Announcement of
Interim Results for the Term ending March 31, 2004 (consolidated)

November 21, 2003

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)

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Application of U.S. GAAP: No

1. Consolidated Business Results for the six-month period ended September 30, 2003 (April 1, 2003 ~ September 30, 2003)

(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*	*%*
Half year ended September 30, 2003	27,556	81.9	-3,657	-	-3,847	-
Half year ended September 30, 2002	15,147	-45.3	-259	-	-1,286	-
Year ended March 31, 2003	45,195		377		-809	

	Net income		Net income per share
	Millions of yen	*%*	*Yen*
Half year ended September 30, 2003	-3,320	-	-20.50
Half year ended September 30, 2002	-1,969	-	-12.16
Year ended March 31, 2003	-7,010		-43.29

Note:
1. *Investment profit (loss) on equity method:*
   Half year ended September 30, 2003: (¥ -1 million)
   Half year ended September 30, 2002: ¥ 0 million
   Year ended March 31, 2003: ¥ 2 million
2. *Average number of shares outstanding (consolidated):*
   Half year ended September 30, 2003: 161,942,206
   Half year ended September 30, 2002: 161,955,000
   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 interim year-on-year changes.*

(2) Consolidated Financial Position

	Total assets	Shareholder equity	Shareholder equity ratio	Shareholder equity pre share
	Millions of yen	*Millions of yen*	*%*	*Yen*
September 30, 2003	39,160	13,513	34.5	83.45
September 30, 2002	57,333	21,546	37.6	133.05
March 31, 2003	46,940	16,656	35.5	102.85

Note:

1. *The number of shares outstanding at the end of the period (consolidated):*
   As of September 30, 2003: 161,955,000
   As of September 30, 2002: 161,955,000
   As of March 31, 2003: 161,955,000

(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 period
	Millions of yen	*Millions of yen*	*Millions of yen*	*Millions of yen*
Half year ended September 30, 2003	-326	257	159	3,409
Half year ended September 30, 2002	-6,045	-1,528	-466	5,962
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: 5
Non equity-method consolidated subsidiaries: 2
Equity-method affiliates: none

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

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

2. Forecast of Consolidated Operating Results for the Year ending March 31, 2004

	Net sales	Ordinary income	Net income
	Millions of yen	*Millions of yen*	*Millions of yen*
Year ending March 31, 2004	49,000	-3,900	-2,200

Note: Forecast net loss per share for the year: ¥ -13.59

(Appendix)

Corporate Group Conditions

Sasebo Heavy Industries Co., Ltd. and its affiliates (comprised of the company and seven subsidiaries [as of September 30, 2003]) 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. Parts of their shipbuilding processes are contracted to N.N.U. (a consolidated subsidiary of the company).

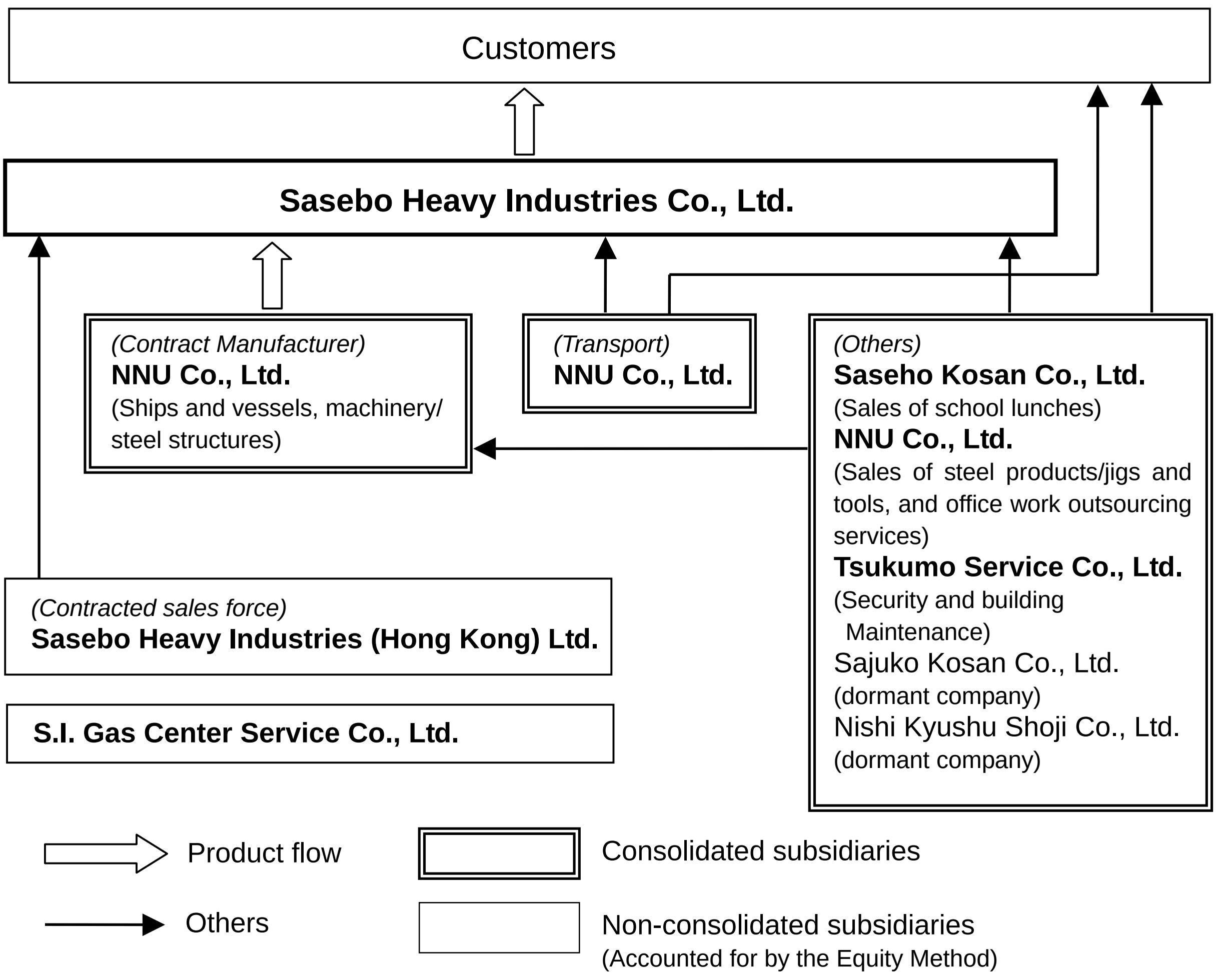
[Machinery/Steel Structure]

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 for 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. 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 operation 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 for 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 customers, shareholders, cooperative companies, and other business partners, 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.

We were forced to post a significant interim loss of ¥3,320 million during this interim period, and regret to inform shareholders that we will have to waive payment of the interim dividend.

3. Targeted Management Index

In the mid-term management plan, the company places emphasis on and sets as its objectives the improvement of net sales, operating income, current income and cash flow. The company will devote every effort to generate surplus, with an eye to paying dividends from the settlement of accounts for 2004.

4. Medium-Term Management Strategy

Investment in rationalization/laborsaving is essential for the company to go toe-to-toe with competitors in the global competition that is facing severe market trends. For this reason, it is necessary to enhance earning capacity and financial strength through efficient business operations. Due to intensifying competition with and the catching up of the South Korean and Chinese shipbuilding industries in particular, the foundation of the Japanese shipbuilding industry's existence is in an extremely difficult situation. The company will develop a mid-term management plan for the early-stage achievement of positive figures, and will establish a continuous shipbuilding system for 18 units of 76,000 dead weight ton (DWT) bulk carriers, in the construction of which the company is skilled, with the objective of restructuring corporate management. Additionally, the company will strive to secure order receipts for optimization of ship structures including tankers, focus on expansion of its naval vessel repair operations, steel structure construction and manufacture of general industrial machinery as a local shipyard at the Sasebo Naval Base, and will 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 meeting 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 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. One (1) of the three (3) external auditors passed away on November 12, and a successor is currently under consideration.

② The Management Committee is comprised of full-time board members, auditors and operating officers. The Committee widely reviews internal and external issues, and makes prompt decisions. Important matters are resolved or reported at the Board of Directors meeting.

③ To ensure complete compliance, the Ethical and Judicial Affairs Committee has been established and is in operation, with the company President serving as chairman. The Basic Principle of Employee Behavior has been established as one of the committee's activities. Consultation services are available for whistle-blowing activities and counseling is available to comprehensively tap opinions from employees. Compliance promotion status is reported to the Board of Directors.

Operating Results

1. Outline of Consolidated Operating Results for the Interim Period

A rapid increase in the demand for ships and vessels was observed in the shipbuilding industry as a result of increased maritime transportation in accordance with the expansion of the Chinese economy and the switching over to new types of ships with improved marine safety measures and reduced cost. As a result, the global orders received during the first half of the year (January to June) marked a gross tonnage of 29,680,000, a significant increase of 248% from the same term last year, and the Japanese shipping industry marked a gross tonnage of 8,400,000 for an increase of 144% over the same term last year. In the machinery/steel structure industry, private sector investment in equipment showed a gradual recovery in response to improved corporate earnings. However, public investments remained generally flat as a reflection of restrained budget scales.

In such circumstances, the Sasebo Group posted consolidated orders received of ¥27.7 billion, a decrease of 26% over the same term last year; the total ¥25.5 billion for shipbuilding business including the construction of 10 units of 76,000 DWT bulk carriers and ship repairs, ¥1.8 billion for machinery/steel structure business, and other miscellaneous work. The total amount of sales resulting from shipbuilding and ship repair work was ¥22.8 billion, including 3 units of 170,000 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 ¥4.2 billion were posted by the machinery/steel structure business, leading to total consolidated sales of ¥27.6 billion, an increase of 82% over the same term last year, including other miscellaneous work. Such increase in sales was only temporary, mainly because from this term the method of accounting to determine sales was changed from the traditional Completed Contract Method to the rational sales accounting standard Percentage-of-Completion Method for any orders received for construction work, such as new shipbuilding and steel structure work with contract amounts exceeding ¥100 million. As a result of the above, order backlog at the end of the interim period has resulted in ¥55 billion in total, a decrease of 14% over the same term last year; ¥45.1 billion in the ship and vessel business for 17 units of new shipbuilding totaling 1,490,000 weight tons, including ship repair, and

¥9.9 billion in the machinery/steel structure business. In terms of profit and loss, new shipbuilding work, for which orders were received during the past fiscal year, resulted in poor profitability and lead to the posting of an interim consolidated operating deficit of ¥3,657 million. An interim consolidated ordinary loss of ¥3,847 million was posted, after adding foreign exchange loss as non-operating loss. After adjusting for extraordinary profit and loss, a consolidated net loss of ¥3,320 million was posted during this interim period.

2. Cash Flow Status

During the subject interim period, the cash flows posted were a decrease of ¥326 million from sales activities, an increase of ¥257 million from investment activities as a result of the sale of real estate, and an increase of ¥159 million from financing activities as a result of the corporate bond issue. In consequence, the cash and cash equivalent at the end of the interim period is ¥3,409 million, which is a decrease of ¥44 million compared to the results for the end of the previous financial year.

3. Forecast for the Whole Financial Year

In the shipbuilding industry, there is a strong demand for ships and vessels as a result of the expansion of the Chinese economy and the recovery of the US economy, and the intake of orders for new shipbuilding work is expected to remain at a high level. However, improved shipbuilding capacity resulting from the rise of shipbuilding industry in China as well as the South Korea has lead to intensifying competition, and no improvements in ship value are expected. Further, in the machinery/steel structure industry, the prospects for public investment continue to decline while signs of improvement are observed for equipment investment from the private sector. For these reasons, it is expected that the management environment for the Group will remain severe.

Under such circumstances, the Group forecasts fiscal 2003 consolidated orders received of ¥52,800 million (non-consolidated ¥52,000), consolidated net sales of ¥49,000 million (non-consolidated ¥48,000), a consolidated ordinary loss of ¥3,900 million (non-consolidated ¥3,900 million) and a consolidated net loss of ¥2,200 million (non-consolidated ¥2,200 million).

The exchange rate is assumed to be ¥110/$.

End of Document.

Consolidated Financial Statements

(1) Consolidated Balance Sheets for the interim period ended 30 September 2003

Assets

(Units: millions of yen)

	Sep. 30, 2003	*March 31, 2003*	*Year-on-year change*	*Sep. 30, 2002*
(Assets)	(39,160)	(46,940)	(-7,779)	(57,333)
Current assets	(16,624)	(24,129)	(-7,504)	(33,275)
Cash & time deposits	4,788	4,624	163	6,258
Notes & accounts receivable	9,122	5,347	3,774	2,448
Marketable securities	77	77	0	107
Inventories	1,184	13,080	-11,896	21,058
Deferred tax assets	14	16	-2	1,126
Accounts receivable	1,218	554	664	1,661
Others	374	551	-177	708
Allowance for doubtful receivables	-155	-123	-31	-95
Fixed assets	(22,536)	(22,810)	(274)	(24,058)
Tangible fixed assets	(19,228)	(19,491)	(-262)	(19,574)
Buildings and structures	5,141	5,245	-104	5,358
Docks and building berths	663	678	-15	699
Machinery and transportation equipment	2,923	2,967	-44	2,800
Tools, furniture and fixtures	185	135	49	127
Land	7,926	7,993	-66	7,861
Construction in progress	2,388	2,469	-81	2,727
Intangible fixed assets	(21)	(23)	(-2)	(18)
Telephone subscription rights	11	11	-	11
Software	9	11	-2	6
Investment and other assets	(3,286)	(3,295)	(-9)	(4,465)
Investment securities	2,014	1,736	277	2,060
Long-term loans receivable	52	63	-10	82
Deferred tax assets	780	1,029	-249	1,932
Others	1,624	1,661	-37	1,584
Allowance for doubtful receivables	-1,184	-1,194	9	-1,194
Total Assets	39,160	46,940	-7,779	57,333

Liabilities and Shareholder Equity

(Units: millions of yen)

	Sep. 30, 2003	*March 31, 2003*	*Year-on-year change*	*Sep. 30, 2002*
(Liabilities)	(25,647)	(30,283)	(-4,636)	(35,787)
Current liabilities	(17,510)	(23,082)	(-5,571)	(29,440)
Trade notes and accounts payable	11,998	14,429	-2,431	14,002
Short-term loans	2,188	2,438	-250	3,807
Bonds due for redemption within one year	100	-	100	-
Accrued income taxes	7	15	-7	41
Advances received	2,362	4,417	-2,054	10,511
Allowances for guarantees on construction work	32	30	2	28
Others	821	1,751	-930	1,053
Fixed liabilities	(8,136)	(7,200)	(935)	(6,346)
Bonds	400	-	400	-
Long-term loans	418	501	-82	92
Accrued retirement benefits	7,121	6,510	611	6,033
Allowance for special repairs	56	45	11	74
Deferred tax liabilities	0	2	-2	3
Others	139	141	-1	142
(Shareholder equity)	(13,513)	(16,656)	(-3,143)	(21,546)
Common stock	8,414	8,414	-	8,414
Additional paid-in capital	5,148	5,148	-	5,148
Accumulated earnings	-256	3,064	-3,320	8,105
Net unrealized gains on securities	206	29	177	-122
Foreign currency translation adjustments	1	1	0	1
Treasury stock	-1	-1	-0	-0
Total liabilities & shareholder equity	39,160	46,940	-7,779	57,333

(2) Consolidated Statement of Operations for the interim period ended 30 September 2003

(Units: millions of yen)

	September 30, 2003		*September 30, 2002*		*Year-on-year change*		*March 31, 2003*	
(Ordinary Income and Expenses)		%		%		%		%
Operating Income and Expenses		100.0		100.0		100.0		100.0
Net sales	27,556		15,147		12,409		45,195	
Cost of sales	30,613		14,869		15,744		43,600	
Sales, general and administrative expenses	600		536		63		1,217	
Operating income (loss)	-3,657	-13.3	-259	-1.7	-3,398	-27.4	377	0.8
Non-operating income and expenses								
Non-operating income								
Interest and dividend income	25		28		-2		43	
Life insurance dividend and insurance income	-		10		-10		89	
Equity in earnings of affiliates	-		0		-0		-	
Other non-operating income	16		13		2		16	
Non-operating expenses								
Interest expense	59		67		-8		139	
Foreign exchange gain (loss)	132		975		-842		1,124	
Other non-operating expenses	39		38		1		72	
Ordinary loss	3,847	-14.0	1,286	-8.5	-2,560	-20.6	809	-1.8
(Extraordinary Income)								
Extraordinary income								
Gain on sales of investment securities	11		28		-17		28	
Reversal of allowances for doubtful accounts	-		8		-8		-	
Gain on sales of fixed assets	661		9		652		120	
Extraordinary loss								
Devaluation loss for construction work in progress	-		1,393		-1,393		3,269	
Loss from cancellation of construction work							1,219	
Valuation loss on investment securities	-		71		-71		703	
Loss from disposal of fixed assets	7		11		-4		209	
Interim net loss before tax	3,181	-11.5	2,716	-17.9	-465	-3.7	5,880	-13.0
Corporate income, inhabitant and enterprise taxes	7	0.0	41	0.3	-34	-0.3	15	0.0
Income tax adjustment	131	0.5	-789	-5.2	920	7.4	1,115	-2.5
Interim net loss	3,320	-12.0	1,969	-13.0	-1,351	-10.9	7,010	-15.5

(3) Consolidated Statement of Retained Earnings for the interim period ended 30 September 2003

(Units: millions of yen)

	September 30, 2003	*September 30, 2002*	*Year-on-year change*	*March 31, 2003*
(Capital surplus)				
Capital surplus at beginning of period				
1. Capital reserves at beginning of period	5,148	5,148		5,148
Capital surplus at end of interim period	5,148	5,148	-	5,148
(Retained earnings)				
Retained earnings at beginning of period				
1. Consolidated retained earnings at beginning of period	3,064	10,884	-10,884	10,884
Decrease in retained earnings				
1. Dividends		809	-809	809
2. Interim net loss	3,320	1,969	1,351	7,010
Retained earnings at end of interim period	-256	8,105	-8,361	3,064

(4) Consolidated Statement of Cash Flow for the interim period ended 30 September 2003

(Unit: millions of yen)

	September 30, 2003 (Apr. - Sep. 2003)	*September 30, 2002 (Apr. - Sep. 2002)*	*March 31, 2003 (Apr. 2002 - Mar. 2003)*
I. Cash flow from operating activities			
Net loss before income taxes	-3,181	-2,716	-5,880
Depreciation and amortization	449	415	908
Increase (decrease) in allowance for doubtful accounts	21	-7	20
Increase (decrease) in accrued retirement benefits	611	592	1,068
Increase (decrease) in allowance for guaranteed construction work	2	-8	-6
Increase (decrease) in allowance for special repairs	11	-1	-31
Interest and dividend income	-25	-28	-43
Interest expenses	59	67	139
Foreign exchange losses	135	969	1,119
Losses from sales of investment securities	-11	-28	-28
Loss from sales of property and equipment	-661	-9	-118
Loss from revaluation of investment securities	-	71	703
Loss from disposal of property and equipment	7	11	26
Decrease (increase) in trade receivables	-3,883	847	-1,985
Decrease (increase) in inventories and advance payment	12,230	-6,295	1,594
Decrease (increase) in consumption tax receivables	-674	-36	380
Decrease (increase) in other current assets	-63	-305	478
Decrease (increase) in notes and accounts payable	-2,398	-1,746	-1,379
Increase (decrease) in advances received	-2,054	2,614	-3,479
Increase (decrease) in other current liabilities	-856	-405	324
Others	1	-0	-2
Sub Total	-280	-6,001	-6,191
Interest and dividends received	25	28	43
Interest paid	-61	-79	-150
Income taxes received (paid)	-10	7	4
Net cash provided by operating activities	-326	-6,045	-6,295
II. Cash flow from investment activities			
Increase in deposits with maturity of more than three months	-208	-393	-1,238
Proceeds from sales of marketable securities	-	29	29
Proceeds from sales of tangible fixed assets	742	52	161
Payments for purchase of tangible fixed assets	-353	-1,448	-1,861
Proceeds from sales/redemption of investment securities	27	107	107
Payments for purchase of investment securities	-	-	-29
Payments for loans	-0	-2	-2
Proceeds from loans repaid	10	31	50
Decrease in other fixed assets	40	94	107
Decrease in other fixed liabilities	-1	-0	-1
Net cash used in investing activities	257	-1,528	-2,676
III. Cash flow from financing activities			
Proceeds from short-term loans		525	
Repayment of short-term loans	-150		-750
Proceeds from long-term loans	-	-	500
Repayment of long-term loans	-182	-183	-367
Proceeds from issuance of bonds	500		
Dividends paid	-7	-807	-810
Payments for purchases of treasury stock	-0	-0	-0
Net cash used in financing activities	159	-466	-1,428
IV. Effect of exchange rate changes on cash and cash equivalents	-135	-969	-1,119
V. Net decrease in cash and cash equivalents	-44	-9,010	-11,518
VI. Cash and cash equivalents at beginning of year	3,454	14,973	14,973
VII. Cash and cash equivalents at end of interim period	3,409	5,962	3,454

(Interim Statement of Cash Flow)

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

	September 30, 2003		*March 31, 2003*		*September 30, 2002*	
Cash and time deposits	4,788	*million yen*	4,624	*million yen*	6,258	*million yen*
Marketable securities	77	*million yen*	77	*million yen*	107	*million yen*
Time deposits with maturity over three months	-1,456	*million yen*	-1,248	*million yen*	-403	*million yen*
Cash and cash equivalents	3,409	*million yen*	3,454	*million yen*	5,962	*million yen*

[Basis of Presenting Financial Statements]

1. Scope of consolidation
   (a) The consolidated subsidiaries consist of the following five (5) companies:
   Saseho Kosan Co.,Ltd., N.N.U.Co.,Ltd., Tsukumo Service, Sajuko Kosan Co.,Ltd., Nishi-Kyushu Shoji Co.,Ltd.
   (b) The non-consolidated subsidiaries consist of the following two (2) companies:
   Sasebo Heavy Industries (Hong Kong) Ltd., S.I. Gas Center Service Co.,Ltd.

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, Interim Financial Statements related to the interim accounting periods of each company are prepared for those subsidiaries for which the interim account closing dates differ from the dates for interim consolidated account closing dates.

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

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 interim closing date. (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 cost determined by the specific identification method.
   (b) Depreciation method for significant depreciable assets
   Tangible fixed assets – The declining balance method is applied.
   Intangible fixed assets – The straight-line method is applied.
   Software for internal use is amortized on a straight-line basis over the usable period (five years) for in-house use.
   (c) Accounting for significant allowances and reserves
   (1) Allowance for doubtful receivables
   In preparation for possible losses arising from defaults on accounts receivables, theestimated irrecoverable 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, which is thought to have been incurred as of the end of this interim period, 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 (¥4,535million) 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. Scope of funds in the interim consolidated cash flow statements

The funds (cash and cash equivalent) 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 fluctuations.

[Changes in Accounting Policies]

(Sales accounting method)

Traditionally, sales revenues were recognized under the completed contract method. However, from this interim 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 ¥6,997 million, and that of inventories and advances received were decreased by ¥14,095 million and ¥5,355 million respectively in the interim consolidated balance sheets, compared with the figures determined by the traditional method. In the interim consolidated profit and loss statements, operating loss and ordinary loss were increased by ¥1,742 million, and interim net loss before income taxes was decreased by ¥330 million.