

Annual Report 2004

For the Year Ended March 31, 2004



Explore
the Engineering
Edge



Profile

Explore the Engineering Edge

In December 2003, Ishikawajima-Harima Heavy Industries Co., Ltd., (the “Company”) celebrated the 150th anniversary of its establishment.

From its beginning as a shipbuilder, IHI has expanded its operations over the years to cover a widely diversified range of machinery and equipment for use on land, in the sky and in outer space. We have consistently leveraged the accumulated knowledge, know-how and ingenuity of our corporate Group to provide inspiration and direction for one new age after another.

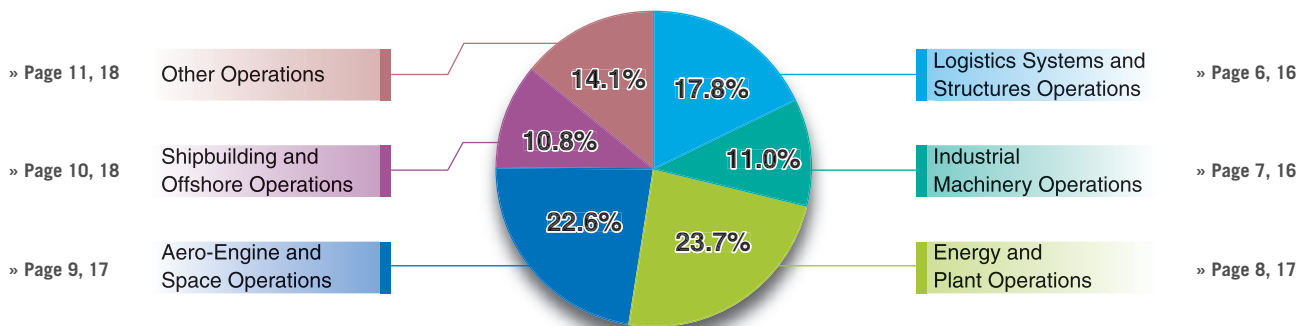
Today, at a time of unprecedented demand for innovation and change, we continue to “Explore the Engineering Edge.” This new corporate slogan expresses our commitment to searching the frontier of engineering, vigorously and unceasingly, for never before imagined possibilities and solutions appropriated to our era.

This commitment is founded on three principles:

- To bring dreams to reality—unlimited enthusiasm for making things of high quality
- To innovate in business and technology—insatiable curiosity and unconventional thinking
- To create new value—an exceptional ability to integrate expertise in various businesses to provide total solutions

At this significant juncture, IHI and our partners and associates around the world look forward to building on the tradition of innovative leadership that sustained our first 150 years of growth and development. We will continue to explore the engineering edge, deploying all the resources and resourcefulness at our disposal to construct a better world.

Net Sales by Segment



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Cautionary Statements with Respect to Forward-Looking Statements

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. 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 general economic conditions and exchange rates, could cause actual results to differ materially from those discussed in the forward-looking statements.

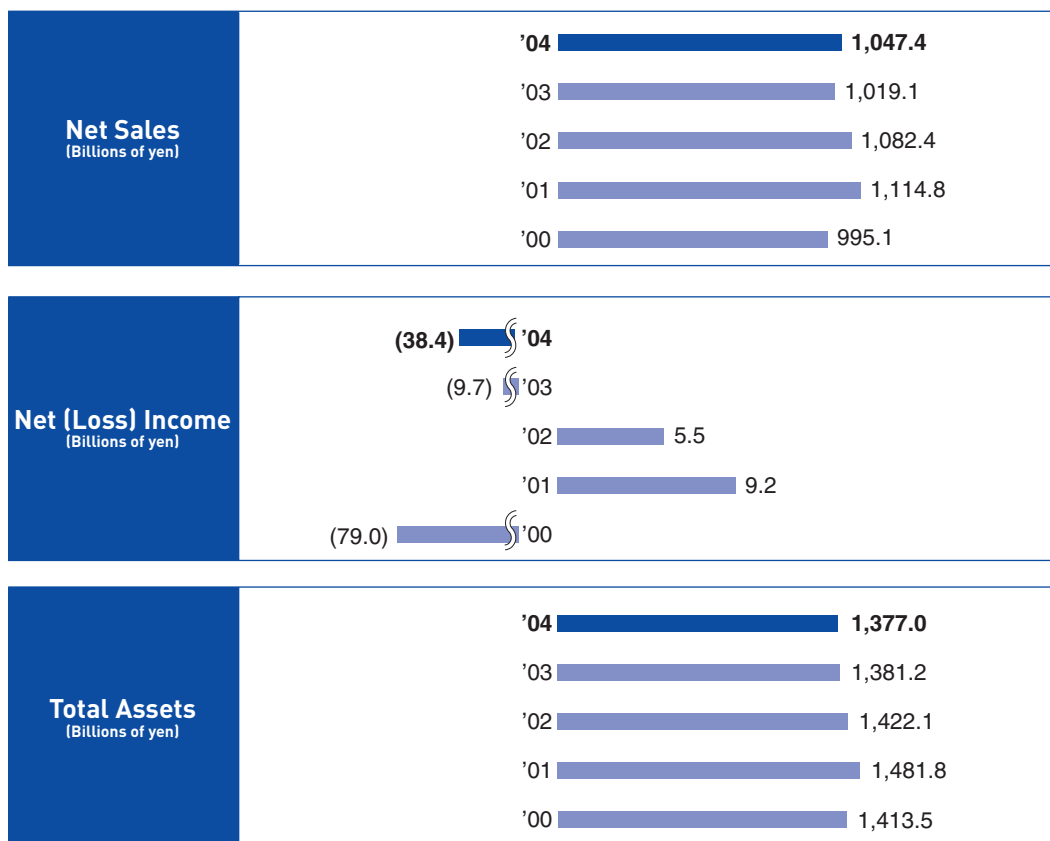
Financial Highlights

Years ended March 31, 2004, 2003 and 2002
Ishikawajima-Harima Heavy Industries Co., Ltd., and Consolidated Subsidiaries

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	2004
Net sales	¥1,047,441	¥1,019,061	¥1,082,402	\$ 9,910,502
Operating (loss) income	(23,230)	24,640	27,233	(219,794)
Net (loss) income	(38,354)	(9,672)	5,539	(362,891)
Total assets	1,377,021	1,381,240	1,422,110	13,028,867
Total shareholders' equity	151,550	171,323	187,589	1,433,910

Amounts per share:	Yen			U.S. dollars
	Net (loss) income	¥ (29.67)	¥ (7.57)	¥ 4.27
Cash dividends	—	1.50	3.00	—

Note: For convenience only, U.S. dollar amounts in this report have been converted from yen at the rate of ¥105.69=US\$1, the approximate rate of exchange prevailing on March 31, 2004.



To Our Shareholders



The Year in Review

During fiscal 2004, year ended March 31, 2004, the direction of the Japanese economy was uncertain at the start of the term, clouded by the Iraq war and the impact of severe acute respiratory syndrome (SARS). In the second half of the fiscal year, however, signs of a recovery became clearer in the Japanese economy, with expansion in exports to China and vigorous private-sector capital investment in digital home electronics. Around the world, the economies of the United States and Asian countries, particularly China, were strong, and the European economy began a gentle recovery.

Amid these economic conditions, IHI made concerted efforts at restructuring and aimed to boost profitability through cost reductions. Despite an extremely challenging operating environment, IHI recorded growth in orders of 18.6% to ¥1,139.1 billion and in sales of 2.8% to ¥1,047.4 billion compared with the previous fiscal year. As of March 31, 2004, orders on hand totaled ¥1,385.5 billion, largely unchanged from a year earlier.

The Company posted an operating loss of ¥23.2 billion, owing to worsened profitability in some projects in Energy and Plant Operations and a change in accounting standards for the reserve for losses on sales contract. As a result, net loss was ¥38.3 billion.

Based on these results, IHI decided to suspend interim dividend payments in fiscal 2004, in continuation from the previous fiscal year. The Company has also regrettably decided to forgo year-end dividends due to the recording of considerable unappropriated deficit. The proposal to dispose of this deficit was approved at the Ordinary General Meeting of Shareholders on June 25, 2004.

Consolidated Performance of Each Segment

Business segment results for the fiscal year ended March 31, 2004, are highlighted in the Review of Operations.

Financial Position

Net cash provided by operating activities was ¥36.1 billion, net cash provided by investing activities totaled ¥39.4 billion, and net cash used in financing activities was ¥36.8 billion. In aggregate, cash and cash equivalents, end of year, totaled ¥122.7 billion.

Outlook for Fiscal Year Ending March 31, 2005

The outlook for the world economy holds concerns for a deceleration in the economies of the United States and China, which had driven growth until today, on account of diminishing effect of tax cuts in boosting

the U.S. economy as well as fiscal restraint by the Chinese government to reign in growth in the Chinese economy. In the Japanese economy, capital investment is likely to taper off as exports subside from relatively high levels.

Based on this outlook, IHI estimates consolidated net sales of ¥1,050 billion, operating income of ¥30 billion and net income of ¥10 billion for the fiscal year ending March 31, 2005. On a non-consolidated basis, the Company targets net sales of ¥600 billion, operating income of ¥20 billion and net income of ¥10 billion.

We ask for your continued understanding and support.

June 25, 2004



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 equipment, bridges, materials handling machinery and physical distribution systems, iron and steel-making machinery, power plants, cement plants, environmental preservation equipment, 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?

* * * * *

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, currently being formulated, 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, 2006, call for net sales of ¥1,150.0 billion and operating income of ¥50 billion.

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

* * * * *

In order to pull out of this performance downturn, IHI aims to expand orders through stronger marketing capabilities and cost competitiveness by reducing procurement costs. At the same time, IHI is bolstering its project management structure to improve the profitability of projects under construction. In this way, the Company is reinforcing its corporate structure through measures to bolster competitiveness and enhance profitability.

With regard to restructuring, IHI aims to accelerate the selection and concentration in its business domains by withdrawing from unprofitable and low-profit operations.

IHI celebrated its 150th anniversary in December 2003, and created a new corporate slogan,

“Explore the Engineering Edge,” for the next 150 years of operations. Based on this slogan, we will make every effort to restructure operations and restore performance.

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. The amounts for orders and orders on hand do not include intersegment transactions and transfers. These are included in net sales and operating income, however, and eliminations are ¥86.5 billion in net sales and ¥0.6 billion in operating income. These figures exclude consumption tax.

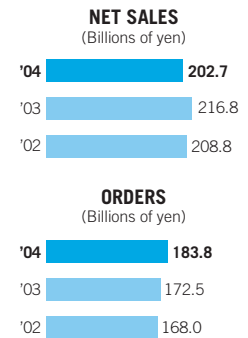


Review of Operations

Logistics Systems and Structures Operations

In Logistics Systems and Structures Operations, the domestic market remained challenging with persistently severe price competition in the private sector and delays in new road construction projects stemming from issues with the privatization of the Japan Highway Public Corporation in the public sector. In overseas markets, there were signs of aggressive capital investment especially in China.

Despite these conditions, IHI's intense efforts to win orders resulted in orders for the segment totaling ¥183.8 billion, a 6.5% increase compared with the previous fiscal year. Sales of Logistics Systems and Structures Operations decreased 6.5% to ¥202.7 billion. As a result, orders on hand as of March 31, 2004, totaled ¥211.0 billion, a decline of 4.1% from a year earlier. Operating income was ¥2.3 billion.



Carquinez Bridge Completed in California: First Long Suspension Bridge Built in the United States for 40 Years

In November 2003, the Calquinez Bridge (designated as the Al Zampa* Memorial Bridge—central span: 728 meters, total length: 1,055 meters, width: 28 meters) was completed and began carrying traffic. The bridge spans San Francisco Bay in the State of California, and is the first long suspension bridge built in the U.S. for about 40 years. IHI received the order for the bridge's main girder (orthotropic steel box girder; weighing more than 12,000 tons) from a joint venture formed by two U.S. companies in March 2000, fabricated it at its Aichi Works, shipped it overseas to the site and completed delivery in March 2003. IHI has an impressive track record of supplying the United States with steel structures, having delivered more than 20 bridges. IHI is continuing efforts to win orders for major projects through IHI California Inc.

*Alfred Zampa: A legendary bridge construction worker involved in most bridge construction in the San Francisco area



The completed Carquinez Bridge (Al Zampa Memorial Bridge) (Far left side)

First Overseas DOT Shield Tunneling Machine Completes Excavation of the No. 1 Construction Section of Metro Line 8 of the Shanghai Metro in China

IHI received an order from China's Shanghai Tunnel Engineering Co., Ltd. (STEC) in May 2002, and the first Double-O Tube (DOT) shield tunneling machine for overseas construction work, which began tunneling August 2003, successfully completed excavation of the No. 1 construction section of the tunneling work for the M8 Line of the Shanghai Metro in China this January. The section is approximately one kilometer in length. The main features of the DOT shield tunneling machine is that it is less wasteful in terms of excavated area, more economical and more efficient than attempting to work on two tunnels separately with a single tube shield tunneling machine. IHI has supplied as many as 12 of the 18 total DOT shield tunneling machines supplied domestically and overseas, making IHI the market leader. IHI will continue efforts to expand sales of each type of shield tunneling machine, focusing on Chinese cities, which are in urgent need of urban transport infrastructure in preparation for the staging of the Beijing Olympics and the World Expo Shanghai.



The first DOT shield tunneling machine used overseas

Niigata Transys Co., Ltd., Wins Order for the Toyosu Extension of the New Transit Line Yurikamome.

In December 2003, IHI subsidiary Niigata Transys Co., Ltd. received an order for guide rail installation and two 7200 type trains (12 cars) in line with plans for the Toyosu extension of the Tokyo Waterfront New Transit Yurikamome Line, an automated train now under construction by third-sector organization Yurikamome, run by the Tokyo Metropolitan Government. The rolling stock is scheduled for completion and delivery at the end of June 2005 and guide rail installation is due at the end of March 2006. Niigata Transys Co., Ltd. is by far the largest supplier of rolling stock for new transit systems in Japan, and, including the latest order, has received orders for a total of 10 trains (60 cars) from Yurikamome.

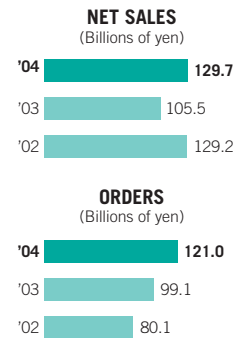


7200 type train for Yurikamome

Industrial Machinery Operations

In Industrial Machinery Operations, private-sector demand is growing in Japan and overseas.

Under these circumstances, orders advanced 22.2% to ¥121.0 billion as a result of rigorous efforts to secure orders. Sales in this segment rose 22.9% to ¥129.7 billion compared with the previous fiscal year. As a result, orders on hand as of March 31, 2004, edged up 2.8% year on year to ¥83.1 billion. Operating loss totaled ¥3.8 billion.



Joint Venture with China's FAW Group Established to Build Automotive Turbochargers

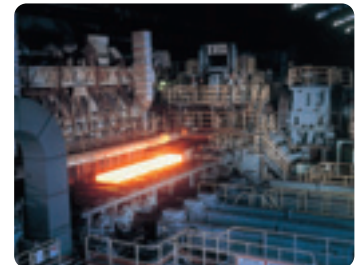
In January 2004, in Changchun Province, China, IHI established a joint venture named Changchun FAWER-IHI Turbo Co., Ltd., which will be involved in the design, manufacture, sales and after-delivery service of automotive turbochargers with Fawer Automotive Parts Company, Ltd. (Fawer). Fawer is an affiliate of China's largest car manufacturer China First Automobile Group Corporation (FAW Group) and totally manages the supply of automotive parts for the FAW Group. The company will start operating this autumn, and plans to sell not only to the FAW Group, which produces every type of turbocharged vehicle from small passenger cars to large trucks, but also to other Chinese car manufacturers. By recently making the FAW Group into its business partner, IHI is seeking to expand its share of the turbocharger market. The new company plans to sell about 300,000 units in 2006 and 600,000 units in 2008.



Signing ceremony on the establishment of the joint venture (below) and turbocharger for vehicles (above)

Order Received from CSC (Taiwan) for Sizing Press for Hot Strip Mill Line: IHI's First Model for Taiwan

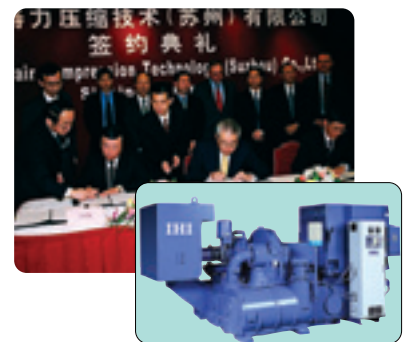
In September 2003, IHI received an order from China Steel Corp. (CSC. Head Office: Kaohsiung, Taiwan) for a sizing press for CSC's No. 1 hot strip mill line, which is IHI's first model for Taiwan. Operation is scheduled to start in January 2005. The sizing press, installed between the reheating furnace and the roughing mill in the hot strip mill line, has metal molds on either side for resizing slabs from the reheating furnace to reduce slab width by a maximum of 350mm. In March 2002, IHI also received an order for the improvement and modernization of CSC's existing plate mill, and the aforementioned sizing press is an order received after this. Including this sizing press, IHI has received orders for 6 sizing presses for Japan and 7 overseas for a total of 13, establishing IHI as a world leader in terms of market share for sizing presses.



Sizing press delivered to a domestic steel plant

Joint Venture Established with General Purpose Turbo Compressors in China

IHI has been collaborating with China's largest general purpose compressor maker Sullair Asia Ltd., to establish in April 2004 in China's Suzhou city the joint venture IHI-Sullair Compression Technology (Suzhou) Co., Ltd., which will be involved in the design, manufacture, sales and after-delivery service of general purpose turbo compressors. The joint venture will commence operations from 2004 and, besides conducting sales activities independently for the Chinese market, it will also supply parts to IHI and Sullair Corporation, which is engaged in the manufacture and sale of compressors in the United States. China's economic growth is remarkable, and in the rush to build manufacturing plants, compressor demand is also rapidly expanding. Besides gaining proper entry to the Chinese market through the joint venture, IHI will procure parts from the joint venture, increasing its cost competitiveness in markets other than China. In 2008, the fifth year after its foundation, production quantity of 250 units and sales of approximately ¥5 billion are forecast for the new company.

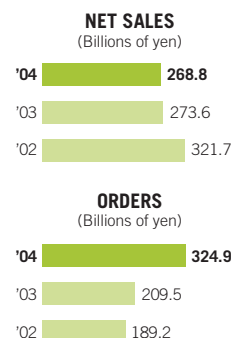


Signing ceremony on the establishment of the joint venture (above) and turbo compressor (below)

Energy and Plant Operations

In Energy and Plant Operations, in the Japanese market, energy and environment control equipment remained under challenging conditions, while demand for process plants showed signs of an upturn. Although there were projects overseas, harsh price competition continued unabated.

In these operating conditions, orders climbed 55.1% to ¥324.9 billion from the previous fiscal year as a result of aggressive efforts to win orders. Segment sales declined 1.8% to ¥268.8 billion. Accordingly, orders on hand rose 12.9% to ¥445.7 billion compared with the end of the previous fiscal year. This segment recorded an operating loss of ¥19.7 billion.



First Mexican Order for LNG Terminal Received

IHI has formed a consortium with Mexico's leading engineering and construction firm ICA Fluor Corp., and received an order from Terminal de LNG de Altamira, S de R.L. de C.V. (TLA)* under an engineering, procurement and construction (EPC) contract for the construction of Mexico's first LNG receiving terminal with a LNG storage capacity of 300,000kl (two 150,000kl LNG storage tanks). This is IHI's second order for the construction of an LNG receiving terminal overseas, following the LNG receiving terminal for India ordered in 2000. IHI is the representative and technical leader of the consortium and the contract price is approximately ¥30 billion. The terminal will be constructed in the Port of Altamira, Tamaulipas, Mexico, and is scheduled to commence operation in September 2006. Encouraged by this latest result, IHI will expand business activities for LNG terminal projects overseas.

*Terminal de LNG de Altamira, S de R.L. de C.V.: Company jointly financed by the Royal Dutch/Shell Group and the French gas public corporation, the Total Group



LNG terminal for India's Petronet LNG Ltd. (PLL)

Construction of Minami Osumi Wind Farm and Large Wind-Turbine Generator at Wakasu Seaside Park Completed

Ten wind-turbine generators (rated output: 1.3MW per generator, total rated output 13MW), ordered by Minami-Kyushu Wind Power Corporation were completed in Kagoshima. IHI built the generators following the completion of first-phase construction by the Minami-Kyushu Wind Power Corporation, and operations of the large wind farm began with total output of 26MW. In addition, IHI completed the manufacture of a large wind-turbine generator with a rated output of 1.9MW and environmental studies facilities, ordered by Koto-Ku, Tokyo. The tower of the wind-turbine generator is 60 meters high, the rotor blades measure 80 meters in diameter and total height at the peak of each blade is 100 meters, making this one of the largest wind turbine generators in Japan. The erection of the large 2MW class wind-turbine generator in Tokyo Bay was the first attempt involving national government, local government and the private sector.



Wind-turbine generators for Minami Osumi Wind Farm (right) and Wakasu Seaside Park (left)

Large Commercial Gas Engine with 5 MW Output Developed

IHI affiliate Niigata Power Systems Co., Ltd. (NPS) has developed and started performance testing a large, high-efficiency commercial gas engine with output of 5 MW, becoming the top model in the Advanced Gas (AG) Series of gas engines that adopt a micro-pilot ignition system. The AG Engine Series of gas engines offer far more efficient power generation. Through the adoption of a micro-pilot ignition system exclusive to NPS, these engines have more than 5,000 times the ignition power of conventional spark ignition systems, and IHI is fully supporting the development. NPS plans to introduce the engines to the market after conducting demonstration tests, aimed at further bolstering efficiency. It is actively seeking to win orders, aiming for sales of ten units in the inaugural business year.

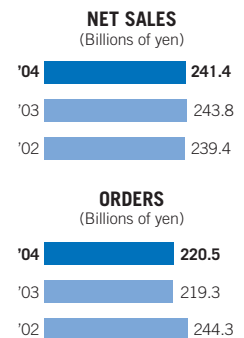


Large gas engine 18V28AG

Aero-Engine and Space Operations

In Aero-Engine and Space Operations, aero-engines continued to face harsh conditions in the defense sector. In the civil sector, demand was weak due to a decline in the volume of passenger traffic resulting from the Iraq war and the severe acute respiratory syndrome (SARS) outbreak, and orders decreased due to the strong yen.

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. As a result, total orders were ¥220.5 billion, on par with the previous fiscal year. Sales in the segment edged down slightly to ¥241.4 billion. Accordingly, orders on hand as of March 31, 2004, totaled ¥330.0 billion, a decline of 13.4% from the end of the previous fiscal year. Operating income was ¥9.3 billion.



IHI Takes Part in the Development of Jet Engines for a New Chinese Aircraft

In December 2003, IHI decided to team up with General Electric Company (GE) of the United States to develop the CF34-10A jet engine that will be installed exclusively in the ARJ21 regional jet (79 to 99 seats) being developed by a Chinese aircraft manufacturer. The CF34-10A is scheduled to be certified in November 2006, marking the formal completion of the engine. Judging from the fact that it has been decided to install this engine exclusively in an aircraft developed and manufactured in China, IHI can expect to secure high market share, expand business scale and gain a foothold in areas such as engine maintenance in China. Excluding maintenance, IHI expects net sales of approximately ¥100 billion over the next 20 years, from the manufacture of new engines and spare parts.



ARJ21 (below) (image) and CF34-10A engine (above)

Development of the World's Most Powerful Engine Completed

The GE90-115B engine for commercial aircraft, jointly developed by IHI, was certified by the U.S. Federal Aviation Administration (FAA) in July 2003, and officially authorized to operate as a jet engine. Led by General Electric Company (GE) of the United States, development of the engine began in 1999, later evolving into an international joint development program, with the participation of IHI, France's Snecma Moteurs and Italy's Avio. The engine is the most powerful in the world with 115,000 pounds of thrust. The engine is going to be installed exclusively in two longer-range B777 models developed by Boeing. In the future, IHI intends to continue seeking the expansion of its jet engine business through international development programs for commercial engines.



GE90-115B jet engine

Order for Gas Turbine Power Plant Received from Teikoku Oil Co., Ltd.

IHI recently received an order from Teikoku Oil Co., Ltd. for a gas turbine combined cycle power plant (output: 57 MW). Teikoku Oil will install it in its Nagaoka gas mining field located in Niigata Prefecture, and sell the electric power generated by the power plant as a wholesale power utility. IHI is in charge of all civil engineering, design, procurement and construction works. The feature of this power plant is that it uses primarily natural gas liquid (NGL) in liquid form. This is the very first attempt in Japan among not only gas turbines but also diesel power generation and other internal combustion engines. The LM6000 aeroderivative gas turbine made it possible. The combined cycle system enables the plant to increase output to 57MW by recovering exhaust heat from gas turbines, and the heat to power steam turbines will eventually improve the efficiency to about 49%.

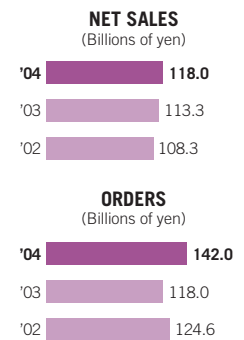


LM6000 aeroderivative gas turbine
(Photo courtesy of General Electric Company, USA)

Shipbuilding and Offshore Operations

In Shipbuilding and Offshore Operations, overall shipbuilding demand expanded, especially for container ships, bulk carriers and tankers, owing to a resurgence in overall shipping activity worldwide due to the strong growth in the Chinese economy.

Under these conditions, IHI received orders for 18 new ships, comprising eight large-scale container ships, three large-scale tankers and seven mid-size bulk carriers, for a total of 2,290,000 deadweight tons. Adding orders for ship repair and maintenance, total orders came to ¥142.0 billion, an increase of 20.3% from the previous fiscal year. Sales grew 4.1% to ¥118.0 billion with the completion of a total of 12 ships of 1,210,000 deadweight tons, including seven container ships, two large-scale tankers, two mid-sized bulk carriers and one destroyer. As of March 31, 2004, orders on hand amounted to ¥288.3 billion, an increase of 11.2% from the end of the previous fiscal year, including orders for 42 ships at 5,450,000 deadweight tons. This segment posted an operating loss of ¥20.7 billion, owing to an increase in losses on a certain offshore project.



IHI Marine United Inc. Supplies SPB Tank Technology for LNG Carriers to Korea's Samsung Heavy Industries.

On March 16, 2004, IHI subsidiary IHI Marine United Inc. (IHIMU) concluded an agreement to supply Self-Supporting, Prismatic-Shape, IMO Type-B (SPB) technology for LNG tanks to Samsung Heavy Industries Co., Ltd. (SHI) of the Republic of Korea. The conclusion of this agreement enables SHI to build and sell worldwide, LNG carriers and offshore structures such as the LNG Floating Production Storage and Offloading (LNG FPSO) vessel equipped with the SPB tank system. Since the SPB system allows tank shape to be changed freely, it is possible to fit tanks inside carriers and floating structures, making effective use of decks. With the achievement of supplying technology to SHI, a world-class LNG carrier builder, IHIMU expects to further promote the popularity of SPB tanks and their standardization, while enjoying the benefits of licensing the technology.



SPB tank in LNG carrier

Completion of the *Makinami*, the 100th JDA Destroyer

On March 18, 2004, the completion and delivery ceremony for the destroyer *Makinami*, which was built under the fiscal 1999 budget plan for the Japan Defense Agency (JDA), was held at the Yokohama Shipyard of IHIMU. The *Makinami* is the third ship in the new series of the Defense Destroyer (DD) *Takanami* class (4,400 displacement tons) that began being built in fiscal 1998, and marks the 100th destroyer acquired by the JDA. The vessel is equipped with 127mm main guns and has greater naval attack strength than destroyers in the previous *Murasame* series. The IHIMU Yokohama Shipyard has taken over the business of the Tokyo Shipyard of IHI, which has built many sophisticated vessels in the past including destroyers, and the delivery of the *Makinami* marks the first destroyer delivery event since starting full-scale shipbuilding operations in April 2001. In the years to come, the IHIMU Yokohama Shipyard will serve as a base for shipbuilding and repairs of Naval vessels, and will also build container carriers, large ferries and other high-value-added vessels.



The delivered DD Makinami

IHI Marine United, Inc. Steadily Notching up Large Container Carrier Orders

In January 2004, IHIMU received an order for four ultra-large 8,000-TEU capacity container carriers. The order came from Kawasaki Kisen Kaisha, Ltd., one of the largest container transportation companies in the world. The 8,000-TEU capacity container carrier will be the largest in Japan and also one of the world's largest class container carriers. Last year, IHIMU also received an order for four container carriers with cargo capacity of 7,500 containers from P&O Nedlloyd, and these are currently being built at Kure Shipyard. A high level of technical expertise including hydrodynamics analysis and hull design is required to build large container carriers of the class ordered, and, IHIMU won the order after convincing those concerned that their sophisticated requirement can be met. The eight ships ordered will be built at Kure Shipyard and IHIMU plans to deliver the carriers after November 2004 for introduction into Europe-Asia service.

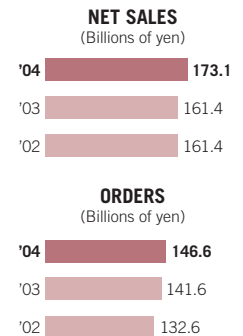


NYK ARGUS, a 6,200-TEU capacity large container carrier for Nippon Yusen Kaisha

Other Operations

In Other Operations, exports of construction and agricultural machinery were strong.

Under these conditions, IHI increased orders by 3.6% to ¥146.6 billion through aggressive marketing activities. Sales in this segment rose 7.3% to ¥173.1 billion. As a result, orders on hand fell 17.3% to ¥27.1 billion. Operating income was ¥8.7 billion.



Three-Ton Mini Excavators and Model Change

IHI Construction Machinery, Ltd., an affiliate of IHI, announced a new model of its 3-ton-class zero tail swing 30NX-2 mini excavator, the first new model release since February 1999. The 30NX-2 is a mini excavator that exemplifies endurance, efficiency, easy maintenance and environmental friendliness. We are developing “e-construction machinery” along the concept of these four catchphrases. The 30NX-2 comes with a variety of new equipment and features, including a refined form, a work light beneath the boom, a tough bucket, ergonomic operation levers, angled track frames, pin joints with sintered alloy bushing and highly durable rubber tracks.

Through the introduction of this new model, IHI aims to expand markets, including the fast-growing Chinese market, while targeting higher shares of the European and U.S. markets, where it already has marketing bases.



Mini excavator 30NX-2

Order Received for World's Largest Output Electronically Controlled, Low-Speed Marine Diesel Engine

Diesel United, Ltd., an affiliate of IHI, received an order for the world's largest output electronically controlled low-speed marine diesel engine. The order was placed for the DU-SULZER 12RT-flex96C, a low-speed diesel engine with twelve cylinders of 960mm bore for an output of 68,640kW (93,360 horsepower). Completed in June 2004, the diesel engine is to be installed in a 7,500 TEU container ship in November 2004 for Reederei Blue Star, a German affiliate of P&O Nedlloyd.

Diesel United has a total of 14 orders on hand, including eight 12RT-flex96C, two 6RT-flex58T-B and four 6RT-flex50 engines. As a licensee of the world-renowned Sulzer engine, Diesel United is aggressively pursuing orders while expanding its lineup of electronically controlled Sulzer RT-flex engines.



Electronically controlled 12RT-flex96C common-rail marine diesel engine

HZ Series Ozone Disinfectors for Research Centers Launched

In collaboration with Ishikawajima-Shibaura Machinery Co., Ltd. (ISM), IHI has developed five models in the HZ Series of ozone disinfectors with enhanced disinfecting power for customers such as pharmaceutical companies, public research institutes and universities. IHI has supplied the development laboratory of Nippon Shinyaku Co., Ltd. with the large model in the series HZ-801W. It is the first time in Japan that a large ozone disinfectator will be used in a laboratory. The HZ Series are disinfectors that will replace conventional ethylene oxide processing systems, because there is no residual gas and no need to measure working environment concentration, since they use ozone gas. IHI and ISM will market the series targeting annual sales of 50 units, and will seek to expand total ozone business from about ¥1.3 billion in fiscal 2003 to ¥2.7 billion in fiscal 2005.

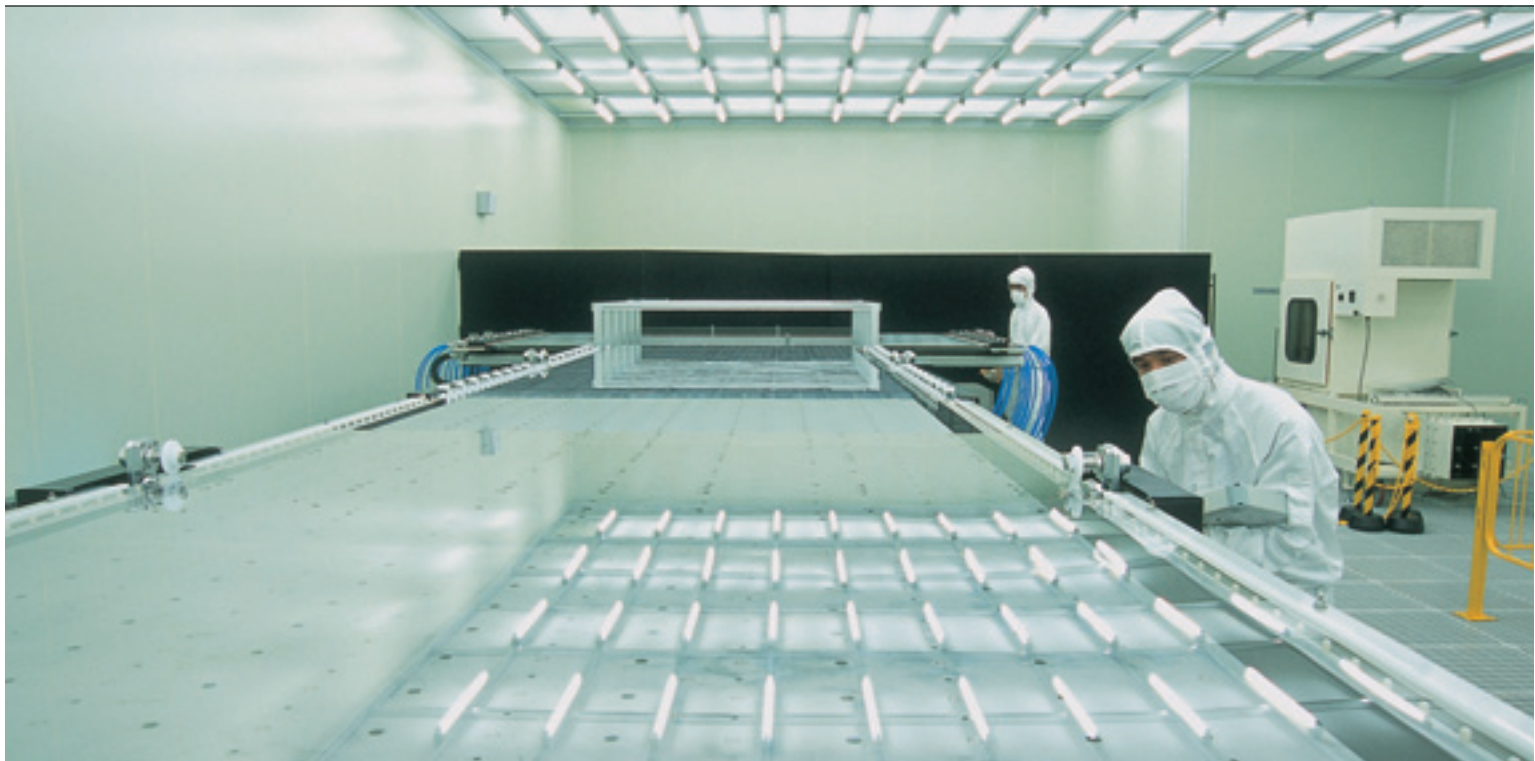


Ozone disinfectator HZ-801W for Nippon Shinyaku Co., Ltd.

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.



Noncontact glass substrate transport system for clean environments

Plastic Waste Converted into Petrochemical Raw Materials

IHI aims to establish a chemical recycling system for the largest component of plastic waste polyolefins (polyethylene, polypropylene) that uses a catalyst (gallium-containing zeolite catalyst) to produce petrochemical raw materials. Supported by a basic technology promotion program of the New Energy and Industrial Technology Development Organization (NEDO), and with the cooperation of Muroran Institute of Technology, the Hokkaido Center of the National Institute of Advanced Industrial Science and Technology and Kanagawa Industrial Technology Research Institute (KITRI), IHI is conducting this research in line with a five-year plan from fiscal 2001 to fiscal 2005, and in the second half of 2003 finished the interim evaluation. We are currently conducting tests using a small continuous testing device (1kg/hr), and in 24 hours maximum yields of benzene, toluene, xylenes (BTX) and hydrogen from plastic (high-density polyethylene) are more than 60 wt%. From fiscal 2004 the demonstration phase begins, and we are already in the process of designing this demonstration equipment (10kg/hr).



Small continuous testing device

Underwater Laser Repair Welding Technology

At facilities with radiation sources such as nuclear reactors and spent fuel storage facilities, water is used as a shield to reduce ambient radiation. If it came to repairing such facilities, doing the repair work underwater would help shorten repair time and reduce exposure. IHI has now developed underwater laser repair technology using a YAG laser capable of optical fiber beam delivery. Because YAG laser welding concentrates the heat source, it is a high-speed welding method that can minimize the effect of heat on the substrate. IHI has already obtained special welding method approval and construction method approval from the Ministry of Economy, Trade and Industry for application to nuclear power facilities, and is now also considering application to other facilities.



Underwater laser repair welding machine

Ceramic Matrix Composites Developed for Jet Engines

The fact that jet engines operate more efficiently at higher temperatures has brought about an associated need for the development and improvement of heat resistant materials. Ceramics are both highly heat resistant and lightweight, but to date application has been difficult because ceramics have the disadvantage of being brittle. Ceramic matrix composites (CMC) are under scrutiny as the next generation of heat-resistant materials, which overcome the brittleness of ceramics by utilizing strong flexible ceramic fibers. IHI's ceramic matrix composites have world-class strength due to improvements in the composition of fibers and the molding process of the host material. In fiscal 2003, IHI manufactured a prototype turbine shroud and vane with improved heat resistance and antioxidation properties. Subsequent engine mounting and burner heating experiments, simulating actual operating conditions, confirmed each of the prescribed characteristics. In the future, IHI will proceed with R&D in line with application to specific rocket chambers and engine parts.



Ceramic matrix composite vane

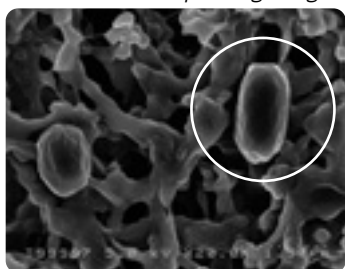
Ozone Sterilizer for Medical Equipment

Ozone is an environmentally friendly substance that not only has a deodorizing and disinfecting effect due to its powerful oxidizing strength, but also ultimately turns back into oxygen. The 21st century is known as the century of the environment and due to its characteristics ozone is indeed attracting attention. IHI has developed ozone generating technology and devices that apply this technology. We have recently developed a small ozone sterilizer for hospitals and clinics and have been able to set a timeframe for its commercialization. The aim of the device is to sterilize steel instruments and other medical equipment. The device makes it possible to halve processing time and to slash running costs compared with low-temperature sterilization procedures carried out in the past. It also has many other advantages, for example, it does not use the carcinogenic ethylene oxide gas, there is no residual gas and there is no need to measure working environment concentration. In the future, to obtain approval under the Pharmaceutical Affairs Law, IHI plans to conduct further technical development including the construction of a sterilization evaluation method and investigation of the effect on objects subjected to the procedure.

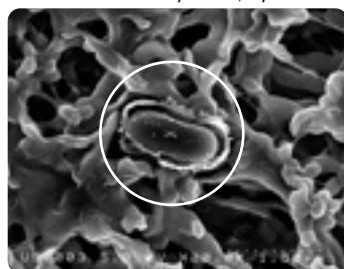


Ozone sterilizer for medical equipment

Electron microscope image of *geobacillus stearothermophilus*, spore



Before ozone processing



After ozone processing

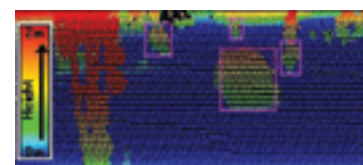
(Images courtesy of Professor Noriko Saito, National Institute of Infectious Diseases)

3D Laser Radar

IHI has developed 3D Laser Radar that uses a pulse laser to measure the position of objects with high precision in real time. The radar can function outdoors reliably, unaffected by sunlight and weather. Use of the radar makes it possible to detect obstacles, pedestrians, vehicles and other objects in an area of up to 100 meters away. IHI is now working on various systems that apply this 3D laser radar, including the Obstacle Detection System for Railroad Crossings that detects obstacles at a railroad crossing and notifies the driver, and Traffic Light Control System that controls the time the pedestrian signal is on green according to the pedestrian position detected by the radar. In the near future, IHI will expand its solution business by applying the radar in the form of an environment recognition system that will replace image sensors.



3D Laser Radar



Detection results of the Radar



Superimposition of detection results on the camera image

Subzero Temperature Heat Storage System

In response to the problem of global warming and other environmental issues, energy savings in cold heat supply systems are desired. In particular, in food processing, while cold heat at subzero temperature (-3 to -5°C) is required, hot waste heat is exhausted. There is high demand for plant energy-saving systems, including efficient use of waste heat. Since the brine that transports cold heat is highly viscous, there are also calls for a reduction in transport energy. IHI is therefore developing a subzero heat storage system that makes effective use of waste heat, transports high-capacity cold heat and increases the efficiency of a refrigerator.

The Phase Change Material (PCM) heat storage system recovers waste heat and produces cold water using an absorption chiller. The system uses this cold water for cooling water to increase the efficiency of an electric refrigerator that generates subzero temperatures. The subzero heat storage system, which adopts IHI's original direct supercooling system, is able to produce sherbet-like ice slurry continuously and efficiently. The system proposes to reduce transport energy by supplying ice slurry to the cooling load. It is also capable of fixed temperature controlled cooling using its latent heat.



Subzero heat storage system



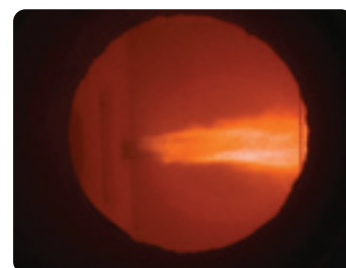
Heat recovering system

High Temperature Air Combustion Technology

High temperature air combustion technology simultaneously increases the efficiency of combustion and reduces environmental pollutants by combustion of fuel using hot air with a temperature of more than 800°C . Using this technology, IHI has succeeded in significantly reducing nitrogen oxide (NOx) from the combustion of coal. In thermal power plants, coal is often used as fuel because of its low price, but a large amount of environmental pollutants are generated from the combustion of coal, and it is essential to reduce these pollutants. With existing technology, pulverized coal is burned using air with a temperature of about 300°C , but with this technology, it is possible to increase the air temperature to more than 800°C by the heat exchange from the exhaust gas. This combustion technology enables the stable ignition of coal, and it is possible to form a combustion condition that is suitable for reducing NOx. A test using a small furnace with coal burning capacity of 150kg/h showed that it is possible to halve NOx emissions compared with existing technology. By applying this technology to thermal power plants and other facilities, it is possible to contribute to the reduction of NOx levels.



Coal combustion test furnace (coal combustion capacity of 150kg/h)



Combustion of pulverized coal at high temperature

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 bulk material handling systems
Electric overhead traveling cranes
Level luffing cranes
Jib climbing cranes

Physical distribution and factory automation systems

Automated warehousing systems
Storage systems
Conveyor transfer systems
Sorting systems
Equipment for physical distribution systems
Transfer systems for clean environments

Parking systems and products for civil use

Parking systems
Moving walkways

Bridges and steel structures

Bridges
Pedestrian bridges
Steel structures for rivers
Steel structures for dams
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 mover systems
Low-floor light-rail vehicles
Low-floor light-rail transit systems
Rolling stock
Snow plow machinery

Industrial Machinery Operations



Blast furnace plants



Vacuum heat treatment furnaces



Paper making machines



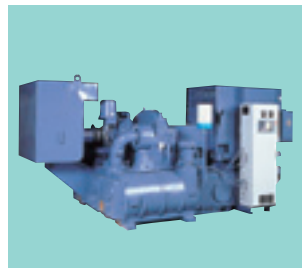
Transfer feed presses



LNG reciprocating compressors



Automotive turbochargers



Turbo compressors



Screw decanter centrifuges

Iron and steel manufacturing equipment

Blast furnaces
Rolling mills
Industrial furnaces
Pulp and paper production plants
Presses
Rubber/plastic forming machines
New material manufacturing facilities
Vacuum heat treatment facilities
Pumps
Compressors
Blowers

Mass-produced machinery

Turbochargers
Separators
Filters
Dewatering equipment
Compressors
Refrigerators
Tunnel ventilation fans
Centrifuges
Dish and utensil washers

Energy and Plant Operations



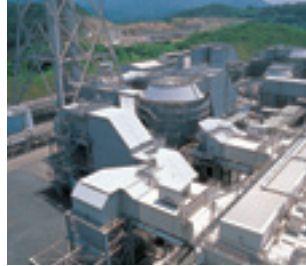
Boilers for power plants



Reactor pressure vessels



Wind power generation systems



Air pollution prevention systems



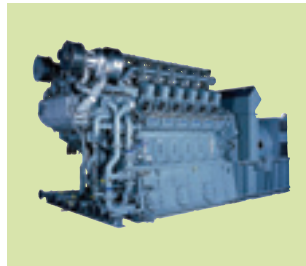
LNG storage tanks



Pharmaceutical plants



Ion implanter



Gas engines

Aero-Engine and Space Operations



V2500 turbofan engines



CF34 turbofan engines



GE90 turbofan engines



F3 turbofan engines



F110 turbofan engines



LE-7A liquid hydrogen turbopumps



GX launch vehicle (image)



International space station KIBO
(©JAXA)

Energy

- Boilers for power plants
- Industrial boilers
- Fluidized-bed combustion boilers
- Waste-heat recovery boilers
- Coal gasification combined cycle power facilities
- Gas turbine power generation systems
- 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
- Noise reduction systems
- Seismic isolation floor systems
- Mass damper systems
- Pollution prevention ships

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
- Great variety of robots
- Great variety of simulators
- Control systems
- Failure diagnosis systems
- 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

Jet engines

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

Space development

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

Shipbuilding and Offshore Operations



Very large crude oil carriers



SPB-type LNG carriers



Container ships



Bulk carriers



Passenger car ferries



Naval vessels



Side drag suction hopper dredgers with spilt oil recovery devices



LPG floating storage offloading units

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

Ship repairs

Offshore structures

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

Other Operations



Diesel engines



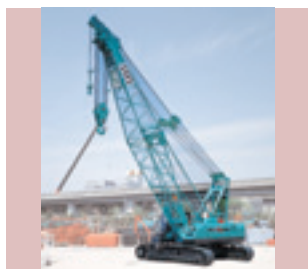
Agricultural machines



Refuse compactors



Mini excavators



Crawler cranes



Crawler carriers



Ozone sterilizing lockers



Computer systems

Diesel engines

- Diesel engines

Construction machinery

- Hydraulic power shovels
- Truck/crawler cranes
- Crawler carriers
- Batcher plants
- Mobile concrete pumps
- Ozone sterilizers

Agricultural machinery and others

- Agricultural machines
- Refuse compactors

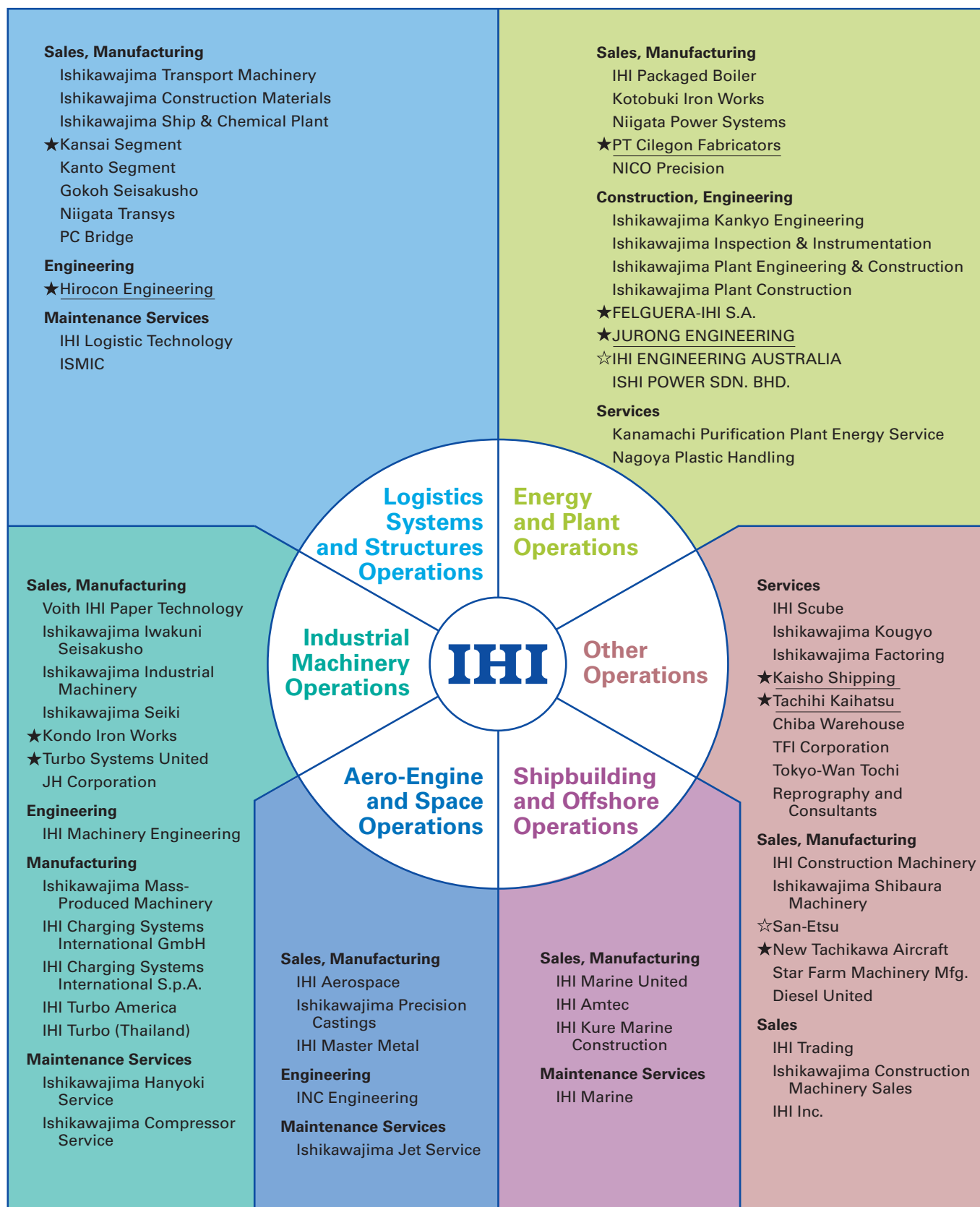
Financing and service industry

Marine transport

Others

IHI Group Companies

(As of March 31, 2004)



Notes: Unmarked companies are consolidated subsidiaries

☆: Non-consolidated subsidiary

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

IHI Group Facilities

Parent Company



Soma Aero-Engine Plant

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



Tanashi Aero-Engine Plant

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



Mizuho Aero-Engine Plant

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



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 and reactors and towers for chemical plants
 Certificates: N, NA, NPT, NS, S, U, U2 (ASME), 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, deck machinery, steel structures and shield tunneling machines
 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 S, U, U2 (ASME)



Aioi Workshop

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



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: ISO 14001, Air Agency Certificate (Repair Station) (FAA) and JIS Q 9100 (including ISO 9001)



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 and ISO 14001



IHI Aerospace
Tomioka Plant
Products & services: Launch vehicles, other space equipment systems and defense rocket systems
Certificates: ISO 9001, JIS Z 9901, ISO 14001 and JIS Q 9100



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



Ishikawajima Shibaura Machinery
Matsumoto Factory
Products & services: Agricultural machinery and engines
Certificates: ISO 9001 and ISO 14001



Ishikawajima Mass-Produced Machinery
Tatsuno Works
Products & services: Turbochargers, compressors and aircraft parts
Certificates: 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



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



Star Farm Machinery Mfg.
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 S, U, PP (ASME)



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



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

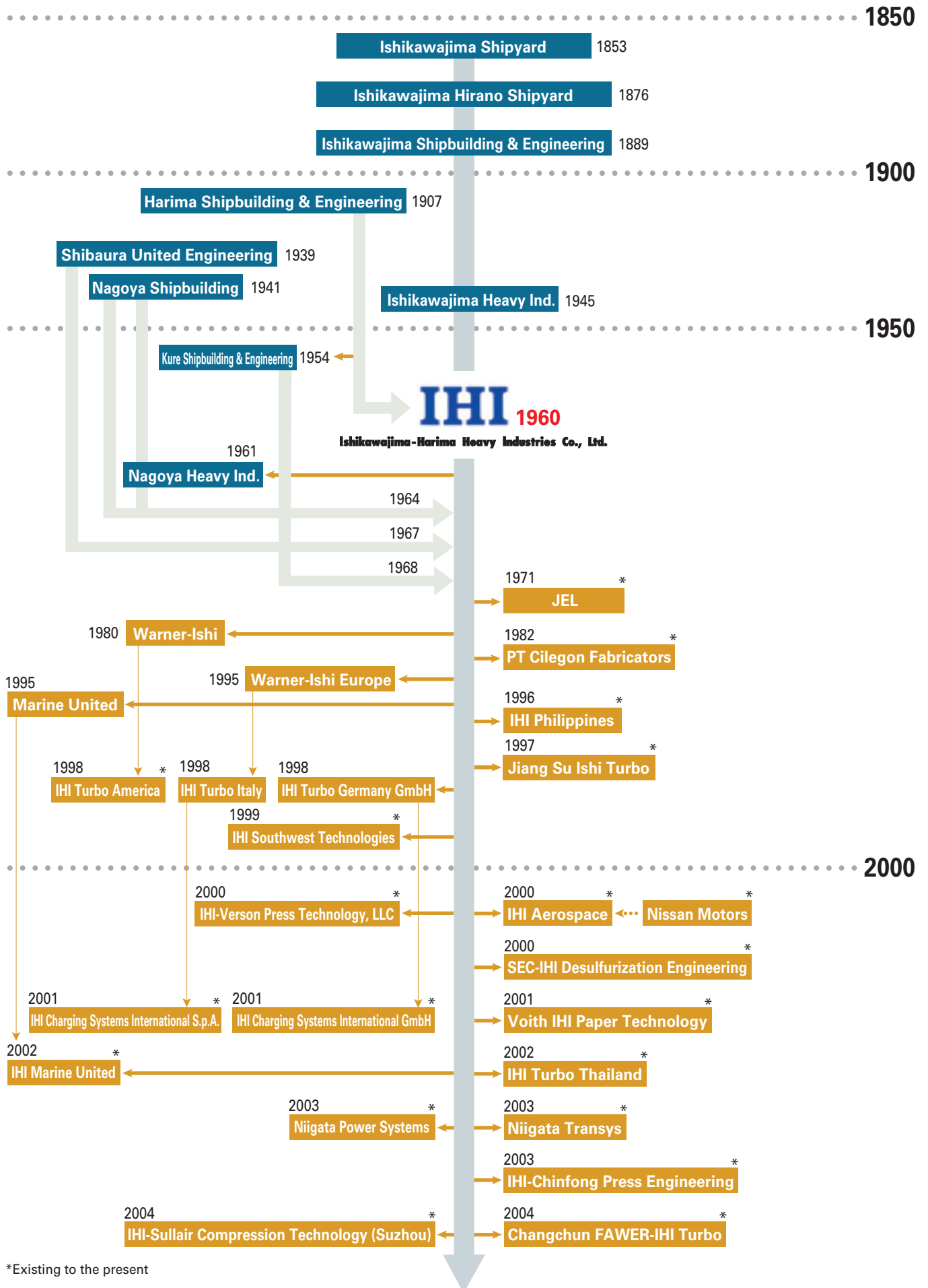


IHI Charging Systems International (ITALY)
Products & services: Automotive turbochargers
Certificates: ISO 9001, AUSO, QS 9000, VDA 6.1 and ISO/TS 16949



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

History of IHI



Timeline of IHI

1800s	<p>1853 Established Ishikawajima Shipyard</p> <p>76 Established Ishikawajima Hirano Shipyard</p> <p>89 Founded Ishikawajima Shipbuilding & Engineering Co., Ltd., Tokyo (Ishikawajima S&E)</p>
1900s	<p>1907 Established Harima Shipbuilding & Engineering Co., Ltd. (Harima S&E); later merged with the Company</p> <p>39 Founded Shibaura United Engineering Co., Ltd. (SUECO), to produce rolling mills, through a joint venture with Toshiba and United Engineering & Foundry in the United States; 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 Founded 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 Founded 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. (ITECH) in Taiwan</p> <p>95 Founded Marine United Inc. (MU), which performs engineering for ships and naval vessels with SHI</p> <p>95 Founded 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 Warner-Ishi established IHI Turbo America</p> <p>98 Warner-Ishi Europe established IHI Turbo Italy</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 in Germany</p> <p>01 Beijing Municipal/Ishikawajima Shield Engineering Company Limited, a joint venture for the manufacture and sale of shield tunneling machines, established in Beijing</p> <p>01 IHI Turbo Italy established IHI Charging Systems International S.p.A.</p> <p>02 IHI Turbo Thailand, a joint venture for the manufacture and sale of turbochargers, established in Thailand</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>

Environmental Efforts

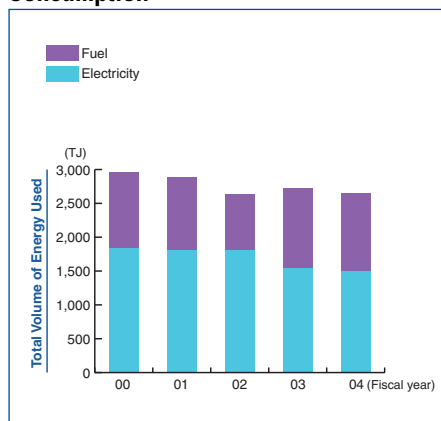
Topics

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, in March 2004, IHI achieved zero emissions at Yokohama District with regard to waste headed to final disposal, by recycling 100% of the waste generated there. For other 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

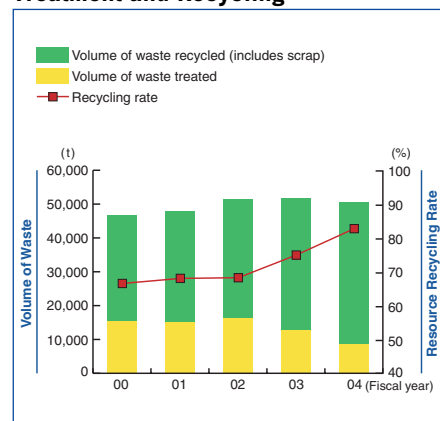


Trends in Total Volume of Energy Used

During fiscal 2004, IHI's total energy consumption, in terms of electricity and fuel used, declined approximately 3% from the previous fiscal year. 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. Fuel consumption volume includes fuels for private electric generators.

Volume of Waste Generation, Treatment and Recycling

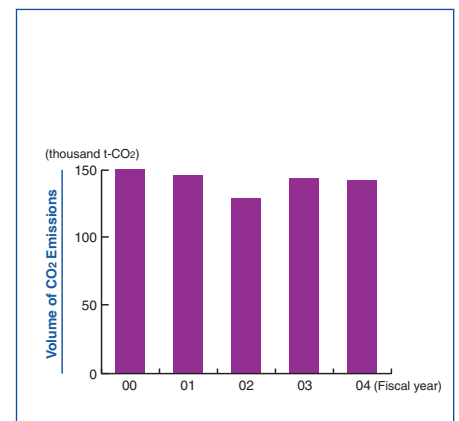


Results in Processing and Recycling Waste

The volume of waste generated by IHI's plants and offices declined slightly from the previous fiscal year. Efforts to step up recycling resulted in a reduction in waste disposal volume and an increase in recycled material volume. Accordingly, the recycling ratio increased 8 percentage points to 83%.

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 under review, CO2 emissions decreased about 1% year on year to approximately 142,000 tons (39,000 tons using carbon conversion), owing to an increase in plant operations and electricity purchased from power producers, despite efforts to conserve energy at plants and offices.

Management of Chemical Substances

In the fiscal year ended March 31, 2004, 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.

Corporate Governance and Compliance

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.

Corporate Governance Measures

Management Structure

- There are 12 directors, of which one is an outside director.
- There are also five auditors, of which three are outside auditors.
- There are no conflicts of interest between the Company and its outside director and auditors.
- There are 21 executive officers, including ten who concurrently hold director positions, as core management specializing in business execution.
- The Management Committee supports the decision-making and business execution duties of the chief executive officer (CEO). The CEO nominates members of the Management Committee.
- By August 2003, the Company had completed setting up a compliance framework for each business division. IHI promotes compliance activities through this framework in accordance with the characteristics of each business.

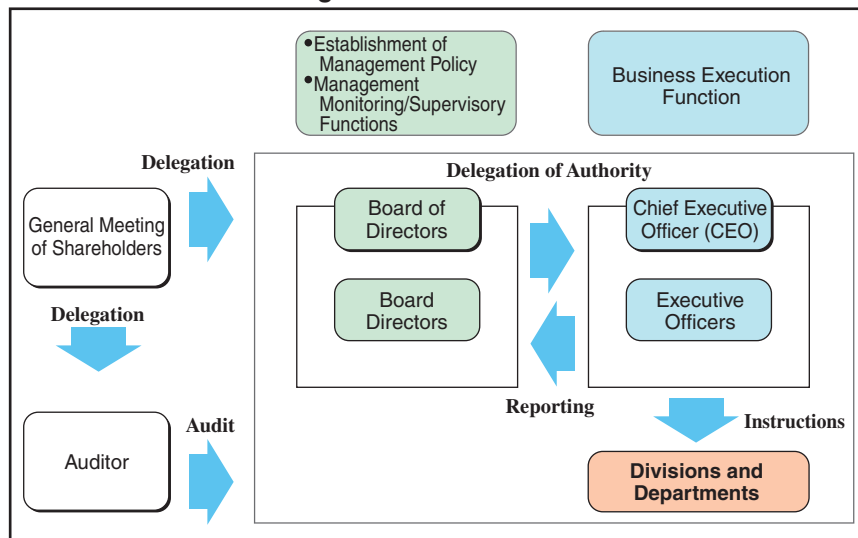
Internal Control and Risk Management

- 1) IHI established the Contracts & Legal Division under direct control of the president, and created the Technology Feasibility Committee in the Research & Development Division to strengthen risk oversight for contracts and technologies prior to accepting an order.
- 2) To prevent declines in profitability after an order is received, IHI is making every effort to eliminate unprofitable projects by upgrading its project management structure to oversee processes, material costs and quality assurance in each business division.
- 3) IHI established the Compliance Committee and has opened a Compliance Hotline.
- 4) In March 2004, the Company published its Compliance Guide*, formulating a detailed description by category of the “Ishikawajima-Harima Heavy Industries Basic Business Principles” and also indicating a concrete guide to correct behavior in compliance activities, which has been distributed to all management and employees.

The Company is currently encouraging each affiliate and subsidiary to formulate its Code of Conduct based on the Compliance Guide in order to uphold compliance throughout the Group.

***Compliance Guide:** The Compliance Guide covers a) basic business activities, b) the observance of legal regulations and social norms, c) information disclosure, d) environmental efforts, e) social contributions, f) relationships with suppliers and customers, g) respect for employee rights, h) global management and i) the responsibility of management.

Management Structure Overview



Corporate Officers

(As of June 25, 2004)

President



Mototsugu Ito
(Chief Executive Officer)

Executive Vice Presidents



Dogi So
(Senior Executive Officer)



Nobuhiro Shimizu
(Senior Executive Officer)



Jyunichi Hamanaka

Board Directors



Hiroshi Katayama
(Managing Executive Officer)



Isao Nakao
(Managing Executive Officer)



Yasuo Shinohara
(Managing Executive Officer)



Teiichi Tamaki
(Managing Executive Officer)



Yasuhiro Inagawa
(Managing Executive Officer)



Kouichiro Kuwabara
(Managing Executive Officer)



Tsuguharu Asayama
(Managing Executive Officer)



Fumio Sato

Corporate Auditors

Katsuji Minato

Hiroyoshi Hiraga

Koichiro Ejiri

Takeo Inokuchi

Kiyooki Shimagami

Executive Officers

Mototsugu Ito

Dogi So

Hiroshi Katayama

Yukiya Nakagawa

Takayasu Kato

Yasuyuki Watanabe

Kuniaki Hongo

Nobuhiro Shimizu

Isao Nakao

Kouichiro Kuwabara

Hironasa Omura

Motoki Yoshinaga

Yasuo Shinohara

Tsuguharu Asayama

Morihiko Kawabe

Sakae Ando

Teiichi Tamaki

Hirotohi Kiyofuji

Mutsumi Maruyama

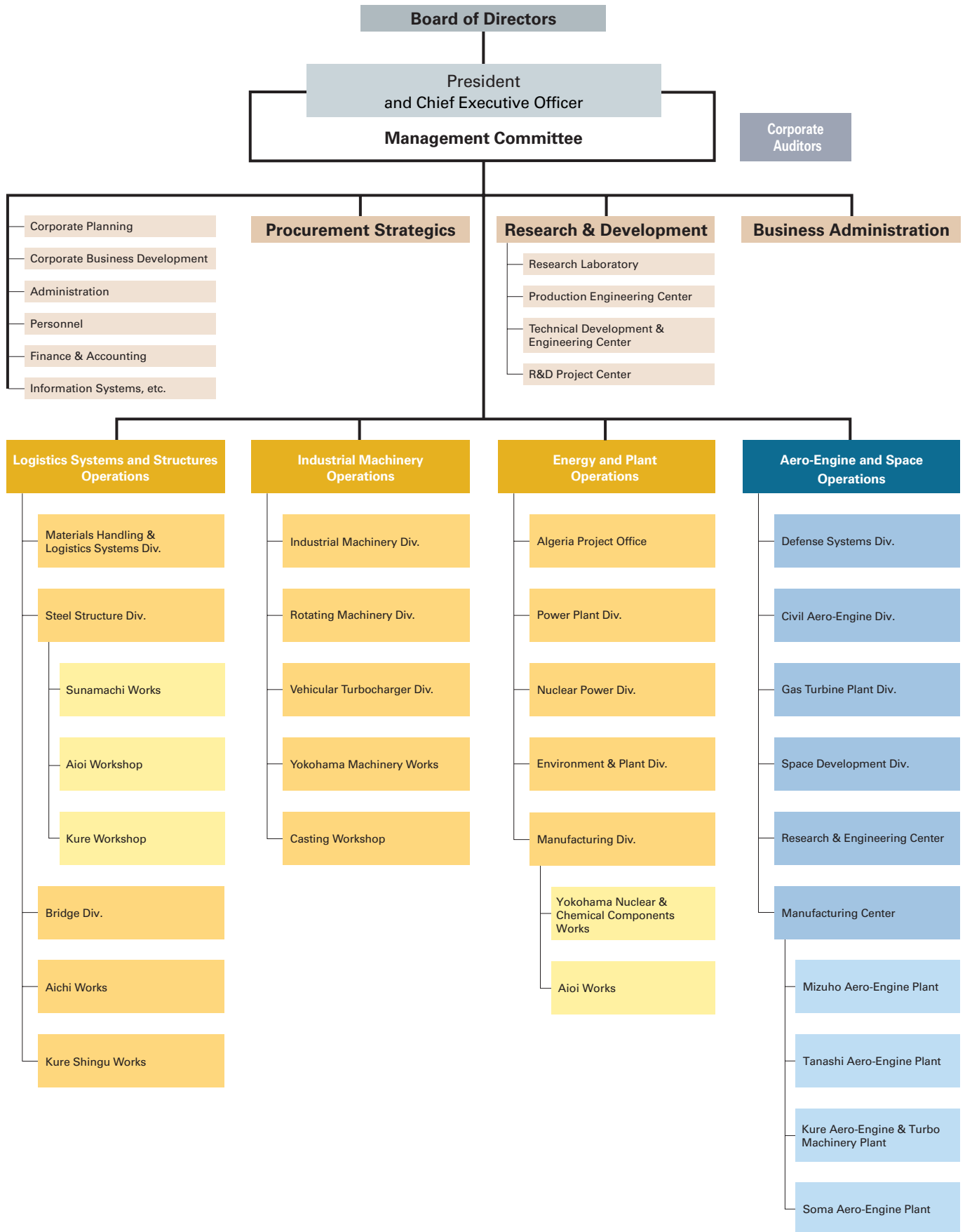
Yasuhiro Inagawa

Yusuke Tasaka

Kazuaki Kama

Organization

(As of July 1, 2004)



Directory

(As of July 1, 2004)

Offices

PARIS

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23F Seoul Finance Center, 84 Taepyeongro 1-ga,
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Main Overseas Subsidiaries

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Floor 9A, No. 1 Minster Court,
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IHI Marine B.V.

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THE NETHERLANDS
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HEIDELBERG

IHI Press Technology GmbH

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HEIDELBERG

IHI Charging Systems International GmbH

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IHI Turbo America Co.

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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					
	2004	2003	2002	2001	2000	1999
For the year:						
Net sales	¥1,047,441	¥1,019,061	¥1,082,402	¥1,114,817	¥ 995,063	¥1,053,896
Cost of sales	950,136	878,260	932,415	951,290	878,067	909,376
Gross profit	97,305	140,801	149,987	163,527	116,996	144,520
Operating (loss) income	(23,230)	24,640	27,233	39,947	(5,825)	17,895
(Loss) income before income taxes and minority interests	(39,001)	(6,521)	11,487	18,148	(127,630)	14,236
Net (loss) income	(38,354)	(9,672)	5,539	9,205	(78,998)	5,818
At year-end:						
Total assets	¥1,377,021	¥1,381,240	¥1,422,110	¥1,481,841	¥1,413,453	¥1,322,216
Current assets	905,325	875,264	886,738	943,852	985,306	958,391
Net property, plant and equipment	246,406	287,096	307,677	295,775	275,738	268,711
Current liabilities	744,218	741,404	791,496	825,103	848,397	823,809
Long-term liabilities	461,574	447,870	427,087	439,179	386,221	270,815
Total shareholders' equity	151,550	171,323	187,589	201,349	162,796	210,801
Amounts per share (yen):						
Net (loss) income	¥ (29.67)	¥ (7.57)	¥ 4.27	¥ 7.09	¥ (60.84)	¥ 4.48
Cash dividends	—	1.50	3.00	3.00	—	6.00
Shareholders' equity	116.73	131.96	144.47	155.06	125.37	162.34
Other data:						
Number of employees	22,768	23,575	22,980	24,311	24,363	24,719
Number of shares issued (millions)	1,298	1,298	1,298	1,298	1,298	1,298
Ratios:						
Return on average assets (%)	(2.78)	(0.69)	0.38	0.64	(5.78)	0.44
Return on average equity (%)	(23.76)	(5.39)	2.85	5.06	(42.29)	2.75
Total shareholders' equity ratio (%)	11.01	12.40	13.19	13.59	11.52	15.94

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34	Consolidated Statements of Operations		
35	Consolidated Statements of Shareholders' Equity		
36	Consolidated Statements of Cash Flows		

Financial Review

Operating Results

During the fiscal year under review, IHI's consolidated net sales rose 2.8% to ¥1,047.4 billion. Although sales decreased in logistics systems and structures operations, energy and plant operations, and aero-engine and space operations, these declines were offset by sales growth in industrial machinery operations, shipbuilding and offshore operations and other operations. Overseas sales advanced 18.0% to ¥283.0 billion, representing 27.0% of consolidated net sales. Domestic sales slipped 1.9% to ¥764.5 billion, accounting for 73.0% of consolidated net sales, compared with 76.5% last term.

Cost of sales as a percentage of net sales rose from 86.2% in the previous fiscal year to 90.7%. Gross profit, accordingly, fell 30.9% to ¥97.3 billion. Selling, general and administrative expenses grew 3.8% to ¥120.5 billion, and as a percentage of net sales were nearly constant at 11.5%, compared with 11.4% in the previous term. As a result of the foregoing, the Company recorded an operating loss of ¥23.2 billion, compared with operating income of ¥24.6 billion in the previous fiscal year.

Turning to the performance of industry segments, sales of logistics systems and structures operations totaled ¥186.4 billion, representing 17.8% of net sales. This segment posted operating income of ¥2.3 billion. In industrial machinery operations, sales amounted to ¥115.6 billion, making up 11.0% of net sales. Operating loss for the segment was ¥3.8 billion. In energy and plant operations, sales were ¥248.5 billion, or 23.7% of net sales. Operating loss for the segment was ¥19.7 billion. Aero-engine and space operations recorded sales of ¥236.9 billion,

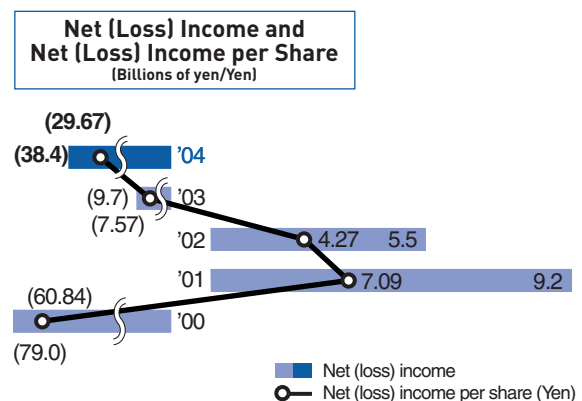
accounting for 22.6% of net sales. Operating income for the segment was ¥9.3 billion. Sales in the shipbuilding and offshore operations segment were ¥112.5 billion, or 10.8% of net sales. Operating loss totaled ¥20.7 billion. Other operations turned in sales of ¥147.6 billion, which was 14.1% of net sales. Operating income in this segment was ¥8.8 billion.

Interest expense exceeded interest and dividend income by ¥2.1 billion, up from ¥2.0 billion in the previous fiscal year. Other, net, expenses decreased during the term under review, declining from ¥29.1 billion in the previous fiscal year to ¥13.7 billion. The Company recorded loss before income taxes and minority interests of ¥39.0 billion, compared with ¥6.5 billion in the previous fiscal year.

Current income taxes increased 78.5% to ¥12.4 billion, and deferred income taxes of ¥13.1 billion were recorded, up from ¥3.5 billion in the previous term. IHI posted a net loss of ¥38.4 billion, compared with ¥9.7 billion in the previous term. Consequently, net loss per share was ¥29.67. Based on these results, IHI decided to forgo cash dividends for the fiscal year under review.

Cash Flows

Net cash provided by operating activities was ¥36.2 billion, compared with net cash used in operating activities of ¥6.1 billion in the previous fiscal year. Principal sources of cash included depreciation and amortization of ¥32.8 billion, increase in accrued losses on sales contracts of ¥38.5 billion and notes and accounts receivable of ¥35.8 billion.



Net cash provided by investing activities was ¥39.4 billion, compared with net cash used in investing activities of ¥46.8 billion in the previous fiscal year. The largest sources of cash were proceeds from sale of property, plant and equipment of ¥34.7 billion and proceeds from sale of marketable and investment securities of ¥29.5 billion, and the largest use of cash was purchases of property, plant and equipment and intangible fixed assets of ¥29.2 billion.

Net cash used in financing activities totaled ¥36.9 billion. The most significant sources of cash were proceeds from issuance of long-term debt of ¥36.4 billion, and proceeds from issuance of debentures of ¥33.0 billion. The principal uses of cash were net decrease in short-term debt of ¥30.4 billion and repayment of long-term debt of ¥58.5 billion.

As a result of the factors outlined above, cash and cash equivalents, end of year, totaled ¥122.7 billion, up from ¥83.8 billion in the previous fiscal 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 a needs basis.

IHI made capital expenditures of ¥28.9 billion during the fiscal year under review. Depreciation and amortization totaled ¥32.8 billion, and interest-bearing debt (defined as short-term loans, current portion of long-term loans and debentures, and long-term loans and debentures) declined 7.6% to ¥418.4 billion.

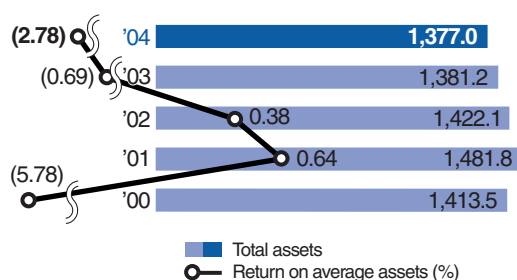
Cash and time deposits increased 52.2% to ¥118.0 billion and marketable securities rose 122.5% to ¥4.5 billion, while deferred income taxes in current assets rose 89.3% to ¥33.4 billion. Moreover, trade receivables decreased 11.9% to ¥304.6 billion. Together with the aforementioned increase in marketable securities and an increase in the allowance for doubtful receivables, there was a 3.4% expansion in current assets to ¥905.3 billion.

Net property, plant and equipment decreased 14.2% to ¥246.4 billion. Total investments edged up 2.8% to ¥204.8 billion as a result of an increase in investment securities. Total assets, as a result of the above developments, decreased 0.3% to ¥1,377.0 billion.

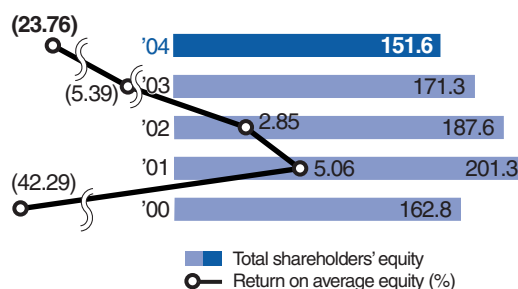
Total current liabilities edged up 0.4% to ¥744.2 billion, chiefly the result of declines in short-term loans and current portion of long-term loans and debentures compensating for an increase in the reserve for loss on sales contracts. However, total long-term liabilities grew 3.1% to ¥461.6 billion, owing mainly to an increase in long-term loans and debentures. Total shareholders' equity decreased 11.5% to ¥151.6 billion, due primarily to a decrease 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, 2004 and 2003
Ishikawajima-Harima Heavy Industries Co., Ltd., and Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
ASSETS			
Current assets:			
Cash and time deposits (Note 7)	¥ 117,970	¥ 77,503	\$ 1,116,189
Marketable securities (Note 3)	4,532	2,037	42,880
Trade receivables (Note 7)	304,611	345,615	2,882,118
Less allowance for doubtful receivables	(3,578)	(3,190)	(33,854)
Inventories (Notes 4 and 7)	394,988	385,539	3,737,232
Deferred income taxes (Note 9)	33,430	17,663	316,302
Other current assets	53,372	50,097	504,986
Total current assets	905,325	875,264	8,565,853
Property, plant and equipment (Notes 5 and 7):			
Buildings and structures	240,808	291,713	2,278,437
Machinery and equipment	376,258	384,314	3,560,015
Land (Note 13)	90,782	91,799	858,946
Construction in progress	2,460	1,628	23,276
Less accumulated depreciation	(463,902)	(482,358)	(4,389,271)
Net property, plant and equipment	246,406	287,096	2,331,403
Intangible assets:			
Consolidated adjustment accounts	124	—	1,173
Other	20,324	19,553	192,298
Net intangible assets	20,448	19,553	193,471
Investments:			
Investment securities (Notes 3 and 7)	116,465	96,480	1,101,949
Deferred income taxes (Note 9)	47,152	60,703	446,135
Other	51,409	55,135	486,413
Less allowance for doubtful receivables	(10,184)	(12,991)	(96,357)
Total investments	204,842	199,327	1,938,140
Total assets	¥1,377,021	¥1,381,240	\$13,028,867

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)
	2004	2003	2004
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Trade payables	¥ 285,897	¥ 291,111	\$ 2,705,053
Short-term loans (Notes 6 and 7)	127,244	157,610	1,203,936
Current portion of long-term loans and debentures (Notes 6 and 7)	49,345	72,058	466,884
Advances from customers	134,283	126,143	1,270,536
Accrued income taxes	9,261	5,818	87,624
Accrued expenses (Note 8)	46,195	44,766	437,080
Reserve for losses on sales contracts	39,677	1,160	375,409
Other current liabilities	52,316	42,738	494,996
Total current liabilities	744,218	741,404	7,041,518
Long-term liabilities:			
Long-term loans and debentures (Notes 6 and 7)	241,852	223,265	2,288,315
Allowance for employees' retirement benefits (Note 16)	152,257	157,236	1,440,600
Deferred tax liabilities from revaluation of land (Note 13)	4,092	4,092	38,717
Consolidation adjustment accounts	—	1,692	—
Other long-term liabilities (Note 7)	63,373	61,585	599,612
Total long-term liabilities	461,574	447,870	4,367,244
Contingent liabilities (Note 11)			
Minority interests in consolidated subsidiaries	19,679	20,643	186,195
Shareholders' equity:			
Common stock			
Authorized: 3,300,000,000 shares			
Issued: 1,298,495,152 shares	64,925	64,925	614,297
Capital surplus (Note 13)	15,687	15,687	148,425
Retained earnings	38,909	77,508	368,143
Unrealized holding gain on other securities	33,907	14,778	320,816
Foreign exchange translation adjustments	(1,851)	(1,551)	(17,513)
Less treasury stock, at cost	(27)	(24)	(255)
Total shareholders' equity	151,550	171,323	1,433,910
Total liabilities and shareholders' equity	¥1,377,021	¥1,381,240	\$13,028,867

Consolidated Statements of Operations

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Net sales	¥1,047,441	¥1,019,061	\$9,910,502
Cost of sales (Note 10)	950,136	878,260	8,989,838
Gross profit	97,305	140,801	920,664
Selling, general and administrative expenses (Note 10)	120,535	116,161	1,140,458
Operating (loss) income	(23,230)	24,640	(219,794)
Other income (expense):			
Interest and dividend income	3,061	3,518	28,962
Interest expense	(5,148)	(5,562)	(48,708)
Other, net (Note 12)	(13,684)	(29,117)	(129,473)
Loss before income taxes and minority interests	(39,001)	(6,521)	(369,013)
Income taxes:			
Current	(12,356)	(6,923)	(116,908)
Deferred	13,083	3,454	123,787
Loss before minority interests	(38,274)	(9,990)	(362,134)
Minority interests in consolidated subsidiaries	(80)	318	(757)
Net loss	¥ (38,354)	¥ (9,672)	\$ (362,891)
		Yen	U.S. dollars (Note 1)
Amounts per share (Note 18):			
Net loss	¥ (29.67)	¥ (7.57)	\$ (0.281)
Cash dividends	—	1.50	—

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

Consolidated Statements of Shareholders' Equity

Years ended March 31, 2004 and 2003
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, 2002	1,298,495	¥64,925	¥15,597	¥89,725	¥18,867	¥(1,523)	¥ (2)
Net loss for the year	—	—	—	(9,672)	—	—	—
Capitalization of land revaluation excess	—	—	90	—	—	—	—
Increase resulting from inclusion of subsidiaries in consolidation	—	—	—	50	—	—	—
Decrease resulting from inclusion of subsidiaries in consolidation	—	—	—	(304)	—	—	—
Decrease resulting from inclusion of affiliates accounted for by the equity method	—	—	—	(192)	—	—	—
Cash dividends	—	—	—	(1,947)	—	—	—
Change for the year	—	—	—	—	(4,089)	(28)	—
Purchase of treasury stock	—	—	—	—	—	—	(22)
Bonuses to directors and corporate auditors	—	—	—	(152)	—	—	—
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)	—	—	—
Decrease resulting from inclusion of subsidiaries in consolidation	—	—	—	(80)	—	—	—
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)

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

Balance at March 31, 2003	\$614,297	\$148,425	\$733,352	\$139,824	\$(14,675)	\$(227)
Net loss for the year	—	—	(362,891)	—	—	—
Decrease resulting from inclusion of subsidiaries in consolidation	—	—	(757)	—	—	—
Change for the year	—	—	—	180,992	(2,838)	—
Purchase of treasury stock	—	—	—	—	—	(28)
Sales of treasury stock	—	—	0	—	—	0
Bonuses to directors and corporate auditors	—	—	(1,561)	—	—	—
Balance at March 31, 2004	\$614,297	\$148,425	\$368,143	\$320,816	\$(17,513)	\$(255)

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

Consolidated Statements of Cash Flows

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Operating Activities:			
Net loss before income taxes and minority interests	¥(39,001)	¥ (6,521)	\$(369,013)
Depreciation and amortization	32,784	35,582	310,190
Amortization of long-term prepaid expenses	3,463	4,500	32,766
Increase in allowance for bad debts	452	61	4,277
Decrease in allowance for employees' bonuses	(651)	(2,528)	(6,160)
Increase (decrease) in reserve for guaranteed contracts	2,087	(1,556)	19,746
Increase (decrease) in accrued losses on sales contracts	38,517	(1,323)	364,434
Decrease in accrued employees' retirement allowances	(4,979)	(8,247)	(47,109)
Interest and dividends income	(3,061)	(3,518)	(28,962)
Interest expense	5,148	5,562	48,708
Loss on foreign exchange	137	13	1,296
Loss (gain) on disposal of property, plant and equipment	4,617	(7,874)	43,684
Gain on sales of marketable and investment securities	(17,476)	(1,395)	(165,351)
Loss on valuation of marketable and investment securities and golf club memberships	268	17,030	2,536
Equity in losses of affiliates	148	10	1,400
Changes in operating assets and liabilities:			
Notes and accounts receivable	35,832	1,139	339,029
Advances received	8,129	(7,795)	76,914
Inventories	(7,968)	1,700	(75,390)
Advance payments	(1,117)	4,162	(10,569)
Notes and accounts payable	(5,286)	(25,048)	(50,014)
Other current assets	(4,658)	(2,288)	(44,072)
Other current liabilities	(934)	(2,648)	(8,837)
Accrued consumption taxes	801	147	7,579
Directors' and corporate auditors' bonuses	(179)	(172)	(1,694)
Subtotal	47,073	(1,007)	445,388
Interest and dividends received	3,319	3,550	31,403
Interest paid	(5,401)	(5,447)	(51,102)
Income taxes paid	(8,807)	(3,221)	(83,329)
Net cash provided by (used in) operating activities	36,184	(6,125)	342,360
Investing Activities:			
Net decrease (increase) in time deposits due in more than three months	943	(1,186)	8,922
Purchases of marketable and investment securities	(1,155)	(5,167)	(10,928)
Proceeds from sale of marketable and investment securities	29,507	2,371	279,184
Proceeds from loan of marketable and investment securities	13,000	—	123,001
Net decrease by sales of subsidiaries' stock resulting in changes in scope of consolidation	—	(757)	—
Purchases of property, plant and equipment and intangible fixed assets	(29,171)	(48,938)	(276,005)
Proceeds from sale of property, plant and equipment	34,726	7,512	328,565
Payments for disposal of property, plant and equipment	(5,600)	—	(52,985)
Expenditure for business transferred from Niigata Engineering Co., Ltd.	(2,162)	(4,209)	(20,456)
Net decrease in short-term loan receivables	160	733	1,514
Increase in long-term loan receivables	(743)	(1,440)	(7,030)
Decrease in long-term loan receivables	1,080	1,526	10,219
Increase (decrease) in other non-current assets	(1,498)	345	(14,174)
Increase in other fixed liabilities	340	2,394	3,217
Net cash provided by (used in) investing activities	39,427	(46,816)	373,044

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Financing Activities:			
Net (decrease) increase in short-term debt	¥(30,449)	¥ 2,298	\$ (288,097)
Net decrease in commercial paper	—	(10,000)	—
Proceeds from issuance of long-term debt	36,353	57,226	343,959
Repayment of long-term debt	(58,479)	(35,446)	(553,307)
Proceeds from issuance of debentures	33,000	30,000	312,234
Expenditures for redemption of debentures	(15,000)	(20,000)	(141,924)
Purchase of treasury stock	(3)	(22)	(28)
Purchase of treasury stock of subsidiaries in consolidation	(2)	(5)	(19)
Dividends paid	(1,947)	(3,895)	(18,422)
Dividends paid to minority interests	(326)	(131)	(3,084)
Proceeds from minority interest payments	—	2,960	—
Net cash (used in) provided by financing activities	(36,853)	22,985	(348,689)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(246)	41	(2,328)
Net Increase (Decrease) in Cash and Cash Equivalents	38,512	(29,915)	364,387
Cash and Cash Equivalents, Beginning of Year	83,838	111,063	793,244
Increase in Cash and Cash Equivalents			
Due to Newly Consolidated Subsidiaries	388	2,690	3,671
Cash and Cash Equivalents, End of Year	¥122,738	¥ 83,838	\$1,161,302

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

	Millions of yen	
	2004	2003
Cash and Cash Equivalents, Beginning of Year:		
Cash and time deposits	¥77,503	¥ 92,747
Time deposits due in more than three months	(2,206)	(1,020)
Convertible time deposits included in marketable securities	—	4,500
Commercial paper including marketable securities	2,000	1,498
Investment trust including marketable securities	37	7,339
Sales under agreement to repurchase included in other current assets (short-term loans)	5,997	5,999
Beneficial interest in trust included in other current assets	507	—
Cash and Cash Equivalents	¥83,838	¥111,063

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Cash and Cash Equivalents, End of Year:			
Cash and time deposits	¥117,970	¥77,503	\$1,116,189
Time deposits due in more than three months	(1,263)	(2,206)	(11,950)
Commercial paper included in marketable securities	4,500	2,000	42,577
Investment trust included in marketable securities	32	37	303
Sales under agreement to repurchase included in other current assets (short-term loans)	1,499	5,997	14,183
Beneficial interest in trust included in other current assets	—	507	—
Cash and Cash Equivalents	¥122,738	¥83,838	\$1,161,302

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, 2004 and 2003 include the accounts of the Company and 56 and 55 subsidiaries, respectively.

For the years ended March 31, 2004 and 2003, 52 and 47 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, 2004 and 2003, included 12 and 11 affiliates, respectively, in the scope of the application of the equity method of accounting.

For the years ended March 31, 2004 and 2003, investments in 52 and 47 unconsolidated subsidiaries, respectively, and 36 and 35 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.

Niigata Power Systems Co., Ltd., Niigata Transys Co., Ltd., NICO Precision Co., Inc. close their books of account on January 31, and IHI Inc., IHI Turbo America Co., IHI Turbo (Thailand) Co., Ltd., ISHI POWER SDN. BHD., IHI Charging System International GmbH and IHI Charging System International S.p.A. 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.

(d) Sales recognition

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

(e) Allowance for doubtful receivables

The allowance for doubtful receivables is provided based on

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=¥105.69, the rate of exchange prevailing on March 31, 2004. 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.

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 price 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 the Toyosu Center Building (office building for lease sold in March 2004) held by the Company, 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 swaps to hedge interest risk.

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

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

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

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

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

(k) Employees' retirement benefits

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

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

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

Past service costs are amortized from the fiscal year 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.

The Companies changed the method of accounting for accrued losses on sales contracts for the year ended March 31, 2004. The scope of its recognition was changed from "one billion yen and over" to "¥300 million and over."

The Companies made this change following "The Management Policy 2004" and as a result of a review of sales contracts at the end of the year, which led to the judgment that factors of losses on sales contracts are increasing.

As a result of this change, both operating loss and loss before income taxes and minority interests increased by ¥16,366 million (US\$154,849 thousand) compared with the amounts which would have been recognized under the previous method of accounting.

(n) Income taxes

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

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

At the date of acquisition, the cost of the Companies' investment in a subsidiary is allocated to the subsidiary's individual identifiable assets and liabilities on the basis of their fair value. Any difference between the cost of the Companies' investment and the Companies' share in the amount allocated to individual identifiable assets and liabilities is amortized through the estimated effective period of the investment, with the exception that when the amount of the resulting difference is immaterial, it is 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) 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 held-to-maturity securities with market prices at March 31, 2003, is as follows:

	Millions of yen		
	2003		
	Amount recorded in the balance sheet	Market prices	Difference
Held-to-maturity securities whose market prices exceed their amount recorded in the balance sheet:			
Public bonds	¥ —	¥ —	¥—
Corporate bonds	—	—	—
Other	2,000	2,002	2
Total	¥2,000	¥2,002	¥ 2

A summary of held-to-maturity securities with market prices is not presented, since there were no held-to-maturity securities at March 31, 2004.

A summary of other securities with stated market prices at March 31, 2003, is as follows:

	Millions of yen		
	2003		
	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	¥23,127	¥50,144	¥27,017
Debt securities	3	4	1
Other	—	—	—
Subtotal	¥23,130	¥50,148	¥27,018
Other securities whose market prices do not exceed their acquisition cost recorded in the balance sheet:			
Equity securities	¥18,374	¥16,306	¥ (2,068)
Debt securities	2	2	0
Other	84	61	(23)
Subtotal	18,460	16,369	(2,091)
Total	¥41,590	¥66,517	¥24,927

A summary of other securities with stated market prices at March 31, 2004, is as follows:

	Millions of yen			Thousands of U.S. dollars		
	2004			2004		
	Acquisition cost	Amount recorded in the balance sheet	Difference	Acquisition cost	Amount recorded in the balance sheet	Difference
Others securities whose market prices exceed their acquisition cost recorded in the balance sheet:						
Equity securities	¥30,908	¥88,136	¥57,228	\$292,440	\$833,910	\$541,470
Debt securities	—	—	—	—	—	—
Other	—	—	—	—	—	—
Subtotal	¥30,908	¥88,136	¥57,228	\$292,440	\$833,910	\$541,470
Other securities whose market prices do not exceed their acquisition cost recorded in the balance sheet:						
Equity securities	¥ 740	¥ 694	¥ (46)	\$ 7,002	\$ 6,567	\$ (435)
Debt securities	—	—	—	—	—	—
Other	—	—	—	—	—	—
Subtotal	¥ 740	¥ 694	¥ (46)	\$ 7,002	\$ 6,567	\$ (435)
Total	¥31,648	¥88,830	¥57,182	\$299,442	\$840,477	\$541,035

A summary of other securities which were sold in the years ended March 31, 2004 and 2003, is as follows:

	Millions of yen						Thousands of U.S. dollars		
	2004			2003			2004		
	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	¥27,507	¥17,484	¥8	¥1,078	¥1,307	¥12	\$260,261	\$165,427	\$76

A summary of securities without stated market prices at March 31, 2004 and 2003, is as follows:

	Millions of yen		Thousands of U.S. dollars	
	2004	2003	2004	
	Amount recorded in the balance sheet	Amount recorded in the balance sheet	Amount recorded in the balance sheet	
Held-to-maturity securities:				
Negotiable certificates of deposit	¥ —	¥ —	\$ —	
Commercial paper	—	—	—	
Other	—	—	—	
Other securities:				
Bond investment trusts	4,532	2,037	42,880	
Unlisted equity securities except for those traded on the over-the-counter market	16,895	16,891	159,854	
Other	¥ —	¥ —	\$ —	

The contractual maturities of held-to-maturity and other securities as of March 31, 2003, were as follows:

	Millions of yen		
	2003		
	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	—	—	—
Other	—	—	—
Other:	—	—	—
Negotiable certificates of deposit	—	—	—
Other	—	—	2,000
Total	¥ —	¥ —	¥2,000

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

4. Inventories

Inventories at March 31, 2004 and 2003, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Finished goods	¥ 19,192	¥ 18,855	\$ 181,588
Contracts in process	276,949	278,096	2,620,390
Work in process	37,161	29,291	351,604
Raw materials and supplies	61,686	59,297	583,650
Total	¥394,988	¥385,539	\$3,737,232

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	
	2004	2003
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 0.74 percent at March 31, 2004, and 0.74 percent at March 31, 2003.

Long-term loans and debentures at March 31, 2004 and 2003, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Banks and insurance companies, bearing interest rates from 0.2 percent to 5.3 percent	¥144,760	¥159,544	\$1,369,666
Government-owned banks, bearing interest rates from 0.7 percent to 5.4 percent	17,471	24,796	165,304
National and local government agencies, bearing interest rates from 0 percent to 0.3 percent	516	610	4,882
Debentures, bearing interest rates from 0.6 percent to 1.9 percent	118,000	100,000	1,116,473
Others, bearing interest rates from 0 percent to 3.6 percent	10,450	10,373	98,874
Less current portion	(49,345)	(72,058)	(466,884)
Net long-term loans and debentures	¥241,852	¥223,265	\$2,288,315

The aggregate annual maturities of long-term loans and debentures at March 31, 2004, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Year ending March 31,			
2005	¥ 49,345		\$ 466,884
2006	67,100		634,876
2007	38,248		361,889
2008	82,038		776,213
2009 and after	54,466		515,337
Total	¥291,197		\$2,755,199

7. Assets pledged as collateral

The following assets were pledged as collateral at March 31, 2004 and 2003:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Cash and time deposits	¥ 120	¥ 126	\$ 1,135
Trade receivables	642	2,454	6,074
Inventories	3	3	28
Buildings and structures	1,787	1,519	16,908
Machinery and equipment	569	611	5,384
Land	8,304	8,972	78,570
Investment securities	8,265	1,974	78,201
Property, plant and equipment pledged as industrial factory foundation	16,984	16,903	160,696
Total	¥36,674	¥32,562	\$346,996

The obligations collateralized by the forementioned assets at March 31, 2004 and 2003, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Short-term bank loans	¥ 8,631	¥14,242	\$ 81,663
Long-term debt	16,492	19,614	156,041
Other long-term liabilities	12,316	—	116,530
	¥37,439	¥33,856	\$354,234

8. Accrued expenses

Included in accrued expenses were allowances for employees' bonuses of ¥18,072 million (\$170,991 thousand) and ¥18,723 million at March 31, 2004 and 2003, respectively.

9. Deferred tax assets and liabilities

Significant components of the Companies' deferred tax assets and liabilities at March 31, 2004 and 2003, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Deferred tax assets:			
Allowances for employees' bonuses	¥ 7,430	¥ 5,616	\$ 70,300
Reserve for losses on sales contracts	14,798	448	140,013
Reserve for guaranteed contracts	2,942	1,892	27,836
Employees' retirement allowances	55,434	52,428	524,496
Allowances for doubtful receivables	3,436	—	32,510
Losses on valuation of contracts in process	3,683	—	34,847
Adjustment for taxable income on percentage-of-completion basis	3,215	—	30,419
Elimination of unrealized profits	4,210	4,996	39,833
Net loss carried forward	18,029	14,189	170,584
Other	10,350	16,180	97,929
Valuation allowance	(23,702)	(9,645)	(224,260)
	99,825	86,104	944,507
Deferred tax liabilities:			
Depreciation	350	366	3,312
Unrealized holding gain on other securities	23,277	10,266	220,238
Other	248	1,646	2,346
	23,875	12,278	225,896
Net deferred tax assets	¥ 75,950	¥73,826	\$ 718,611

10. Research and development expenses

Research and development expenses, included in product cost, and selling, general and administrative expenses, were ¥22,457 million (\$212,480 thousand) and ¥22,056 million for the years ended March 31, 2004 and 2003, respectively.

11. Contingent liabilities

Contingent liabilities for trade notes receivable discounted and endorsed in the ordinary course of business amounted to ¥2,703 million (\$25,575 thousand) and ¥1,115 million at March 31, 2004 and 2003, respectively.

Contingent liabilities for guarantees of debts of unconsolidated subsidiaries and others amounted to ¥25,240 million (\$238,812 thousand) and ¥29,455 million at March 31, 2004 and 2003, respectively.

Contingent liabilities arising from similar guarantees of debts amounted to ¥23,838 million (\$225,546 thousand) and ¥23,944 million at March 31, 2004 and 2003, of which ¥19,826 million (\$187,586 thousand) and ¥19,157 million at March 31, 2004 and 2003, respectively, were for employee housing loans which were secured by life insurance and loan insurance, and therefore, the Companies were at low risk.

12. Other income (expense)—other, net

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

Year ended March 31	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Gain on sales of securities	¥ 17,475	¥ 1,407	\$ 165,342
Loss on foreign exchange	(3,724)	(1,752)	(35,235)
Idle-assets administrative expenses	(1,837)	(2,191)	(17,381)
Loss on disposal of property, plant and equipment	(8,565)	(3,542)	(81,039)
Equity in losses of unconsolidated subsidiaries and affiliates	(148)	(10)	(1,400)
Provision for employees' retirement allowances for prior period	(4,417)	(4,459)	(41,792)
Extraordinary retirement benefits	(1,958)	(2,551)	(18,526)
Loss on valuation of investment securities	—	(16,958)	—
Reversal of allowance for doubtful receivables	1,928	—	18,242
Gain on sales of land	3,051	11,441	28,867
Gain on sales of the Toyosu Center Building	727	—	6,879
Restructuring-related losses	(3,671)	(1,503)	(34,734)
Loss on fulfillment of liabilities-for-guarantee	(1,105)	—	(10,455)
Other, net	(11,440)	(8,999)	(108,241)
Total	¥(13,684)	¥(29,117)	\$(129,473)

The loss of ¥5,510 million (\$2,134 thousand) and 3,542 million in the above "Loss on disposal of property, plant and equipment," the gain of ¥3,051 million (\$28,867 thousand) and ¥11,441 million in the above "Gain on sales of land" for 2004 and 2003, and the gain of ¥727 million (\$6,879 thousand) in the above "Gain on sales 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 (\$4,305 thousand) and ¥455 million at March 31, 2004 and 2003, respectively. The remainder of the unrealized gain was included in capital surplus.

Book value of land before revaluation	¥ 2,532 million (\$ 23,957 thousand)
Book value of land after revaluation	¥12,567 million (\$118,904 thousand)
Dates of revaluation	March 31, 2000 and September 30, 2000

The difference between the market value of land at the end of the fiscal year that was revalued in the previous fiscal year and book value following revaluation was ¥3,456 million (\$32,699 thousand) and ¥2,564 million at March 31, 2004 and 2003, 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, 2004 and 2003, 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
	2004	2003	2004
Acquisition costs:			
Buildings and structures	¥ 180	¥ 143	\$ 1,703
Machinery and equipment	16,683	14,205	157,849
Others	774	722	7,323
Total	¥17,637	¥15,070	\$166,875
Accumulated depreciation:			
Buildings and structures	¥ 74	¥ 42	\$ 700
Machinery and equipment	8,398	6,390	79,459
Others	238	162	2,252
Total	¥ 8,710	¥ 6,594	\$ 82,411
Net book value:			
Buildings and structures	¥ 106	¥ 101	\$ 1,003
Machinery and equipment	8,285	7,815	78,390
Others	536	560	5,071
Total	¥ 8,927	¥ 8,476	\$ 84,464

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, 2004 and 2003, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Lease payments	¥2,915	¥2,646	\$27,581
Estimated depreciation expense	3,218	2,852	30,448
Estimated interest expense	384	293	3,633

Future minimum lease payments subsequent to March 31, 2004 and 2003, for finance leases accounted for as operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Within one year	¥ 2,632	¥ 2,269	\$ 24,903
Thereafter	9,376	8,624	88,712
Total	¥12,008	¥10,893	\$113,615

(b) Operating leases (Lessee)

Future minimum lease payments subsequent to March 31, 2004 and 2003, for non-cancelable operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Within one year	¥ 900	¥ 744	\$ 8,515
Thereafter	2,038	2,758	19,283
Total	¥2,938	¥3,502	\$27,798

(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, 2004 and 2003, to which the Companies have adopted the operating lease accounting method:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Acquisition costs:			
Buildings and structures	¥ 7,419	¥7,419	\$70,196
Machinery and equipment	3,087	2,270	29,208
Others	2	2	19
Total	¥10,508	¥9,691	\$99,423
Accumulated depreciation:			
Buildings and structures	¥ 2,751	¥2,466	\$26,029
Machinery and equipment	1,341	1,260	12,688
Others	1	1	9
Total	¥ 4,093	¥3,727	\$38,726
Net book value:			
Buildings and structures	¥ 4,668	¥4,953	\$44,167
Machinery and equipment	1,746	1,010	16,520
Others	1	1	9
Total	¥ 6,415	¥5,964	\$60,696

Concerning the above finance leases, the lease payments, depreciation expense and estimated interest income for the years ended March 31, 2004 and 2003, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Recorded lease payments	¥853	¥867	\$8,071
Recorded depreciation expense	517	509	4,892
Estimated interest income, assuming that the finance lease accounting had been adopted	318	332	3,009

Future minimum lease payments subsequent to March 31, 2004 and 2003, for finance lease transactions accounted for by the

operating lease accounting method are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Within one year	¥ 597	¥ 508	\$ 5,648
Thereafter	7,237	6,905	68,474
Total	¥7,834	¥7,413	\$74,122

(d) Operating leases (Lessor)

Future minimum lease payments subsequent to March 31, 2004 and 2003, for non-cancelable operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Within one year	¥—	¥10	\$—
Thereafter	—	—	—
Total	¥—	¥10	\$—

15. Derivatives

(a) Foreign currency

The Companies had no outstanding forward foreign exchange contracts in fiscal 2004 and 2003, as hedge accounting was applied to all derivative transactions.

(b) Interest rate

The Companies had no outstanding interest-rate swap agreements in fiscal 2004 and 2003, as hedge accounting was applied to all derivative transactions.

16. Retirement benefits

The Company and domestic subsidiaries have defined benefit pension plans, and certain overseas subsidiaries have lump-sum retirement payment plans. In addition, an employee, if eligible, may receive additional payments under the plans.

The following information is a summary of the plans:

Retirement benefit obligation:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
March 31			
Projected benefit obligation	¥(198,751)	¥(195,341)	\$(1,880,509)
Fair value of plan assets	3,155	2,972	29,851
Funded status	(195,596)	(192,369)	(1,850,658)
Unrecognized transition obligation	4,409	8,886	41,716
Unrecognized actuarial losses	37,126	25,997	351,273
Unrecognized past service costs	1,804	250	17,069
Obligation recognized in the consolidated balance sheet	(152,257)	(157,236)	(1,440,600)
Allowance for employees' retirement benefits	¥(152,257)	¥(157,236)	\$(1,440,600)

Components of net periodic pension cost:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Year ended March 31			
Service cost benefits earned during the year	¥ 9,176	¥ 9,223	\$ 86,820
Interest cost on projected benefit obligation	4,620	4,989	43,713
Expected return on assets	(37)	(40)	(350)
Amortization of transition obligation	4,920	4,645	46,551
Amortization of actuarial losses	2,512	2,387	23,768
Amortization of past service costs	155	21	1,466
Additional payments	2,302	1,993	21,781
Net periodic pension cost	¥23,648	¥23,218	\$223,749

	2004	2003
Assumptions used in the actuarial calculation were:		
Actuarial cost method:	Projected unit credit method	Projected unit credit method
Discount rate:	2.00%	2.50%
Expected rate of return:	1.50%	1.50%
Amortization period for past service costs (within the employees' average remaining years of service):	13 years	10 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, 2004 and 2003, is shown below:

		Millions of yen								
Year ended or as of March 31, 2004	(1)	(2)	(3)	(4)	(5)	(6)	Total	Eliminations and Corporate	Consolidated	
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	138,154	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	

		Millions of yen								
Year ended or as of March 31, 2003	(1)	(2)	(3)	(4)	(5)	(6)	Total	Eliminations and Corporate	Consolidated	
Sales and operating income:										
Sales to outside customers	¥200,561	¥ 91,226	¥260,588	¥239,124	¥ 92,921	¥134,641	¥1,019,061	¥ —	¥1,019,061	
Intersegment sales and transfers	16,323	14,292	13,100	4,763	20,403	26,778	95,659	(95,659)	—	
Total	216,884	105,518	273,688	243,887	113,324	161,419	1,114,720	(95,659)	1,019,061	
Operating expenses	212,922	106,769	271,458	233,707	108,586	156,178	1,089,620	(95,199)	994,421	
Operating income (loss)	¥ 3,962	¥ (1,251)	¥ 2,230	¥ 10,180	¥ 4,738	¥ 5,241	¥ 25,100	¥ (460)	¥ 24,640	
Assets, depreciation expense and capital expenditures:										
Assets	¥190,633	¥87,218	¥263,914	¥295,113	¥133,010	¥222,703	¥1,192,591	¥188,649	¥1,381,240	
Depreciation expense	3,136	2,800	3,741	12,333	2,995	7,557	32,562	3,020	35,582	
Capital expenditures	2,855	2,229	2,974	15,643	4,570	22,272	50,543	(1,264)	49,279	

		Thousands of U.S. dollars								
Year ended or as of March 31, 2004	(1)	(2)	(3)	(4)	(5)	(6)	Total	Eliminations and Corporate	Consolidated	
Sales and operating income:										
Sales to outside customers	\$1,763,355	\$1,093,405	\$2,351,102	\$2,241,281	\$1,064,746	\$1,396,613	\$ 9,910,502	\$ —	\$ 9,910,502	
Intersegment sales and transfers	155,426	133,882	192,875	43,192	51,907	241,414	818,696	(818,696)	—	
Total	1,918,781	1,227,287	2,543,977	2,284,473	1,116,653	1,638,027	10,729,198	(818,696)	9,910,502	
Operating expenses	1,896,783	1,263,260	2,730,617	2,196,073	1,312,840	1,555,096	10,954,669	(824,373)	10,130,296	
Operating income (loss)	\$ 21,998	\$ (35,973)	\$ (186,640)	\$ 88,400	\$ (196,187)	\$ 82,931	\$ (225,471)	\$ 5,677	\$ (219,794)	
Assets, depreciation expense and capital expenditures:										
Assets	\$1,723,342	\$1,018,668	\$2,214,949	\$2,711,174	\$1,348,112	\$1,944,129	\$10,960,374	\$2,068,493	\$13,028,867	
Depreciation expense	20,324	29,047	36,295	106,623	28,357	61,055	281,701	28,489	310,190	
Capital expenditures	20,456	24,345	33,778	72,107	19,377	69,988	240,051	33,154	273,205	

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 service industry, marine transport and others

- ii Operating expenses were entirely allocated to each industry segment.
- iii Corporate assets, which amounted to ¥309,688 million (\$2,930,154 thousand) and ¥263,382 million as of March 31, 2004 and 2003, 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 As discussed in change of accounting policies, the accrued losses on sales contracts had been provided for one billion yen (\$9,462 thousand) and over. But the effective year ended March 31, 2004, the accrued losses are provided on sales contracts ¥300 million (\$2,838 thousand) and over. The effect of this change is to decrease operating income by ¥329 million (\$3,113 thousand) at Logistics Systems and Structures Operations, and to increase operating loss by ¥3,626 million (\$34,308 thousand) at Industrial Machinery Operations, ¥2,823 million (\$26,710 thousand) at Energy and Plant Operations, and ¥9,588 million (\$90,718 thousand) at Shipbuilding and Offshore operations, respectively.

(b) Overseas sales

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, 2003	Millions of yen					
	Europe	Asia	North America	Central and South America	Others	Total
Overseas sales	¥29,567	¥48,312	¥98,158	¥48,154	¥15,608	¥239,799
Overseas sales as a percentage of consolidated net sales	2.9%	4.8%	9.6%	4.7%	1.5%	23.5%

Year ended March 31, 2004	Thousands of U.S. dollars					
	Europe	Asia	North America	Central and South America	Others	Total
Overseas sales	\$333,362	\$551,632	\$820,437	\$700,492	\$271,549	\$2,677,472

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

- (1) Europe.....U.K., Germany, France, Italy, Ireland, Greece, Kazakhstan, Sweden, etc.
- (2) AsiaChina, Taiwan, Korea, Hong Kong, Thailand, Vietnam, Singapore, Malaysia, Indonesia, Philippines, India, Bangladesh, Sri Lanka, etc.
- (3) North AmericaU.S.A., Canada
- (4) Central and South AmericaBrazil, Panama, etc.

18. Amounts per share

Net income per share and shareholders' equity for the year ended March 31, 2002, have been recomputed based on the new accounting standard (see Note 2. (r)) and are restated in the accompanying financial statements.

Year ended March 31	Yen		U.S. dollars
	2004	2003	2004
Net loss	¥ (29.67)	¥ (7.57)	\$(0.28)
Cash dividends	—	1.50	—
Shareholders' equity	116.73	131.96	1.10

19. Subsequent event

The term of the Company's 30th bond issue was determined at the Board of Directors meeting held on May 17, 2004.

Details are as follows:

30th Unsecured Bond (five-year bond)

- (1) Issue amount: ¥15.0 billion (\$142 million)
- (2) Issue price: ¥100 par value of ¥100
- (3) Annual interest rate: 1.01%
- (4) Issue date: June 3, 2004
- (5) Date of redemption: June 3, 2009
- (6) Use of funds: Repayment of corporate bonds
- (7) Subscription: Public subscription

Report of Independent Auditors

Certified Public Accountants

Hibiya Kokusai Bldg.
2-2-3, Uchisaiwai-cho
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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, 2004 and 2003, 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, 2004 and 2003, 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.

As described in Notes 2 and 17 to the consolidated financial statements, Ishikawajima-Harima Heavy Industries Co., Ltd. and consolidated subsidiaries have changed the methods of accounting for accrued losses on sales contracts for the year ended March 31, 2004.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2004 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.



Shin Nihon & Co.

Tokyo, Japan
June 25, 2004

Corporate Data

(As of March 31, 2004)

Head Office

Ishikawajima-Harima Heavy Industries Co., Ltd.
Shin Ohtemachi Building, 2-1, Ohtemachi 2-chome,
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Tel: +81-3-3244-5111
Fax: +81-3-3244-5131
Internet home page: <http://www.ihl.co.jp/index-e.html>

Founded

1853

Incorporated

1889

Number of Employees (Non-Consolidated)

8,140

Transfer Agent

The Chuo Mitsui Trust and Banking Company, Ltd.

Consolidated Subsidiaries

56

Non-Consolidated Subsidiaries

52

Affiliates

49* (Note*: Includes 12 affiliates applying the equity method of accounting)

Stock Exchange Listings

Tokyo, Osaka, Nagoya, Fukuoka, Sapporo

Shares Outstanding

1,298,495,152

Number of Shareholders

104,146

Independent Auditors

Shin Nihon & Co.

Major Shareholders

Japan Trustee Services Bank, Ltd. (Holder in Trust)	7.04%
Japan Trustee Services Bank, Ltd. (Standing proxy: Toshiba Corporation)* ¹	4.26%
The Daiichi Mutual Life Insurance Company	4.15%
The Master Trust Bank of Japan, Ltd. (Holder in Trust)	3.70%
Mizuho Bank, Limited (Standing proxy: Trust & Custody Services Bank, Ltd.)* ²	3.36%
Nippon Life Insurance Company	2.91%
Sumitomo Life Insurance Company	2.04%
IHI Employee Stock Ownership Association	1.81%
Mitsui Sumitomo Insurance Co., Ltd.	1.71%
IHI Customer Stock Ownership Association	1.68%

*¹The shares of Ishikawajima-Harima Heavy Industries Co., Ltd. stock held by Toshiba Corporation are part of that company's retirement benefit trust and are deposited as trust assets at Mitsui Asset Trust and Banking Co., Ltd. Retirement Benefit Trust (for Toshiba Corporation). Voting rights for the shares are exercised in accordance with Toshiba Corporation, instructions.

*²The shares of Ishikawajima-Harima Heavy Industries Co., Ltd. stock held by Mizuho Bank, Ltd. are part of that company's retirement benefit trust and are deposited as trust assets at Mizuho Trust & Banking Co., Ltd. Retirement Benefit Trust (for Mizuho Bank, Ltd.). Voting rights for the shares are exercised in accordance with Mizuho Bank, Ltd., instructions.

Investor Relations

If you have any questions or would like copies of any of our reports, please contact:

Investor Relations Division

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Stock Performance of IHI and Average Trading Volume Per Day

