Announcement of Financial Results for the Term ended March 2005 (consolidated)

May 20, 2005

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: Nobuyoshi Hiraki/Director, Manager of Human Resources and General Affairs
TEL (03) 5213-7312
Board of Directors Meeting for the Approval of Results: May 20, 2005
Application of U.S. GAAP: No

1. <u>Consolidated Business Results for the term ended March 2005 (April 1, 2004 ~ March 31, 2005)</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, 2005	43,178	-12.1	749	-	663	-
Fiscal Year ended March 31, 2004	49,125	8.7	-3,519	-	-3,878	-

	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, 2005	672	-	4.15	-	4.6	1.4	1.5
Fiscal Year ended March 31, 2004	-2,840	-	-17.54	-	-18.4	-8.4	-7.9

Note:

1. *Investment profit on equity method:*
   Fiscal year ended March 31, 2005: ¥0 million
   Fiscal year ended March 31, 2004: ¥0 million
2. *Average number of shares outstanding (consolidated):*
   Fiscal year ended March 31, 2005: 161,935,046
   Fiscal year ended March 31, 2004: 161,940,832
3. *Changes in accounting methods: None*

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 per Share
	Millions of yen	*Millions of yen*	*%*	*yen sen*
Fiscal Year ended March 31, 2005	52,382	14,972	28.6	92.46
Fiscal Year ended March 31, 2004	45,690	14,208	31.1	87.74

Note:

1. *The number of shares outstanding at the end of the year (consolidated):*
   As of March 31, 2005: 161,930,165
   As of March 31, 2004: 161,938,382

(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 the year
	Millions of yen	*Millions of yen*	*Millions of yen*	*Millions of yen*
Fiscal Year ended March 31, 2005	7,835	-4,025	238	10,287
Fiscal Year ended March 31, 2004	-104	1,105	2,004	6,220

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

2. Forecast of Consolidated Operating Results for the Year ending March 31, 2006 (April 1, 2005 ~ March 31, 2006)

	Net sales	Ordinary income	Net income
	Millions of yen	*Millions of yen*	*Millions of yen*
Year ending March 31, 2006	50,000	700	700

(Reference) Forecast net income per share for the year: ¥4.32

* *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, 2005]) 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).

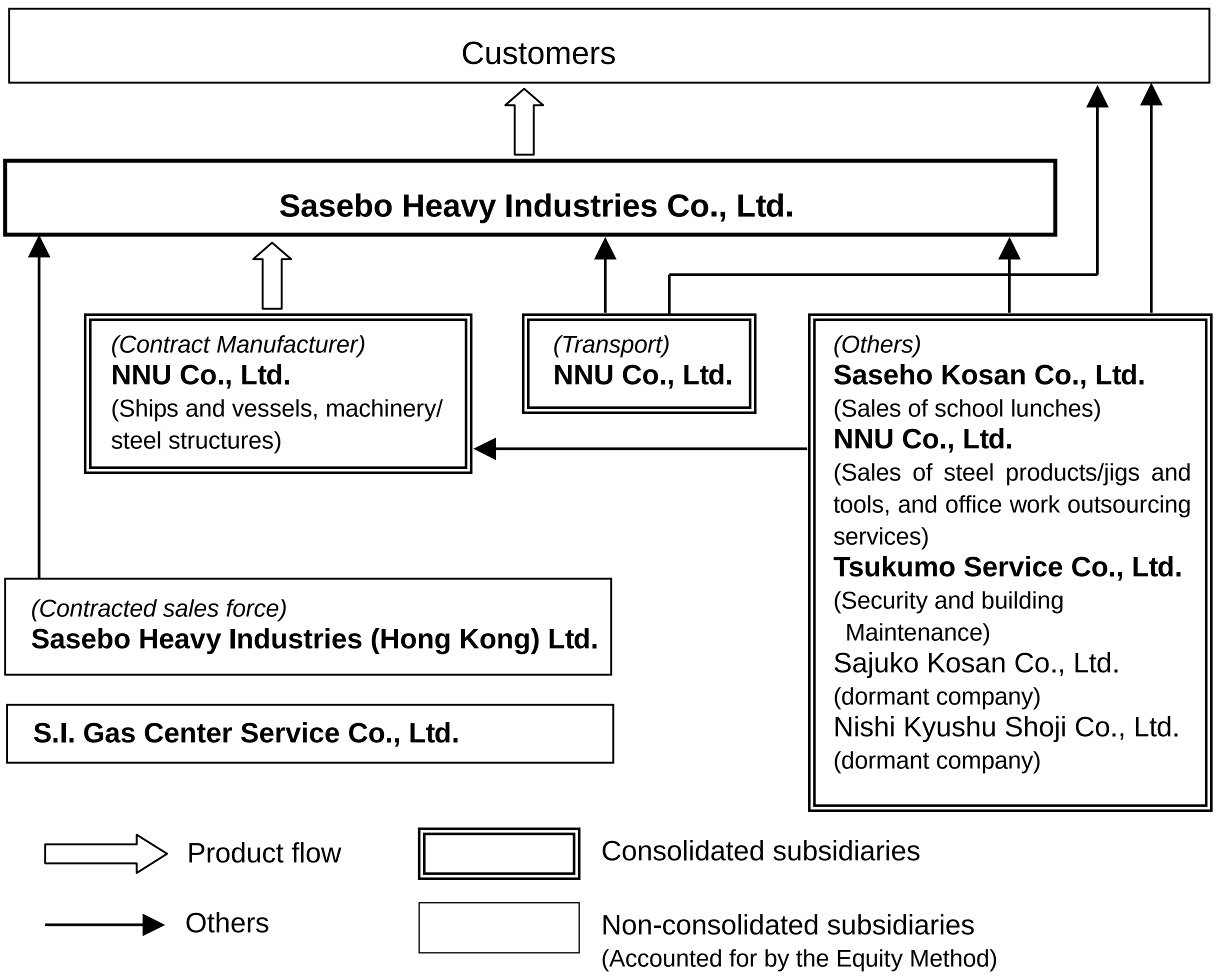
[Machinery/Steel Structure]

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) undertakes design work for the company. 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.

Regarding payment of dividends for fiscal year 2005, although the company posted net income of 654 million yen, we regret to inform shareholders that we decided to suspend payment of dividends following on from the previous fiscal year so as to improve the financial strength of the company.

3. Targeted Management Index

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 free cash flow. The company will devote every effort so that its surplus-generating capability is firmly in place.

4. Medium-Term Management Strategy

Since the company was forced to declare losses in two consecutive previous business years, corporate reconstruction has been 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 sister ships 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 undertake the replacement of facilities with the aim of improving marine equipment productivity, and will try to improve its competitiveness in steel construction. The company will thus 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 eleven (11) board members, two (2) of whom are external board members who provide advice and guidance from an objective point of view. There are four (4) 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 concerning compliance, 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

In the shipbuilding industry, new shipbuilding orders placed worldwide in 2004 was 50.856 million gross tons; a 18.6% decrease over the previous year. In 2004, the Japanese shipbuilding industry received orders for 15.507 million gross tons; a 24.8% decrease over the previous year. The high level of order placements was retained following the year 2003, during which year the industry received the second-largest order volume in its history.

In the machinery industry, private sector investment in equipment increased as a result of improved corporate earnings and increased demand. However, public investment in the steel structure industry shows a tendency to decrease. Thus, the order receipts environment continues to be harsh.

Given the above circumstances, the Sasebo Group posted consolidated orders received of ¥80.7 billion, an increase of 3.0 % over the last year; the total of ¥68.1 billion for the shipbuilding business including the construction of a total of 15 ships; 9 units of 115,000 DWT tankers, 4 units of 76,000 DWT bulk carriers and 2 units of 77,000 DWT coal carriers, 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, ¥11.6 billion for machinery/steel structure business, and other miscellaneous work. The total sales amount resulting from shipbuilding and ship repair work was ¥34.8 billion, for a decrease of 9.7% over the previous year. During this term, 13 units of 76,000 DWT bulk carriers were delivered as new ships. The machinery/steel structure business posted sales of ¥7.4 billion, for a decrease of 22.7% over the previous year, leading to total consolidated sales of ¥43.2 billion, a decrease of 12.1% over the previous term, including other miscellaneous work. Such decrease in consolidated sales is primarily due to the temporarily increased sales of the previous term, as a result of the change in accounting method from the completed-contract method to the percentage-of-completion method; from the previous consolidated accounting period, the percentage-of-completion method has been used for any new shipbuilding and any steel construction work with contract amounts and construction periods exceeding ¥100 million and one year respectively.

As a result, the order backlog at the end of the fiscal year reached ¥122.6 billion in total, an increase of 42.1% over the previous year; ¥107.9 billion in the ship and vessel business for 29 units of new shipbuilding and ship repair, and ¥14.7 billion in the machinery/steel structure business, including other miscellaneous work.

In terms of profit and loss, the improved productivity resulting from continuous shipbuilding of 76,000 DWT bulk carrier sister ships, the reduced exchange risk resulting from the increase in yen-based shipbuilding contracts, and the growth in sales of marine equipment have lead to the posting of a consolidated operating income of ¥749 million (a consolidated operating deficit of ¥3,519 million was posted in FY2004) and a consolidated ordinary income of ¥663 million (a consolidated ordinary loss of ¥3,878 million was posted in FY2004). Despite the extraordinary loss of ¥767 million incurred due to dredging of PCB-contaminated soil, a consolidated net profit of ¥672 million was posted (a consolidated net loss of ¥2,840 was posted in FY2004) after income tax adjustments were applied. Fiscal year 2004 ended in the black; the first time this has happened for the past three terms.

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

Category	Amount of Orders Received	Net Sales	Operating Income	Ordinary Income	Net Income	Net Income per Share (yen)
Fiscal Year ended March 31, 2005	80,668	43,178	749	663	672	4.15
Fiscal Year ended March 31, 2004	78,344	49,125	-3,519	-3,878	-2,840	-17.54

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

Category	Amount of Orders Received	Net Sales	Operating Income	Ordinary Income	Net Income	Net Income per Share (yen)
Fiscal Year ended March 31, 2005	79,851	42,361	683	630	654	4.04
Fiscal Year ended March 31, 2004	77,586	48,367	-3,557	-3,915	-2,840	-17.54

2. Cash Flow Status

Regarding cash and cash equivalents (hereinafter called ‘funds’) at the end of this consolidated fiscal year, the cash flows posted were an income of ¥7,835 million from operating activities, an outgoing of ¥4,025 million from investing activities, and an income of ¥238 million from financing activities; totaling ¥10,287 million, for an increase of ¥4,067 million compared to the figures for the end of the previous fiscal year.

(Cash flow from operating activities)

The primary source of funds from operating activities during this consolidated accounting period consists of an income of ¥4,207 as a result of a decrease in account receivables, and an income of ¥3,007 million as a result of an increase in advances received.

(Cash flow from investing activities)

The main outgoing funds from investing activities during this consolidated accounting period consist of an outgoing of ¥2,028 million as a result of the acquisition of fixed tangible assets, and an outgoing of ¥1,919 as a result of an increase in long-term deposits with maturities exceeding three (3) months.

(Cash flow from financing activities)

Sources of funds from financing activities consist of an income of ¥5,335 million as a result of short-term loans and an income of ¥1,051 million as a result of long-term loans. The main outgoing fund is an outgoing of ¥5,881 million as a result of repayment of short-term debt.

Cash flow indicator trends are as follows:

Category	Fiscal Year ended March 31, 2004	Fiscal Year ended March 31, 2005
Equity Ratio (%)	31.1	28.6
Equity Ratio at Market Value (%)	53.9	61.8
Debt Repayment Period (years)	-	1.0
Interest Coverage Ratio (times)	-	54.3

(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.*
* *The debt repayment period and interest coverage ratio for the fiscal year ended March 31, 2004 are not indicated because the cash flow from operating activities was negative.*

3. Forecast for the Next Fiscal Year

Regarding new shipbuilding, the Japanese shipbuilding industry has an order book exceeding three (3) years worth of work. However, there are concerns over rising prices for material such as steel, and over delay in deliveries due to the tightening steel material supply-demand situation. In addition, due to the aging of shipbuilding technicians, there is an issue to be addressed in the year 2007 of the passing down of technical skills to young people.

In the machinery industry, the environment surrounding order receipts is expected to steadily improve, with the increasing demand for capital investment in and outside the country. On the other hand, in the 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 continue to be severe.

Under such circumstances, the Group projects the following operating results for the fiscal year ending March 2006.

(Units: millions of yen)

Category	Orders Received	Net Sales	Operating Income	Ordinary Income	Net Income
Consolidated performance	81,000	50,000	800	700	700
Non-consolidated performance	80,000	49,000	800	700	700

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

End of Document

Consolidated Financial Statements

(1) Consolidated Balance Sheets for the year ended March 31, 2005

(Units: millions of yen)

	Fiscal Year ended March 31, 2005	Fiscal Year ended March 31, 2004	Year-on-year change
(Assets)	(52,382)	(45,690)	(6,692)
Current assets	(26,368)	(22,651)	(3,717)
Cash & time deposits	12,673	6,284	6,388
Notes & accounts receivable	9,827	14,057	-4,230
Marketable securities	33	77	-44
Inventories	1,150	650	499
Deferred tax assets	1,323	868	454
Accounts receivable	787	734	53
Others	605	113	491
Allowance for doubtful receivables	-32	-136	104
Fixed assets	(26,013)	(22,039)	(2,974)
Tangible fixed assets	(21,453)	(18,965)	(2,487)
Buildings and structures	4,766	5,058	-291
Docks and building berths	756	643	112
Machinery and transportation equipment	2,488	2,785	-297
Tools, furniture and fixtures	186	175	11
Land	8,074	8,115	-41
Construction in progress	5,181	2,187	2,994
Intangible fixed assets	(23)	(19)	(3)
Utility model rights	0	-	0
Telephone subscription rights	11	11	-
Software	10	7	3
Investment and other assets	(4,537)	(4,053)	(483)
Investment securities	2,939	2,470	468
Long-term loans receivable	28	40	-12
Deferred tax assets	966	797	169
Others	955	1,068	-113
Allowance for doubtful receivables	-352	-324	-28
Total Assets	52,382	45,690	6,692

	Fiscal Year ended March 31, 2005	Fiscal Year ended March 31, 2004	Year-on-year change
(Liabilities)	(37,409)	(31,481)	(5,927)
Current liabilities	(26,352)	(22,529)	(3,823)
Trade notes and accounts payable	13,138	12,860	277
Notes payable for equipment	905	-	905
Short-term loans	3,334	3,660	-326
Bonds due for redemption within one year	100	100	-
Accrued income taxes	73	15	57
Advances received	7,553	4,546	3,007
Allowances for guarantees on construction work	31	25	6
Others	1,216	1,320	-104
Fixed liabilities	(11,057)	(8,952)	(2,104)
Bonds	250	350	-100
Long-term loans	1,502	836	666
Long-term notes payable for equipment	735	-	735
Accrued retirement benefits	8,275	7,353	921
Allowance for special repairs	70	67	3
Deferred tax liabilities	3	1	2
Others	219	343	-123
(Shareholder equity)	(14,972)	(14,208)	(764)
Common stock	8,414	8,414	-
Additional paid-in capital	5,148	5,148	-
Accumulated earnings	896	223	672
Net unrealized gains on securities	516	423	92
Foreign currency translation adjustments	0	0	0
Treasury stock	-2	-1	-1
Total liabilities & shareholder equity	52,382	45,690	6,692

(2) Consolidated Statement of Operations for the year ended March 31,2005

(Units: millions of yen)

	Consolidated Fiscal Year (Apr. 2004 ~ March 2005)		Consolidated Fiscal Year (Apr. 2003 ~ March 2004)		Year-on-year change	
(Ordinary Income and Expenses)		%		%		%
Operating Income and Expenses		100.0		100.0		100.0
Net sales	43,178		49,125		-5,946	
Cost of sales	40,775		51,371		-10,596	
Sales, general and administrative expenses	1,653		1,273		380	
Operating income (loss)	749	1.7	-3,519	-7.2	4,269	-71.8
Non-operating income and expenses						
Non-operating income						
Interest received	9		17		-8	
Dividend received	19		19		0	
Life insurance dividend and insurance income	39		38		0	
Foreign exchange gain	16		-		16	
Other non-operating income	12		24		-11	
Non-operating expenses						
Interest expense	144		138		5	
Foreign exchange loss	-		238		-238	
Other non-operating expenses	38		81		-43	
Ordinary income (loss)	663	1.5	-3,878	-7.9	4,542	-76.4
(Extraordinary Income and Loss)						
Extraordinary income						
Gain on sales of fixed assets	91		662		-570	
Gain on sales of investment securities	13		11		2	
Reversal of allowances for doubtful accounts	6		9		-3	
Extraordinary loss						
Loss from disposal of fixed assets	22		15		7	
Industrial waste processing expense	745		496		248	
Net profit (loss) before tax	6	0.0	-3,707	-7.6	3,714	-62.5
Corporate income, inhabitant and enterprise taxes	16	0.0	15	0.0	1	-0.6
Income tax adjustment	-682	-1.6	-882	-1.8	-200	3.4
Net profit (loss)	672	1.6	-2,840	-5.8	3,513	-59.1

(3) Consolidated Statement of Retained Earnings for the year ended March 31,2005

(Units: millions of yen)

	Consolidated Fiscal Year (Apr. 2004 ~ March 2005)	Consolidated Fiscal Year (Apr. 2003 ~ March 2004)	Year-on-year change
(Capital surplus)			
Capital surplus at beginning of year			
1. Capital reserves at beginning of year	5,148	5,148	-
Capital surplus at end of year	5,148	5,148	-
(Retained earnings)			
Retained earnings at beginning of year			
1. Consolidated retained earnings at beginning of year	223	3,064	-2,840
Increase in retained earnings			
1. Current net profit	672	-	672
Decrease in retained earnings			
1. Current net loss	-	2,840	-2,840
Retained earnings at end of year	896	223	672

(4) Consolidated Statement of Cash Flow for the year ended March 31, 2005

(Unit: millions of yen)

	Consolidated Fiscal Year (Apr. 2004 ~ March 2005)	Consolidated Fiscal Year (Apr. 2003 ~ March 2004)	Year-on-year change
I. Cash flow from operating activities			
Net profit (loss) before income taxes	6	-3,707	3,714
Depreciation and amortization	839	918	-78
Increase in accrued retirement benefits	921	843	77
Increase (decrease) in allowance for guaranteed construction work	6	-5	11
Increase (decrease) in allowance for special repairs	3	22	-18
Interest and dividend income	-28	-36	8
Interest expenses	144	138	5
Foreign exchange loss (gain)	-19	239	-258
Losses from sales of investment securities	-13	-11	-2
Gain on sales of fixed assets	-90	-653	562
Gain on sales of investments and other assets	-1	-8	7
Loss from disposal of tangible fixed assets	22	15	7
Decrease in allowance for doubtful accounts	-76	-857	780
Decrease in trade receivables	4,207	719	3,487
Increase in inventories and advance payment	-997	-673	-323
Increase in accrued consumption tax	-201	-169	-32
Decrease (increase) in other current assets	-124	93	-217
Increase (decrease) in notes and accounts payable	434	-1,607	2,042
Increase in advances received	3,007	5,000	-1993
Decrease in other current liabilities	-82	-252	170
Investment loss (profit) on equity method	1	-0	2
Sub Total	7,959	6	7,953
Interest and dividends received	27	36	-8
Interest paid	-139	-134	-4
Income taxes paid	-12	-11	-0
Net cash provided by operating activities	7,835	-104	7,939

II. Cash flow from investing activities			
Decrease (increase) in deposits with maturities exceeding three months	-1,919	748	-2,667
Proceeds from sales of tangible fixed assets	142	952	-810
Payments for acquisition of tangible fixed assets	-2,028	-607	-1,420
Payments for acquisition of intangible fixed assets	-7	-	-7
Proceeds from sales and redemption of investment securities	70	27	42
Payments for acquisition of investment securities	-372	-96	-276
Proceeds from sales of investments and other assets	1	20	-18
Payments for loans	-1	-0	-0
Proceeds from loans repaid	13	22	-9
Decrease in other fixed assets	82	43	39
Decrease in other fixed liabilities	-7	-5	-2
Net cash used in investing activities	-4,025	1,105	-5,130
III. Cash flow from financing activities			
Proceeds from short-term loans	-	1,330	-1,330
Repayment of short-term loans	-546	-	-546
Proceeds from long-term loans	1,051	500	551
Repayment of long-term loans	-164	-273	109
Proceeds from issuance of bonds	-	500	-500
Payments for redemption of bonds	-100	-50	-50
Dividends paid	-0	-1	0
Payments for purchases of treasury stock	-1	-0	-0
Net cash used in financing activities	238	2,004	-1,765
IV. Effect of exchange rate changes on cash and cash equivalents	19	-239	258
V. Net decrease in cash and cash equivalents	4,067	2,766	1,301
VI. Cash and cash equivalents at beginning of year	6,220	3,454	2,766
VII. Cash and cash equivalents at end of year	10,287	6,220	4,067

(Note)

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

	March 31, 2005		March 31, 2004	
Cash and time deposits	12,673	*million yen*	6,284	*million yen*
Marketable securities	33	*million yen*	77	*million yen*
Time deposits with maturities exceeding three months	-2,419	*million yen*	-142	*million yen*
Cash and cash equivalents at end of year	10,287	*million yen*	6,220	*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 (5 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 for ships and vessels 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.

Additional information

(Retirement benefit accounting)

Traditionally, actuarial differences are charged to expenses by the declining balance method based on six (6) years of average remaining service years of employees. However, with the shortened average remaining service years, the specified period over which such differences are amortized has been changed to five (5) years.

As a result, compared to using the traditional method, for this fiscal year the allowance for retirement benefits increased by ¥67 million, and ordinary income and net profit before tax decreased by ¥67 million.

(Pro forma standard taxation)

From the fiscal year commencing on April 1, 2004 onwards, the company started to post the portions of corporate tax according to added value and capital, amounting to ¥55 million in selling, general and administrative expenses, in accordance with the ASB Practical Report No. 12, “Practical Procedures for Indication of Pro Forma Standard Taxation in Income Statement concerning Corporate Tax”, which was issued by the Accounting Standards Board of Japan (ASBJ) on February 13, 2004.