

May 19, 2003

CONSOLIDATED FINANCIAL REPORT FOR THE FISCAL YEAR ENDED MARCH 31, 2003

Ishikawajima-Harima Heavy Industries Co., Ltd. (IHI) is listed on the First Section of the Tokyo Stock Exchange, Osaka Securities Exchange, Nagoya Stock Exchange, Fukuoka Securities Exchange and Sapporo Stock Exchange with the securities code number 7013.

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Annual Board of Directors Meeting: May 19, 2003

This consolidated financial report has been prepared in accordance with Japanese accounting standards and Japanese law. Figures have been rounded off to eliminate amounts less than one million yen.

PERFORMANCE

(1) Business Results

Years ended March 31, 2003 and 2002

(Millions of yen)

	Net Sales	Percentage Change	Operating Income	Percentage Change	Ordinary Income	Percentage Change
2003	¥1,019,061	(5.9)%	¥24,640	(9.5)%	¥ 9,644	(48.6)%
2002	1,082,402	(2.9)	27,233	(31.8)	18,760	(33.1)

Years ended March 31, 2003 and 2002

(Millions of yen)

	Net Income	Percentage Change	Net Income per Share (Yen)	Diluted Net Income per Share (Yen)	Return on Equity (%)	Ordinary Income to Total Assets (%)	Ordinary Income to Net Sales (%)
2003	¥(9,672)	(-)%	¥(7.57)	¥ -	(5.4)%	0.7%	0.9%
2002	5,539	(39.8)	4.27	¥ -	2.8	1.3	1.7

Notes: 1. Equity in earnings (losses) of unconsolidated subsidiaries and affiliates

Fiscal year ended March 31, 2003: ¥ (10) million

Fiscal year ended March 31, 2002: ¥(605) million

2. Average number of shares outstanding (consolidated)

Fiscal year ended March 31, 2003: 1,298,418,402

Fiscal year ended March 31, 2002: 1,298,491,728

3. Changes in accounting policies: No

4. Percentages shown for net sales, operating income, ordinary income and net income are the rate of increase or decrease from the previous fiscal year.

CONSOLIDATED STATEMENTS OF INCOME

Years ended March 31, 2003 and 2002

(Millions of yen)

	2003	2002	Increase (Decrease)
Net sales	¥1,019,061	¥1,082,402	¥(63,341)
Cost of sales	878,260	932,415	(54,155)
Selling, general and administrative expenses	116,161	122,754	(6,593)
Operating income	24,640	27,233	(2,593)
Non-operating income:			
Interest and dividend income	3,518	3,486	32
Other income	2,239	8,957	(6,718)
Non-operating expenses:			
Interest expenses	5,562	5,807	(245)
Equity in losses of affiliates	10	605	(595)
Other expenses	15,181	14,504	677
Ordinary income	9,644	18,760	(9,116)
Extraordinary income:			
Gain on sale of property, plant and equipment	11,441	9,422	2,019
Gain on sale of investment securities	1,407		1,407
Extraordinary expenses:			
Loss on valuation of investment securities	16,958	4,353	12,605
Provision for employees' retirement allowances for prior period	4,459	4,511	(52)
Loss on disposal of property, plant and equipment	3,542	5,046	(1,504)
Extraordinary retirement benefits	2,551	742	1,809
Restructuring-related losses	1,503		1,503
Loss on evaluation of shares of subsidiaries and affiliates		1,149	(1,149)
Provision for allowance for doubtful receivables of affiliates		894	(894)
Income before income taxes, minority interests and other	(6,521)	11,487	(18,008)
Corporation, inhabitants' and enterprise taxes	6,923	6,644	279
Adjustments to corporation taxes	(3,454)	(625)	(2,829)
Minority interests in consolidated subsidiaries	(318)	(71)	(247)
Net income	¥ (9,672)	¥ 5,539	¥(15,211)

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

Years ended March 31, 2003 and 2002

(Millions of yen)

	2003	2002	Increase (Decrease)
CAPITAL SURPLUS			
Capital surplus, beginning of year:	¥10,200	¥10,359	¥(159)
Decrease in capital surplus:			
Reversal of capital surplus		159	(159)
Capital surplus, end of year:	¥10,200	¥10,200	¥
RETAINED EARNINGS			
Retained earnings, beginning of year:	¥89,725	¥88,073	¥ 1,652
Increase in retained earnings:			
Net income		5,539	(5,539)
Reversal of capital surplus		159	(159)
Net increase from newly consolidated subsidiaries	50		50
Decrease in retained earnings:			
Net loss	9,672		9,672
Net decrease from newly consolidated subsidiaries	304	1	303
Net decrease from new equity-method subsidiaries	192		192
Cash dividends	1,947	3,895	(1,948)
Directors' bonuses	152	150	2
Retained earnings, end of year	¥77,508	¥89,725	¥(12,217)

CONSOLIDATED BALANCE SHEETS

March 31, 2003 and 2002

(Millions of yen)

	2003	2002	Increase (Decrease)
ASSETS			
Current assets:			
Cash and time deposits	¥ 77,503	¥ 92,747	¥(15,244)
Trade receivables	345,615	320,426	25,189
Marketable securities	2,037	13,544	(11,507)
Inventories	385,539	378,728	6,811
Deferred income taxes	17,663	20,775	(3,112)
Other current assets	50,097	63,650	(13,553)
Less allowance for doubtful receivables	(3,190)	(3,132)	(58)
Total current assets	875,264	886,738	(11,474)
Fixed assets:			
Property, plant and equipment:			
Buildings and structures	116,692	113,678	3,014
Machinery and equipment	59,883	83,456	(23,573)
Land	91,799	84,956	6,843
Construction in progress	1,628	7,522	(5,894)
Other tangible fixed assets	17,094	18,065	(971)
Total property, plant and equipment	287,096	307,677	(20,581)
Intangible assets:			
Software	11,820	10,392	1,428
Royalties and other intangible assets	7,733	4,680	3,053
Total intangible assets	19,553	15,072	4,481
Investments and other assets:			
Investment securities	96,480	118,014	(21,534)
Deferred income taxes	60,703	48,358	12,345
Other	55,135	60,369	(5,234)
Less allowance for doubtful receivables	(12,991)	(14,118)	1,127
Total investments and other assets	199,327	212,623	(13,296)
Total fixed assets	505,976	535,372	(29,396)
Total assets	¥1,381,240	¥1,422,110	¥(40,870)

CONSOLIDATED BALANCE SHEETS

March 31, 2003 and 2002

(Millions of yen)

	2003	2002	Increase (Decrease)
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Trade payables	¥ 291,111	¥ 299,209	¥ (8,098)
Short-term loans and current portion of long-term loans	214,668	214,823	(155)
Commercial paper		10,000	(10,000)
Current portion of debentures	15,000	20,000	(5,000)
Accrued income taxes	5,818	3,568	2,250
Accrued expenses	26,043	34,365	(8,322)
Advances from customers	126,143	132,703	(6,560)
Allowance for employees' bonuses	18,723	21,086	(2,363)
Reserve for guaranteed contracts	5,182	6,738	(1,556)
Accrued loss on sales contracts	1,160	2,483	(1,323)
Other current liabilities	37,556	46,521	(8,965)
Total current liabilities	741,404	791,496	(50,092)
Long-term liabilities:			
Debentures	85,000	70,000	15,000
Long-term loans	138,265	145,292	(7,027)
Deferred tax liabilities from revaluation of land	4,092	4,189	(97)
Allowance for employees' retirement benefits	157,236	165,480	(8,244)
Other long-term liabilities	63,277	42,126	21,151
Total long-term liabilities	447,870	427,087	20,783
Total liabilities	1,189,274	1,218,583	(29,309)
Minority interests:			
Minority interests in consolidated subsidiaries	20,643	15,938	4,705
Shareholders' equity:			
Common stock	64,925	64,925	
Capital surplus	10,200	10,200	
Retained earnings	77,508	89,725	(12,217)
Revaluation excess	5,487	5,397	90
Unrealized holding gain on other securities	14,778	18,867	(4,089)
Foreign exchange translation adjustments	(1,551)	(1,523)	(28)
Less treasury stock, at cost	(24)	(2)	(22)
Total shareholders' equity	171,323	187,589	(16,266)
Total liabilities and shareholders' equity	¥1,381,240	¥1,422,110	¥(40,870)

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended March 31, 2003 and 2002

(Millions of yen)

	2003	2002
Operating activities:		
Net (loss) income before income taxes	¥ (6,521)	¥ 11,487
Depreciation and amortization	35,582	35,552
Amortization of long-term prepaid expenses	4,500	3,567
Increase (decrease) in allowance for bad debts	61	1,299
Increase (decrease) in allowance for employees' bonuses	(2,528)	(1,275)
Increase (decrease) in reserve for guaranteed contracts	(1,556)	(1,074)
Increase (decrease) in accrued losses on sales contracts	(1,323)	557
Increase (decrease) in accrued employees' retirement allowances	(8,247)	(6,589)
Interest and dividends income	(3,518)	(3,486)
Interest expense	5,562	5,807
Loss (gain) on foreign exchange	13	(103)
Loss (gain) on disposal of property, plant and equipment	(7,874)	(4,644)
Gain on sale of marketable and investment securities	(1,395)	(230)
Loss on valuation of marketable and investment securities and golf memberships	17,030	5,515
Equity in losses (earnings) of affiliates	10	605
Changes in operating assets and liabilities		
Notes and accounts receivable	1,139	34,787
Advances received	(7,795)	(63,820)
Inventories	1,700	30,246
Advance payments	4,162	(8,223)
Notes and accounts payable	(25,048)	(9,331)
Other current assets	(2,288)	1,966
Other current liabilities	(2,648)	5,345
Accrued consumption taxes	147	(1,717)
Directors' and corporate auditors' bonuses	(172)	(236)
Others		(83)
Subtotal	(1,007)	35,922
Interest and dividends received	3,550	3,572
Interest paid	(5,447)	(5,616)
Income taxes paid	(3,221)	(14,645)
Net cash provided by (used in) operating activities	(6,125)	19,233
Investing activities:		
Net decrease (increase) in time deposits due in more than three months	(1,186)	(111)
Purchases of marketable and investment securities	(5,127)	(6,867)
Proceeds from sale of marketable and investment securities	2,371	598
Decrease from change in scope of consolidation	(757)	
Purchases of property, plant and equipment and intangible fixed assets	(48,938)	(44,304)
Proceeds from sale of property, plant and equipment	7,512	17,045
Expenditure for business transferred from Niigata Engineering Co., Ltd.	(4,249)	
Net decrease (increase) in short-term loans	733	(617)
Increase in long-term loans	(1,440)	(1,460)
Decrease in long-term loans	1,526	239
Decrease (increase) in other non-current assets	345	(2,206)
Increase (decrease) in other fixed liabilities	2,394	8,099
Net cash provided by (used in) investing activities	(46,816)	(29,584)

FORWARD

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

Years ended March 31, 2003 and 2002

(Millions of yen)

	2003	2002
Financing Activities:		
Net increase (decrease) in short-term debt	¥ 2,298	¥ (5,560)
Net increase (decrease) in commercial paper	(10,000)	10,000
Proceeds from issuance of long-term debt	57,226	48,602
Repayment of long-term debt	(35,446)	(50,815)
Proceeds from issuance of debentures	30,000	
Expenditures for redemption of debentures	(20,000)	
Purchase of treasury stock	(22)	(2)
Purchases of treasury stock of subsidiaries in consolidation	(5)	(113)
Dividends paid	(3,895)	(3,895)
Dividends paid to minority interests	(131)	(312)
Proceeds from minority interest payments	2,960	
Net cash provided by (used in) financing activities	22,985	(2,095)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	41	494
Net Increase (Decrease) in Cash and Cash Equivalents	(29,915)	(11,952)
Cash and Cash Equivalents, Beginning of Year	111,063	122,391
Increase in Cash and Cash Equivalents from Consolidation of Non-consolidated Subsidiaries	2,690	624
Cash and Cash Equivalents, End of Year	¥ 83,838	¥111,063

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

	March 31, 2003	March 31, 2002
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 included in marketable securities	2,000	1,498
Investment trust included in marketable securities	37	7,339
Sales under agreement to repurchase included in other current assets (short-term loans)	6,504	5,999
Cash and cash equivalents	¥83,838	¥111,063

BASIS FOR PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

1. Scope of Consolidation

Consolidated subsidiaries:

The consolidated accounts reflect the results of 55 consolidated subsidiaries. Major companies include Ishikawajima Shibaura Machinery Co., Ltd., IHI Aerospace Co., Ltd., IHI Construction Machinery Co., Ltd., Ishikawajima Transport Machinery Co., Ltd., Ishikawajima Mass-Produced Machinery Co., Ltd., Ishikawajima Construction Materials Co., Ltd., Ishikawajima Ship & Chemical Plant Co., Ltd., Ishikawajima Hanyoki Service Co., Ltd., PC BRIDGE Co., Ltd., Ishikawajima Plant Construction Co., Ltd., Star Farm Machinery Manufacturing Co., Ltd., IHI Inc. and IHI Turbo America Co.

Other subsidiaries are not included in consolidation as their effect on consolidated results would not be material.

From the fiscal year under review, 7 companies were included in the scope of consolidation: IHI Marine United Inc., JH Corporation, IHI Charging Systems International GmbH, IHI Charging Systems International S.p.A., Niigata Power Systems Co., Ltd., Niigata Transys Co., Ltd., and Nagoya Plastic Handling Co., Ltd.

Kaisho Shipping Co., Ltd. and 3 other companies were removed from the scope of consolidation due to a reduction in our stake in those firms.

2. Application of the Equity Method of Accounting

Companies accounted for by the equity method comprise Jurong Engineering Limited and 10 other companies. From the fiscal year under review, IHI Marine United Inc. became a consolidated subsidiary and was removed from equity method accounting. In addition, Kaisho Shipping Co., Ltd. and 3 other companies became equity method subsidiaries and were removed from the scope of consolidation. PT Cilegon Fabricators, Great River Line S.A. and Lunar River Line S.A. were newly added as equity method subsidiaries.

3. Consolidated Subsidiaries Having Different Fiscal Year-Ends

As Star Farm Machinery Manufacturing Co., Ltd. closes its books of account for the fiscal year on September 30, provisional financial statements as of March 31 are used for the purpose of consolidation. Although IHI Inc. and other overseas subsidiaries close their books of account for the fiscal year on December 31, their financial statements for the fiscal year are used, as they are within three months of the Company's fiscal year-end.

4. Summary of Significant Accounting Policies

(1) Securities

Securities to be held until maturity are stated at cost with discounts or premiums amortized throughout the holding periods. Other securities with market prices available are stated at fair market value as of the balance-sheet date, with the sale price computed by the moving-average method. Other securities without market prices available are stated at cost by the moving-average method.

(2) Derivative

Derivatives are stated at fair market value.

(3) Inventories

Raw materials and supplies are stated principally at the lower of cost or market by the moving-average method, and finished goods, work in process and contracts in process are stated principally at identified cost.

(4) Depreciation

Depreciation of plant and equipment is principally computed by the declining-balance method. However, depreciation of the Toyosu Center Building (office building for lease) held by the parent 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.

(5) Foreign currency translation

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 a component of minority interests in consolidated subsidiaries and shareholders' equity in foreign exchange translation adjustments.

(6) Basis for recording significant allowances

a. Allowance for doubtful receivables

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

b. Allowance for employees' bonuses

For payment of employee bonuses, the allowance for employees' bonuses is provided for in the amount that is expected to be paid.

c. Reserve for guaranteed contracts

To provide for guaranteed project expenses, the allowance for guaranteed contracts is recorded as an estimate of future expenditures based on historical experience.

d. Accrued losses on sales contracts

Accrued losses on sales contracts are provided for in the amount of estimated losses for work in progress at the balance-sheet date.

e. Employees' retirement allowances

The employees' retirement allowances are provided for based on the expected difference between estimated severance liabilities and pension fund assets at the end of the consolidated fiscal year, as of the consolidated balance-sheet date. Differences arising from this change in accounting method will be disposed of as expenses over five years. Past service costs are disposed of as expenses using the straight-line method over a certain number of years within the average remaining work period of employees at the time of accrual. Actuarial differences are disposed of as expenses from the next fiscal year using the straight-line method over a certain number of years within the average remaining work period of employees, calculated for the fiscal year during which the difference accrues.

(7) *Recognition of revenues and related costs*

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

(8) *Leases*

Financial leases are accounted for by the operating lease accounting method, except lease agreements that stipulate the transfer of ownership of the leased property to the lessee.

(9) *Hedging transactions*

Gains or losses and evaluation differences related to hedging transactions accounted for at fair market value are deferred as assets or liabilities until recognized. Evaluation gains and losses on foreign exchange contracts are allocated to settlement periods throughout the period of the contract. Interest rate swaps are treated as special exceptions.

(10) *Consumption tax*

Consumption taxes are accounted for using the net-of-tax method.

5. Valuation of Assets and Liabilities of Consolidated Subsidiaries

The assets and liabilities of consolidated subsidiaries are stated as a whole at fair market value.

6. Depreciation of Consolidated Adjustment Account

Depreciation of consolidated adjustment account is calculated using the straight-line method based on the estimated period of investment return. However, immaterial amounts are depreciated with a one-time charge in the period in which they occur.

7. Appropriation of Retained Earnings

Appropriations with respect to each balance sheet date are retroactively reflected in the consolidated financial statements for each applicable period.

8. Cash and Cash Equivalents

Cash and cash equivalents include deposits that can be easily withdrawn and converted to cash and short-term investments with a maturity within three months of their acquisition that are not subject to significant price risk.

Note: A new format was used to present capital surplus and retained earnings in statements of retained earnings for the previous fiscal year. A new format was used for the shareholders' equity section of the consolidated balance sheets for the period ended March 31, 2002.

SEGMENT INFORMATION

(1) Performance by business segment

Fiscal year ended March 31, 2003

(Millions of yen)

	Logistics Systems and Structures Operations	Industrial Machinery Operations	Energy and Plant Operations	Aero-Engine and Space Operations	Shipbuilding and Offshore Operations	Other Operations	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

Fiscal year ended March 31, 2002

(Millions of yen)

	Logistics Systems and Structures Operations	Industrial Machinery Operations	Energy and Plant Operations	Aero-Engine and Space Operations	Shipbuilding and Offshore Operations	Other Operations	Total	Eliminations and Corporate	Consolidated
Sales and operating income:									
Sales to outside customers	¥193,079	¥117,469	¥306,452	¥235,348	¥96,359	¥133,695	¥1,082,402	¥	¥1,082,402
Intersegment sales and transfers	15,798	11,811	15,288	4,144	11,984	27,777	86,802	(86,802)	
Total	208,877	129,280	321,740	239,492	108,343	161,472	1,169,204	(86,802)	1,082,402
Operating expenses	211,903	127,110	304,305	232,595	108,479	156,190	1,140,582	(85,413)	1,055,169
Operating income (loss)	¥ (3,026)	¥ 2,170	¥ 17,435	¥ 6,897	¥ (136)	¥ 5,282	¥ 28,622	¥ (1,389)	¥ 27,233
Assets, depreciation expense and capital expenditures:									
Assets	¥182,158	¥104,095	¥234,900	¥306,068	¥106,325	¥276,067	¥1,209,613	¥212,497	¥1,422,110
Depreciation expense	2,527	2,998	4,131	13,328	2,536	8,269	33,789	1,763	35,552
Capital expenditures	2,005	2,499	4,248	15,101	9,437	14,283	47,573	2,625	50,198

Notes:

1. Business segments are based on current classifications.
2. Main products and machinery included in each segment:
 - (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
3. Operating expenses are entirely allocated to each business segment.

(2) Segment information by region

Fiscal year ended March 31, 2003

Japan accounted for more than 90% of the total net sales of all segments and the total assets of all segments. Consequently, disclosure of segment information of areas other than Japan is not required in accordance with generally accepted standards for the presentation of consolidated financial statements.

Fiscal year ended March 31, 2002

Japan accounted for more than 90% of the total net sales of all segments and the total assets of all segments. Consequently, disclosure of segment information of areas other than Japan is not required in accordance with generally accepted standards for the presentation of consolidated financial statements.

(3) Overseas sales

(Millions of yen, %)

Fiscal year ended March 31, 2003	Asia	North America	Central and South America	Europe	Others	Total
Overseas sales	¥48,312	¥98,158	¥48,154	¥29,567	¥15,608	¥ 239,799
Consolidated net sales						¥1,019,061
Overseas sales as a percentage of consolidated net sales	4.8%	9.6%	4.7%	2.9%	1.5%	23.5%

(Millions of yen, %)

Fiscal year ended March 31, 2002	Asia	North America	Central and South America	Europe	Others	Total
Overseas sales	¥32,092	¥96,397	¥56,318	¥28,373	¥33,958	¥ 247,138
Consolidated net sales						¥1,082,402
Overseas sales as a percentage of consolidated net sales	3.0%	8.9%	5.2%	2.6%	3.1%	22.8%

Notes:

1. Countries and regions are classified according to geographical proximity.
2. The countries included in each segment are as follows:
 - (1) Asia: China, Taiwan, Korea, Thailand, Singapore, Malaysia, Indonesia, Philippines, India, Pakistan, etc.
 - (2) North America: U.S.A., Canada
 - (3) Central and South America: Brazil, Panama, etc.
 - (4) Europe: U.K., Germany, France, Italy, Holland, Spain, Norway, C. I. S, Turkey, etc.