uses of cash were decrease in accrued losses on sales contracts of

Net Income (Loss) and Net Income (Loss) per Share
(Billions of yen/Yen)



¥19.1 billion and gain on sale of marketable and investment securities of ¥15.3 billion.

Net cash used in investing activities was ¥4.1 billion, compared with net cash provided by investing activities of ¥39.4 billion in the previous year. The largest sources of cash were proceeds from sale of property, plant and equipment of ¥12.9 billion and proceeds from sale of marketable and investment securities of ¥20.8 billion, and the largest use of cash was purchases of property, plant and equipment and intangible fixed assets of ¥31.9 billion.

Net cash provided by financing activities totaled ¥24.7 billion, compared with net cash used in financing activities of ¥36.9 billion in the previous year. The most significant sources of cash were proceeds from issuance of long-term debt of ¥60.6 billion, and proceeds from issuance of debentures of ¥15.0 billion. The principal uses of cash were expenditures for redemption of debentures of ¥20.0 billion and repayment of long-term debt of ¥30.2 billion. As a result of the factors outlined above, cash and cash equivalents, end of year, totaled ¥139.7 billion, up from ¥122.7 billion in the previous year.

Financial Position

IHI's basic financial strategy is to maintain a sound financial position by covering investments with funds from operating activities, supplemented by external financing on an as needed basis. IHI made capital expenditures of ¥28.3 billion during the year under review. Depreciation and amortization totaled ¥31.2 billion, and interest-bearing debt (defined as short-term loans,

current portion of long-term loans and debentures, and long-term loans and debentures) increased 6.0% to ¥443.4 billion.

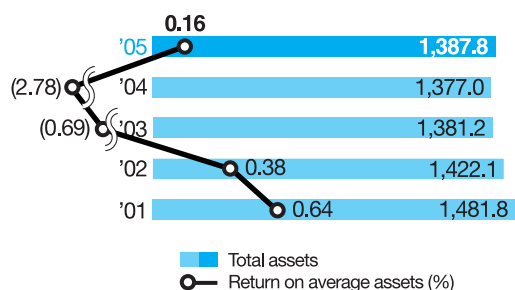
Cash and time deposits rose 3.1% to ¥121.6 billion and marketable securities increased 156.2% to ¥11.6 billion, while deferred income taxes in current assets edged down 4.2% to ¥32.0 million. Moreover, trade receivables increased 9.0% to ¥331.9 billion. Together with the aforementioned increase in marketable securities and an increase in the allowance for doubtful receivables, there was a 3.5% expansion in current assets to ¥937.3 billion.

Net property, plant and equipment decreased 4.7% to ¥234.9 billion. Total investments declined 4.3% to ¥196.0 billion as a result of a decrease in investment securities. Total assets, as a result of the above developments, grew 0.8% to ¥1,387.8 billion.

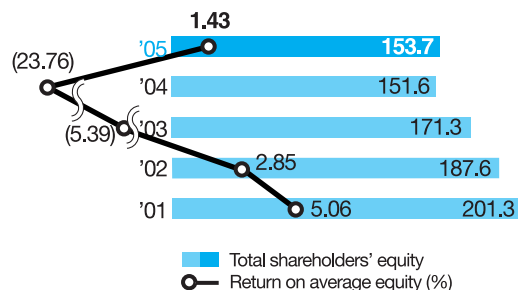
Total current liabilities edged up 1.2% to ¥753.0 billion, chiefly the result of increases in advances from customers and current portion of long-term loans and debentures compensating for an increase in the reserve for loss on sales contracts. However, total long-term liabilities declined 0.1% to ¥461.0 billion, owing mainly to a decrease in other long-term liabilities. Total shareholders' equity grew 1.4% to ¥153.7 billion, due primarily to growth in retained earnings.

Note: Figures in the Financial Review are in billions of yen rounded to the nearest first decimal place and exclude intersegment sales and transfers.

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, 2005 and 2004
Ishikawajima-Harima Heavy Industries Co., Ltd., and Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
ASSETS			
Current assets:			
Cash and time deposits (Note 7)	¥ 121,588	¥ 117,970	\$ 1,132,210
Marketable securities (Note 3)	11,609	4,532	108,101
Trade receivables (Note 7)	331,924	304,611	3,090,828
Less allowance for doubtful receivables	(4,092)	(3,578)	(38,104)
Inventories (Notes 4 and 7)	370,943	394,988	3,454,167
Deferred income taxes (Note 9)	32,029	33,430	298,250
Other	73,249	53,372	682,084
Total current assets	937,250	905,325	8,727,536
Property, plant and equipment (Notes 5 and 7):			
Buildings and structures	234,884	240,808	2,187,206
Machinery and equipment	372,926	376,258	3,472,632
Land (Note 13)	87,447	90,782	814,294
Construction in progress	3,362	2,460	31,306
Less accumulated depreciation	(463,732)	(463,902)	(4,318,205)
Net property, plant and equipment	234,887	246,406	2,187,233
Intangible assets:			
Consolidated adjustment accounts	442	124	4,116
Other	19,279	20,324	179,523
Total intangible assets	19,721	20,448	183,639
Investments:			
Investment securities (Notes 3 and 7)	112,132	116,465	1,044,157
Deferred income taxes (Note 9)	43,550	47,152	405,531
Other	50,050	51,409	466,058
Less allowance for doubtful receivables	(9,752)	(10,184)	(90,809)
Total investments	195,980	204,842	1,824,937
Total assets	¥1,387,838	¥1,377,021	\$12,923,345

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Trade payables	¥ 289,134	¥ 285,897	\$ 2,692,374
Short-term loans (Notes 6 and 7)	126,858	127,244	1,181,283
Current portion of long-term loans and debentures (Notes 6 and 7)	69,708	49,345	649,111
Advances from customers	143,565	134,283	1,336,856
Accrued income taxes	5,238	9,261	48,775
Accrued expenses (Note 8)	43,532	46,195	405,364
Reserve for losses on sales contracts	20,627	39,677	192,076
Other	54,289	52,316	505,531
Total current liabilities	752,951	744,218	7,011,370
Long-term liabilities:			
Long-term loans and debentures (Notes 6 and 7)	246,818	241,852	2,298,333
Allowance for employees' retirement benefits (Note 16)	150,088	152,257	1,397,598
Deferred tax liabilities from revaluation of land (Note 13)	4,092	4,092	38,104
Other (Note 7)	59,962	63,373	558,357
Total long-term liabilities	460,960	461,574	4,292,392
Contingent liabilities (Note 11)			
Minority interests in consolidated subsidiaries			
	20,211	19,679	188,202
Shareholders' equity:			
Common stock			
Authorized: 3,300,000,000 shares			
Issued: 1,298,495,152 shares	64,925	64,925	604,572
Capital surplus (Note 13)	15,687	15,687	146,075
Retained earnings	41,596	38,909	387,336
Unrealized holding gain on other securities	34,301	33,907	319,406
Foreign exchange translation adjustments	(2,757)	(1,851)	(25,673)
Less treasury stock, at cost	(36)	(27)	(335)
Total shareholders' equity	153,716	151,550	1,431,381
Total liabilities and shareholders' equity	¥1,387,838	¥1,377,021	\$12,923,345

Consolidated Statements of Operations

Years ended March 31, 2005 and 2004
Ishikawajima-Harima Heavy Industries Co., Ltd., and Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Net sales	¥1,089,047	¥1,047,441	\$10,141,047
Cost of sales (Note 10)	962,127	950,136	8,959,186
Gross profit	126,920	97,305	1,181,861
Selling, general and administrative expenses (Note 10)	116,301	120,535	1,082,978
Operating income (loss)	10,619	(23,230)	98,883
Other income (expense):			
Interest and dividend income	4,379	3,061	40,777
Interest expense	(4,714)	(5,148)	(43,896)
Other, net (Note 12)	4,828	(13,684)	44,957
Income (loss) before income taxes and minority interests	15,112	(39,001)	140,721
Income taxes:			
Current	(7,259)	(12,356)	(67,595)
Deferred	(5,313)	13,083	(49,474)
Income (loss) before minority interests	2,540	(38,274)	23,652
Minority interests in consolidated subsidiaries	(360)	(80)	(3,352)
Net income (loss)	¥ 2,180	¥ (38,354)	\$ 20,300
		Yen	U.S. dollars (Note 1)
Amounts per share (Note 18):			
Net income (loss)	¥ 1.56	¥ (29.67)	\$ 0.015
Cash dividends	—	—	—

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

Consolidated Statements of Shareholders' Equity

Years ended March 31, 2005 and 2004
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	Treasury stock, at cost
Balance at March 31, 2003	1,298,495	¥64,925	¥15,687	¥77,508	¥14,778	¥(1,551)	¥(24)
Net loss for the year	—	—	—	(38,354)	—	—	—
Capitalization of land revaluation excess	—	—	—	—	—	—	—
Increase resulting from inclusion of subsidiaries in consolidation	—	—	—	(80)	—	—	—
Decrease resulting from inclusion of subsidiaries in consolidation	—	—	—	—	—	—	—
Decrease resulting from inclusion of affiliates accounted for by the equity method	—	—	—	—	—	—	—
Cash dividends	—	—	—	—	—	—	—
Change for the year	—	—	—	—	19,129	(300)	—
Purchase of treasury stock	—	—	—	—	—	—	(3)
Sales of treasury stock	—	—	—	0	—	—	0
Bonuses to directors and corporate auditors	—	—	—	(165)	—	—	—
Balance at March 31, 2004	1,298,495	¥64,925	¥15,687	¥38,909	¥33,907	¥(1,851)	¥(27)
Net income for the year	—	—	—	2,180	—	—	—
Capitalization of revaluation excess	—	—	—	—	—	—	—
Increase resulting from inclusion of subsidiaries in consolidation	—	—	—	660	—	—	—
Decrease resulting from inclusion of subsidiaries in consolidation	—	—	—	—	—	—	—
Decrease resulting from inclusion of affiliates accounted for by the equity method	—	—	—	—	—	—	—
Cash dividends	—	—	—	—	—	—	—
Change for the year	—	—	—	—	394	(906)	—
Purchase of treasury stock	—	—	—	—	—	—	(9)
Sales of treasury stock	—	—	—	0	—	—	0
Bonuses to directors and corporate auditors	—	—	—	(153)	—	—	—
Balance at March 31, 2005	1,298,495	¥64,925	¥15,687	¥41,596	¥34,301	¥(2,757)	¥(36)

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

Balance at March 31, 2004	\$604,572	\$146,075	\$362,315	\$315,737	\$(17,236)	\$(251)
Net income for the year	—	—	20,300	—	—	—
Capitalization of revaluation excess	—	—	—	—	—	—
Increase resulting from inclusion of subsidiaries in consolidation	—	—	6,146	—	—	—
Decrease resulting from inclusion of subsidiaries in consolidation	—	—	—	—	—	—
Decrease resulting from inclusion of affiliates accounted for by the equity method	—	—	—	—	—	—
Cash dividends	—	—	—	—	—	—
Change for the year	—	—	—	3,669	(8,437)	—
Purchase of treasury stock	—	—	—	—	—	(84)
Sales of treasury stock	—	—	0	—	—	0
Bonuses to directors and corporate auditors	—	—	(1,425)	—	—	—
Balance at March 31, 2005	\$604,572	\$146,075	\$387,336	\$319,406	\$(25,673)	\$(335)

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

Consolidated Statements of Cash Flows

Years ended March 31, 2005 and 2004
Ishikawajima-Harima Heavy Industries Co., Ltd., and Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Operating Activities:			
Income (loss) before income taxes and minority interests	¥ 15,112	¥(39,001)	\$ 140,721
Depreciation and amortization	31,156	32,784	290,120
Amortization of long-term prepaid expenses	2,813	3,463	26,194
Increase in allowance for bad debts	535	452	4,982
Decrease in allowance for employees' bonuses	(95)	(651)	(885)
Increase in reserve for guaranteed contracts	2,090	2,087	19,462
(Decrease) increase in accrued losses on sales contracts	(19,050)	38,517	(177,391)
Decrease in accrued employees' retirement allowances	(2,169)	(4,979)	(20,198)
Interest and dividends income	(4,379)	(3,061)	(40,777)
Interest expense	4,714	5,148	43,896
(Gain) loss on foreign exchange	(20)	137	186
(Gain) loss on disposal of property, plant and equipment	(7,351)	4,617	(68,451)
Gain on sale of marketable and investment securities	(15,301)	(17,476)	(142,481)
Loss on valuation of marketable and investment securities and golf club memberships	1,532	268	14,266
Equity in (gains) losses of affiliates	(1,474)	148	(13,726)
Changes in operating assets and liabilities:			
Notes and accounts receivable	(27,310)	35,832	(254,307)
Advances received	9,282	8,129	86,433
Inventories	26,868	(7,968)	250,191
Advance payments	(6,620)	(1,117)	(61,644)
Notes and accounts payable	3,494	(5,286)	32,536
Deposits from tenants	(1,215)	—	(11,314)
Other current assets	(1,143)	(4,658)	(10,643)
Other current liabilities	1,129	(934)	10,513
Accrued consumption taxes	(1,106)	801	(10,299)
Directors' and corporate auditors' bonuses	(205)	(179)	(1,909)
Subtotal	11,287	47,073	105,103
Interest and dividends received	2,811	3,319	26,176
Interest paid	(4,649)	(5,401)	(43,291)
Income taxes paid	(13,857)	(8,807)	(129,034)
Net cash (used in) provided by operating activities	(4,408)	36,184	(41,046)
Investing Activities:			
Net (increase) decrease in time deposits due in more than three months	(248)	943	(2,309)
Purchases of marketable and investment securities	(1,479)	(1,155)	(13,772)
Proceeds from sale of marketable and investment securities	20,811	29,507	193,789
Proceeds from loan of marketable and investment securities	—	13,000	—
Purchases of property, plant and equipment and intangible fixed assets	(31,868)	(29,171)	(296,750)
Proceeds from sale of property, plant and equipment	12,854	34,726	119,695
Payments for disposal of property, plant and equipment	(1,137)	(5,600)	(10,588)
Expenditure for business transferred from Niigata Engineering Co., Ltd.	—	(2,162)	—
Net decrease in short-term loan receivables	109	160	1,015
Increase in long-term loan receivables	(405)	(743)	(3,771)
Decrease in long-term loan receivables	565	1,080	5,261
Increase in other non-current assets	(1,371)	(1,498)	(12,767)
(Decrease) increase in other fixed liabilities	(1,931)	340	(17,981)
Net cash (used in) provided by investing activities	(4,100)	39,427	(38,178)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Financing Activities:			
Net decrease in short-term debt	¥ (386)	¥ (30,449)	\$ (3,594)
Proceeds from issuance of long-term debt	60,570	36,353	564,019
Repayment of long-term debt	(30,241)	(58,479)	(281,600)
Proceeds from issuance of debentures	15,000	33,000	139,677
Expenditures for redemption of debentures	(20,000)	(15,000)	(186,237)
Increase in treasury stock	(9)	(3)	(84)
Increase in treasury stock of subsidiaries in consolidation	(3)	(2)	(28)
Dividends paid	—	(1,947)	—
Dividends paid to minority interests	(277)	(326)	(2,579)
Net cash provided by (used in) financing activities	24,654	(36,853)	229,574
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(496)	(246)	(4,619)
Net Increase in Cash and Cash Equivalents	15,650	38,512	145,731
Cash and Cash Equivalents, Beginning of Year	122,738	83,838	1,142,918
Increase in Cash and Cash Equivalents			
Due to Newly Consolidated Subsidiaries	1,296	388	12,068
Cash and Cash Equivalents, End of Year	¥139,684	¥122,738	\$1,300,717

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

	Millions of yen	
	2005	2004
Cash and Cash Equivalents, Beginning of Year:		
Cash and time deposits	¥117,970	¥77,503
Time deposits due in more than three months	(1,263)	(2,206)
Convertible time deposits included in marketable securities	—	—
Commercial paper including marketable securities	4,500	2,000
Investment trust including marketable securities	32	37
Sales under agreement to repurchase included in other current assets (short-term loans)	1,499	5,997
Beneficial interest in trust included in other current assets	—	507
Cash and Cash Equivalents	¥122,738	¥83,838

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Cash and Cash Equivalents, End of Year:			
Cash and time deposits	¥121,588	¥117,970	\$1,132,210
Time deposits due in more than three months	(1,511)	(1,263)	(14,070)
Convertible time deposits included in marketable securities	5,000	—	46,559
Commercial paper included in marketable securities	6,608	4,500	61,533
Investment trust included in marketable securities	1	32	9
Sales under agreement to repurchase included in other current assets (short-term loans)	7,998	1,499	74,476
Cash and Cash Equivalents	¥139,684	¥122,738	\$1,300,717

Notes to the Consolidated Financial Statements

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 generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards. Certain reclassifications have been made in the accompanying consolidated financial statements to facilitate understanding by readers outside Japan.

2. Significant accounting policies

(a) Scope of consolidation

The consolidated financial statements for the years ended March 31, 2005 and 2004 include the accounts of the Company and 57 and 56 subsidiaries, respectively.

For the years ended March 31, 2005 and 2004, 55 and 52 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, 2005 and 2004, included 12 and 12 affiliates, respectively, in the scope of the application of the equity method of accounting.

For the years ended March 31, 2005 and 2004, investments in 55 and 52 unconsolidated subsidiaries, respectively, and 35 and 36 affiliates, respectively, for both years 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., IHI Turbo (Thailand) Co., Ltd., IHI Charging System International GmbH, IHI Charging System International S.p.A. and ISHIKAWAJIMA EUROPE B.V. close their books of account on December 31. But no particular financial reports are prepared for consolidation to match the parent company's fiscal year. However, certain adjustments are made for the important transactions occurring from their settlement day to March 31.

Niigata Power Systems Co., Ltd., Niigata Transys Co., Ltd. and NICO Precision Co., Inc. changed their fiscal year-ends from January 31 to March 31. As a result, the consolidated financial statements include their books of account from February 1, 2004, to March 31, 2005.

(d) Sales recognition

Net sales of projects with construction lasting more than two years and revenue of more than ¥5 billion had been recorded using the percentage-of-completion method. From the year

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 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=¥107.39, the rate of exchange prevailing on March 31, 2005. 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.

ended March 31, 2005, however, net sales of projects with construction lasting more than two years and revenue of more than ¥3 billion will be recorded using the percentage-of-completion method. This change was made in order to match income and expenses more appropriately due to increase of small size construction contract than before.

The adoption of this standard did not have a material effect on the Companies' results of operations and financial position for the year ended March 31, 2005.

(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 principally 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 by the straight-line method.

Investment securities in unconsolidated 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 date, 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 "Unrealized holding gain on other securities."

Other securities without market prices available are stated at the cost by the moving-average method.

(h) Property, plant and equipment and intangible assets

Depreciation of plant and equipment is principally computed by the declining-balance method.

However, depreciation of lend-lease properties, certain

assets of consolidated subsidiaries and buildings (excluding building fixtures) acquired after April 1, 1998, are computed by the straight-line method. 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 composed principally of foreign exchange contracts to hedge currency risk and interest rate swaps to hedge interest rate 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, if applicable.

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 following year using the straight-line method over a certain number of years within the average remaining work period of employees.

Past service costs are amortized using the straight-line

method over a certain number of years within the average remaining work period of employees.

(l) Foreign currency translations

The assets, liabilities, income and expenses of overseas subsidiaries are translated at the exchange rates prevailing at the balance-sheet date. Translation differences are included as minority interests in consolidated subsidiaries and a component of shareholders' equity in foreign exchange translation adjustments.

(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 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 charged 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 Companies substantially consider all highly liquid low-risk investments purchased with original maturities of three months or less to be cash equivalents.

(r) The change in categorization of consolidated statements of cash flows

From this year, the Companies changed the categorization of consolidated statements of cash flows. Changes in "Deposits from tenants" have been included in "(Decrease) increase in other fixed liabilities" in investing activities. However, it was considered that the receipt and payment of the deposit of the property held for rental or leases corresponding that closely related to our real estate business had to be considered to be

a part of our business activity. Consequently, this classification is changed into operating activities and, separately above mentioned, because it attempts making properly and making plainly further of the classification.

The effect of this change is to decrease net cash provided by operating activities by ¥1,215 million (\$11,314 thousand), and to increase net cash provided by investing activities by the same amount.

(s) Amounts per share

Net income per share of common stock is computed by dividing net income available to common stockholders by the weighted average number of shares of common stock outstanding during each period. Shareholders' equity is computed based on the number of shares of common stock outstanding at each balance sheet date. 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 other securities with stated market prices at March 31, 2004, is as follows:

	Millions of yen		
	2004		
	Acquisition cost	Amount recorded in the balance sheet	Difference
Other securities whose market prices exceed their acquisition cost recorded in the balance sheet:			
Equity securities	¥30,908	¥88,136	¥57,228
Debt securities	—	—	—
Other	—	—	—
Subtotal	¥30,908	¥88,136	¥57,228
Other securities whose market prices do not exceed their acquisition cost recorded in the balance sheet:			
Equity securities	¥ 740	¥ 694	¥ (46)
Debt securities	—	—	—
Other	—	—	—
Subtotal	740	694	(46)
Total	¥31,648	¥88,830	¥57,182

A summary of other securities with stated market prices at March 31, 2005, is as follows:

	Millions of yen			Thousands of U.S. dollars		
	2005			2005		
	Acquisition cost	Amount recorded in the balance sheet	Difference	Acquisition cost	Amount recorded in the balance sheet	Difference
Other securities whose market prices exceed their acquisition cost recorded in the balance sheet:						
Equity securities	¥26,037	¥83,941	¥57,904	\$242,453	\$781,647	\$539,194
Debt securities	—	—	—	—	—	—
Other	—	—	—	—	—	—
Subtotal	¥26,037	¥83,941	¥57,904	\$242,453	\$781,647	\$539,194
Other securities whose market prices do not exceed their acquisition cost recorded in the balance sheet:						
Equity securities	¥ 1,236	¥ 1,207	¥ (29)	\$ 11,509	\$ 11,239	\$ (270)
Debt securities	—	—	—	—	—	—
Other	—	—	—	—	—	—
Subtotal	¥ 1,236	¥ 1,207	¥ (29)	\$ 11,509	\$ 11,239	\$ (270)
Total	¥27,273	¥85,148	¥57,875	\$253,962	\$792,886	\$538,924

A summary of other securities which were sold in the years ended March 31, 2005 and 2004, is as follows:

	Millions of yen						Thousands of U.S. dollars		
	2005			2004			2005		
	Selling prices	Amount of gain on sales	Amount of loss on sales	Selling prices	Amount of gain on sales	Amount of loss on sales	Selling prices	Amount of gain on sales	Amount of loss on sales
Other securities	¥20,811	¥15,314	¥13	¥27,507	¥17,484	¥8	\$193,789	\$142,602	\$121

A summary of securities without stated market prices at March 31, 2005 and 2004, is as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
	Amount recorded in the balance sheet	Amount recorded in the balance sheet	Amount recorded in the balance sheet
Held-to-maturity securities:			
Commercial paper	¥ 6,608	¥ —	\$ 61,533
Other securities:			
Negotiable certificates of deposit	5,000	—	46,559
Bond investment trusts	1	4,532	9
Unlisted equity securities except for those traded on the over-the-counter market	16,853	16,895	156,933

The contractual maturities of held-to-maturity securities and other securities with maturities were not presented, since there were no held-to-maturity securities or other securities with maturities at March 31, 2004.

The contractual maturities of held-to-maturity securities as of March 31, 2005, are as follows:

	Millions of yen			Thousands of U.S. dollars		
	2005			2005		
	Due within one year	Due after one year through five years	Due after five years through ten years	Due within one year	Due after one year through five years	Due after five years through ten years
Debt securities:						
Public bonds	¥ —	¥—	¥—	\$ —	\$—	\$—
Corporate bonds	—	—	—	—	—	—
Commercial paper	6,608	—	—	61,533	—	—
Other	—	—	—	—	—	—
Other:						
Negotiable certificates of deposit	5,000	—	—	46,559	—	—
Other	—	—	—	—	—	—
Debt securities:						
Other	—	—	—	—	—	—
Total	¥11,608	¥—	¥—	\$108,092	\$—	\$—

4. Inventories

Inventories at March 31, 2005 and 2004, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
	Finished goods	¥ 20,837	¥ 19,192
Contracts in process	259,635	276,949	2,417,683
Work in process	35,314	37,161	328,839
Raw materials and supplies	55,157	61,686	513,614
Total	¥370,943	¥394,988	\$3,454,167

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	Years	
	2005	2004
Buildings and structures:		
Metal-frame manufacturing buildings	31–38	31–38
Building berths	24	24
Docks	45	45
Machinery and equipment	10–12	10–12

6. Short-term bank loans, long-term loans, debentures and commercial paper

The weighted interest rates on short-term bank loans were 0.66 percent at March 31, 2005, and 0.74 percent at March 31, 2004.

Long-term loans and debentures at March 31, 2005 and 2004, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Banks and insurance companies, bearing interest rates from 0 percent to 5.3 percent	¥174,469	¥144,760	\$1,624,630
Government-owned banks, bearing interest rates from 0.7 percent to 5.4 percent	18,126	17,471	168,787
National and local government agencies, bearing interest rates from 0 percent to 0.3 percent	425	516	3,957
Debentures, bearing interest rates from 0.6 percent to 1.9 percent	113,000	118,000	1,052,240
Others, bearing interest rates from 0 percent to 3.6 percent	10,506	10,450	97,830
Less current portion	(69,708)	(49,345)	(649,111)
Net long-term loans and debentures	¥246,818	¥241,852	\$2,298,333

The aggregate annual maturities of long-term loans and debentures at March 31, 2005, are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2006	¥ 69,708	\$ 649,110
2007	47,477	442,099
2008	95,852	892,560
2009	40,178	374,132
2010 and after	63,311	589,543
Total	¥316,526	\$2,947,444

7. Assets pledged as collateral

The following assets were pledged as collateral at March 31, 2005 and 2004:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Cash and time deposits	¥ 564	¥ 120	\$ 5,252
Trade receivables	661	642	6,155
Inventories	2	3	19
Buildings and structures	4,253	3,693	39,603
Machinery and equipment	3,757	4,183	34,984
Land	24,492	19,768	228,066
Investment securities	7,699	8,265	71,692
Total	¥41,428	¥36,674	\$385,771
Property, plant and equipment pledged as industrial factory foundation included in the above assets:			
Buildings and structures	¥1,755	1,906	\$16,342
Machinery and equipment	3,203	3,614	29,826
Land	11,684	11,464	108,800
Total	¥16,642	¥16,984	\$154,968

The obligations collateralized by the forementioned assets at March 31, 2005 and 2004, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Short-term bank loans	¥ 9,026	¥ 8,631	\$ 84,049
Long-term debt	14,702	16,492	137,089
Other long-term liabilities	16,297	12,316	151,755
	¥40,045	¥37,439	\$372,893

8. Accrued expenses

Included in accrued expenses were allowances for employees' bonuses of ¥17,977 million (\$167,399 thousand) and ¥18,072 million at March 31, 2005 and 2004, respectively.

9. Deferred tax assets and liabilities

Significant components of the Companies' deferred tax assets and liabilities at March 31, 2005 and 2004, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Deferred tax assets:			
Allowances for employees' bonuses	¥ 7,300	¥ 7,430	\$ 67,977
Reserve for losses on sales contracts	8,390	14,798	78,126
Reserve for guaranteed contracts	3,764	2,942	35,050
Employees' retirement allowances	57,511	55,434	535,534
Allowances for doubtful receivables	3,538	3,436	32,945
Losses on valuation of contracts in process	2,676	3,683	24,919
Adjustment for taxable income on percentage-of-completion basis	2,368	3,215	22,050
Elimination of unrealized profits	4,032	4,210	37,545
Net loss carried forward	18,512	18,029	172,381
Losses on valuation of investment securities	4,395	—	40,926
Other	11,367	10,350	105,848
Valuation allowance	(29,076)	(23,702)	(270,751)
	94,777	99,825	882,550
Deferred tax liabilities:			
Depreciation	347	350	3,231
Unrealized holding gain on other securities	23,582	23,277	219,592
Other	457	248	4,256
	24,386	23,875	227,079
Net deferred tax assets	¥70,391	¥ 75,950	\$655,471

10. Research and development expenses

Research and development expenses, included in product cost, and selling, general and administrative expenses, were ¥21,207 million (\$197,476 thousand) and ¥22,457 million for the years ended March 31, 2005 and 2004, respectively.

11. Contingent liabilities

Contingent liabilities for trade notes receivable discounted and endorsed in the ordinary course of business amounted to ¥5,697 million (\$53,050 thousand) and ¥2,703 million at March 31, 2005 and 2004, respectively.

Contingent liabilities for guarantees of debts of unconsolidated subsidiaries and others amounted to ¥15,168 million (\$141,242 thousand) and ¥25,240 million at March 31, 2005 and 2004, respectively.

Contingent liabilities arising from similar guarantees of debts amounted to ¥22,914 million (\$213,372 thousand) and ¥23,838 million at March 31, 2005 and 2004, of which ¥19,744 million (\$183,853 thousand) and ¥19,826 million at March 31, 2005 and 2004, respectively, were for employee housing loans which were secured by life insurance and loan insurance, and therefore, the Companies were at low risk.

Contingent liabilities arising from obligation to repurchase receivables sold by the Companies amounted to ¥449 million (\$4,181 thousand) at March 31, 2005.

12. Other income (expense)—other, net

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

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Gain on sales of securities	¥15,301	¥ 17,475	\$142,481
Gain (loss) on foreign exchange	895	(3,724)	8,334
Idle-assets administrative expenses	(1,571)	(1,837)	(14,629)
Loss on disposal of property, plant and equipment	(3,098)	(8,565)	(28,848)
Equity in gains (losses) of unconsolidated subsidiaries and affiliates	1,474	(148)	13,726
Provision for employees' retirement allowances for prior period	(4,414)	(4,417)	(41,103)
Extraordinary retirement benefits	—	(1,958)	—
Loss on valuation of investment securities	(1,532)	(268)	(14,266)
Reversal profit from allowance for doubtful receivables	—	1,928	—
Gain on sales of property, plant, land and equipment	8,067	3,051	75,119
Gain on sale of the beneficiary rights to the trusts of Yokohama- South Distribution Center	2,382	—	22,181
Gain on sale of the beneficiary rights to the trusts of the Toyosu Center Building	—	727	—
Restructuring-related losses	(5,867)	(3,671)	(54,633)
Loss on fulfillment of liabilities-for-guarantee	—	(1,105)	—
Other, net	(6,809)	(11,440)	(63,405)
Total	¥ 4,828	¥(13,684)	\$ 44,957

The loss of ¥1,267 million (\$11,798 thousand) and ¥5,510 million in the above "Loss on disposal of property, plant and equipment" for 2005 and 2004, the gain of ¥7,722 million (\$71,906 thousand) and ¥3,051 million in the above "Gain on sales of property, plant, land and equipment" and the gain of ¥727 million in the above "Gain on sale of the Toyosu Center Building" for 2004, respectively, are related to the Toyosu area development project.

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" relates to this revaluation; and the minority interests related to the unrealized gain from revaluation, net of deferred tax, were included in ¥455 million (\$4,237 thousand) and ¥455 million at March 31, 2005 and 2004, respectively. The remainder of the unrealized gain was included in capital surplus.

Book value of land before revaluation	¥ 2,532 million
Book value of land after revaluation	¥12,567 million
Dates of revaluation	March 31, 2000 and September 30, 2000

The difference between the market value of land at the end of the year that was revalued in the previous year and book value following revaluation was ¥4,220 million (\$39,296 thousand) and ¥3,456 million at March 31, 2005 and 2004, respectively.

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, 2005 and 2004, 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:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Acquisition costs:			
Buildings and structures	¥ 180	¥ 180	\$ 1,676
Machinery and equipment	19,041	16,683	177,307
Others	770	774	7,170
Total	¥19,991	¥17,637	\$186,193
Accumulated depreciation:			
Buildings and structures	¥ 99	¥ 74	\$ 922
Machinery and equipment	10,321	8,398	96,108
Others	366	238	3,408
Total	¥10,786	¥ 8,710	\$100,438
Net book value:			
Buildings and structures	¥ 81	¥ 106	\$ 754
Machinery and equipment	8,720	8,285	81,199
Others	404	536	3,762
Total	¥ 9,205	¥ 8,927	\$ 85,716

Concerning the above finance lease transactions, the lease payments, and estimated depreciation expense, which is mainly calculated as ten-ninths of the amount computed by the declining-balance method over the respective lease terms and assuming a 10% scrap value, and estimated interest expense for the years ended March 31, 2005 and 2004, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Lease payments	¥3,114	¥2,915	\$28,997
Estimated depreciation expense	3,051	3,218	28,410
Estimated interest expense	381	384	3,548

Future minimum lease payments subsequent to March 31, 2005 and 2004, for finance leases accounted for as operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Within one year	¥ 2,902	¥ 2,632	\$ 27,023
Thereafter	9,691	9,376	90,241
Total	¥12,593	¥12,008	\$117,264

(b) Operating leases (Lessee)

Future minimum lease payments subsequent to March 31, 2005 and 2004, for non-cancelable operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Within one year	¥ 710	¥ 900	\$ 6,612
Thereafter	1,328	2,038	12,366
Total	¥2,038	¥2,938	\$18,978

(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, 2005 and 2004, to which the Companies have adopted the operating lease accounting method:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Acquisition costs:			
Buildings and structures	¥2,041	¥ 7,419	\$19,006
Machinery and equipment	2,399	3,087	22,339
Others	—	2	—
Total	¥4,440	¥10,508	\$41,345
Accumulated depreciation:			
Buildings and structures	¥ 338	¥ 2,751	\$ 3,148
Machinery and equipment	402	1,341	3,743
Others	—	1	—
Total	¥ 740	¥ 4,093	\$ 6,891
Net book value:			
Buildings and structures	¥1,703	¥ 4,668	\$15,858
Machinery and equipment	1,997	1,746	18,596
Others	—	1	—
Total	¥3,700	¥ 6,415	\$34,454

Concerning the above finance leases, the lease payments, depreciation expense and estimated interest income for the years ended March 31, 2005 and 2004, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Recorded lease payments	¥955	¥853	\$8,893
Recorded depreciation expense	591	517	5,503
Estimated interest income, assuming that the finance lease accounting had been adopted	350	318	3,259

Future minimum lease payments subsequent to March 31, 2005 and 2004, for finance lease transactions accounted for by the operating lease accounting method are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Within one year	¥ 360	¥ 597	\$ 3,352
Thereafter	3,494	7,237	32,536
Total	¥3,854	¥7,834	\$35,888

15. Derivatives

(a) Foreign currency

The Companies had no outstanding forward foreign exchange contracts in the years ended March 31, 2005 and 2004, as hedge accounting was applied to all derivative transactions.

(b) Interest rate

As of March 31, 2005, notional amounts, market prices and valuation gains/losses for derivative transactions are as follows:

	Millions of yen				Thousands of U.S.dollars			
	Notional amount	Over one year	Market prices	Valuation loss	Notional amount	Over one year	Market prices	Valuation loss
Interest-rate swaps								
Receipts floating								
payments fixed	¥12,600	¥12,600	¥(199)	¥(199)	\$117,329	\$117,329	\$(1,853)	\$(1,853)
Total	¥12,600	¥12,600	¥(199)	¥(199)	\$117,329	\$117,329	\$(1,853)	\$(1,853)

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	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Projected benefit obligation	¥(189,503)	¥(198,751)	\$ (1,764,624)
Fair value of plan assets	3,316	3,155	30,878
Funded status	(186,187)	(195,596)	(1,733,746)
Unrecognized transition obligation	—	4,409	—
Unrecognized actuarial losses	34,452	37,126	320,812
Unrecognized past service costs	1,647	1,804	15,336
Obligation recognized in the consolidated balance sheet	(150,088)	(152,257)	(1,397,598)
Allowance for employees' retirement benefits	¥(150,088)	¥(152,257)	\$ (1,397,598)

Components of net periodic pension cost:

Year ended March 31	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Service cost benefits earned during the year	¥9,674	¥ 9,176	\$ 90,083
Interest cost on projected benefit obligation	3,822	4,620	35,590
Expected return on assets	(30)	(37)	(280)
Amortization of transition obligation	4,409	4,920	41,056
Amortization of actuarial losses	3,353	2,512	31,223
Amortization of past service costs	25	155	233
Additional payments	171	2,302	1,592
Net periodic pension cost	¥21,424	¥23,648	\$ 199,497

	2005	2004
Assumptions used in the actuarial calculation were:		
Actuarial cost method:	Projected unit credit method	Projected unit credit method
Discount rate:	2.00%	2.00%
Expected rate of return:	1.50%	1.50%
Amortization period for past service costs (within the employees' average remaining years of service):	13 years	13 years
Amortization period for actuarial losses (within the employees' average remaining years of service):	13 years	13 years
Amortization period for transition obligation:	5 years	5 years

17. Segment information

(a) Industry segments

Industry segment information of the Companies for the years ended or as of March 31, 2005 and 2004, is shown below:

Year ended or as of March 31, 2005	Millions of yen						Total	Eliminations and Corporate	Consolidated
	(1)	(2)	(3)	(4)	(5)	(6)			
Sales and operating income:									
Sales to outside customers	¥176,247	¥124,520	¥301,221	¥233,190	¥120,957	¥132,912	¥1,089,047	¥ —	¥1,089,047
Intersegment sales and transfers	11,953	19,449	13,712	5,188	1,161	29,198	80,661	(80,661)	—
Total	188,200	143,969	314,933	238,378	122,118	162,110	1,169,708	(80,661)	1,089,047
Operating expenses	191,384	141,877	308,176	225,366	135,671	157,192	1,159,666	(81,238)	1,078,428
Operating income (loss)	¥ (3,184)	¥ 2,092	¥ 6,757	¥ 13,012	¥ (13,553)	¥ 4,918	¥ 10,042	¥ 577	¥ 10,619
Assets, depreciation expense and capital expenditures:									
Assets	¥176,377	¥104,736	¥275,443	¥274,827	¥139,767	¥213,433	¥1,184,583	¥203,255	¥1,387,838
Depreciation expense	2,039	3,649	3,891	10,785	3,002	4,999	28,365	2,791	31,156
Capital expenditures	1,394	3,582	2,817	10,104	1,704	6,904	26,505	1,809	28,314

Year ended or as of March 31, 2004	Millions of yen						Total	Eliminations and Corporate	Consolidated
	(1)	(2)	(3)	(4)	(5)	(6)			
Sales and operating income:									
Sales to outside customers	¥186,369	¥115,562	¥248,488	¥236,881	¥112,533	¥147,608	¥1,047,441	¥ —	¥1,047,441
Intersegment sales and transfers	16,427	14,150	20,385	4,565	5,486	25,515	86,528	(86,528)	—
Total	202,796	129,712	268,873	241,446	118,019	173,123	1,133,969	(86,528)	1,047,441
Operating expenses	200,471	133,514	288,599	232,103	138,754	164,358	1,157,799	(87,128)	1,070,671
Operating income (loss)	¥ 2,325	¥ (3,802)	¥ (19,726)	¥ 9,343	¥ (20,735)	¥ 8,765	¥ (23,830)	¥ 600	¥ (23,230)
Assets, depreciation expense and capital expenditures:									
Assets	¥182,140	¥107,663	¥234,098	¥286,544	¥142,482	¥205,475	¥1,158,402	¥218,619	¥1,377,021
Depreciation expense	2,148	3,070	3,836	11,269	2,997	6,453	29,773	3,011	32,784
Capital expenditures	2,162	2,573	3,570	7,621	2,048	7,397	25,371	3,504	28,875

Thousands of U.S. dollars

Year ended or as of March 31, 2005	(1)	(2)	(3)	(4)	(5)	(6)	Total	Eliminations and Corporate	Consolidated
Sales and operating income:									
Sales to outside customers	\$1,641,186	\$1,159,512	\$2,804,926	\$2,171,431	\$1,126,334	\$1,237,658	\$10,141,047	\$ —	\$10,141,047
Intersegment sales and transfers	111,305	181,106	127,684	48,310	10,811	271,887	751,103	(751,103)	—
Total	1,752,491	1,340,618	2,932,610	2,219,741	1,137,145	1,509,545	10,892,150	(751,103)	10,141,047
Operating expenses	1,782,140	1,321,138	2,869,690	2,098,575	1,263,349	1,463,748	10,798,640	(756,476)	10,042,164
Operating income (loss)	\$ (29,649)	\$ 19,480	\$ 62,920	\$ 121,166	\$ (126,204)	\$ 45,797	\$ 93,510	\$ 5,373	\$ 98,883
Assets, depreciation expense and capital expenditures:									
Assets	\$1,642,397	\$ 975,286	\$2,564,885	\$2,559,149	\$1,301,490	\$1,987,457	\$11,030,664	\$1,892,681	\$12,923,345
Depreciation expense	18,987	33,979	36,232	100,428	27,954	46,551	264,131	25,989	290,120
Capital expenditures	12,981	33,355	26,231	94,087	15,867	64,290	246,811	16,845	263,656

Notes: i The Companies operate in six industry segments as follows:

(1) Logistics Systems and Structures Operations

Material handling systems, physical distribution and factory automation systems, parking systems, bridges and others

(2) Industrial Machinery Operations

Iron and steel manufacturing equipment, vehicular turbochargers, mass-produced machinery and others

(3) Energy and Plant Operations

Boilers, gas turbines, components for nuclear power plants, environmental control systems, storage facilities 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 and others

(6) Other Operations

Diesel engines, agricultural machinery, construction machinery, construction materials, financing and services, marine transport and others

ii Operating expenses were entirely allocated to each industry segment.

iii Corporate assets, which amounted to ¥298,148 million (\$2,776,311 thousand) and ¥309,688 million as of March 31, 2005 and 2004, 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 (Year ended March 31, 2004)

The accrued losses on sales contracts had been provided for one billion yen and over. But the effective year ended March 31, 2004, the accrued losses are provided on sales contracts of ¥300 million and over. The effect of this change is to decrease operating income by ¥329 million at Logistics Systems and Structures Operations, and to increase operating loss by ¥3,626 million at Industrial Machinery Operations, ¥2,823 million at Energy and Plant Operations, and ¥9,588 million at Shipbuilding and Offshore operations, respectively.

(b) Overseas sales

Year ended March 31, 2005	Millions of yen					
	Europe	Asia	North America	Central and South America	Others	Total
Overseas sales	¥49,097	¥85,014	¥95,449	¥53,194	¥57,112	¥339,866
Overseas sales as a percentage of consolidated net sales	4.5%	7.8%	8.8%	4.9%	5.2%	31.2%

Year ended March 31, 2004	Millions of yen					
	Europe	Asia	North America	Central and South America	Others	Total
Overseas sales	¥35,233	¥58,302	¥86,712	¥74,035	¥28,700	¥282,982
Overseas sales as a percentage of consolidated net sales	3.4%	5.5%	8.3%	7.1%	2.7%	27.0%

Year ended March 31, 2005	Thousands of U.S. dollars					
	Europe	Asia	North America	Central and South America	Others	Total
Overseas sales	\$457,184	\$791,638	\$888,807	\$495,335	\$531,819	\$3,164,783

Note: The countries or areas included in each segment are as follows:

(1) Europe.....U.K., Germany, France, Italy, Ireland, Greece, Bulgaria, etc.

(2) Asia.....China, Taiwan, Korea, Hong Kong, Thailand, Vietnam, Singapore, Malaysia, Indonesia, Philippines, India, Sri Lanka, etc.

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

(4) Central and South America.....Brazil, Panama, etc.

18. Amounts per share

	Yen		U.S. dollars
Year ended March 31	2005	2004	2005
Net income (loss)	¥ 1.56	¥ (29.67)	\$0.015
Cash dividends	—	—	—
Shareholders' equity	118.40	116.73	1.10

19. Subsequent event

The Company was criminally accused by the Fair Trade Commission of rigging bids for steel bridge construction projects in violation of the Antimonopoly Law. As a penalty, the Company is not allowed to participate in government tenders for construction projects by the authorities and public services including the Ministry of Land, Infrastructure and Transport, for 6–8 months starting on May 27, 2005. In succession, on June 15, 2005, the Company was prosecuted for the accusation by the Tokyo High Public Prosecutors Office. Accordingly, It is probable that the Company will be fined and/or will be imposed penalty on. Still, the effect of these penalties cannot be estimated at the date of issue of this report.

Report of Independent Auditors

Certified Public Accountants

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The Board of Directors Ishikawajima-Harima Heavy Industries Co., Ltd.

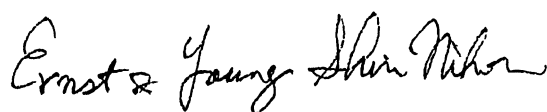
We have audited the accompanying consolidated balance sheets of Ishikawajima-Harima Heavy Industries Co., Ltd. and consolidated subsidiaries as of March 31, 2005 and 2004, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Ishikawajima-Harima Heavy Industries Co., Ltd. and consolidated subsidiaries at March 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The subsequent event concerning the violation of the Antimonopoly Law for steel bridge construction projects is described in Note 19 of consolidated financial statements.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2005 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.



June 28, 2005



Ishikawajima-Harima Heavy Industries Co., Ltd.

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