CHIYODA

CHIYODA CORPORATION

Annual Report 2004

Fiscal Year Ended March 31, 2004

Rebuilding Chiyoda—

Only the ***finishing touches remain***

CHIYODA CORPORATION, headquartered in Yokohama, Japan, provides services on a global basis in the field of engineering, procurement and construction (EPC) for gas processing, refineries and other hydrocarbon or other industrial plant projects, particularly for LNG, GTL, and gas chemicals. For more than 50 years, Chiyoda has constantly leveraged its extensive experience and far-reaching global network to give it an unrivaled advantage. The Company will continue its EPC business, while innovating an expanded business model that includes plant lifecycle engineering (PLE). This will enable Chiyoda to become a one-stop provider of everything its customers need in the way of plant development and operations.

CONTENTS

RESULTS

	Millions of Yen		Thousands of U.S. Dollars*
	2004	2003	2004
Total assets	¥142,860	¥120,297	$1,347,736
Total shareholders' equity	22,767	16,670	214,783
Construction contracts	206,817	166,367	1,951,104
Operating income	5,881	1,548	55,481
Net income	6,647	2,000	62,708
New contracts	290,658	249,093	2,742,057
Backlog of contracts	375,854	316,167	3,545,792
Per share of common stock:	Yen		U.S. Dollars*
Basic net income	¥ 35.91	¥ 10.79	$ 0.34

* U.S. dollar amounts have been converted at the rate of ¥106=$1, the approximate rate of exchange at March 31, 2004.

SUMMARY

- Recorded increased orders, sales and earnings for the third consecutive year.
- Posted continuous growth in natural gas business, and domestic business stayed firm.
- Eliminated the accumulated deficit on a consolidated basis, and a small deficit remains on a non-consolidated basis.

To Our Shareholders and Friends

DURING FISCAL 2004, ENDED MARCH 31, 2004, WE CONTINUED TO MAKE PROGRESS TOWARD MEETING THE GOALS OF OUR NEW RESTRUCTURING PLAN. WE ARE MEETING OUR IMPROVEMENT TARGETS ONE BY ONE WITH THE AIM OF COMPLETING THE PLAN AS QUICKLY AS POSSIBLE. DUE TO THESE EFFORTS, WE RECORDED THE THIRD CONSECUTIVE YEAR OF GROWTH IN NEW CONTRACTS, SALES AND EARNINGS. AS A RESULT, WE ARE CERTAIN TO MEET THE ULTIMATE GOAL OF THIS PLAN, WHICH IS TO ELIMINATE CONSOLIDATED AND NON-CONSOLIDATED ACCUMULATED DEFICITS, ONE YEAR AHEAD OF SCHEDULE.

In fiscal 2004, consolidated new contracts increased 16.7% to ¥290.7 billion, surpassing our target of ¥280 billion. Consolidated construction contracts overseas were up 72.2% to ¥143.5 billion, but down 23.7% to ¥63.4 billion in Japan. Total consolidated construction contracts therefore increased 24.3% to ¥206.8 billion.

Gross profit on completed construction contracts increased 35.1% to ¥14.1 billion. This was a reflection of growth in construction contracts and the application of risk management systems structured to ensure the profitability of new contracts. In addition, operating income was up 279.9% to ¥5.9 billion due to further reductions in selling, general and administrative expenses. Net income increased 232.4% to ¥6.6 billion, because of the additional income by collection of overdue long-term receivables.

Strategy

Our primary strategy is to refine our current business model by shifting the emphasis of our operations from the EPC (engineering, procurement and construction) to the PLE (plant lifecycle engineering) domain, thus transforming Chiyoda into an organization that can work as a reliable partner with our customers in managing their assets. As Gas Value Chain plants become larger and more complex, we will focus on technology innovation to overcome challenges accompanying these projects. Our plan, therefore, is to concentrate our activities on business fields where we can combine these two evolutionary changes. Through this approach, we will build positions of superiority in businesses that demand advanced technology and present opportunities to add the most value. Even more importantly, we will be able to offer customers superior services in terms of speed, efficiency and quality. Accompanying these actions will be rigorous risk management and quantitative management systems. By establishing a powerful management framework, we intend to position Chiyoda as the world’s most reliable project engineering and management company.

Outlook

Looking ahead, our primary source of earnings will be energy and gas chemicals. A so-called "gas shift" is taking place at an unexpectedly rapid pace, backed chiefly by solid growth in demand in the United States, Europe, India and China. One noteworthy trend is the rising number of ultra-large-scale LNG plants. Another is the rapid growth in plans for large chemical plants, such as ethylene plants, that use inexpensive casing-head gas obtained along with gas used to produce LNG. These developments make the outlook encouraging for the foreseeable future. Making the outlook even brighter are rising capital investments in Japan, where the economy has bottomed out, and growth in opportunities outside Japan.

In fiscal 2005, we expect further growth in sales and earnings to continue. We also plan to resume dividend payments for the first time in nine years. As our results improve, we are formulating our next management plan in order to advance to the next step in our development. As I stated earlier, our objective is to become the world's most reliable project engineering and management company. Regarding our business methodology, Chiyoda must gain more flexibility and skills in systems and project execution in order to contribute to customers' projects irrespective of the operating climate or business field.

Message

In closing, I would like to briefly discuss the transition in how our employees solve problems. Our people are well aware of the challenges we face. They also understand the need to go one more step to do an excellent job. The mindset of employees and how they perform their jobs are critical to generating consistently sound operating results as well as earning the trust of our customers. I strongly believe that our employees have firmly embraced the mindset required for success, giving us a powerful base for advancing to our next strategic objectives.

June 28, 2004

Nobuo Seki
President & CEO,
Chiyoda Corporation

Management Policies

AT CHIYODA, EARNING THE TRUST AND UNDERSTANDING OF SHAREHOLDERS, SOCIETY AND CUSTOMERS REPRESENTS THE BASIS OF ALL CORPORATE ACTIVITIES. FOR THIS PURPOSE, THE COMPANY PLACES PRIORITY ON THE ESTABLISHMENT AND PROPER OPERATION OF FAIR INTERNAL CONTROL SYSTEMS ROOTED IN THE PRINCIPLES OF MANAGEMENT TRANSPARENCY AND SOUNDNESS, AND ON THE TIMELY DISCLOSURE OF INFORMATION.

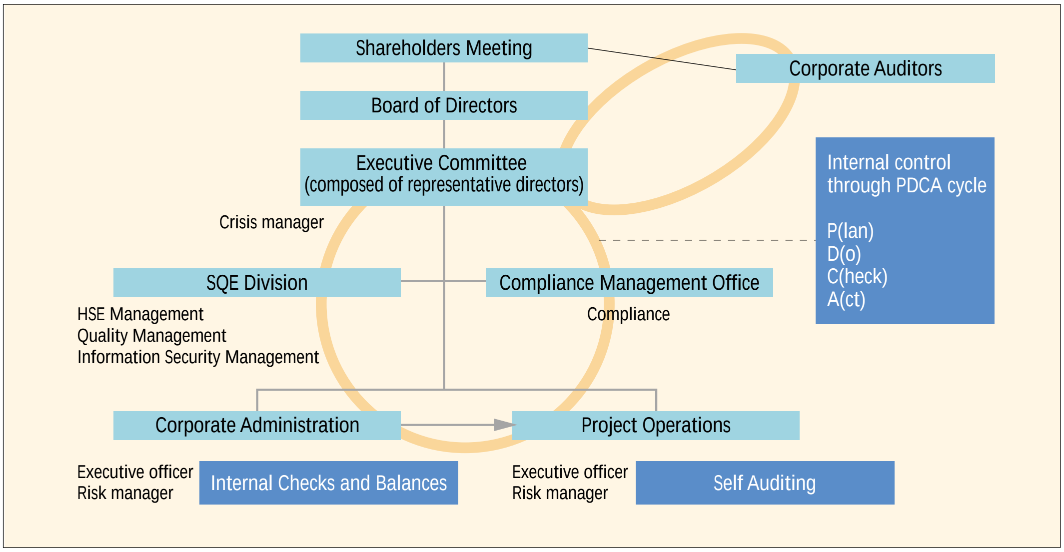
Corporate Governance

Chiyoda has adopted the executive officer system in order to strengthen management functions by separating the roles of decision-making and business execution. The corporate auditor system is also adopted, under which the Company has four outside auditors.

To provide for accurate decision-making in response to rapid shifts in the social and economic climate, Chiyoda has an Executive Committee, which is composed of the representative directors. Unanimous votes are required for decisions concerning important matters in regard to business execution.

Corporate auditors attend meetings of the Executive Committee to express opinions as necessary. This system provides for both speedy and transparent decision-making. Regarding compliance programs required for the execution of business activities, the Company has prepared a written code of conduct and makes all employees aware of this code. In the event of a violation of a law or regulation, there is a system for submitting compliance reports within the Company and to external parties, such as an attorney. Units overseen directly by the Executive Committee audit each operating division with regard to occupational safety and hygiene,

Corporate Governance Structure



quality, environmental issues, information security and other matters. There is a framework for immediately submitting reports concerning problems to the Executive Committee.

Risk Management

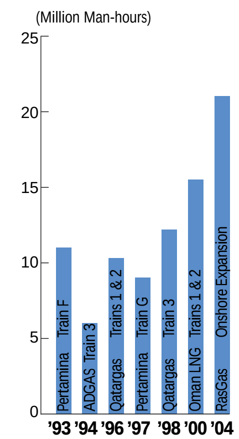
The Company maintains an effective risk management system. Risk managers are appointed to oversee measures to prevent problems as well as to deal with any incidents and minimize their consequences. Crisis managers are appointed to supervise quick and appropriate responses to incidents. In this manner, the Company maintains risk management and crisis management systems that provide for the centralized handling of information and directions in an emergency.

With regard to the management of projects, the Company has a rigorous project monitoring system operated by senior management. Chiyoda has a Cold Eye Review System under which sales activities are evaluated so that potential sources of risk can be quickly identified prior to the preparation of estimates, submission of bids and signing of contracts. In addition, the Company conducts project audits, under which specialized auditors from corporate administrative sections verify the suitability of project execution plans prepared by operating divisions. Through these activities, the Company is further strengthening internal controls and making operations more transparent.

Health, Safety and the Environment

During fiscal 2004, there were no accidents at any Chiyoda project in Japan. The Company regards the protection and improvement in safety and health for all Group employees as the basis of its ability to succeed. Priority will continue to be placed on employee safety and hygiene management, such as through employee training, enactment of suitable measures to prevent accidents and other emergencies, and initiatives to preserve and enhance workplace safety and hygiene. Regarding environmental management, Chiyoda in March 2001 became Japan's first specialized plant engineering company to earn ISO 14001 certification. This certification was extended at a renewal examination conducted in February 2004. The information security management system was reviewed in conjunction with revisions to the BS7799-Part II (2002) standards. The Chiyoda Group is thus clarifying and systematizing the preservation and handling of the information resources that represent the foundation of all business operations.

Safety Records in LNG Plant Construction
(in Man-hours without Lost Time Incident)
As of February, 2004



Rebuilding Chiyoda—Only the Finishing Touches Remain

THE CHIYODA GROUP WILL CONTINUE TO BRING INNOVATION TO THE PLANT LIFECYCLE ENGINEERING CONCEPT THAT GIVES IT A COMPETITIVE TECHNICAL ADVANTAGE IN PROVIDING TOTAL SERVICE, STARTING WITH THE DEVELOPMENT OF HIGHLY COST-COMPETITIVE PLANTS. OUR OBJECTIVE IS TO BECOME A ONE-STOP PROVIDER OF EVERYTHING THAT CUSTOMERS NEED AND THEREBY BUILD LONG-TERM RELATIONSHIPS WITH CLIENTS THAT WILL WIN INCREASED CONTRACTS AND PROFIT.

Plant Lifecycle Engineering Application of the plant lifecycle engineering (PLE) concept is an important element of Chiyoda's growth strategy. PLE proactively facilitates optimization at all stages of a plant's lifecycle, thus maximizing the customer's return on assets. Chiyoda's PLE concept takes a plant's entire lifecycle into consideration. It begins with the basic business plan and continues through engineering, procurement, construction (EPC), operation, maintenance and decommissioning, going all the way to planning the next investment. Using information in our data warehouse, gathered in collaboration with our clients, Chiyoda analyzes costs, quality, stable operations, labor health and welfare and environmental load factors to offer optimized service backed up by the entire Chiyoda Group of companies.

i-PLANT21 i-PLANT21 is a project engineering system that integrates design and project data used through the entire lifecycle of a plant. Built on an integrated platform, i-PLANT21 allows us to deliver high quality and low cost engineering, procurement and construction services, all on schedule. Designed to integrate large volumes of data, the system is particularly suitable for large-scale projects such as the design and construction of LNG plants, refineries and gas chemical plants. Extracted knowledge, feasibility studies, front end engineering design (FEED), and trouble-shooting from past projects can be brought to bear on the next project.

3D model for Qalhat LNG S.A.O.C.

Global Engineering Operation

The Chiyoda Group offers internationally competitive, high quality engineering services on a global scale, using its Global Engineering Satellites (GESs). GESs, with bases in the Philippines (C&E Corporation) and India (L&T-Chiyoda Limited), employs IT and 3-D CAD design tools to offer competitive advantages in quality, technology and cost.

We are expanding the operations of our overseas bases to include procurement, construction and project support, thus creating a global procurement network to bolster the Group's competitive position.

C&E Corporation

L&T-Chiyoda Limited

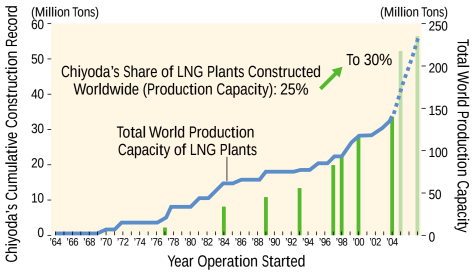
Overseas

The Chiyoda Group has built up an excellent track record in LNG plants and terminals in Japan and around the globe, to the point that it has been involved in the construction of one-third of all LNG plants built in the world. Currently, we are constructing LNG plants and gas processing plants in Qatar, Russia, Oman, U.A.E. and Indonesia. In April 2003, we reorganized our LNG Division to better prepare it for responding to the needs of all phases of natural gas use.

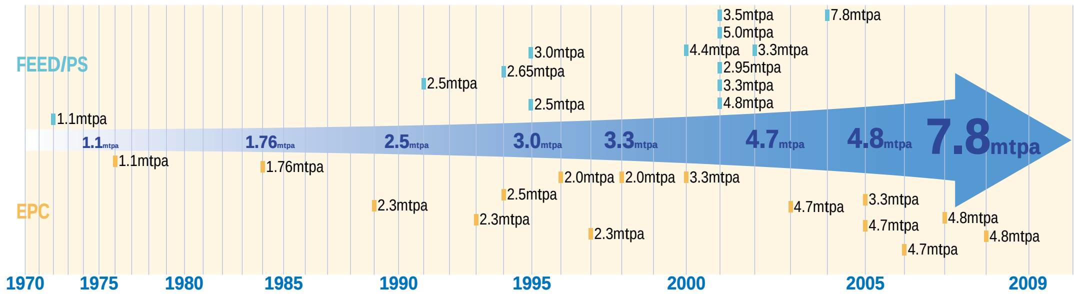
In our Gas Value Chain business we offer services to optimize processes across the entire Gas Value Chain, from upstream to the markets, from gas processing and liquefaction plants to LNG/LPG receiving/storage terminals and gas chemical plants for ethylene, methanol and new energies such as gas-to-liquids (GTL) and dimethyl ether (DME).

Natural gas producing countries in the Middle East are planning larger LNG plants to boost exports to the U.S., Europe, China and India, areas where demand for clean energy is expected to shoot up. Chiyoda is responding to these changes by concentrating corporate resources into a series of projects using natural gas as feedstock. In petroleum and chemicals, we are winning more contracts and implementing projects by leveraging our own technologies and combining them with ethylene and other technologies we have licensed from third parties.

Demand for LNG Plants on a Sharp Rise



LNG Plant Capacity per Train



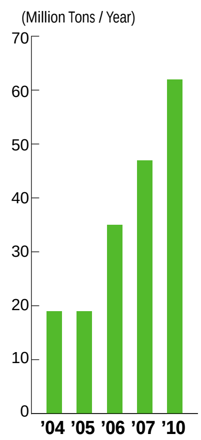
Qatar

In Qatar, a major market, the Chiyoda Group completed the LNG Trains 1, 2 & 3 for Qatar Liquefied Natural Gas Co., Ltd. (Qatargas) and the LNG Train 3 for Ras Laffan Liquefied Natural Gas Co., Ltd. (RasGas) from 1993 to 2003. We are currently involved in several major projects in Qatar, including a gas development project for ExxonMobil; LNG Trains 1, 2 & 3 debottlenecking projects for Qatargas; LNG Train 4 project for RasGas; and common cooling water system project for Qatar Petroleum Co., Ltd. Recently, we won two major contracts: LNG Train 5 project for RasGas and the FEED for LNG Trains 4 & 5 (each 7.8 million tons per year) for Qatargas. Our presence is growing steadily in Qatar, a core market for Chiyoda as we continue to maintain an overwhelmingly strong competitive position in LNG plants in the Middle East.

Russia

In Russia, the country with the world's largest gas reserves, the Chiyoda Group is working on the two LNG trains (each 4.8 million tons per year). This will be the first LNG plant for the country, and also the first in the world to use Shell's Double Mixed Refrigerant (DMR) liquefaction process. We will focus on building an excellent track record to expand our business in the fast growing Russian market.

LNG Export Plan in Qatar



Japan

In Japan's plant market, domestic oil refiners and public utility companies are investing actively in the area of environmental protection, such as production of sulfur-free gasoline and reduction of heavy oil consumption, and conservation of energy resources by switching to LNG. Chiyoda's strategy is geared to strengthening relations with customers while bolstering the Company's competitive position, to win recognition as the construction contractor of choice. In the fine chemicals sector, our goal is to boost profitability by winning contracts for electronic materials, specialty chemicals and other plants that involve high value added process elements. In the new energy area, we are focusing on promising themes such as GTL technology and hydrogen energy, and participating in projects to reduce total energy consumption at oil and chemical complexes using the pinch technology.

GTL pilot plant in Yufutsu, Hokkaido Prefecture

Photo courtesy of JOGMEC

R&D

The main thrust of our research and development is technologies and products that add value to our services, and so help us to create businesses in the fields of new energy, the environment, petroleum and chemicals.

In new energy, Chiyoda has successfully demonstrated outstanding performance of a CO_2 reforming process for effective syngas production in the national project for gas-to-liquid process development. Elsewhere, in readiness for hydrogen-based energy, Chiyoda continues research in chemical hydride technology, particularly the chemical hydrogenation and dehydrogenation cycle.

In the environment, we continue to improve our flue gas desulfurization (CT-121 process for coal fired power stations) to meet specific requirements of the world market. A new commercial plant for the CASOX process—removal of SO_2 from flue gas by catalytic oxidation and its recovery as H_2SO_4—has operated successfully since April 2003.

In petroleum and chemicals, Chiyoda joined an R&D program, sponsored by the New Energy and Industrial Technology Development Organization (NEDO), and has developed an active titania catalyst for diesel deep hydro-desulfurization. This will be commercialized.

FORECASTS

Overseas, investment in the gas sector, including upstream areas of gas wells, is expected to continue to rise on the global scale, reflecting the ongoing shift to gas at energy majors.

In Japan, petrochemical firms are exploring the possibilities of enhancing competitiveness through forging alliances between their individual petrochemical complexes. Spurred by this trend, investment in energy conservation and environmental systems for industry clusters, including investment by oil refiners, is expected to remain favorable. Responding to these trends, Chiyoda will promote its plant lifecycle engineering (PLE) concept, which is designed to optimize the plant lifecycle by addressing such issues as facility ageing and extension of the maintenance cycle by developing proposals backed by the Group's technological assets.

We expect continued revenue and profit growth in the current fiscal year, ending March 31, 2005, enabling us to restore the dividend for the first time in nine years.

	FY2004		FY2005
Construction Contracts	¥206.8 billion	→	¥250.0 billion
Operating Income	¥5.9 billion	→	¥8.3 billion
Net Income	¥6.6 billion	→	¥8.3 billion
New Contracts	¥290.7 billion	→	¥260.0 billion

Overseas

China's explosive economic growth is boosting capital investment and alongside this energy consumption is rising rapidly. This key factor, combined with the active shift to gas at energy majors, assures that the global market boom should continue, led by the Middle East, the major oil and gas producing area.

Reflecting these and other factors, overseas new contracts increased 21.2% from the previous fiscal year to ¥218.7 billion. Revenues from construction contracts were up 72.2% to ¥143.5 billion.

◆New Contracts ◆◆Constructing Contracts ◆◆◆Backlog of Contracts

Locations		Clients	Projects
MIDDLE EAST			
Qatar	◆◆	Ras Laffan Liquefied Natural Gas Co., Ltd. (II)	LNG Plant (Train 3)
Qatar	◆◆	Qatar Petroleum	Common Cooling Water System
Qatar	◆	Ras Laffan Liquefied Natural Gas Co., Ltd.	LNG Plant
Qatar	◆	ExxonMobil Middle East Gas Marketing Ltd.	Gas Development Project (additional work)
Qatar	◆	Qatar Liquefied Natural Gas Co., Ltd.	LNG Plant (FEED)
Qatar	◆◆◆	Ras Laffan Liquefied Natural Gas Co., Ltd. (II)	LNG Plant (Train 4)
Qatar	◆◆◆	ExxonMobil Middle East Gas Marketing Ltd.	Gas Development Project
Qatar	◆◆◆	Qatar Liquefied Natural Gas Co., Ltd.	LNG Plant (debottlenecking)
Oman	◆◆◆	Qalhat LNG S.A.O.C.	LNG Plant
Saudi Arabia	◆◆◆	International Methanol Company	Methanol Plant & Utility/Offsite
Saudi Arabia	◆◆◆	Jubail United Petrochemical Company	Ethylene Plant
ASIA			
China	◆	Nantong SKT New Material Co., Ltd.	PVDC (polyvinylidene chloride) Plant
China	◆	Mitsubishi Rayon Polymer Nantong Co., Ltd.	PMMA (polymethyl methacrylate) Sheet Plant
China	◆◆◆	CNOOC and Shell Petrochemicals Co., Ltd.	SM/PO and MPG/Polyols Plant
China	◆◆◆	China National Bluestar (Group) Corporation	Bisphenol-A Plant
Thailand	◆◆◆	Thai Olefins Public Co., Ltd.	Ethylene Plant
Indonesia	◆◆◆	PetroChina International Jabung Limited	Natural Gas Development Project
RUSSIA AND OTHERS			
Russia	◆	Sakhalin Energy Investment Company Ltd.	LNG Plant / Crude Oil Export Facilities
Venezuela	◆◆◆	Petroleos de Venezuela S.A. (PDVSA)	Refinery Modernization

(Left) President Nobuo Seki greeted the Minister of Energy and Industry, H.E. Abdullah Bin Hamad Al Attiyah.
(Center) LNG14 conference
(Right) Contract signing ceremony for the fertilizer plant in Iran

Qatar ▶ LNG14

Following on from the Perth (Australia) and Seoul (South Korea) conferences, the 14th Liquefied Natural Gas Conference and Exhibition (LNG14) was held in Qatar in March 2004.

Some 2,500 LNG industry executives and 152 firms from 36 countries attended this major event, which is held every three years. The Chiyoda booth featured a rotating LED display and offered many valuable opportunities to meet senior executives in the LNG sector.

Addressing the conference in the opening ceremony, the Emir of the State of Qatar, His Highness Sheikh Hamad Bin Khalifa Al Thani said, "The development of the gas sector and the realization of optimum utilization of our natural resources are among our most important national goals." The Minister of Energy and Industry, H.E. Abdullah Bin Hamad Al Attiyah, expanded on the Emir of State's remarks and announced that, "We anticipate that our gas exports by 2010 will exceed 60 million tons per annum. Such major projects will require the massive investment of US$30 billion." This means that Qatar will become the largest LNG exporter.

During the conference a ceremony was held to commemorate the completion of the RasGas LNG Train 3 at Ras Laffan, with the presence of the Emir of State. The ceremony was widely reported in local newspapers. Chiyoda was particularly honored by the fact that the commemoration ceremony was held at a time when LNG industry executives from around the world were gathered in Qatar.

Iran ▶ Second order for fertilizer plants in Iran

An international consortium consisting of Chiyoda Corporation, Toyo Engineering Corporation (TOYO), and Petrochemical Industries Design and Engineering Company (PIDEC), an Iranian engineering firm, was awarded a contract by Petrochemical Industries Development Management Company (PIDMCO), an affiliate of Iran's National Petrochemical Company (NPC), to construct a 2,050 tons per day ammonia plant and a 3,250 tons per day urea plant in Bandar Assaluyeh. The signing ceremony for the contract was held in February 2004 in Teheran. Within the consortium, Chiyoda covers the urea plant.

The consortium won this repeat order without competition on the basis of its track record in an identical adjoining complex currently under construction. The fertilizer complex will use natural gas from the South Pars gas field as feedstock.

(Left) Environmental research at the river that flows through the plant site
(Right) Environmental research of rare animals

Russia ▶ Sustainable development (Sakhalin II LNG Project)

The Sakhalin II LNG Project being executed in Russia is still at an early stage, with the construction of temporary facilities and a material offloading facility constituting the main activities. Sakhalin experiences extremely cold winters and the southern part of the island, where the plant is to be built, is rich in nature. What's more, the river that flows through the plant site is the spawning ground for salmon and trout, and the northern of the project site is close to the habitats of seals, sea lions, sea elephants, gray whales and penguins. All these factors make environmental considerations all the more important in executing the project.

CFW President Mamoru Nakano received the plaque from Shaikh Abdulla Bin ali Al Qatabi, the President of Majles A' Shura.

Oman ▶ CFW wins certificate of commendation

Chiyoda Foster-Wheeler and Company LLC (CFW) received a commendation from Oman's Ministry of Labor for its significant contribution to increasing local employment. CFW, a leading construction contractor, was the first private firm to win this award. The award ceremony, attended by many government officials, was held on the outskirts of Muscat.

Domestic

In Japan's plant market, capital investment remained strong, supported by oil companies' desulfurization projects for fuel. Furthermore, electric power utilities are shifting to LNG from other energy sources in a bid to cut back on CO_2 emissions. Several LNG receiving terminal projects were launched in anticipation of increasing consumption of LNG as a clean fuel.

As a result of these and other factors, domestic new contracts increased 4.9% from the previous fiscal year to ¥72.0 billion but revenues from completed construction contracts declined 23.7% to ¥63.4 billion.

◆New Contracts ◆◆Constructing Contracts ◆◆◆Backlog of Contracts

Locations		Clients	Projects
DOMESTIC			
Hyogo	◆◆	Kobe Steel, Ltd.	Flue Gas Desulfurization Plant (No. 2)
Shizuoka	◆◆	Toyo Roki Mfg. Co., Ltd.	Factory Removal & Reconstruction
Ehime	◆◆	Taiyo Oil Co., Ltd.	Expansion of Crude Distillation Unit
Shizuoka	◆◆	Chugai Pharmaceutical Co., Ltd.	Pharmaceutical Plant
Aomori	◆◆	Japan Nuclear Fuel Limited	Utility Facilities
Yamaguchi	◆	Seibu Oil Co., Ltd.	Gasoline Sulfur Reduction Project
Mie	◆	Showa Yokkaichi Sekiyu Co., Ltd.	Gasoline Sulfur Reduction Project
Kanagawa	◆	Mitsubishi Pharma Corporation	Pharmaceutical Laboratory
Ibaraki	◆	Japan LPG Storage Co., Ltd.	LPG Storage Terminal
Ehime	◆◆◆	Japan LPG Storage Co., Ltd.	LPG Storage Terminal
Ibaraki	◆◆◆	Eisai Co., Ltd.	Bulk Pharmaceutical Plant
Nagasaki	◆◆◆	Japan LPG Storage Co., Ltd.	LPG Storage Terminal
Okayama	◆◆◆	Mizushima LNG Co., Ltd.	LNG Receiving Terminal

(Left) Artist's conception of completed LNG facility
(Right) Inside of a LNG tank when empty

Mizushima LNG Receiving Terminal project nearing completion

Chiyoda was awarded a contract on a full turnkey basis for Mizushima LNG Receiving Terminal for Mizushima LNG Co., Ltd., jointly established by Chugoku Electric Power Co., Inc. and Nippon Oil Corporation. The scope of work on the project includes installing one above-ground PC LNG tank with a capacity of 160,000 kiloliters, the largest in Japan. A ceremony to mark raising of the roof was held in March 2004. The inner diameter of the secondary containment (such as the bund) of the tank is 80m. The roof, when raised to its full height of 29.2m (it takes three hours to raise the roof using air blowers), has a height equivalent to that of a 17-story building (approximately 51.7m).

The tank will receive, via a pipeline, super-cooled (-162°C) LNG transported by tankers, for storage at the same temperature. For delivery, the LNG is either pumped to vaporizers, where it is heated by seawater and turned into gas, or loaded on to LNG lorries in liquid form.

We believe that award of the first EPC contract for an LNG receiving terminal in Japan recognizes Chiyoda's experience and outstanding past achievements in engineering, procurement and construction (EPC) for LNG terminals. We are making every effort possible to assure safe completion of the project, which is slated for March 2006.

Accident-free day record

The year 2003 was accident-free for Chiyoda, with no accidents at any of its 82 project sites (cumulative) in Japan.

This is an outstanding safety record that surpasses all records since the Company started compiling statistics back in 1959.

The record is a testimony to the high level of safety consciousness among Chiyoda Group employees and to day-to-day safety management in project implementation in Japan.

Number of Accidents (Japan) Resulting in Work Stoppages

Year	Number of Accidents
'00	3
'01	4
'02	2
'03	3
'04	0

Performance Highlights

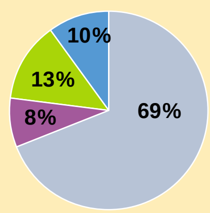
FY2004
Breakdown by Industry

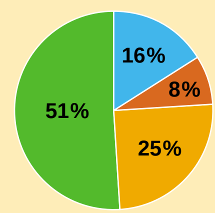
- LNG/Gas Processing
- Chemicals
- Petroleum
- Others

FY2004
Breakdown by Region

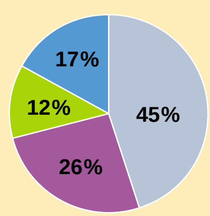
- Middle East
- Asia
- Japan
- Russia and Others

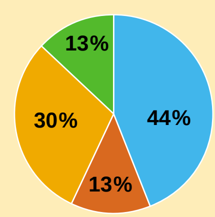
New Contracts



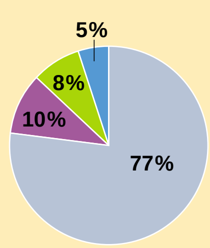


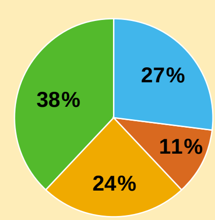
Construction Contracts





Backlog of Contracts





Consolidated Six-Year Financial Summary

Chiyoda Corporation and Consolidated Subsidiaries

	Millions of Yen					
	2004	2003	2002	2001	2000	1999
For the Year:						
Construction contracts	**¥206,817**	¥166,367	¥141,387	¥128,665	¥168,963	¥312,234
Cost of construction contracts	**192,710**	155,924	136,762	131,240	154,112	308,703
Income (loss) before income taxes and minority interests	**5,370**	2,509	1,861	(3,357)	1,553	(10,534)
Net income (loss)	**6,647**	2,000	121	(4,607)	698	(11,623)
At Year-End:						
Total assets	**¥142,860**	¥120,297	¥129,314	¥114,652	¥153,099	¥213,920
Total shareholders' equity	**22,767**	16,670	15,103	15,023	8,181	6,208
Working capital	**15,719**	7,526	1,387	2,241	(19,594)	(22,942)
Current ratio (%)	**115.0**	108.4	101.4	102.6	84.5	87.7
Long-term debt	**10,316**	10,422	10,672	11,346	12,545	13,518
Per Common Share (Yen):						
Net income (loss)	**¥ 35.91**	¥ 10.79	¥ 0.65	¥ (20)	¥ 3	¥ (58)
Shareholders' equity	**123**	90	81	81	33	25
Other Statistics:						
Number of shares outstanding* (thousands)	**185,041**	185,199	185,388	185,429	248,357	248,357

* At year-end

Operating Results and Financial Position

1. REVIEW OF OPERATING RESULTS

a Summary

In fiscal 2004, ended March 31, 2004, revenues from construction contracts on a consolidated basis increased 24.3% from the previous fiscal year to ¥206.8 billion. Operating income rose 279.9% to ¥5.9 billion and net income was up 232.4% to ¥6.6 billion. New contracts totaled ¥290.7 billion, up 16.7% from the previous fiscal year.

b New contracts and construction contracts

New contracts totaled ¥290.7 billion, as domestic orders increased 4.9% over the previous fiscal year to ¥72.0 billion, and overseas orders rose 21.2% to ¥218.7 billion. Revenues from construction contracts were ¥206.8 billion. Revenues in Japan declined 23.7% to ¥63.4 billion but revenues from overseas rose 72.2% to ¥143.5 billion.

The following is a summary of engineering operations, which represent the bulk of the Company's activities:

a. Petroleum

Japan's petroleum sector experienced unprecedented change in fiscal 2004, characterized by progressive consolidation in the domestic petroleum industry, streamlining of refining facilities through facility consolidation, and sharply higher sales of heavy oil as safety considerations forced shut downs of nuclear power plants. Heightened awareness of environmental issues led to accelerated investment in gasoline, light oil and kerosene desulfurization plants. As a result of these and other factors, segment orders rose sharply.

Aggregate new contracts increased 299.6% from the previous fiscal year to ¥38.9 billion. Major orders included a hydrodesulfurization unit for Mizushima Refinery of Nippon Petroleum Refining Co., Ltd. and gasoline sulfur reduction projects for Seibu Oil Co., Ltd. and Showa Yokkaichi Sekiyu Co., Ltd. Revenues from construction contracts fell 25.4% to ¥25.7 billion, reflecting weak orders for overseas petroleum-related projects in the previous fiscal year. Major completions included an expansion of a crude distillation unit for Taiyo Oil Co., Ltd.

b. Chemicals

In bulk and commodity chemicals, Japanese companies implemented initiatives to cope with propylene shortages, reflecting a shift toward natural gas for the production of ethylene, while oil refiners showed a growing interest in value-added products. The pharmaceuticals sector was buffeted by changes in its operating environment that included the revision of the Pharmaceutical Law, a rush of mergers and acquisition among Japanese pharmaceutical firms, and the acquisition of domestic pharmaceutical companies by their foreign counterparts, with the result that domestic pharmaceutical firms aggressively outsourced their engineering work. Overseas, several major investment plans were unveiled in the Middle East. Considerable activity was also seen in China, a potentially lucrative market over the medium-to long-term, where foreign firms are actively setting up manufacturing facilities in the automotive, consumer electronics, food and construction sectors. Japanese chemical producers are increasing capacity in China to supply parts and raw materials to these foreign transplants.

New contracts totaled ¥21.9 billion, a decline of 55.1% from the previous fiscal year. Major orders included a pharmaceutical laboratory for Mitsubishi Pharma Corporation, PVDC (polyvinylidene chloride) plant for Nantong SKT New Material Co., Ltd. and PMMA (polymethyl methacrylate) sheet plant for Mitsubishi Rayon Polymer Nantong Co., Ltd. However, revenues from construction contracts surged 51.4% to ¥54.2 billion, reflecting buoyant orders in previous years. Revenues included payment for the completed portion of construction of ethylene/methanol plants in Saudi Arabia and a pharmaceutical plant for Chugai Pharmaceutical Co., Ltd.

c. Power and Gas

In Japan, gas companies are reporting growing sales of natural gas as the volume to natural gas consumption increases in both the consumer and industrial sectors. Increasing use of hot water in the home and a continuing shift to natural gas as an industrial energy source is driving demand growth.

Overseas, production of natural gas in the U.S. and Canada is declining steadily. In response, the U.S. government has unveiled policies aimed at boosting natural gas imports. In Europe, where deregulation of the gas sector is spurring entry of new firms into the gas supply business, imports of LNG continue to increase. Elsewhere, new customers are appearing in the market. India has signed an agreement with Qatar for the purchase of 7.5 million tons of LNG per year. China has also concluded gas purchase agreements with Indonesia and Australia. Against the backdrop of these trends, investments in gas processing plants increased and expansions of LNG/LPG plants continued in the Middle East.

New contracts in the fiscal year under review rose 36.7% from the previous fiscal year to ¥201.0 billion, reflecting several major orders that included the Sakhalin II LNG project in Russia (LNG plant/crude oil export facilities) for Sakhalin Energy Investment Company Ltd., an LNG plant (additional work) in Qatar for Ras Laffan Liquefied Natural Gas Co., Ltd., a gas development project (additional work) in Qatar for ExxonMobil Middle East Gas Marketing Ltd. and an LPG storage terminal for Japan LPG Storage Co., Ltd. Revenues from construction contracts rose 94.8% to ¥93.4 billion, due in part to payments received on major projects, including a payment for the completed portion of construction of LNG plant in Qatar, LNG plant in Oman and Sakhalin II LNG project in Russia, as well as utility facilities for Japan Nuclear Fuel Limited.

d. Infrastructure, general industries and others

Chiyoda concentrated on winning orders for the construction of new facilities and expansion of existing facilities for electronic materials and high-performance films, areas in which the Company has an outstanding track record. As a result we won orders for projects, particularly for designing such facilities. However new contracts decreased 34.8% from the previous fiscal year to ¥25.3 billion and revenues from construction contracts fell 30.9% to ¥29.9 billion. Major completions included a flue gas desulfurization plant (No. 2) for Kobe Steel, Ltd.

c Gross profit on construction contracts

Gross profit on construction contracts increased 35.1% compared to the previous fiscal year, to ¥14.1 billion. Higher gross profit reflects a recovery in gross profit margins on the strength of two factors: a growing level of sales, and improvement in the gross profit margin through the firm establishment of risk management expertise at all project stages starting from the bidding stage aimed at assuring profitability on construction contracts. As a result of these and other factors, the gross profit margin on construction contracts rose 0.5 percentage points to 6.8%.

d Selling, general and administrative expenses

Selling, general and administrative expenses declined ¥0.7 billion from the previous fiscal year to ¥8.2 billion. The decline was achieved despite a ¥0.2 billion increase in research and development expenses and a ¥0.1 billion increase in personnel expenses, as we increased employee compensation to reward employees for the ongoing recovery in operating results. As operating divisions took over more office space formerly used by the sales and administrative divisions, expenses for office space included in the corporate account declined, bringing down SG&A expenses.

e Operating income

Operating income rose 279.9% from the previous fiscal year to ¥5.9 billion. The principal factors contributing to this growth were a higher level of revenues from construction contracts, improved gross profit margins on construction contracts and lower selling, general and administrative expenses. Consequently, the operating income margin improved 1.9 percentage points from 0.9% in the previous fiscal year to 2.8%.

f Other income (expenses)

Other expenses-net totaled ¥0.5 billion, a ¥1.5 billion decline from other income-net of ¥1.0 billion in the previous fiscal year.

The interest balance (net)—interest and dividend income, less interest expense—was ¥35 million, an improvement of ¥205 million from a net expense of ¥169 million in the previous fiscal year. This was largely due to lower interest expense, as interest-bearing debts were brought down. Foreign exchange gain totaled ¥0.3 billion, a result of the cancellation of forward foreign exchange contracts not deemed necessary.

Equity in earnings of associated companies declined by ¥0.8 billion from the ¥1.0 billion posted in the previous fiscal year to ¥0.2 billion, due mainly to liquidation of Kellogg Chiyoda Service Limited, a joint venture for project execution.

For the most part, other expenses represented a ¥1.7 billion loss on performance guarantee for an associated company that more than offset a ¥0.6 billion reversal of provision for contingent loss from the ¥0.8 billion provision made in the previous fiscal year.

g Income, residential and enterprise taxes and deferred tax adjustment

Income before income taxes and minority interests was ¥5.4 billion. Income, residential and enterprise taxes totaled only ¥0.7 billion, due to a lower tax amount resulting from loss carryforwards for tax purposes.

Furthermore, the amount of deferred income taxes increased by ¥1.8 billion to ¥1.9 billion, a result of the re-assessment of deferred tax assets, because improved project cost management helped boost profit margins significantly, which now makes it more probable that the Company may generate sufficient taxable income in the next fiscal year to recover deferred tax assets.

h Net income

Net income was ¥6.6 billion, an increase of ¥4.6 billion from the previous fiscal year.

2. SOURCE OF CAPITAL AND LIQUIDITY

a Cash flows

Cash and cash equivalents at the end of the fiscal year were ¥40.9 billion, an increase of ¥6.0 billion over the previous fiscal year-end. The principal uses of cash were ¥1.7 billion in capital expenditures, including IT-related investments, and ¥8.2 billion for repayment of short-term bank loans and long-term debt. Net cash provided by operating activities was ¥15.6 billion, an increase of ¥8.6 billion from the previous fiscal year, largely reflecting a sharp increase in working capital at the end of the year from advance receipts on new contracts.

Jointly controlled assets of joint ventures substantially represent Chiyoda's share of cash and cash equivalents at joint ventures. Net cash provided by operating activities, after adjustment for jointly controlled assets of joint ventures, was ¥35.3 billion. As a result, the Group's operating activities provided net cash of ¥69.3 billion.

b Financing

The up-front costs of the construction of plants in Japan and overseas, plus selling, general and administrative expenses, account for the bulk of financing needs. Significant components of selling, general and administrative expenses are employee salaries and allowances and outsourcing expenses. Personnel expenses related to R&D staff represent the majority of research and development costs.

c Financial strategy

The Company finances its working capital and investment capital requirements through internal funds and bank borrowing. Regarding working capital, in February 2004 the Company repaid ¥7.9 billion in short-term borrowings from cash on hand. The Company also had a ¥12.0 billion short-term commitment line contract to meet any future demand for funds.

Regarding capital investments, current plans envision small-scale investments in IT systems. These will be financed through internal funds.

Given the level of orders received, the current financial position, the ability to generate operating cash flow and the balance of unused commitments, the Group believes that it has adequate access to funds that may be required to drive growth.

Business Risk and Other Risks

The following is a list of major items, and Chiyoda's responses to those items, that may have a significant bearing on the decisions of investors with regard to the Chiyoda Group's financial position, operating results, cash flows and other important factors concerning risks associated with an investment. The Group is aware of the possibility that these problems may occur, and is exercising extreme care to take preventive measures. The Group also strives to respond quickly to any problem to minimize its effect.

Certain items below concern risks that may occur in the future. These items represent risks that the Company believes are significant with regard to its risk management activities as of June 28, 2004, the date when the Company submitted its MOF securities report (Yuka Shoken Hokokusho).

1. FOREIGN EXCHANGE RATE MOVEMENTS

For overseas construction projects, a large share of payments received and payments made to procure materials and equipment is in foreign currencies. Regarding ongoing projects, the Company uses foreign exchange forward agreements and other instruments to minimize the potential impact of foreign exchange movements on the earnings from those projects. Regarding new orders, foreign exchange movements may affect the competitiveness of the Company's prices. However, overseas resources are employed and other steps taken in order to reduce risks associated with foreign exchange movements as well as to preserve and enhance the Company's ability to offer competitive prices.

2. FOREIGN TAXES, CUSTOM DUTIES AND VISAS

For overseas construction projects, the Company is at times obligated to pay corporate and other taxes in countries where projects are located. In some instances, there is a need to deal with unexpected problems, such as additional tax payments, resulting from inadequate laws and regulations or other factors in a particular country. Such problems can have an effect on earnings. Furthermore, a long time is required to receive entry and working visas in certain countries. This could have an effect on earnings because of delays in construction and other activities. Prior to the receipt of each order, the Company gathers extensive information to evaluate various risks.

3. SUDDEN INCREASES IN PRICES OF MATERIALS AND OTHER ITEMS

There is a gap between the time when estimates for plant construction projects are prepared and orders are placed for materials and equipment. Consequently, earnings at a project are vulnerable to sudden increases in prices of labor, materials and equipment following the submission of an order. The completion of a project could be pushed back due to substantial increases in prices of materials and equipment or delays in the delivery of materials and equipment caused by shortages or other factors. Such delays could affect earnings at a project. Recently, there has been significant growth in the price of materials. Since the outlook for these prices is uncertain, the Chiyoda Group is taking steps to shield itself from the risks associated with price movements. Actions include using suppliers in all areas of the world and taking steps to minimize the impact of price increases. In addition, the Group is considering the placing larger orders as well as using a larger number of suppliers for the purpose of ensuring a reliable supply of materials and equipment along with strict adherence to delivery schedules. When negotiating contracts with customers, the Company works hard at including supplementary terms that address the possibility of an unusual increase in prices.

4. TERRORISM, POLITICAL UNREST IN NEARBY COUNTRIES, STRIKES AND LACK OF GOVERNMENT CONTROLS

Global terrorism could directly harm the Company's head office, construction sites or employees, cause the suspension of ongoing business activities, or reduce the volume of capital expenditures over the medium and long terms due to instability in the client countries in the Middle East and elsewhere. Such events could affect earnings. There is also a possibility that the Company needs to ask customers to postpone construction projects due to strikes at suppliers or frequent general strikes and anarchism in developing countries and regions. Although the Company is taking actions to minimize exposure to this risk as much as possible, there could be an impact on earnings if the Group is unable to have customers pay for the resulting additional expenses. The Group has established a crisis management system so that a quick initial response can be made if a problem occurs.

5. SUPPLIER BANKRUPTCIES AND OTHER FINANCIAL PROBLEMS

The Group procures on a global scale the materials and equipment used to construct plants. A deterioration in economic conditions in the country or region where a subcontractor or manufacturer is located could cause one or more of these companies to declare bankruptcy or to fail to deliver products or services on schedule. Such events could affect earnings. To manage this risk, the Group evaluates the financial standing of these companies, inspects factories and takes other actions on a regular basis.

6. ACCIDENTS DURING TRANSPORT OF MATERIALS AND EQUIPMENT

There is a risk that materials and equipment are damaged during transport due to inclement weather or other natural disaster. While goods are insured during transport, insurance is not normally available to cover damage resulting from the sudden breakout of hostilities or a war. The Group is thus temporarily exposed to this risk when goods are transported. War insurance is available in some cases once a certain period after the outbreak of hostilities has passed. However, since insurance premiums are high, the resulting increase in insurance payments may affect earnings. In the event of an accident during the transport of materials and equipment, the Group will quickly hold discussions with customers and other related parties to determine the best course of action.

7. PLANT ACCIDENTS

There is a possibility for a variety of problems to occur for whatever reason at plants the Group is constructing or has completed in the past. These problems range from minor malfunctions of the devices that make up these plants to a major accident such as an explosion or fire. In the event that the Group is responsible for the cause of an accident, earnings may be affected. In the event of a major accident, the Group will conduct a rapid initial response based on its crisis management system. The Group will also determine the cause and, if the Group is responsible, respond in a manner that reflects the Group's obligation to society. If the Group is not responsible, the Group will provide the customer with the best solution for the problem. Furthermore, to prevent an accident from occurring, the Group has quality management, safety management and other risk management systems in order to be certain of the safety of newly constructed plants.

Consolidated Balance Sheets

Chiyoda Corporation and Consolidated Subsidiaries
March 31, 2004 and 2003

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2004	2003	2004
CURRENT ASSETS:			
Cash and cash equivalents	¥ 40,903	¥ 34,940	$ 385,877
Time deposits	710	1,172	6,698
Notes and accounts receivable—trade (Note 3)	18,881	20,325	178,123
Allowance for doubtful accounts	(432)	(629)	(4,075)
Costs and estimated earnings on long-term construction contracts (Note 4)	5,732	5,050	54,075
Costs of construction contracts in process	18,918	21,105	178,472
Accounts receivable—other (Note 8)	2,101	3,849	19,821
Jointly controlled asset of joint venture	28,414	8,672	268,057
Deferred tax assets (Note 12)	2,086	195	19,679
Prepaid expenses and other (Note 15)	3,243	2,250	30,594
Total current assets	120,556	96,929	1,137,321
PROPERTY, PLANT AND EQUIPMENT (Note 9):			
Land	2,527	2,527	23,840
Buildings and structures	6,353	6,676	59,934
Machinery and equipment	870	960	8,207
Tools, furniture and fixtures	5,270	5,178	49,717
Construction in progress	2		19
Total	15,022	15,341	141,717
Accumulated depreciation	(8,099)	(8,274)	(76,406)
Net property, plant and equipment	6,923	7,067	65,311
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 5 and 9)	1,726	1,835	16,283
Investments in and advances to unconsolidated subsidiaries and associated companies (Notes 6 and 8)	3,794	3,650	35,792
Long-term loans (Note 7)	686	615	6,472
Long-term receivables (Note 8)	7,819	9,918	73,764
Software	2,532	2,234	23,887
Deferred tax assets (Note 12)	82	83	774
Other investments	2,296	2,451	21,660
Allowance for doubtful accounts (Note 8)	(3,554)	(4,485)	(33,528)
Total investments and other assets	15,381	16,301	145,104
TOTAL	¥142,860	¥120,297	$1,347,736

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2004	2003	2004
CURRENT LIABILITIES:			
Short-term bank loans (Note 9)		¥ 7,939	
Current portion of long-term debt (Note 9)	¥ 102	263	$ 962
Notes and accounts payable—trade (Note 3)	52,888	46,511	498,943
Advance receipts on construction contracts	37,062	25,172	349,641
Income taxes payable	195	295	1,840
Deposits received (Note 3)	5,245	1,120	49,481
Allowance for warranty costs for completed works	1,079	694	10,179
Allowance for contingent loss	200	800	1,887
Accrued expenses and other (Note 15)	8,066	6,609	76,095
Total current liabilities	104,837	89,403	989,028
NON-CURRENT LIABILITIES:			
Long-term debt (Note 9)	10,316	10,422	97,321
Liability for retirement benefits (Note 10)	4,507	3,182	42,519
Deferred tax liabilities (Note 12)	2	10	19
Other liabilities	87	111	820
Total non-current liabilities	14,912	13,725	140,679
MINORITY INTERESTS	344	499	3,246
CONTINGENT LIABILITIES (Notes 3, 14, 15 and 16)			
SHAREHOLDERS' EQUITY (Notes 11 and 18):			
Common stock—authorized, 570,000 thousand shares; issued, 185,429 thousand shares	12,028	12,028	113,472
Preferred stock—authorized, 80,000 thousand shares			
Additional paid-in capital	5,819	5,819	54,896
Retained earnings (accumulated deficit)	5,801	(497)	54,727
Unrealized gain on available-for-sale securities	26	10	245
Foreign currency translation adjustments	(767)	(642)	(7,236)
Treasury stock—at cost, 387,854 shares in 2004 and 229,340 shares in 2003	(140)	(48)	(1,321)
Total shareholders' equity	22,767	16,670	214,783
TOTAL	¥142,860	¥120,297	$1,347,736

Consolidated Statements of Income

Chiyoda Corporation and Consolidated Subsidiaries
Years Ended March 31, 2004 and 2003

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2004	2003	2004
CONSTRUCTION CONTRACTS (Notes 3 and 4)	¥206,817	¥166,367	$1,951,104
COSTS OF CONSTRUCTION CONTRACTS (Notes 3 and 4)	192,710	155,924	1,818,019
Gross profit	14,107	10,443	133,085
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 3 and 13)	8,226	8,895	77,604
Operating income	5,881	1,548	55,481
OTHER INCOME (EXPENSES):			
Interest and dividend income (Note 3)	411	360	3,877
Interest expense	(375)	(529)	(3,538)
Equity in earnings of associated companies	156	1,000	1,472
Foreign exchange gain (loss)	294	(178)	2,774
Loss on performance guarantee for an associated company	(1,680)		(15,849)
Provision for contingent loss		(800)	
Reversal of provision for contingent loss	600		5,660
Reversal of allowance for doubtful accounts	486	1,167	4,585
Provision for investment loss		(264)	
Gain on sales of investments in subsidiaries		315	
Loss on write-down of golf club membership		(294)	
Other—net	(403)	184	(3,802)
Other income (expenses)—net	(511)	961	(4,821)
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	5,370	2,509	50,660
INCOME TAXES (Note 12):			
Current	668	951	6,302
Deferred	(1,906)	(147)	(17,981)
Refund of foreign income taxes		(317)	
Total	(1,238)	487	(11,679)
MINORITY INTERESTS IN NET INCOME	(39)	22	(369)
NET INCOME	¥ 6,647	¥ 2,000	$ 62,708
	Yen		U.S. Dollars (Note 1)
PER SHARE OF COMMON STOCK (Note 17):			
Basic net income	¥35.91	¥10.79	$0.34
Diluted net income	34.99	10.77	0.33

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Chiyoda Corporation and Consolidated Subsidiaries
Years Ended March 31, 2004 and 2003

	Thousands	Millions of Yen					
	Outstanding Number of Shares of Common Stock	Common Stock	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Unrealized Gain (Loss) on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Treasury Stock
BALANCE, APRIL 1, 2002	185,388	¥12,028	¥5,819	¥(2,517)	¥ (1)	¥(220)	¥ (6)
Net income				2,000			
Purchase of treasury stock	(189)						(42)
Decrease in accumulated deficit due to associated companies newly accounted for by the equity method				20			
Net increase in unrealized gain on available-for-sale securities					11		
Net change in foreign currency translation adjustments						(422)	
BALANCE, MARCH 31, 2003	185,199	12,028	5,819	(497)	10	(642)	(48)
Net income				**6,647**			
Purchase of treasury stock	**(158)**						**(92)**
Increase in retained earnings due to exclusion from consolidation of consolidated subsidiaries				**12**			
Decrease in retained earnings due to exclusion from equity method accounting of associated companies				**(361)**			
Net increase in unrealized gain on available-for-sale securities					**16**		
Net change in foreign currency translation adjustments						**(125)**	
BALANCE, MARCH 31, 2004	**185,041**	**¥12,028**	**¥5,819**	**¥5,801**	**¥26**	**¥(767)**	**¥(140)**

	Thousands of U.S. Dollars (Note 1)					
	Common Stock	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Unrealized Gain (Loss) on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Treasury Stock
BALANCE, MARCH 31, 2003	$113,472	$54,896	$ (4,689)	$ 94	$(6,057)	$ (453)
Net income			**62,708**			
Purchase of treasury stock						**(868)**
Increase in retained earnings due to exclusion from consolidation of consolidated subsidiaries			**113**			
Decrease in retained earnings due to exclusion from equity method accounting of associated companies			**(3,405)**			
Net increase in unrealized gain on available-for-sale securities				**151**		
Net change in foreign currency translation adjustments					**(1,179)**	
BALANCE, MARCH 31, 2004	**$113,472**	**$54,896**	**$54,727**	**$245**	**$(7,236)**	**$(1,321)**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Chiyoda Corporation and Consolidated Subsidiaries
Years Ended March 31, 2004 and 2003

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2004	2003	2004
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 5,370	¥ 2,509	$ 50,660
Adjustments for:			
Income taxes paid	(705)	(790)	(6,651)
Depreciation and amortization	1,205	1,226	11,368
Reversal of allowance for doubtful accounts—net	(1,128)	(968)	(10,642)
Provision for (reversal of) contingent loss	(600)	800	(5,660)
Provision for investment loss		264	
Provision for (reversal of) warranty costs for completed works	385	(140)	3,632
Provision for retirement benefits—net	1,325	1,157	12,500
Gain on sales of investments in subsidiaries		(315)	
Loss on write-down of golf club membership		294	
Foreign exchange loss—net	651	916	6,142
Equity in earnings of associated companies	(156)	(1,000)	(1,472)
Changes in operating assets and liabilities:			
Decrease in trade notes and accounts receivable, and costs and estimated earnings on long-term construction contracts	762	1,144	7,188
Decrease in costs of construction contracts in process	2,187	2,805	20,632
Increase in jointly controlled asset of joint venture	(19,742)	(450)	(186,245)
Decrease in interest and dividend receivable	255	1,217	2,406
Increase in trade notes and accounts payable	6,377	6,168	60,160
Increase (decrease) in advance receipts on construction contracts	11,890	(8,541)	112,170
Increase (decrease) in deposits received	4,125	(760)	38,915
Other—net	3,380	1,403	31,887
Total adjustments	10,211	4,430	96,330
Net cash provided by operating activities	15,581	6,939	146,990
INVESTING ACTIVITIES:			
Proceeds from refunds of fixed deposits	354	588	3,340
Proceeds from sales of investments in subsidiaries		116	
Purchase of investment securities	(20)	(118)	(189)
Purchases of property, plant and equipment	(751)	(296)	(7,085)
Purchase of intangible assets	(993)	(853)	(9,368)
Proceeds from sales of property, plant and equipment	8	142	76
Disbursements for originating loans	(144)	(638)	(1,358)
Proceeds from collections of loans	250	193	2,358
Other—net	19	(7)	179
Net cash used in investing activities	(1,277)	(873)	(12,047)
FINANCING ACTIVITIES:			
Net decrease in short-term bank loans	(7,904)	(8,718)	(74,566)
Proceeds from long-term debt		9	
Repayments of long-term debt	(258)	(793)	(2,434)
Other—net	(93)	(42)	(877)
Net cash used in financing activities	(8,255)	(9,544)	(77,877)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(78)	(459)	(736)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,971	(3,937)	56,330
CASH AND CASH EQUIVALENTS OF NEWLY (EXCLUSION OF) CONSOLIDATED SUBSIDIARIES, BEGINNING OF YEAR	(8)	200	(75)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	34,940	38,677	329,622
CASH AND CASH EQUIVALENTS, END OF YEAR	¥40,903	¥34,940	$385,877

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Chiyoda Corporation and Consolidated Subsidiaries
Years Ended March 31, 2004 and 2003

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications and rearrangements have been made in the 2003 financial statements in order for them to conform to classifications and presentations used in 2004.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Chiyoda Corporation (the "Company") is incorporated and principally operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥106 to $1, the approximate rate of exchange at March 31, 2004. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation

The consolidated financial statements for the year ended March 31, 2004, include the accounts of the Company and its 20 (24 in 2003) significant subsidiaries (together, the "Group"). Under the control or influence concept, those companies in which the Company, directly or indirectly, has a control over operations are fully consolidated.

Investments in 5 (8 in 2003) associated companies are accounted for by the equity method. Investments in the remaining unconsolidated subsidiaries and associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

The excess of the cost of the Company's investments in consolidated subsidiaries and associated companies accounted for by the equity method over the Company's equity in the net assets at the respective dates of acquisition was charged to income at the time of acquisition as the amount involved was not material.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

b. Construction Contracts

Revenues on construction contracts greater than ¥5 billion and having a construction duration of more than 18 months are recognized on the percentage-of-completion method based on the ratio of costs incurred to total estimated costs. Under this method, related costs and estimated earnings in excess of progress billings are presented as a current asset.

Unbilled costs on the other contracts, which are accounted for by the completed-contract method, are stated as costs of construction contracts in process.

Payments received in excess of costs and estimated earnings on the contracts, which are accounted for by the percentage-of-completion method, and costs incurred on the other contracts are presented as a current liability.

Costs of preparation work for unsuccessful proposals and other projects which are not realized are charged to income and are included in costs of construction contracts.

c. Cash and Cash Equivalents

Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits and short-term investments, all of which mature or become due within 3 months of the date of acquisition.

d. Investment Securities

All securities are classified as available-for-sale securities and are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity. The cost of securities sold is determined based on the moving-average method.

Non-marketable securities are stated at cost determined by the moving-average method. For other than temporary declines in fair value, non-marketable securities are reduced to net realizable value by a charge to income.

e. Allowance for Doubtful Accounts

The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the Group's past credit loss experience and an evaluation of estimated losses on the receivables outstanding.

f. Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation is computed using the declining-balance method, except for buildings owned by the Company and leased property owned by a certain leasing subsidiary which are computed using the straight-line method, based on the estimated useful lives of the assets. The range of useful lives is from 11 to 57 years for buildings and structures, from 4 to 13 years for machinery and equipment and from 2 to 15 years for tools, furniture and fixtures.

g. Other Assets

Intangible assets are carried at cost less accumulated amortization, which is calculated by the straight-line method over their estimated useful lives. Software for internal use is amortized on a straight-line basis over its estimated useful life (5 years at the maximum).

h. Allowance for Warranty Costs for Completed Works

The allowance for warranty costs for completed works is provided at the amounts of warranty costs based on the past experience rates.

i. Allowance for Contingent Loss

The allowance for contingent loss is provided at the amount deemed necessary to cover possible losses on construction contracts based on the estimation of each contingency.

j. Retirement Benefits

Employees of the Company and its certain consolidated subsidiaries are, under most circumstances, entitled to certain lump-sum severance payments and pension payments.

Effective April 1, 2000, the Company and domestic consolidated subsidiaries adopted a new accounting standard for employees' retirement benefits and accounted for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date.

The transitional obligation of ¥12,123 million ($114,368 thousand), determined as of April 1, 2000, is being amortized and charged to income over 15 years and presented as an operating expense in the statements of income.

Retirement benefits to directors, officers and corporate auditors are provided at the amount which would be required if all directors, officers and corporate auditors terminated at the end of each period.

k. Research and Development Costs

Research and development costs are charged to income when incurred.

l. Leases

All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that are deemed to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's consolidated financial statements.

m. Income Taxes

The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

The Group has filed a tax return under the consolidated corporate-tax system from the fiscal year ended March 31, 2003, which allows companies to base tax payments on the combined profits or losses of the parent company and its wholly owned domestic subsidiaries. Under the consolidated corporate-tax system, a surcharge tax of 2% of taxable income is levied in addition to the national corporate income tax rate for the fiscal years ended March 31, 2004 and 2003.

n. Foreign Currency Transactions

Both short-term and long-term receivables and payables denominated in foreign currencies are translated into Japanese yen at exchange rates in effect at the balance sheet date.

However, short-term and long-term receivables and payables covered by forward exchange contracts are translated at the contract rates.

Any differences between the foreign exchange contract rates and historical rates resulting from the translation of receivables and payables are recognized as income or expense over the lives of the related contracts.

o. Foreign Currency Financial Statements

The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for shareholders' equity, which is translated at the historical rate. Differences arising from such translation were shown as a separate component of shareholders' equity as "Foreign currency translation adjustments."

Revenue and expense accounts of consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date.

p. Derivative Financial Instruments

The Company uses a variety of derivative financial instruments, including foreign currency forward exchange contracts, currency options and foreign currency deposits, as a means of hedging exposure to foreign currency risks. The Company does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: (a) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the income statement and (b) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

The foreign currency forward exchange contracts are utilized to hedge foreign exchange risks. Certain assets and liabilities on construction contracts denominated in foreign currencies are translated at the contracted rates if the forward contracts qualify for hedge accounting.

Currency options are also utilized to hedge foreign exchange risks. These options which qualify for hedge accounting are measured at market value at the balance sheet date and the unrealized gains or losses are deferred until maturity as an other liability or other asset.

q. Per Share Information

Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full conversion of the outstanding convertible notes and bonds at the beginning of the year (or at the time of issuance) with an applicable adjustment for related interest expense, net of tax, and full exercise of outstanding warrants.

r. New Accounting Pronouncements

In August 2002, the Business Accounting Council issued a Statement of Opinion, "Accounting for Impairment of Fixed Assets," and in October 2003 the Accounting Standards Board of Japan ("ASB") issued ASB Guidance No. 6, "Guidance for Accounting Standard for Impairment of Fixed Assets." These new pronouncements are effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004.

The new accounting standard requires an entity to review its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

The Company is currently in the process of assessing the effects of adopting these pronouncements.

3. TRANSACTIONS WITH UNCONSOLIDATED SUBSIDIARIES AND ASSOCIATED COMPANIES

Significant transactions with and balances due from/(to) unconsolidated subsidiaries and associated companies are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Transactions for the Year Ended March 31			
Construction contract revenues	**¥ 71**	¥ 38	**$ 670**
Costs of construction contracts	**(3,793)**	(2,340)	**(35,783)**
Selling, general and administrative expenses	**(1,452)**	(923)	**(13,698)**
Interest and dividend income	**57**	42	**538**
Balances at March 31			
Notes and accounts receivable—trade	**34**	36	**321**
Notes and accounts payable—trade	**(396)**	(422)	**(3,736)**
Deposits received	**4,234**		**39,943**

The Company has guaranteed the indebtedness of certain unconsolidated subsidiaries and associated companies in the amount of ¥4,405 million ($41,557 thousand) and ¥4,985 million at March 31, 2004 and 2003, respectively.

4. CONSTRUCTION CONTRACTS

Costs and estimated earnings recognized with respect to construction contracts which are accounted for by the percentage-of-completion method at March 31, 2004 and 2003, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Costs and estimated earnings	¥143,734	¥75,610	$1,355,981
Amounts billed	(138,002)	(70,560)	(1,301,906)
Net	¥ 5,732	¥ 5,050	$ 54,075

5. INVESTMENT SECURITIES

Investment securities at March 31, 2004 and 2003, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Equity securities	¥1,726	¥1,835	$16,283

The carrying amounts and aggregate fair values of investment securities with readily determinable fair values at March 31, 2004 and 2003, were as follows:

	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2004				
Available-for-sale—Equity securities	¥57	¥44		¥101
March 31, 2003				
Available-for-sale—Equity securities	55	26	¥10	71

	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2004				
Available-for-sale—Equity securities	$538	$415		$953

Available-for-sale securities whose fair value is not readily determinable at March 31, 2004 and 2003, were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Equity securities	¥1,625	¥1,764	$15,330

Proceeds from sales of available-for-sale securities for the year ended March 31, 2004, were ¥4 million ($38 thousand) and gross realized losses on these sales, computed on the moving average cost basis, were ¥6 million ($57 thousand).

Proceeds from sales of available-for-sale securities for the year ended March 31, 2003, were ¥6 million and gross realized gains and losses on these sales, computed on the moving average cost basis, were ¥2 million and ¥3 million, respectively.

6. INVESTMENTS IN AND ADVANCES TO UNCONSOLIDATED SUBSIDIARIES AND ASSOCIATED COMPANIES

Investments in and advances to unconsolidated subsidiaries and associated companies at March 31, 2004 and 2003, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Investments	**¥2,600**	¥2,371	**$24,528**
Allowance for investment loss	**(263)**	(264)	**(2,481)**
Advances	**1,457**	1,543	**13,745**
Total	**¥3,794**	¥3,650	**$35,792**

7. LONG-TERM LOANS

Long-term loans to employees are included in long-term loans in the amounts of ¥683 million ($6,443 thousand) and ¥601 million at March 31, 2004 and 2003, respectively.

8. LONG-TERM RECEIVABLES

Long-term receivables at March 31, 2004 and 2003, include receivables of ¥3,101 million ($29,255 thousand) and ¥3,986 million, respectively, from Nigerian National Petroleum Corporation ("NNPC") relating to services performed by the Company in 1995. The Company has negotiated payment terms with NNPC and has collected ¥849 million ($8,009 thousand) and ¥4,047 million during the years ended March 31, 2004 and 2003, respectively, but the repayment schedule of the remaining balance is not determined due to the economic and political circumstances in Nigeria.

The Company also has gross receivables and other assets in the amount of ¥6,464 million ($60,981 thousand) and ¥7,132 million at March 31, 2004 and 2003, respectively, from Karunaphuli Fertilizer Company Limited ("KAFCO"), a Bangladesh company, and its related parties as follows. In March 2001, KAFCO, its shareholders and banks reached a basic agreement about financial restructuring under the supervision of the Bangladesh government and KAFCO has started making payments based on the schedule defined in the financial restructuring plan.

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Accounts receivable—other	**¥ 40**	¥ 41	**$ 377**
Investments in and advances to unconsolidated subsidiaries and associated companies	**2,789**	2,873	**26,311**
Allowance for investment loss	**(263)**	(263)	**(2,481)**
Long-term receivables	**3,635**	4,218	**34,293**
Allowance for doubtful accounts	**(1,065)**	(1,031)	**(10,047)**
Total	**¥5,136**	¥5,838	**$48,453**

9. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans bear interest at rates ranging from 1.625% to 7.65% at March 31, 2003. Short-term bank loans at March 31, 2003, consisted of the following:

	Millions of Yen
	2003
Collateralized	¥3,140
Uncollateralized	4,799
Total	¥7,939

At March 31, 2004, the Group had no short-term bank loans.

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

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Long-term loans from banks and insurance companies, maturing serially through 2010, with interest rates ranging from 1.7% to 5.8% (2004) and from 0.9% to 6.9% (2003):			
Collateralized	**¥ 417**	¥ 664	**$ 3,934**
Uncollateralized	**10,001**	10,021	**94,349**
Total	**10,418**	10,685	**98,283**
Less current portion	**(102)**	(263)	**(962)**
Long-term debt, less current portion	**¥10,316**	¥10,422	**$97,321**

Subordinated loans in the amount of ¥10,000 million ($94,340 thousand) from The Bank of Tokyo-Mitsubishi, Ltd. were included in 'Uncollateralized' at March 31, 2004 and 2003.

Commitment-line contracts at March 31, 2004, are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Commitment-line contracts	**¥12,000**	**$113,208**
Used commitments		
Unused commitments	**¥12,000**	**$113,208**

Annual maturities of long-term debt at March 31, 2004, were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2005	¥ 102	$ 962
2006	10,102	95,302
2007	76	717
2008	71	670
2009 and thereafter	67	632
Total	¥10,418	$98,283

The following assets were pledged as collateral for long-term debt at March 31, 2004:

	Millions of Yen	Thousands of U.S. Dollars
Land	¥ 695	$ 6,557
Buildings and structures—net of accumulated depreciation	684	6,453
Tools, furniture and fixtures—net of accumulated depreciation	6	56
Investment securities	4	38
Total	¥1,389	$13,104

10. RETIREMENT BENEFITS

Employees who terminate their services with the Company are, under most circumstances, entitled to receive lump-sum retirement benefits based upon their rates of pay at the time of termination, years of service and certain other factors.

However, an employee who terminates at 50 years of age or older with service of at least 20 years is entitled to receive an annuity from the trustee under the pension plan which covers such employees. If the annuity does not reach the level of total retirement benefits due, the remainder would be paid by the Company.

Certain consolidated subsidiaries also have severance payment and pension plans similar to those of the Company.

Liability for retirement benefits includes retirement benefits to directors, officers and corporate auditors in the amount of ¥379 million ($3,576 thousand) and ¥271 million for the years ended March 31, 2004 and 2003, respectively. The retirement benefits to directors and corporate auditors are paid subject to the approval of the shareholders.

The liability for employees' retirement benefits at March 31, 2004 and 2003, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Projected benefit obligation	¥34,026	¥34,212	$321,000
Fair value of plan assets	(15,594)	(14,195)	(147,113)
Unrecognized transitional obligation	(8,891)	(9,699)	(83,878)
Unrecognized actuarial loss	(5,413)	(7,407)	(51,066)
Net liability	¥ 4,128	¥ 2,911	$ 38,943

The components of net periodic benefit costs for the years ended March 31, 2004 and 2003, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Service cost	¥ 922	¥1,080	$ 8,698
Interest cost	478	739	4,509
Expected return on plan assets	(196)	(365)	(1,849)
Amortization of transitional obligation	808	808	7,623
Recognized actuarial loss	783	308	7,387
Net periodic benefit costs	¥2,795	¥2,570	$26,368

Assumptions used for the years ended March 31, 2004 and 2003, are set forth as follows:

	2004	2003
Discount rate	1.5%	1.5%
Expected rate of return on plan assets	1.5%	2.5%
Recognition period of actuarial gain/loss	10 years	12 years
Amortization period of transitional obligation	15 years	15 years

11. SHAREHOLDERS' EQUITY

Japanese companies are subject to the Japanese Commercial Code (the "Code") to which various amendments have become effective since October 1, 2001.

The Code was revised whereby common stock par value was eliminated resulting in all shares being recorded with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds as additional paid-in capital. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration as a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The revised Code also provides that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated as a legal reserve (a component of retained earnings) until such reserve and additional paid-in capital equals 25% of common stock. The amount of total additional paid-in capital and legal reserve that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

The revised Code eliminated restrictions on the repurchase and use of treasury stock allowing Japanese companies to repurchase treasury stock by a resolution of the shareholders at the general shareholders meeting and dispose of such treasury stock by resolution of the Board of Directors beginning April 1, 2002. The repurchased amount of treasury stock cannot exceed the amount available for future dividends plus the amount of common stock, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders meeting.

At the general shareholders meeting held on June 28, 2001, the shareholders approved a transfer of ¥23,654 million from additional paid-in capital as a reduction in accumulated deficit in order to improve the financial stability of the Company.

The Company has a stock option plan which provides for granting options to the Company's directors, officers and key employees to purchase an aggregate 7,820,000 shares of the Company's stock until June 30, 2009. The options will be granted at an exercise price of ¥233 ($2.19) per share.

12. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 42% for the years ended March 31, 2004 and 2003.

On March 31, 2003, a tax reform law concerning enterprise tax was enacted in Japan which changed the normal effective statutory tax rate from 42% to 40%, effective for years beginning on or after April 1, 2004. The deferred tax assets and liabilities which will be realized on or after April 1, 2004, are measured at the effective tax rate of 40% as at March 31, 2004 and 2003.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2004 and 2003, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Deferred tax assets:			
Tax loss carryforwards	¥ 6,679	¥23,231	$ 63,009
Cost of construction contracts	3,633	4,216	34,274
Retirement benefits	1,506	896	14,208
Allowance for doubtful accounts	1,269	1,929	11,972
Loss on long-term construction contracts	562	180	5,302
Loss on write-down of costs of construction contracts in process	122	181	1,151
Loss on write-down of property, plant and equipment	737	734	6,953
Other	2,873	3,143	27,103
Less valuation allowance	(15,197)	(34,224)	(143,368)
Total	2,184	286	20,604
Deferred tax liabilities	18	18	170
Net deferred tax assets	¥ 2,166	¥ 268	$ 20,434

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2004 and 2003, is as follows:

	2004	2003
Normal effective statutory tax rate	42%	42%
Expenses not deductible for income tax purposes	14	6
Inhabitant taxes per capita levy	1	3
Foreign income taxes	3	4
Valuation allowance for deferred tax assets	(75)	(19)
Equity in earnings of associated companies	(1)	(17)
Lower income tax rates applicable to income	(1)	(1)
Unrealized profit	(5)	
Other—net	(1)	1
Actual effective tax rate	(23)%	19%

Under the current Japanese tax regulations, a net operating loss can be carried forward for five years and deducted from any future taxable income. The Company and consolidated subsidiaries have a net operating loss carryforward of approximately ¥16,438 million ($155,075 thousand) and ¥55,940 million at March 31, 2004 and 2003, respectively.

13. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥653 million ($6,160 thousand) and ¥474 million for the years ended March 31, 2004 and 2003, respectively.

14. LEASES

Income from equipment leases held by a subsidiary for the years ended March 31, 2004 and 2003, was ¥21 million ($198 thousand) and ¥139 million, respectively.

The Company and a subsidiary lease certain machinery, computer equipment, office space and other assets. Total lease payments under the above finance leases were ¥192 million ($1,811 thousand) and ¥157 million for the years ended March 31, 2004 and 2003, respectively.

Pro forma information for leased property under finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2004 and 2003, was as follows:

Year Ended March 31, 2004

	As Lessor					
	Millions of Yen			Thousands of U.S. Dollars		
	Machinery and Equipment	Tools, Furniture and Fixtures	Total	Machinery and Equipment	Tools, Furniture and Fixtures	Total
Acquisition cost	¥175	¥81	¥256	$1,651	$764	$2,415
Accumulated depreciation	174	78	252	1,641	736	2,377
Net leased property	¥ 1	¥ 3	¥ 4	$ 10	$ 28	$ 38

	As Lessee							
	Millions of Yen				Thousands of U.S. Dollars			
	Machinery and Equipment	Tools, Furniture and Fixtures	Other	Total	Machinery and Equipment	Tools, Furniture and Fixtures	Other	Total
Acquisition cost	¥24	¥775	¥91	¥890	$226	$7,312	$858	$8,396
Accumulated depreciation	12	336	26	374	113	3,170	245	3,528
Net leased property	¥12	¥439	¥65	¥516	$113	$4,142	$613	$4,868

	Millions of Yen		Thousands of U.S. Dollars	
	Unearned Lease Income (As Lessor)	Obligations under Finance Lease (As Lessee)	Unearned Lease Income (As Lessor)	Obligations under Finance Lease (As Lessee)
Due within one year	¥2	¥208	$19	$1,962
Due after one year	2	308	19	2,906
Total	¥4	¥516	$38	$4,868

Year Ended March 31, 2003

	Millions of Yen							
	As Lessor				As Lessee			
	Machinery and Equipment	Tools, Furniture and Fixtures	Other	Total	Machinery and Equipment	Tools, Furniture and Fixtures	Other	Total
Acquisition cost	¥382	¥124	¥26	¥532	¥13	¥613	¥51	¥677
Accumulated depreciation	374	117	26	517	7	250	25	282
Net leased property	¥ 8	¥ 7		¥ 15	¥ 6	¥363	¥26	¥395

	Millions of Yen	
	Unearned Lease Income (As Lessor)	Obligations under Finance Lease (As Lessee)
Due within one year	¥14	¥158
Due after one year	4	237
Total	¥18	¥395

Depreciation expense as lessor, which is reflected in the accompanying consolidated statements of income, computed by the straight-line method was ¥12 million ($113 thousand) and ¥63 million for the years ended March 31, 2004 and 2003, respectively.

Depreciation expense as lessee, which is not reflected in the accompanying consolidated statements of income, computed by the straight-line method was ¥192 million ($1,811 thousand) and ¥157 million for the years ended March 31, 2004 and 2003, respectively.

The amounts of unearned lease income and obligations, acquisition cost and depreciation under finance leases include the imputed interest income portion and interest expense portion, respectively.

15. DERIVATIVES

The Company enters into foreign currency forward exchange contracts, currency option contracts and foreign currency deposits to hedge foreign exchange risk associated with certain assets and liabilities on construction contracts denominated in foreign currencies. It is the Company's policy to use derivatives only for the purpose of reducing foreign exchange risks associated with such assets or liabilities. The Company does not hold or issue derivatives for trading purposes.

Because the counterparties to these derivatives are limited to major international financial institutions, the Company does not anticipate any losses arising from credit risk.

The basic policies for the use of derivatives are approved by the management and the execution and control of derivatives are controlled by the Company's financing department. Each derivative transaction is periodically reported to the Company's accounting department and executive officers.

The Group had the following derivative contracts outstanding at March 31, 2004:

	Millions of Yen			Thousands of U.S. Dollars		
	Contract Amount	Fair Value	Unrealized Gain/Loss	Contract Amount	Fair Value	Unrealized Gain/Loss
Foreign currency forward exchange contracts:						
Buying:						
U.S.$	¥ 758	¥ 691	¥(67)	$ 7,151	$ 6,519	$(632)
Euro	194	217	23	1,830	2,047	217
Other	7	7		66	66	
Selling U.S.$	5,781	5,784	(3)	54,538	54,566	(28)

Derivative contracts which qualify for hedge accounting for the year ended March 31, 2004, are excluded from the disclosure of market value information.

The contract or notional amounts of derivatives which are shown in the above table do not represent the amounts exchanged by the parties and do not measure the Group's exposure to credit or market risk.

All of the derivative contracts outstanding at March 31, 2003, qualified for hedge accounting and disclosures of market value information are not required to be and have not been presented herein.

16. CONTINGENT LIABILITIES

At March 31, 2004, the Group had the following contingent liabilities:

	Millions of Yen	Thousands of U.S. Dollars
Guarantees and similar items for bank loans	**¥5,830**	**$55,000**

17. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2004 and 2003, is as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
Year Ended March 31, 2004	Net Income	Weighted-Average Shares	EPS	
Basic EPS—Net income available to common shareholders	**¥6,647**	**185,101**	**¥35.91**	**$0.34**
Effect of dilutive securities—Stock option		**4,852**		
Diluted EPS—Net income for computation	**¥6,647**	**189,953**	**¥34.99**	**$0.33**

	Millions of Yen	Thousands of Shares	Yen
Year Ended March 31, 2003	Net Income	Weighted-Average Shares	EPS
Basic EPS—Net income available to common shareholders	¥2,000	185,293	¥10.79
Effect of dilutive securities—Stock option		362	
Diluted EPS—Net income for computation	¥2,000	185,655	¥10.77

18. SUBSEQUENT EVENT

The following proposed disposition of the accumulated deficit of the Company at March 31, 2004, was approved at the general shareholders meeting held on June 25, 2004:

	Millions of Yen	Thousands of U.S. Dollars
Accumulated deficit to be carried forward	¥350	$3,302

19. SEGMENT INFORMATION

Information about geographical segments and sales to foreign customers of the Company and consolidated subsidiaries for the years ended March 31, 2004 and 2003, was as follows:

(1) Geographical Segments

	Millions of Yen							
Year Ended March 31, 2004	Japan	Asia	Europe	North America	Other	Subtotal	Eliminations (Corporate)	Consolidated
Construction contract revenue:								
Outside customers	¥196,523	¥10,240	¥ 54			¥206,817		¥206,817
Intersegment	4	808	338	¥ 33		1,183	¥(1,183)	
Total	196,527	11,048	392	33		208,000	(1,183)	206,817
Operating expenses	190,561	11,162	384	33	¥ 12	202,152	(1,216)	200,936
Operating income (loss)	¥ 5,966	¥ (114)	¥ 8		¥ (12)	¥ 5,848	¥ 33	¥ 5,881
Assets	¥139,233	¥ 6,487	¥245	¥577	¥125	¥146,667	¥(3,807)	¥142,860

	Thousands of U.S. Dollars							
Year Ended March 31, 2004	Japan	Asia	Europe	North America	Other	Subtotal	Eliminations (Corporate)	Consolidated
Construction contract revenue:								
Outside customers	$1,853,991	$ 96,604	$ 509			$1,951,104		$1,951,104
Intersegment	38	7,622	3,189	$ 311		11,160	$(11,160)	
Total	1,854,029	104,226	3,698	311		1,962,264	(11,160)	1,951,104
Operating expenses	1,797,745	105,302	3,623	311	$ 113	1,907,094	(11,471)	1,895,623
Operating income (loss)	$ 56,284	$ (1,076)	$ 75		$ (113)	$ 55,170	$ 311	$ 55,481
Assets	$1,313,519	$ 61,198	$2,311	$5,444	$1,179	$1,383,651	$(35,915)	$1,347,736

	Millions of Yen							
Year Ended March 31, 2003	Japan	Asia	Europe	North America	Other	Subtotal	Eliminations (Corporate)	Consolidated
Construction contract revenue:								
Outside customers	¥160,526	¥5,659	¥ 48	¥134		¥166,367		¥166,367
Intersegment	25,163	624	200	42		26,029	¥(26,029)	
Total	185,689	6,283	248	176		192,396	(26,029)	166,367
Operating expenses	183,426	6,473	250	200	¥ 14	190,363	(25,544)	164,819
Operating income (loss)	¥ 2,263	¥ (190)	¥ (2)	¥ (24)	¥ (14)	¥ 2,033	¥ (485)	¥ 1,548
Assets	¥126,246	¥7,446	¥216	¥636	¥160	¥134,704	¥(14,407)	¥120,297

Notes: 1. The Company and consolidated subsidiaries are summarized into five segments by geographic area based on the countries where the companies are located.
The segments consisted of the following countries in 2004 and 2003:
Asia: Indonesia, Singapore, Philippines, Myanmar, Malaysia, Thailand
Europe: United Kingdom, Germany, Poland
North America: United States of America
Other: Nigeria

2. Corporate assets mainly consist of long-term loans and investment securities of the Company. Corporate assets as of March 31, 2004 and 2003, were ¥3,015 million ($28,443 thousand) and ¥3,185 million, respectively.

(2) Sales to Foreign Customers

	Millions of Yen				
Year Ended March 31, 2004	Asia	The Middle and Near East	Russia and Central Asia	Other	Total
Overseas sales (A)	**¥26,338**	**¥90,787**	**¥22,343**	**¥3,995**	**¥143,463**
Consolidated sales (B)					**206,817**
(A)/(B)	**12.74%**	**43.90%**	**10.80%**	**1.93%**	**69.37%**

	Thousands of U.S. Dollars				
Year Ended March 31, 2004	Asia	The Middle and Near East	Russia and Central Asia	Other	Total
Overseas sales (A)	**$248,472**	**$856,481**	**$210,783**	**$37,689**	**$1,353,425**
Consolidated sales (B)					**1,951,104**
(A)/(B)	**12.74%**	**43.90%**	**10.80%**	**1.93%**	**69.37%**

	Millions of Yen				
Year Ended March 31, 2003	Asia	The Middle and Near East	Russia and Central Asia	Other	Total
Overseas sales (A)	¥25,368	¥46,660	¥685	¥10,600	¥ 83,313
Consolidated sales (B)					166,367
(A)/(B)	15.25%	28.04%	0.41%	6.37%	50.07%

Note: The Company and consolidated subsidiaries are summarized into four segments by geographic area based on the countries where the companies are located.
The segments consisted of the following countries in 2004 and 2003:

Asia:	China, Indonesia and others
The Middle and Near East:	Qatar and others
Russia and Central Asia:	Russia
Other:	Venezuela

The Company and its consolidated subsidiaries operate predominantly in the engineering business, while certain subsidiaries operate in leasing and software producing businesses which are minor in relation to the total business. Accordingly, the presentation of industry segment information is not required under Japanese accounting standards.

Deloitte.

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Independent Auditors' Report

To the Board of Directors and Shareholders of Chiyoda Corporation:

We have audited the accompanying consolidated balance sheets of Chiyoda Corporation and consolidated subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Chiyoda Corporation and consolidated subsidiaries as of 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.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

June 25, 2004

Global Network

(As of October 31, 2004)

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Oman, Qatar, Russia, Venezuela

MAJOR SUBSIDIARIES & AFFILIATED COMPANIES

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Chiyoda Asia Pacific (Pte) Ltd.
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Fax: (91) 265-2774985

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•Jeddah Head Office
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Saudi Arabia
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Fax: (966) 2-647-1908

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DOMESTIC

Chiyoda Kosho Co., Ltd.
Plant Engineering, Construction and Maintenance, and Insurance Service

Chiyoda Keiso Co., Ltd.
Electrical and Instrumentation Engineering Equipment Supply, Installation and Maintenance

Chiyoda TechnoAce Co., Ltd.
Consulting, Engineering and Construction of Pharmaceutical Plants, Laboratories and Research Centers

Chiyoda Advanced Solutions Corporation
Computer Aided Engineering Analysis, Plant Lifecycle Engineering and Risk Management Utilization of Space Environment

U-Tech Consulting Co., Ltd.
Consulting for Industrial and Social, Regional Development

IT Engineering Limited
IT Solutions and Software Development

Arrow Business Consulting Corporation
Consulting Services for Finance and Accounting

Arrowhead International Corporation
Travel and Air Cargo Agent, Spare Parts Supply

Arrow Mates Co., Ltd.
Human Resources Supply and Training

Board of Directors, Corporate Auditors and Executive Officers

(As of August 1, 2004)

BOARD OF DIRECTORS

PRESIDENT &
CHIEF EXECUTIVE OFFICER

Nobuo Seki*

EXECUTIVE VICE PRESIDENTS

Akira Yamamura*
International Project & International Group Companies Management

Naotake Naritomi*
Domestic Project Operation

SENIOR MANAGING DIRECTOR
& CHIEF FINANCIAL OFFICER

Hiroshi Shibata*
Corporate Management & Finance

SENIOR MANAGING DIRECTOR

Hiroshi Kobayashi*
International Project Operation

MANAGING DIRECTORS

Atsuo Minamoto
Operation Support

Julian E. Pylant
Office of Special Tasks

DIRECTOR

Takashi Kubota
Office of Designated Projects

*Notes: 1) * Representative directors*
2) All board members are also executive officers.

CORPORATE AUDITORS

Michihiko Kawana

Nobuyasu Kamei

Hideaki Fujioka

Yukihiro Imadegawa

EXECUTIVE OFFICERS

SENIOR EXECUTIVE OFFICERS

Yoshihiro Shirasaki
Technology & Engineering

Akira Kadoyama
Domestic Project Operation

Hideo Nakatani
Corporate Management & Finance

EXECUTIVE OFFICERS

Madoka Koda
International Project Operation

Junichi Sakaguchi
Technology & Engineering

Takashi Yamamoto
Chemicals, Pharmaceutical & Fine Industries Div.

Fumio Nagata
International Project Operation

Sumio Nakashima
Engineering Div.

Satoru Yokoi
Energy & Environmental Div.

Takaharu Saegusa
Project Management Administration Div.

Corporate Information

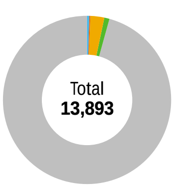
(As of March 31, 2004)

Established:	January 20, 1948
Paid-in Capital:	¥12,028 million
Number of Employees:	2,400 (Consolidated)
Annual Fiscal Close:	March 31
Shareholders Meeting:	June
Number of Shares per Unit:	1,000
Stock Code:	ISIN: JP3528600004 SEDOL 1: 6191704 JP TSE: 6366
Transfer Agent of Common Stock:	The Mitsubishi Trust and Banking Corporation 1-4-5 Marunouchi, Chiyoda-ku, Tokyo
Authorized Shares:	650,000,000
Capital Stock Issued:	185,428,529
Number of Shareholders:	13,893

Major Shareholders:

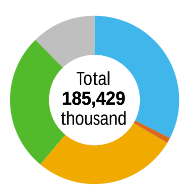
	Status of investors	
	Number of shares (thousands)	Percentage of total (%)
Mitsubishi Corporation	19,851	10.9
The Master Trust Bank of Japan, Ltd. (Trust Account)	12,794	7.0
Japan Trustee Services Bank, Ltd. (Trust Account)	10,973	6.0
The Mitsubishi Trust and Banking Corporation	9,034	5.0
The Bank of Tokyo-Mitsubishi, Ltd.	9,033	5.0
J.P. Morgan Chase & Co. (Lending Account)	8,717	4.8
State Street Bank and Trust Company	7,512	4.1
KBR-MC Investment	5,994	3.3
Ebara Corporation	3,687	2.0
The Chase Manhattan Bank N.A. London	3,014	1.7

Breakdown by Shareholder



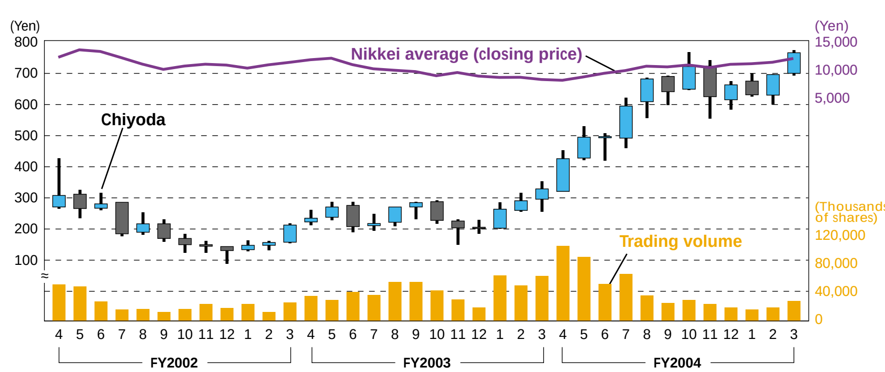
- Financial institutes: **55 (0.40%)**
- Securities companies: **34 (0.24%)**
- Companies and others: **370 (2.66%)**
- Foreign companies and foreign individuals: **138 (0.99%)**
- Individuals and others: **13,295 (95.70%)**
- Governments and local public organizations: **1 (0.01%)**

Breakdown by Share (thousands)



- Financial institutes: **58,533 (31.57%)**
- Securities companies: **1,914 (1.03%)**
- Companies and others: **49,709 (26.81%)**
- Foreign companies and foreign individuals: **47,913 (25.84%)**
- Individuals and others: **27,356 (14.75%)**
- Governments and local public organizations: **1 (0.00%)**

Stock Price



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