Announcement of
Financial Results for the Term ended March 31, 2004 (consolidated)

May 21, 2004

Listed company name: **Sasebo Heavy Industries Co., Ltd.**
Stock Listings: Tokyo Stock Exchange, 1st Section
Osaka Stock Exchange, 1st Section
Fukuoka Stock Exchange
Code Number: 7007
Head Office: Tokyo
(URL http://www.ssk-sasebo.co.jp)

Corporate Representative: Tatsuro Okada/President
Inquiries: Masatoshi Maeda/General Affairs Manager
TEL (03) 5213-7312

Board of Directors Meeting for the Approval of Results: May 21, 2004
Application of U.S. GAAP: No

1. **<u>Consolidated Business Results for the term ended March 2004 (April 1, 2003 ~ March 31, 2004)</u>**

(1) **Consolidated Operating Results**

Figures under one million yen have been rounded off.

	Net Sales		Operating Income		Ordinary Income	
	Millions of yen	*%*	*Millions of yen*	*%*	*Millions of yen*	*%*
Fiscal Year ended March 31, 2004	49,125	8.7	-3,519	-	-3,878	-
Fiscal Year ended March 31, 2003	45,195	-4.6	377	-80.7	-809	-

	Net Income		Net income per share	Diluted Net Income per Share	Return on Equity	Ordinary Income to Total Assets	Ordinary Income to Net Sales
	Millions of yen	*%*	*yen sen*	*yen sen*	*%*	*%*	*%*
Fiscal Year ended March 31, 2004	-2,840	-	-17.54	-	-18.4	-8.4	-7.9
Fiscal Year ended March 31, 2003	-7,010	-	-43.29	-	-34.2	-1.5	-1.8

Note:
1. *Investment profit on equity method:*
   Fiscal year ended March 31, 2004: ¥0 million
   Fiscal year ended March 31, 2003: ¥2 million
2. *Average number of shares outstanding (consolidated):*
   Fiscal year ended March 31, 2004: 161,940,832
   Fiscal year ended March 31, 2003: 161,947,557
3. *Changes in accounting methods: Yes*
4. *The percentages shown for net sales, operating income, ordinary income and net profit represent changes from the previous year.*

(2) Consolidated Financial Position

	Total Assets	Shareholder Equity	Shareholder Equity Ratio	Shareholder Equity pre Share
	Millions of yen	*Millions of yen*	*%*	*yen sen*
Fiscal Year ended March 31, 2004	45,690	14,208	31.1	87.74
Fiscal Year ended March 31, 2003	46,940	16,656	35.5	102.85

Note:
1. *The number of shares outstanding at the end of the year (consolidated):*
   As of March 31, 2004: 161,938,382
   As of March 31, 2003: 161,943,754

(3) Consolidated Cash Flow

	Cash Flow from Operating Activities	Cash Flow from Investing Activities	Cash Flow from Financing Activities	Cash and Cash Equivalent at the end of year
	Millions of yen	*Millions of yen*	*Millions of yen*	*Millions of yen*
Fiscal Year ended March 31, 2004	-104	1,105	2,004	6,220
Fiscal Year ended March 31, 2003	-6,295	-2,676	-1,428	3,454

(4) Scope of consolidation and application of the equity method

Consolidated subsidiaries: 6
Non equity-method consolidated subsidiaries: 2
Equity-method affiliates: 0

(5) Changes in scope of consolidation and application of the equity method

Consolidated subsidiaries: (New) 1, (Excluded) 0
Equity-method affiliates: (New) 0, (Excluded) 0

2. Forecast of Consolidated Operating Results for the Year ending March 31, 2005 (April 1, 2004 – March 31, 2005)

	Net sales	Ordinary income	Net income
	Millions of yen	*Millions of yen*	*Millions of yen*
Year ending March 31, 2004	44,000	600	600

(Reference) Forecast net income per share for the year: ¥3.71
** For matters concerning the above Forecast of Operating Results, please refer to Page 5 of the Appendix; ‘Operating Results 3. Forecast for the Next Fiscal Year’*

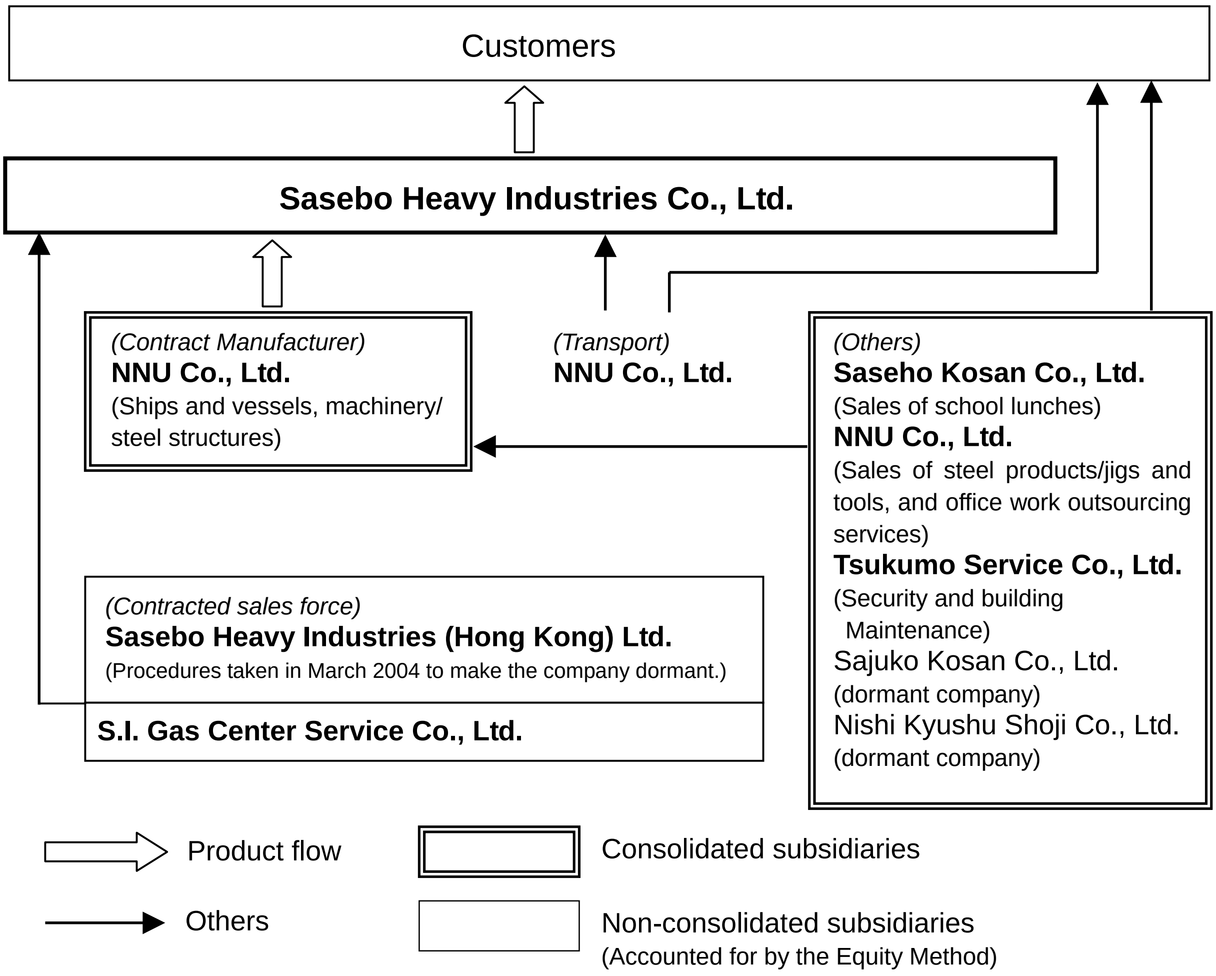
(Appendix)

Corporate Group Condition

Sasebo Heavy Industries Co., Ltd. and its affiliates (comprising the company and six subsidiaries [as of March 31, 2004]) engage primarily in the manufacture and sale of ships and vessels, machinery and steel structures. The positioning of the company and its affiliates, in their respective business segments, is as follows:

[Ships and Vessels]
Sasebo Heavy Industries Co., Ltd. conducts manufacturing and sales. Part of their shipbuilding processes are contracted to N.N.U. (a consolidated subsidiary of the company).
[Machinery/Steel Structure]
Sasebo Heavy Industries Co., Ltd. conducts manufacturing and sales. Part of their steel structure manufacturing is contracted to N.N.U. (a consolidated subsidiary of the company).
[Others]
Tsukumo Service (a consolidated subsidiary of the company) undertakes security work and cleaning of the company's factories. Saseho Kosan (a consolidated subsidiary of the company) leases facilities from the company to operate school lunch centers and golf courses. In addition to engaging in the company's transport operations, N.N.U. (a consolidated subsidiary of the company) performs the office work outsourced by the company and conducts the sale of steel products/jigs and tools. Sasebo Heavy Industry Design (a consolidated subsidiary of the company), established in March 2004, will undertake design work from April 2004. Nishi-Kyushu Shoji and Sajuko Kosan (both of which are consolidated subsidiaries of the company) have been dormant since June 2002.

The above information is summarized in the following operations chart:



Management Policy

1. Basic Management Policy

Through the company's motto "In practicing the Customer First principle, we offer quality and services that fulfill customer expectations.", Sasebo Heavy Industries Co., Ltd. works for technology upgrades and innovation as well as increased management efficiency. In addition to our mainstay of domestic/overseas shipbuilding and repair of a wide variety of ships and vessels, the company conducts the manufacture and sale of plant, forged products, steel structures, and industrial/chemical engineering/ship machinery. The company will further intensify its corporate efforts, strive to develop products that address the needs of the new era, and will produce high quality products that broadly meet industrial requirements. Further, as a comprehensive heavy industry company, Sasebo Heavy Industries Co., Ltd. will carry out corporate activities that can fulfill the expectations of those inside and outside the organization, while attaching importance to the perspectives of customers, shareholders, cooperative companies, and other business partners, will aim at coexistence and co-prosperity, and will accomplish our corporate social mission.

2. Basic Policy for Profit Sharing

The shipbuilding industry competes worldwide, where there is no distinction between domestic and overseas markets, and is completely contingent upon currency movements and the world shipping market. The business performance of companies in the industry is thus subject to significant change. We have therefore adopted a policy of determining dividend payments by taking into account the business performance trends of the time, giving the highest priority to the return of profits to shareholders, while aiming to maintain harmony with retained earnings in order to strengthen our corporate culture.

Following on from the previous fiscal year, we were forced to post a significant loss of ¥2,840 million this fiscal year. After adding profit carried forward from the previous year, undisposed losses for the year reached ¥1,525 million. We regret to inform shareholders that we find it necessary to suspend payment of dividends.

3. Targeted Management Index

Having been mired in the red for the two consecutive terms of FY2002 and FY2003, and in accordance with the target set in the mid-term management plan, the company places emphasis on improving net sales, operating income, current income and cash flow. The company will devote every effort to generating a surplus from the settlement of accounts for 2004 onward.

4. Medium-Term Management Strategy

Since the company was forced to declare losses in two consecutive business years, corporate reconstruction will be attempted through execution of the mid-term management plan, the objective of which is to achieve a surplus. For shipbuilding, from the standpoint of ensuring profits, the company will improve production efficiency by building 25 units of the same kind of 76,000 dead weight ton (DWT) bulk carriers, which is the most suitable type of vessel for the company, focusing on yen-based contracts from domestic ship owners so as to avoid the adverse effects of currency exchange rates. In addition to focusing efforts, as a local shipyard at the Sasebo Naval Base, on naval vessel repair operations for the Japan Maritime Self-Defense Force and the United States Navy, the company will implement investments on rationalization and labor saving for productivity improvement, and will establish a quality management system for shipbuilding, naval ship repair and core products such as boilers, pressure containers, bridges and floodgates, by obtaining ISO9001 certification and certifications in China. Further, in an effort to shed high costs, the company will implement a variety of rationalization measures and will strive to form a single unit to work toward a stable business operation and the securing of profitability.

5. Measures for Enhancement of Corporate Governance

The company holds monthly meetings of the Board of Directors, the Board of Auditors, the Management Committee, and the Ethical and Judicial Affairs Committee. A decision-making and communications system has been adopted in order to improve corporate transparency and fairness, and to promptly respond to the rapidly changing management environment.

1) Regarding the Board of Directors and Board of Auditors
   There are ten (10) board members, two (2) of whom are external board members who provide advice and guidance from an objective point of view. There are three (3) auditors, two (2) of whom are external to the company. One (1) of the external auditors is a lawyer who helps the company to enhance its check system, including aspects related to compliance.
2) The Management Committee is comprised of full-time board members, auditors and operating officers. The Committee widely reviews basic corporate management policies and critical management issues, and makes prompt decisions. Important matters are resolved or reported at the Board of Directors meeting.
3) To ensure complete compliance, an Ethical and Judicial Affairs Committee has been established and is convened on a monthly basis, with the company President serving as chairman. In addition, the company strives to raise law-abiding consciousness among its employees by establishing the Basic Principle of Employee Behavior. Consultation services are available for whistle-blowing activities, and counseling is available to comprehensively tap employee opinion. Compliance promotion status is reported to the Board of Directors.

Operating Results

1. Outline of Consolidated Operating Results for the Year

As a result of increased tonnage demand and capacity expansion in the Chinese shipbuilding industry, both of which were accompanied by economic growth in China, new worldwide shipbuilding orders placed in 2003 came to 62.47 million gross tons with a year-on-year increase of 104%. This was the second largest annual order receipt following that of 1973.

The Japanese shipbuilding industry managed to secure order receipts of 20.63 million gross tons, with a year-on-year increase of 59%, which high level almost exceeds 3 year’s worth of orders.

In the machinery/steel structure industry, private sector investment in equipment is increasing as a result of improved corporate earnings. However, public investment shows a continuing decrease from the previous year due to budgetary cutbacks. Thus, the business environment underwent a harsh transition.

In such circumstances, the Sasebo Group posted consolidated orders received of ¥78.3 billion, an increase of 72% over the last year; the total of ¥70.4 billion for shipbuilding business included the construction of a total of 24 ships; 20 units of 76,000 DWT bulk carriers, 3 units of

75,000 DWT tankers and 1 unit of 115,000 DWT tanker, ship repairs, naval vessel repair operations for the Japan Maritime Self-Defense Force and the United States Navy as well as periodic/interim inspection operations for commercial vessels, ¥7 billion for machinery/steel structure business, and other miscellaneous work. The total sales amount resulting from shipbuilding and ship repair work was ¥38.6 billion, with an increase of 17% over the last year. This includes the sale of 7 ships; 5 units of 170,000 DWT bulk carriers and 2 units of 76,000 DWT bulk carriers as a new shipbuilding project for which delivery was completed, and other new shipbuilding projects in hand, the sales of which are posted in line with the progress of their construction. In addition, sales of ¥9.6 billion were posted by the machinery/steel structure business, leading to total consolidated sales of ¥49.1 billion, an increase of 9% over the same term last year, including other miscellaneous work. As a result, the order backlog at the end of the fiscal year reached ¥86.3 billion in total, an increase of 100% over the previous year; ¥77 billion in the ship and vessel business for 27 units of new shipbuilding and ship repair, and ¥9.3 billion in the machinery/steel structure business. In response to favorable conditions in the maritime transportation market, there was a significant increase in shipbuilding work in hand. In terms of profit and loss, the poor profitability of new shipbuilding work and a drop in sales due to appreciation of the yen has lead to the posting of an operating deficit of ¥3,519 million. An ordinary loss of ¥3,878 million was posted, as effects from the worsening of non-operating losses such as interest expenses and foreign exchange loss. A consolidated net loss of ¥2,840 million was posted during the fiscal year after adjusting for extraordinary profit and loss from the sale of assets, and applying income tax adjustments from reserves for deferred income tax assets. Following the previous term, the company posted a significant unavoidable loss.

[Operating Performance: Consolidated base] *(Units: million yen)*

Category	Amount of Orders Received	Net Sales	Operating Income	Ordinary Income	Net Income	Net Income per Share *(yen)*
Fiscal Year ended March 31, 2004	78,344	49,125	-3,519	-3,878	-2,840	-17.54
Fiscal Year ended March 31, 2003	45,583	45,195	377	-809	-7,010	-43.29

[Operating Performance: Non-consolidated base] *(Units: million yen)*

Category	Amount of Orders Received	Net Sales	Operating Income	Ordinary Income	Net Income	Net Income per Share *(yen)*
Fiscal Year ended March 31, 2004	77,586	48,367	-3,557	-3,915	-2,840	-17.54
Fiscal Year ended March 31, 2003	44,750	44,362	410	-768	-7,032	-43.42

2. Cash Flow Status

During the subject consolidated accounting year, the cash flows posted were an outgoing of ¥104 million from sales activities, an income of ¥1,105 million from investment activities as a result of the sale of tangible fixed assets and net decreases in 3 month or longer time deposits, and an income of ¥2,004 million from financing activities as a result of long- and short-term loans and the issuing of privately-placed bonds.

In consequence, the cash and cash equivalent at the end of the year is ¥6,220 million, which is an increase of ¥2,766 million compared to that for the end of the previous fiscal year.

Cash flow indicator trends are as follows:

Category	Fiscal Year ended March 31, 2003	Fiscal Year ended March 31, 2004
Equity Ratio *(%)*	35.5	31.1
Equity Ratio at Market Value *(%)*	24.1	53.9
Debt Repayment Period *(years)*	-	-
Interest Coverage Ratio *(times)*	-	-

(Notes)

Equity Ratio: Shareholder equity/Total assets

Equity Ratio at Market Value: Market capitalization/Total assets

Debt Repayment Period: Interest-bearing debt/Operating cash flow

Interest Coverage Ratio: Operating cash flow/Interest payment

* *All indicators were calculated using the consolidated financial figures.*

* *Debt repayment period and interest coverage ratio are not indicated because cash flow from sales activities was negative.*

3. Forecast for the Next Fiscal Year

The Japanese shipbuilding industry has an order book of 3 years worth of work. However, there is insufficient recovery in ship value due to fierce competition with and catch-up by the South Korean and Chinese shipbuilding industries. In addition, there is a significant price increase planned for various materials including steel. There is a concern that the company will get into a situation where no profits are made from its business. Further, the company fears that there may be a situation where the company is forced to hold off accepting new orders due to a tight supply of steel materials and the risk of material cost increase. In the machinery/steel structure industry, the prospects for public investment continue to decline. For these reasons, it is expected that the management environment for the Group will become even more severe than ever.

Under such circumstances, the Group projects the following operating results for the fiscal year ending March 2004.

(Units: million yen)

Category	Orders Received	Net Sales	Operating Income	Ordinary Income	Net Income
Consolidated performance	50,000	44,000	750	600	600
Non-consolidated performance	49,000	43,000	750	600	600

The exchange rate is assumed to be ¥105/US$.

End of Document.

Consolidated Financial Statements

(1) Consolidated Balance Sheets for the period ended 31 March 2004

Assets

(Units: millions of yen)

	March 31,2004	*March 31, 2003*	*Year-on-year change*
(Assets)	(45,690)	(46,940)	(-1,250)
Current assets	(16,624)	(24,129)	(-1,478)
Cash & time deposits	6,284	4,624	1,660
Notes & accounts receivable	14,057	5,347	8,710
Marketable securities	77	77	-0
Inventories	650	13,080	-12,429
Deferred tax assets	868	16	852
Accounts receivable	734	554	180
Others	113	551	-438
Allowance for doubtful receivables	-136	-123	-13
Fixed assets	(23,039)	(22,810)	(228)
Tangible fixed assets	(18,965)	(19,491)	(-525)
Buildings and structures	5,058	5,245	-187
Docks and building berths	643	678	-34
Machinery and transportation equipment	22,785	2,967	-181
Tools, furniture and fixtures	175	135	39
Land	8,115	7,993	122
Construction in progress	2,187	2,469	-282
Intangible fixed assets	(19)	(23)	(-4)
Telephone subscription rights	11	11	-
Software	7	11	-4
Investment and other assets	(4,053)	(3,295)	(-757)
Investment securities	2,470	1,736	734
Long-term loans receivable	40	63	-22
Deferred tax assets	797	1,029	-232
Others	1,068	1,661	-592
Allowance for doubtful receivables	-324	-1,194	870
Total Assets	45,690	46,940	-1,250

Liabilities and Shareholder Equity

(Units: millions of yen)

	March 31,2004	*March 31, 2003*	*Year-on-year change*
(Liabilities)	(31,481)	(30,283)	(1,198)
Current liabilities	(22,529)	(23,082)	(-553)
Trade notes and accounts payable	12,860	14,429	-1,569
Short-term loans	3,660	2,438	1,221
Bonds due for redemption within one year	100	-	100
Accrued income taxes	15	15	0
Advances received	4,546	4,417	129
Allowances for guarantees on construction work	25	30	-5
Others	1,320	1,751	-430
Fixed liabilities	(8,952)	(7,200)	(1,751)
Bonds	350	-	350
Long-term loans	836	501	334
Accrued retirement benefits	7,353	6,510	843
Allowance for special repairs	67	45	22
Deferred tax liabilities	1	2	-0
Others	343	141	201
(Shareholder equity)	(14,208)	(16,656)	(-2,448)
Common stock	8,414	8,414	-
Additional paid-in capital	5,148	5,148	-
Accumulated earnings	-223	3,064	-2,840
Net unrealized gains on securities	423	29	393
Foreign currency translation adjustments	0	1	-0
Treasury stock	-1	-1	-0
Total liabilities & shareholder equity	45,690	46,940	-1,250

(2) Consolidated Statement of Operations for the period ended 31 March 2004

(Units: millions of yen)

	March 31, 2004		*March 31, 2003*		*Year-on-year change*
(Ordinary Income and Expenses)		%		%	
Operating Income and Expenses		100.0		100.0	
Net sales	49,125		45,195		3,929
Cost of sales	51,371		43,600		7,771
Sales, general and administrative expenses	1,273		1,217		55
Operating income (loss)	-3,519	-7.2	377	0.8	-3,897
Non-operating income and expenses					
Non-operating income	99		149		-49
Interest income	17		25		-7
Dividend income	19		17		1
Life insurance dividend and insurance income	38		89		-51
Equity in earnings of affiliates	0		2		-2
Other non-operating income	24		14		10
Non-operating expenses	458		1,336		-877
Interest expense	138		139		-0
Foreign exchange gain (loss)	238		1,124		-885
Other non-operating expenses	81		72		9
Ordinary loss	-3,878	-7.9	-809	-1.8	3,069
(Extraordinary Income)					
Extraordinary income	683		149		533
Gain on sales of fixed assets	662		120		541
Gain on sales of investment securities	11		28		-17
Reversal of allowances for doubtful accounts	9		-		9
Extraordinary loss	511		5,220		-4,708
Devaluation loss for construction work in progress	-		3,269		-3,269
Loss from cancellation of construction work	-		1,219		-1,219
Valuation loss on investment securities	-		703		-703
Industrial waste disposal cost	496		-		496
Loss from disposal of fixed assets	15		29		-13
Net loss before tax	-3,707	-7.6	-5,880	-13.0	2,172
Corporate income, inhabitant and enterprise taxes	15	0.0	15	0.0	0
Income tax adjustment	-882	-1.8	1,115	2.5	-1,997
Interim net loss	-2,840	-5.8	-7,010	-15.5	4,169

(3) Consolidated Statement of Retained Earnings for the period ended 31 March 2004

(Units: millions of yen)

	March 31, 2004	*March 31, 2003*	*Year-on-year change*
(Capital surplus)			
Consolidated surplus at beginning of period			
1. Capital reserves at beginning of period	5,148	5,148	-
Capital surplus at end of period	5,148	5,148	-
(Retained earnings)			
Retained earnings at beginning of period			
1. Consolidated retained earnings at beginning of period	3,064	10,884	-7,820
Decrease in retained earnings			
1. Dividends	-	809	-809
2. Net loss	2,840	7,010	4,169
Retained earnings at end of period	223	3,064	-2,840

(4) Consolidated Statement of Cash Flow for the period ended 31 March 2004

(Unit: millions of yen)

	March 31, 2004 (Apr. 2003 – Mar. 2004)	*March 31, 2003 (Apr. 2002 – Mar. 2003)*	*Year-on-year change*
I. Cash flow from operating activities			
Net loss before income taxes	-3,707	-5,880	2,172
Depreciation and amortization	918	908	9
Increase in accrued retirement benefits	843	1,068	-225
Decrease in allowance for guaranteed construction work	-5	-6	1
Increase (decrease) in allowance for special repairs	22	-31	53
Interest and dividend income	-36	-43	6
Interest expenses	138	139	-0
Foreign exchange losses	239	1,119	879
Gain on sale of investment securities	-11	-28	17
Gain on sale of fixed assets	-653	-116	-537
Gain on sale of investment and other assets	-8	-2	-6
Loss from scrapping of property and equipment	15	26	-11
Loss from revaluation of investment securities	-	703	-703
Equity in gains of unconsolidated subsidiaries and affiliates	-0	-2	2
Increase (decrease) in allowance for doubtful accounts	-857	20	-878
Decrease (increase) in trade receivables	719	-1,985	2,704
Decrease (increase) in inventories and advance payment	-673	1,594	-2,268
Decrease in consumption tax receivables	-169	380	-549
Decrease in other current assets	93	478	-384
Decrease in notes and accounts payable	-1,607	-1,379	-227
Increase (decrease) in advances received	5,000	-3,479	8,480
Increase (decrease) in other current liabilities	-246	324	-570
Others	-6	-	-6
Sub Total	6	-6,191	6,198
Interest and dividends received	36	43	-6
Interest paid	-134	-150	15
Income taxes received (paid)	-11	4	-16
Net cash provided by operating activities	-104	-6,295	6,190
II. Cash flow from investment activities			
Increase(decrease) in deposits with maturity of more than three months	748	-1,238	1,987
Proceeds from sales of marketable securities	-	29	-29
Proceeds from sales of tangible fixed assets	952	161	790
Payments for purchase of tangible fixed assets	-607	-1,861	1,254
Payments for purchase of intangible fixed assets	-	-6	6
Proceeds from sales/redemption of investment securities	27	107	-79
Payments for purchase of investment securities	-96	-29	-66
Proceeds form sales of investment and other assets	20	17	2
Payments for loans	-0	-2	2
Proceeds from loans repaid	22	50	-28
Decrease in other fixed assets	43	96	-53
Decrease in other fixed liabilities	-5	-1	-3
Net cash used in investing activities	1,105	-2,676	3,781
III. Cash flow from financing activities			
Proceeds from short-term loans	1,330	-	1,330
Repayment of short-term loans	-	-750	750
Proceeds from long-term loans	500	500	-
Repayment of long-term loans	-273	-367	93
Proceeds from issuance of bonds	500	-	500
Payment for redemption of debenture	-50	-	-50
Dividends paid	-1	-810	808
Payments for purchases of treasury stock	-0	-0	0
Net cash used in financing activities	2,004	-1,428	3,432
IV. Effect of exchange rate changes on cash and cash equivalents	-239	-1,119	879
V. Net decrease in cash and cash equivalents	2,766	-11,518	14,284
VI. Cash and cash equivalents at beginning of year	3,454	14,973	-11,518
VII. Cash and cash equivalents at end of interim period	6,220	3,454	2,766

(Note)

The difference between cash and cash equivalents at the end of the term and the amount recorded on consolidated balance sheets

	March 31, 2004		March 31, 2003	
Cash and time deposits	6,284	million yen	4,624	million yen
Marketable securities	77	million yen	77	million yen
Time deposits with maturity of over three months	-142	million yen	-1,248	million yen
Cash and cash equivalents	6,220	million yen	3,454	million yen

[Basis of Presenting Financial Statements]

1. Scope of consolidation
   (a) The consolidated subsidiaries consist of the following six (6) companies:
   Saseho Kosan, N.N.U., Tsukumo Service, Sajuko Kosan, Nishi-Kyushu Shoji, and Sasebo Heavy Industries Design

   (b) The non-consolidated subsidiaries consist of the following two (2) companies:
   Sasebo Heavy Industries (Hong Kong) Ltd. and S.I. Gas Center Service

2. Application of the equity method
   (a) The number of non-consolidated subsidiaries accounted for by the equity method is two (2), which subsidiaries are Sasebo Heavy Industries (Hong Kong) Ltd. and S.I. Gas Center Service.

   (b) For subsidiaries accounted for by the equity method, Financial Statements related to the accounting periods of each company are prepared for those subsidiaries for which the account closing dates differ from the dates for consolidated account closing dates.

3. Consolidated subsidiary account closing dates
   The account closing dates of the consolidated subsidiaries are in accordance with the date of the consolidated account closing dates.

4. Accounting procedure standard
   (a) Evaluation standards and methods for significant assets
   (1) Securities
   Other securities
   Securities with market value: Stated at fair market value based on market prices at the end of the term. (Valuation differences are directly included in the capital. Sales costs are calculated with the moving-average method.)
   Securities with no market value: Stated with the moving-average cost method.
   (2) Inventories
   Raw materials and stored goods are mainly stated at moving average cost.
   Construction in process is stated at costs determined by the specific identification method.
   (b) Depreciation method for significant depreciable assets
   Tangible fixed assets – The declining balance method is applied.
   (c) Accounting for significant allowances and reserves
   (1) Allowance for doubtful receivables
   In preparation for possible losses arising from defaults on accounts receivables, the estimated non-recoverable amount is appropriated by the actual rate of bad loans for

general credit, and by individually reviewing the collectability of specific doubtful credits with concerns over bad loans.

(2) Accrued retirement benefits

In preparation for payments of employee retirement benefits, the estimated amount is appropriated based on projected benefit obligations and pension plan assets at the end of the consolidated accounting period. Differences arising from changes in the accounting standard are charged to expenses in an 8-year installment. Past service liabilities are charged to expenses as incurred, and actuarial differences are amortized from the following fiscal year by the declining balance method over a specified period (6 years) within the average remaining service years of the employee.

(3) Allowance for guaranteed construction work

As an appropriation for the payment of guaranteed construction work, the estimated cost of the guaranteed construction work within the guarantee period is set aside and accounted for.

(4) Allowance for special repair work

As an appropriation for the payment of special repair work, the estimated cost of the special repair work is set aside and accounted for based on the actual results of the previous fiscal year.

(d) Significant accounting policies for lease transactions

Finance lease transactions are accounted for by the method applicable to ordinary finance lease transactions, except for those where ownership of the leased property is considered to be transferred to the lessee.

(e) Other basis of presenting the consolidated financial statements

Accounting for consumption taxes

Accounting for consumption tax and local consumption tax is accounted for based on the tax exclusion method.

5. Evaluation of assets and liabilities of consolidated subsidiaries

The overall market value method is adopted for evaluations of assets and liabilities of consolidated subsidiaries.

6. Amortization of consolidated adjustment account

Since the difference arising from elimination by offsetting is small, a temporary amortization of consolidated adjustment account is completed in the fiscal year in which such difference incurred.

7. Appropriation of earnings

The Consolidated Retained Earnings Statement is prepared based on appropriation of earnings of consolidated subsidiaries, as determined during the consolidated accounting period.

8. Scope of funds in the consolidated cash flow statements

The funds (cash and cash equivalents) in the consolidated cash flow statements consist of cash in hand, demand deposits, and short-term investments with maturity of three months or less from the date of acquisition, which can be encashed easily and have a very low risk with regard to price fluctuation.

[Changes of fundamental matters in preparing Consolidated Financial Statements]

1. Change concerning the scope of consolidation
   Sasebo Heavy Industry Design, which was established during the subject fiscal year, is included in the scope of consolidated subsidiaries.

2. Change concerning the accounting standard
   Traditionally, sales revenues were recognized under the completed contract method. However, from this consolidated accounting period, the percentage-of-completion method has been used for any work with a 'contract amount and construction period exceeding ¥100 million and one year respectively'. This change is made so as to perform a more appropriate periodic accounting of profit and loss by introducing the percentage-of-completion method, which is considered to be a rational method of accounting for long-term, large-scale contracts.

   As a result of the change, the balance of accounts receivables was increased by ¥9,310 million, and that of inventories and advances received were decreased by ¥13,567 million and ¥4,871 million respectively in the Consolidated Balance Sheets, compared with the figures determined by the traditional method. In the Consolidated Statements of Income, operating loss and ordinary loss were increased by ¥1,459 million, and net loss was decreased by ¥613 million.