Announcement of Financial Results for the Term ended March 2006 (consolidated)

May 19, 2006

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
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Board of Directors Meeting for the Approval of Results: May 19, 2006
Application of U.S. GAAP: No

1. Consolidated Business Results for the term ended March 2006 (April 1, 2005 ~March 31, 2006)

(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, 2006	51,389	19.0	1,958	161.4	1,782	168.8
Fiscal year ended March 31, 2005	43,178	-12.1	749	-	663	-

	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, 2006	837	24.6	5.	17		-	5.3	3.1	3.5
Fiscal year ended March 31, 2005	672	-	4.	15		-	4.6	1.4	1.5

Note:

1. *Investment profit on equity method:*
   Fiscal year ended March 31, 2006: (¥ -0 million)
   Fiscal year ended March 31, 2005: ¥0 million
2. *Average number of shares outstanding (consolidated):*
   Fiscal year ended March 31, 2006: 161,925,403
   Fiscal year ended March 31, 2004: 161,935,046
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, 2006	62,068	16,693	26.9	103. 09
Fiscal Year ended March 31, 2005	52,382	14,972	28.6	92. 46

Note:

1. *The number of shares outstanding at the end of the year (consolidated):*
   As of March 31, 2006: 161,921,873
   As of March 31, 2005: 161, 930,165

(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, 2006	6,584	-5,108	-506	11,273
Fiscal Year ended March 31, 2005	7,835	-4,025	238	10,287

(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, 2007 (April 1, 2006 ~ March 31, 2007)

	Net sales	Ordinary income	Net income
	Millions of yen	*Millions of yen*	*Millions of yen*
Interim Fiscal Year 2007	25,500	100	600
Full Fiscal Year 2007	53,000	1,000	1,000

Reference: Forecast net income per share for the year: ¥ 6.18

Note: For information related to the above forecast, see page 10 of the Appendix; Operating Results and Financial Position and 3. Forecast for the Whole Financial Year.

(Appendix)

Corporate Group Conditions

Sasebo Heavy Industries Co., Ltd. and its affiliates (comprised of the company and eight subsidiaries [as of March 31, 2006]) 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 NNU Co., Ltd. (a consolidated subsidiary of the company).

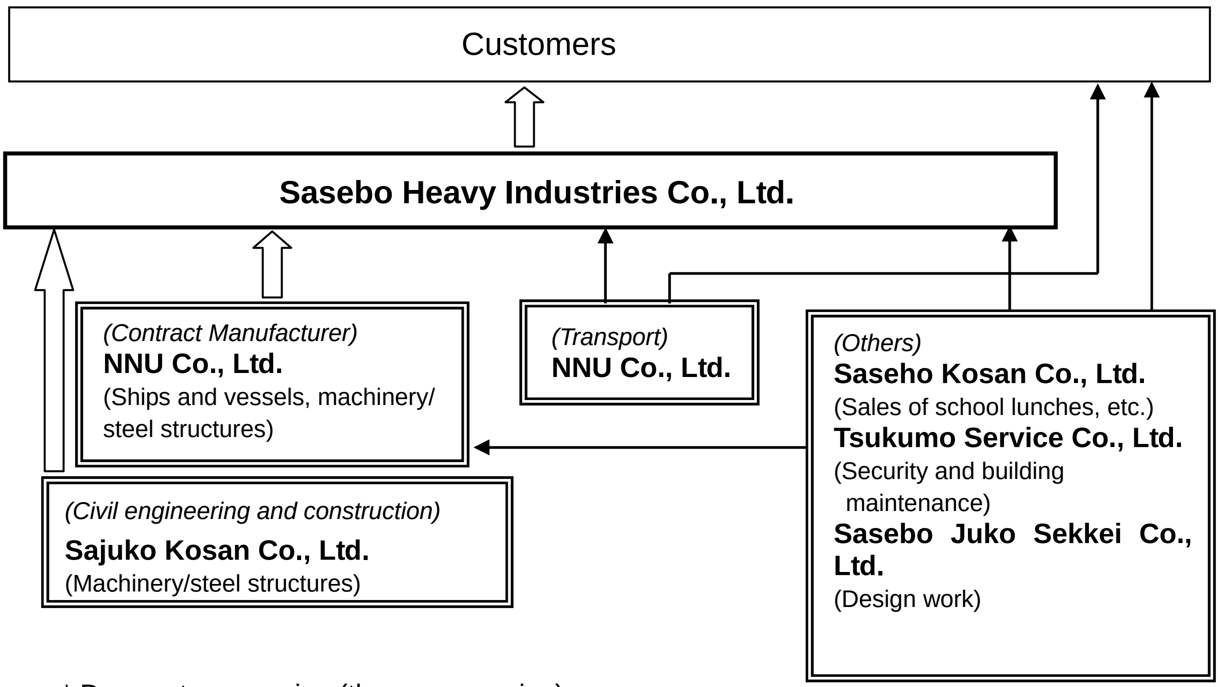
[Machinery/Steel Structure]

Sasebo Heavy Industries Co., Ltd. conducts manufacturing and sales. Part of their steel structure manufacturing is contracted to NNU Co., Ltd. (a consolidated subsidiary of the company). Sajuko Kosan Co., Ltd. (a consolidated subsidiary of the company) conducts operations such as civil engineering and construction.

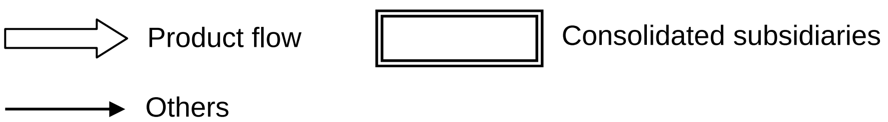
[Others]

Tsukumo Service Co., Ltd. (a consolidated subsidiary of the company) undertakes security work and cleaning for the company's factories. Saseho Kosan Co., Ltd. (a consolidated subsidiary of the company) leases facilities from the company to operate school lunch centers and golf courses. NNU Co., Ltd. (a consolidated subsidiary of the company) is engaged in the company's transport operations. Sasebo Juko Sekkei Co., Ltd. (a consolidated subsidiary of the company) undertakes design work for the company.

The above information is summarized in the following operation chart:



* Dormant companies (three companies)
Nishi-Kyushu Shoji Co., Ltd., S.I. Gas Center Service Co., Ltd. and Sasebo Heavy Industries (Hong Kong) Ltd.



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 industry 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.

Regarding payment of dividends for fiscal year 2006, although the company posted a net income of 874 million yen, we regret to inform the shareholders that we have 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

Based upon the goals determined in the mid-term management plan, the company sets as its priority goals the improvement of net sales, operating income, current income and cash flow, and will devote every effort to establish a structure of surplus.

4. Medium-Term Management Strategy

The company developed its mid-term management plan in April 2003, with the aim of 'early realization of a surplus structure', and has been implementing management reconstruction measures. As a result, a surplus was posted for two consecutive years since fiscal 2004. In order to carry on to the next step the remaining issues, such as the points that need to be strengthened further, a new mid-term management plan has been in development since April 2006. In an effort to selectively develop, manufacture and sell high-quality products that fulfill customer expectations, the company will, for shipbuilding, conduct activities for order receipts with the securing of profits in mind, try to improve new shipbuilding facilities and will conduct research and development on hull forms. In addition to focusing its 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 strive to improve the quality and productivity of marine equipment, as well as improving the competitiveness of steel structure construction. The company will thus challenge the changing times, and pursue innovation while utilizing traditional resources, and will strive to form a single unit with which to survive mega-competition.

5. Tasks to be Addressed by the Company

Regarding new shipbuilding, the Japanese shipbuilding industry has an order book exceeding three (3) years worth of work. However, there is a major issue facing the industry in the passing down of technical skills to young people at an early date, in order to strengthen competitiveness to be able to face off against Korea, and against China, where expansion of business scale continues, and also to respond to the 'year 2007' issue, in which the 'baby boom' generation will be reaching the retirement age; which generation consists mostly of shipbuilding technicians.

In the machinery industry, the environment surrounding order receipts is expected to steadily improve, with favorable capital investment from both inside and outside the country. On the other hand, competition is intensifying in the steel structure industry, where the prospects for public investment that are expected to continue to decline. It is therefore expected that the management environment for the Group will continue to be severe.

Under such circumstances, the Sasebo Group will make capital investments in a planned manner, promote the succession of techniques and skills, and will try to establish a mechanism for such.

Major undertakings by respective segments are as follows:

① Shipbuilding Department

For new shipbuilding, the company will strive to secure profits through the undertaking of activities to generate the receipt of orders, mainly for hull forms and vessel types in which the company excels, improve new shipbuilding facilities and will develop new hull forms.

For ship repair, the company will focus on naval vessel repair operations for the Japan Maritime Self-Defense Force and the United States Navy.

② Machinery/Steel Structure Departments

For the machinery business, the 2,500 ton press and the manipulator, which have been renewed, have commenced operation. With the renewed facilities, the company will try to improve the quality and productivity of marine equipment.

For the steel structure business, the company will set up a new department with the aim of improving its capability to make technical proposals through technical research, and of improving price competitiveness through cost reductions. In order to achieve its business goals, the company will try to raise awareness about self-sustenance, unify the chain of command, and will integrate sales, design and production operations so that it can succeed against severe competition.

6. Matters concerning Parent Company

This item is not applicable because Sasebo Heavy Industries Co., Ltd. has no parent company.

Operating Results

1. Outline of Consolidated Operating Results for the Year

During this fiscal year, the Japanese economy had been leveling off due to the escalating price of crude oil and the uncertain outlook for the Chinese and US economies. However, in addition to corporate profit expansion and increases in capital investments, personal consumption has picked up since the summer. Thus, the economy has been going through a phase of recovery.

In the shipbuilding industry, although global new shipbuilding orders received during this period totaled 49,015 thousand gross tons, for a decrease of 3.6% compared to the previous year, they have maintained a high standard for three (3) consecutive years. On the other hand, Japanese new shipbuilding orders received during the same period totaled 8,698 thousand gross tons, down 43.9% over the previous year, after having gone into wait-and-see mode against the backdrop of large order books that many shipyards had in the second half of the year, and of price-increase risks for raw materials such as steel.

In the machinery industry, private capital investment continued to increase resulting from increasing demand and corporate profits. . However, public investment in the steel structure industry continues to show a tendency to decrease, and the order receipt environment thus continues to be harsh.

Given the above circumstances, the Sasebo Group posted consolidated orders received of ¥121,822 million, an increase of 51.0% over the previous year, and a total consolidated sales amount of ¥51,389 million, an increase of 19.0% over the previous year. As a result, the order backlog at the end of the fiscal year reached ¥196,238 million in total, an increase of 60.0% over the previous year. In terms of profit and loss, a consolidated operating income of ¥1,958 million was posted, for an increase of 161.4%, and a consolidated ordinary income of ¥1,782 million was posted, for an increase of 168.8%, both compared to the previous year. Although an extraordinary loss of ¥1,237 million was recorded due to fixed asset disposal losses and an impairment loss, a consolidated net profit of ¥837 million was posted, for an increase of 24.6% over the previous year, after adding the amount of deferred income taxes.

Operating results by business segment are as follows:

① Shipbuilding

The Group posted consolidated orders received of ¥114,487 million for its shipbuilding business, an increase of 68.1% over the previous year; the orders received were for new shipbuilding including the construction of a total of 18 ships; 9 units of 115,000 DWT tankers, 8 units of 115,000 DWT product tankers, 1 unit of 77,000 DWT coal carrier, and for ship repairs for commercial vessels and naval repair work for the Japan Maritime Self-Defense Force and United States Navy vessels. The total sales amount resulting from new shipbuilding and ship repair work was ¥41,582 million for an increase of 19.3% over the previous year. During this term, 11 newly-built ships were delivered; 9 units of 76,000 DWT bulk carriers, 1 unit of 115,000 DWT tanker and 1 unit of 75,000 DWT tanker. The order backlog at the end of the fiscal year reached ¥186,160 million in total, an increase of 72.5% over the previous year, which order backlog is for 36 units of new shipbuilding and ship repair work. In terms of profit and loss, the Group posted a consolidated operating income of ¥2,208 million, with an increase of 103.9% over the previous year, with contributions from increased sales and the effects of cost reduction.

② Machinery/Steel Structure

The Group posted consolidated orders received of ¥6,406 million for its machinery/steel structure business, a decrease of 45.0% over the previous year; 188 cases of equipment-related work such as marine equipment and general industrial machinery totaling ¥5,688 million, 50 cases of steel structure work mainly for domestic public works such as bridges and water gates totaling ¥717 million. Sales of ¥8,877 million were posted by the machinery/steel structure business, an increase of 20.1% over the previous year, the breakdown of which is ¥4,649 million for equipment-related work and ¥4,227 million for steel structure work. The order backlog at the end of the fiscal year reached ¥10,071 million, a decrease of 31.6% over the previous year. An operating income of ¥615 million was posted, for an increase of 107.8% over the previous year.

③ Others

Other business segments are comprised mainly of transport business and so on. The Group posted orders received of ¥928 million, for a decrease of 0.8% over the previous year. Sales of ¥928 million were posted, a decrease of 1.0% over the previous year, and an operating income of ¥11 million was posted, for a decrease of 90.8% over the previous year.

A consolidated operating income of ¥1,958 million was posted, with unallocated operating expenses included in ‘Elimination and Corporate’.

[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, 2006	121,822	51,389	1,958	1,782	837	5.17
Fiscal Year ended March 31, 2005	80,668	43,178	749	663	672	4.15

[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, 2006	120,961	50,528	1,990	1,813	874	5.40
Fiscal Year ended March 31, 2005	79,851	42,361	683	630	654	4.04

2. Financial Position

(1) Status of Assets

At the end of this fiscal year, total assets increased by ¥9,686 million to ¥62,068 million and total liabilities increased by ¥7,965 million to ¥45,375 million, both compared to the end of the previous fiscal year, as a result of an increase in accounts receivables and in purchase liabilities arising from increased sales. Shareholder equity was ¥16,693 million, an increase of ¥1,720 million compared to the end of previous fiscal year, as a result of the appropriation of net income for the year and other marketable securities variation gains.

(2) Consolidated Cash Flow Status

Regarding cash and cash equivalents at the end of this consolidated fiscal year, the cash flows posted were an income of ¥6,584 million from operating activities, an outgoing of ¥5,108 million from investing activities, due to spending on an increased number of time deposits with maturities exceeding three months, and on acquisition of tangible fixed assets, and an outgoing of ¥506 million from financing activities, as a result of repayment of short- and long-term debts.

In consequence, the cash and cash equivalent at the end of the subject fiscal year is ¥11,273 million, an increase of ¥985 million compared to the end of the previous fiscal year.

Cash flow indicator trends are as follows:

	Fiscal Year ended March 31, 2005	Fiscal Year ended March 31, 2006
Equity Ratio *(%)*	28.6	26.9
Equity Ratio at Market Value *(%)*	61.8	74.6
Debt Repayment Period *(years)*	1.0	1.2
Interest Coverage Ratio *(times)*	54.3	39.6

(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.*

3. Forecast for the Next Fiscal Year

The Group projects the following operating results for the fiscal year ending March 2007.

(Units: millions of yen)

Category	Orders Received	Net Sales	Operating Income	Ordinary Income	Net Income
Consolidated performance	45,000	53,000	1,100	1,000	1,000
Non-consolidated performance	44,000	52,000	1,100	1,000	1,000

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

4. Risks associated with Business

The Sasebo Group currently considers the followings to be risks that might affect our future operating results:

① Economic Climate

In the construction of new ships, which are the company's main product, order receipts are completely contingent upon economic situations such as currency fluctuations and the health of the world shipping market.

② Exchange Rate Fluctuations

In FY 2007, contracts for new ship building will generally be under yen-based contracts, for which the Group will suffer little adverse effect from exchange rate fluctuations. However, a sharp appreciation of the yen will affect the company's profits and the trend for new ship construction order receipts.

③ Price Fluctuations for Raw Materials such as Steel

Many of the company's products use raw materials such as steel, and sharp increases in the price of steel will put pressure on corporate profits.

④ Public Works

Steel structure work is influenced by increases or decreases in the amount of public investment.

End of Document.

Consolidated Financial Statements

(1) Consolidated Balance Sheets for the year ended March 31, 2006

(Units: millions of yen)

	Fiscal Year ended March 31, 2006	Fiscal Year ended March 31, 2005	Year-on-year change
(Assets)	(62,068)	(52,382)	(9,686)
Current assets	(34,044)	(26,368)	(7,676)
Cash & time deposits	15,425	12,673	2,752
Notes & accounts receivable	13,869	9,827	4,041
Marketable securities	33	33	-0
Inventories	2,153	1,150	1,002
Advance payments	1,140	507	632
Deferred tax assets	799	1,323	-523
Accounts receivable	507	787	-279
Others	155	97	58
Allowance for doubtful receivables	-40	-32	-8
Fixed assets	(28,024)	(26,013)	(2,010)
Tangible fixed assets	(21,453)	(21,453)	(-0)
Buildings and structures	6,950	4,766	2,184
Docks and building berths	820	756	63
Machinery and transportation equipment	3,664	2,488	1,175
Tools, furniture and fixtures	220	186	33
Land	9,469	8,074	1,395
Construction in progress	327	5,181	-4,853
Intangible fixed assets	(184)	(23)	(161)
Utility model rights	0	0	-0
Telephone subscription rights	11	11	-
Software	172	10	161
Investment and other assets	(6,386)	(4,537)	(1,849)
Investment securities	4,739	2,939	1,800
Long-term loans receivable	21	28	-7
Deferred tax assets	1,197	966	231
Others	855	955	-99
Allowance for doubtful receivables	-427	-352	-75
Total Assets	62,068	52,382	9,686

(Units: millions of yen)

	Fiscal Year ended March 31, 2006	Fiscal Year ended March 31, 2005	Year-on-year change
(Liabilities)	(45,375)	(37,409)	(7,965)
Current liabilities	(33,642)	(26,352)	(7,289)
Trade notes and accounts payable	18,056	13,138	4,918
Notes payable for equipment	1,128	905	223
Short-term loans	1,810	3,334	-1,524
Bonds due for redemption within one year	100	100	-
Accrued income taxes	54	73	-19
Advances received	10,733	7,553	3,179
Allowances for guarantees on construction work	32	31	1
Allowance for losses on construction contracts	46	-	46
Others	1,681	1,216	464
Fixed liabilities	(11,732)	(11,057)	(675)
Bonds	150	250	-100
Long-term loans	2,622	1,502	1,120
Long-term notes payable for equipment	-	735	-735
Accrued retirement benefits	8,712	8,275	437
Allowance for special repairs	41	70	-29
Deferred tax liabilities	12	3	8
Others	194	219	-25
(Shareholder equity)	(16,693)	(14,972)	(1,720)
Common stock	8,414	8,414	-
Additional paid-in capital	5,148	5,148	-
Retained earnings	1,734	896	837
Net unrealized gains on securities	1,400	516	884
Foreign currency translation adjustments	1	0	0
Treasury stock	-4	-2	-1
Total liabilities & shareholder equity	62,068	52,382	9,686

(2) Consolidated Statement of Operations for the year ended March 31, 2006

(Units: millions of yen)

	Consolidated Fiscal Year ended March 31, 2006		Consolidated Fiscal Year ended March 31, 2005		Year-on-year change	
(Ordinary Income and Expenses)		%		%		%
Operating Income and Expenses		100.0		100.0		100.0
Net sales	51,389		43,178		8,210	
Cost of sales	47,948		40,775		7,172	
Sales, general and administrative expenses	1,482		1,653		-171	
Operating income	1,958	3.8	749	1.7	1,208	14.7
Non-operating income and expenses						
Non-operating income						
Interest received	6		9		-2	
Dividends received	30		19		11	
Life insurance dividend and insurance income	57		39		18	
Foreign exchange gain (loss)	-		16		-16	
Other non-operating income	15		12		3	
Non-operating expenses						
Interest expense	166		144		22	
Foreign exchange gain	49		-		49	
Other non-operating expenses	70		38		32	
Ordinary income	1,782	3.5	663	1.5	1,119	13.6
(Extraordinary Income and Loss)						
Extraordinary income						
Gain on sale of fixed assets	7		91		-84	
Gain on sales of investment securities	-		13		-13	
Reversal of allowances for doubtful accounts	-		6		-6	
Extraordinary loss						
Industrial waste processing expense	-		745		-745	
Loss from disposal of fixed assets	656		22		634	
Impairment loss on fixed assets	306		-		306	
Loss incurred by Antimonopoly Law violation	200		-		200	
Loss on prior period adjustment	39		-		39	
Valuation loss on investment securities	29		-		29	
Others	5		-		5	
Net profit before tax	552	1.1	6	0.0	545	6.6
Corporate income, inhabitant and enterprise taxes	18	0.0	16	0.0	1	0.0
Income tax adjustment	-303	-0.6	-682	-1.6	378	4.6
Net profit	837	1.6	672	1.6	165	2.0

(3) Consolidated Statement of Retained Earnings for the year ended March 31, 2006

(Units: millions of yen)

	Consolidated Fiscal Year ended March 31, 2006	Consolidated Fiscal Year ended March 31, 2005	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	896	223	672
Increase in retained earnings			
1. Current net profit	837	672	165
Retained earnings at end of year	1,734	896	837

(4) Consolidated Statement of Cash Flow for the year ended March 31,2006

(Unit: millions of yen)

	Consolidated Fiscal Year (Apr. 2005 ~ March 2006)	Consolidated Fiscal Year (Apr. 2004 ~ March 2005)	Year-on-year change
I. Cash flow from operating activities			
Net profit before income taxes	552	6	545
Depreciation and amortization	1,025	839	186
Increase in accrued retirement benefits	437	921	-483
Increase in allowance for guaranteed construction work	1	6	-5
Increase in allowance for loss on construction work contracts	46	-	46
Increase (decrease) in allowance for special repairs	-29	3	-33
Interest and dividend income	-37	-28	-8
Interest expenses	166	144	22
Foreign exchange losses	-15	-19	4
Losses from sales of investment securities	-	-13	13
Loss from devaluation of investment securities	29	-	29
Gains on sales of fixed assets	-7	-90	83
Gain on sales of investments and other assets	-	-1	1
Loss from disposal of fixed assets	656	22	634
Loss from impairment of fixed assets	306	-	306
Increase (decrease) in allowance for doubtful accounts	83	-76	159
Decrease (increase) in trade receivables	-4,043	4,207	-8,251
Increase in inventories and advance payment	-1,246	-997	-249
Decrease (increase) in accrued consumption tax	73	-201	275
Decrease (increase) in other current assets	248	-124	372
Increase in notes and accounts payable	4,728	434	4,294
Increase in advances received	3,179	3,007	172
Increase (decrease) in other current liabilities	558	-82	640
Investment loss on equity method	0	1	-1
Others	4	-	4
Sub Total	6,719	7,959	-1,240
Interest and dividends received	38	27	11
Interest paid	-152	-139	-12
Income taxes paid	-20	-12	-8
Net cash provided by operating activities	6,584	7,835	-1,250

II. Cash flow from investing activities			
Increase in deposits with maturities exceeding three months	-1,816	-1,919	102
Proceeds from sale of tangible fixed assets	13	142	-128
Payments for acquisition of tangible fixed assets	-2,808	-2,028	-780
Payments for acquisition of intangible fixed assets	-174	-7	-166
Proceeds from sales and redemption of investment securities	-	70	-70
Payments for acquisition of investment securities	-340	-372	31
Proceeds from investments and sale of other assets	2	1	1
Payments for loans	-	-1	1
Proceeds from loans repaid	7	13	-6
Decrease in other fixed assets	9	82	-72
Increase (decrease) in other fixed liabilities	0	-7	7
Net cash used in investing activities	-5,108	-4,025	-1,082
III. Cash flow from financing activities			
Repayment of short-term loans	-1,925	-546	-1,378
Proceeds from long-term loans	1,950	1,051	899
Repayment of long-term loans	-429	-164	-265
Payment for redemption of bonds	-100	-100	-
Dividends paid	-0	-0	0
Payments for purchases of treasury stock	-1	-1	-0
Net cash used in financing activities	-506	238	-745
IV. Effect of exchange rate changes on cash and cash equivalents	15	19	-4
V. Net increase in cash and cash equivalents	985	4,067	-3,082
VI. Cash and cash equivalents at beginning of year	10,287	6,220	4,067
VII. Cash and cash equivalents at end of year	11,273	10,287	985

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

	March 31, 2006		March 31, 2005	
Cash and time deposits	15,425	million yen	12,673	million yen
Marketable securities	33	million yen	33	million yen
Time deposits with maturities exceeding three months	-4,186	million yen	-2,419	million yen
Cash and cash equivalents at end of year	11,273	million yen	10,287	million yen

[Basis of Presenting Consolidated Financial Statements]

1. Scope of consolidation

(a) The consolidated subsidiaries consist of the following six (6) companies:
Saseho Kosan Co., Ltd., NNU Co., Ltd., Tsukumo Service Co., Ltd., Sajuko Kosan Co., Ltd., Nishi-Kyushu Shoji Co., Ltd., Sasebo Juko Sekkei 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 Co., Ltd. The affiliates (Kujyukushima Kanko Hotel and Imari Wan Port Service) are not accounted for under the equity method, as they have no significant impact on consolidated net income and retained earnings and have no significance as a whole.

(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 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 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 at cost determined by the moving-average method.

(2) Inventories

Raw materials and stored goods are mainly stated at cost determined by the moving-average method. Construction in process is stated at cost determined by the specific identification method.

(b) Derivatives

Market value method

(c) 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.

(d) Accounting for significant allowances and reserves

(1) Allowance for doubtful receivables

In preparation for possible losses arising from defaults on accounts receivables, the estimated 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 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.

(5) Allowance for losses on construction contracts

Allowance has been provided for losses on construction contracts, based on the estimated losses that are anticipated to occur from the next fiscal year, for any undelivered construction contracts on which a loss is likely to be incurred as of the end of this period and where the amount of such loss can reasonably be estimated.

(e) 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.

(f) Significant hedge accounting method

(1) Hedge accounting method

The Group has adopted a special treatment for interest rate swap transactions, since the requirements for the treatment have been met.

(2) Hedging instruments and hedged items

Hedging instruments	Hedged item
Interest rate swaps	Loans

(3) Hedging policy

In compliance with the company regulations, the Group hedges against interest-rate risks.

(4) Assessment of hedge accounting effectiveness

Assessment of hedge accounting effectiveness is omitted, since the company only handles interest rate swap transactions that qualify for special treatment.

(g) Other basis of presenting the consolidated financial statements

(1) Standard for profit and expense appropriation

Sales are booked in accordance with the Completed Contract Method. However, the Percentage-of-Completion Method is used for any work with a contract amount exceeding ¥100 million and with a construction period exceeding one year (three months for navel ship repair work).

(2) 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, low-risk investments redeemable within three months or less from the date of acquisition, which can be readily converted into cash.

[Changes in Accounting Policies]

Accounting Standard for Impairment of Fixed Assets

Effective this consolidated accounting period, the Group has adopted the ‘Accounting Standard for Impairment of Fixed Assets’ (‘Opinion concerning Establishment of Accounting Standard for Impairment of Fixed Assets’ issued by the Business Accounting Deliberation Council on August 9, 2002) and the ‘Implementation Guidance on the Accounting Standard for Impairment of Fixed Assets’ (ASB Guidance No. 6 issued on October 31, 2003). As a result, the net loss before tax was decreased by ¥306 million. Note that the accumulated impairment loss has been deducted directly from the respective relevant asset.