Announcement of
Interim Results for the Term ending March 2006 (consolidated)

November 18, 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)

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Board of Directors Meeting for the Approval of Results: November 18, 2005
Application of U.S. GAAP: No

1. Consolidated Business Results for the six-month period ended September 30, 2005 (April 1, 2005 ~ September 30, 2005)

(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, 2005	23,522	9.4	801	55.2	757	45.0
Half year ended September 30, 2004	21,496	-22.0	516	-	522	-
Year ended March 31, 2005	43,178		749		663	

	Net income		Net income per share
	Millions of yen	*%*	*Yen*
Half year ended September 30, 2005	-217	-	-1.35
Half year ended September 30, 2004	596	-	3.68
Year ended March 31, 2005	672		4.15

Note:

1. *Investment profit (loss) on equity method:*
   Half year ended September 30, 2005: (¥-0 million)
   Half year ended September 30, 2004: (¥-1 million)
   Year ended March 31, 2005: ¥0 million
2. *Average number of shares outstanding (consolidated):*
   Half year ended September 30, 2005: 161,927,637
   Half year ended September 30, 2004: 161,936,796
   Year ended March 31, 2005: 161,935,046

3. *Changes in accounting methods: None*
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, 2005	54,963	15,344	27.9	94.76
September 30, 2004	45,359	14,802	32.6	91.41
March 31, 2005	52,382	14,972	28.6	92.46

Note:

1. *The number of shares outstanding at the end of the period (consolidated):*
   As of September 30, 2005: 161,925,901
   As of September 30, 2004: 161,936,207
   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 period
	Millions of yen	*Millions of yen*	*Millions of yen*	*Millions of yen*
Half year ended September 30, 2005	1,027	-3,138	-192	7,999
Half year ended September 30, 2004	6,014	-2,843	-1,684	7,736
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: 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, 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	52,000	1,500	700

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

Note: See page 6 of Appendix; Operating Results and Financial Position and 3. Forecast for the Whole Financial Year, for information related to the above forecast.

(Appendix)

Corporate Group Conditions

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

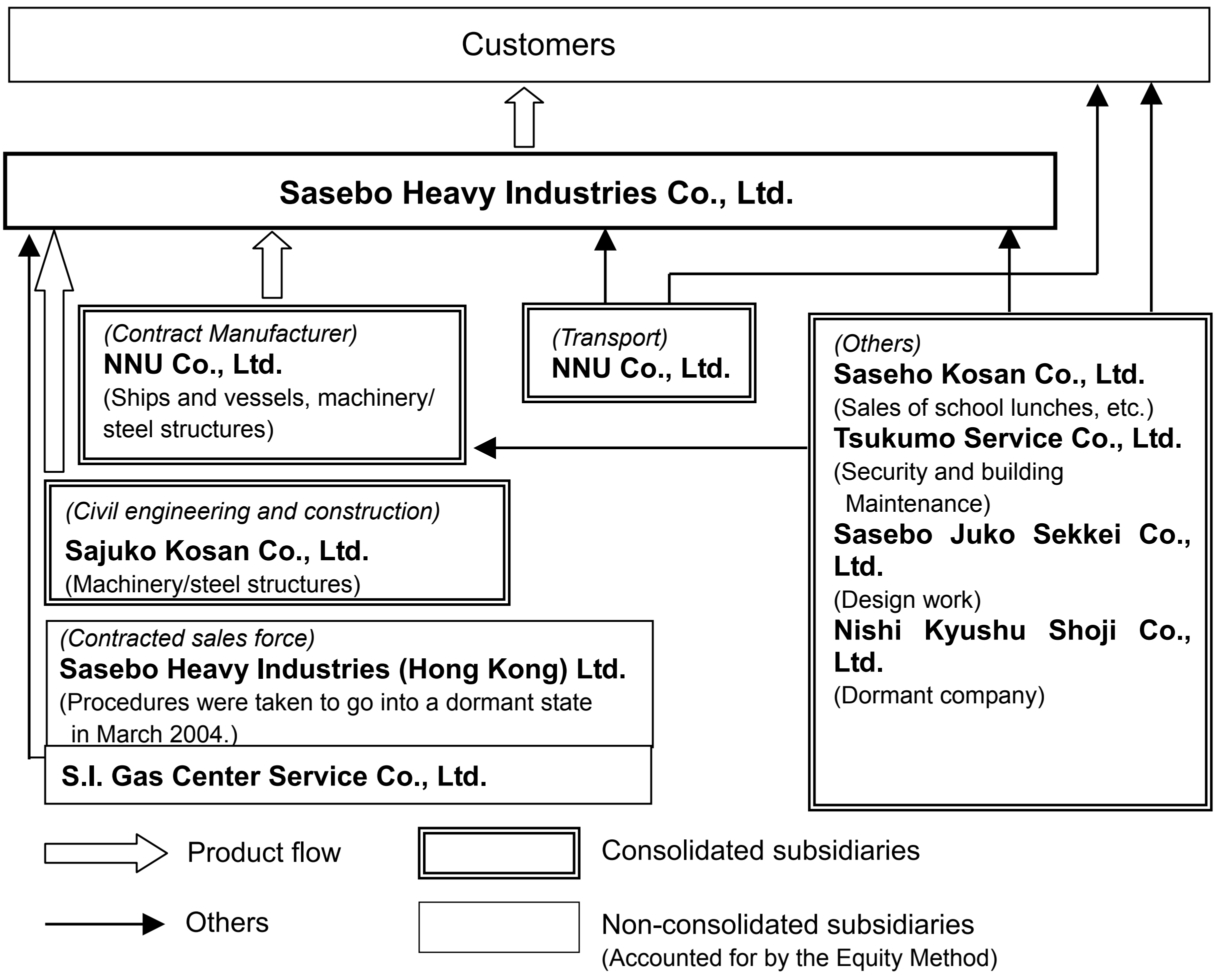
[Machinery/Steel Structure]

Sasebo Heavy Industries Co., Ltd. conducts manufacturing and sales. Part of their steel structure manufacturing is contracted to N.N.U. 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. N.N.U. 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) performs the design work of the company. Nishi-Kyushu Shoji Co., Ltd. (a consolidated subsidiary of the company) has 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 regret to inform shareholders that we will have to waive payment of the interim dividend.

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

Since the company was forced to declare losses in two consecutive business years from the fiscal year ended March 2003, 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, so as to avoid the adverse effects of currency exchange rates, the company will mainly conduct activities for order receipts from domestic ship-owners under yen-based contracts, and will renew new ship construction facilities with the aim of improving production efficiency and capacity. 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 structure construction. The company will thus strive to form a single unit to work toward a stable business operation and the securing of profitability.

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 are concerns over rising prices for material such as steel, and over delay in deliveries due to the tightening of the 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, prospects for public investment are expected to continuously decline. It is therefore expected that the management environment for the Group will continue to be severe.
For these reasons, the Sasebo Group will undertake the renewal of aging factory facilities and develop younger members, both at an early stage, and will form a single unit to work toward a stable business operation and the establishment of a structure of surplus.

Major undertakings by respective segments are as follows:

① Shipbuilding Department

For new shipbuilding, the company will strive to secure order receipts for the most suitable vessels, and will promote yen-based contracts so as to avoid foreign exchange risks. 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 had been replaced, have commenced operation. With the replaced facilities, the company will try to improve marine equipment productivity.

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. Basic Ideas and Implementation Status of Measures for Corporate Governance

(1) Basic ideas of corporate governance

The basic ideas of corporate governance are that the company will improve management transparency and fairness as well as management efficiency, establish a management system that allows the company to promptly respond to the rapidly changing management environment, and will aim to improve enterprise value.

(2) Corporate organization details and the status of development of internal control/risk management systems

The company adopts an auditing system. 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, and one (1) of the external auditors is a lawyer. The company is thus trying to enhance its auditing system. External board members and external auditors have no specific vested interest with the company.

As the company's management mechanism, Board of Directors, Board of Auditors, Management Committee and Ethical and Judicial Affairs Committee meetings are held on a monthly basis. The Management Committee is comprised of full-time board members and operating officers. The Committee widely reviews and discusses matters concerning management-related issues, including analysis and assessment of risks surrounding business activities, and makes prompt decisions. Important matters are resolved or reported at the Board of Directors meeting.

Regarding compliance, the Ethical and Judicial Affairs Committee has been established and the meetings are held on a monthly basis, with the company President serving as chairman. The Basic Principle of Employee Behavior has been established as one of the committee's activities. The company has taken measures to comply with laws and regulations in such a way that consultation services are available for whistle-blowing and counseling is available to comprehensively tap employee opinion. Discussion details are reported to the Board of Directors, and are notified to employees as needs arise.

For its steel bridge construction work, the company was issued a warning order by the Fair Trade Commission under the Antimonopoly Law, which warning order was accepted by the company on October 7, 2005. The company took the order with the utmost seriousness, and has established the Investigative Committee on the bridge issue, with an external law expert serving as chairman. The Committee is now working to reaffirm the facts of this matter, to prevent the reoccurrence of the same type of incident, to develop measures to improve the law-abidance system so as to make it more robust, and to compile response measures.

For internal audit, the Audit Office (comprised of two personnel) has been established as an organization under the president's direct supervision. The Audit Office periodically conducts audits of operations performed by respective departments within the company and by the company's subsidiaries. In addition, the Audit Office, in cooperation with the auditors, provides guidance on business operation improvements. Audit results are reported to and discussed by the Ethical and Judicial Affairs Committee, so as to improve internal control functions

The auditors not only attend monthly Board of Directors, Board of Auditors, Management Committee and Ethical and Judicial Affairs Committee meetings and other major meetings, but also conduct legality audits through the hearing of business operation status from corporate directors, and through inspections of settlement documents. Further, the auditors have a close liaison with accounting auditors such that information/opinion exchanges are conducted on a periodic basis, and that reports on audit results are received.

The company has appointed Chuo Aoyama Audit Corporation and Tatsumi Audit Corporation as its accounting auditors. The names of the three (3) certified public accountants who conducted the accounting audit are Masayuki Satake, Masahiko Minai and Tadashi Tatsumi, and the length of their continuous service years is within seven (7) years. Four (4) certified public accountants and another five (5) persons served as assistants for the accounting audit.

7. <u>Matters concerning Parent Company</u>

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

Operating Results and Financial Position

1. Operating Results

During this interim period, the Japanese economy has come out of its leveling-off stage against a backdrop of strong domestic demand, including personal consumption and capital investment, and is now returning to a path of expansion. However, there are a number of unstable elements, such as the rising prices for steel materials and crude oil, and the future of the Japanese economy remains uncertain.

In the shipbuilding industry, global new shipbuilding orders received during the period of January to June totaled 28,859 thousand gross tons, with an increase of 22.4% compared to the corresponding period of the prior year. On the other hand, many shipyards have large order-books in Japan, and there was a strong tendency for selective order receipts. Therefore, Japanese new shipbuilding orders received during the same period totaled 4,295 thousand gross tons, down 38.8% over the same period last year.

In the machinery industry, the market continues to be brisk as a result of strong capital investments. However, public investment in the steel structure industry continues to show a tendency to decrease. Thus, the order receipt environment continues to be harsh.

Given the above circumstances, the Sasebo Group posted consolidated orders received of ¥4,996 million, a decrease of 84.9% over the corresponding period of the previous year, and a total sales amount of ¥23,522 million, an increase of 9.4% over the same period of the previous year.

In terms of profit and loss, a consolidated operating income of ¥801 million was posted, for an increase of 55.2%, and a consolidated ordinary income of ¥757 million was posted, for an increase of 45.0%, both compared to the corresponding period of the prior year. An extraordinary loss of ¥953 million was recorded due to an impairment loss, which has lead to the posting of a consolidated net loss of ¥217 million (a consolidated net income of ¥596 million was posted for the interim period of FY2004).

Operating results by business segment are as follows:

① Shipbuilding

The Group posted consolidated orders received of ¥899 million for its shipbuilding business, a decrease of 96.9% over the same term last year; the orders received were for ship repair work for Japan Maritime Self-Defense Force and United States Navy vessels, and for periodic/interim inspection operations for commercial vessels. No orders were received for new shipbuilding. The total amount of sales resulting from new shipbuilding and repair work was ¥19,367 million, for an increase of 6.8% over the same term last year. Five (5) newly-built ships were delivered during this interim period, including 4 units of 76,000 DWT bulk carriers and 1 unit of 75,000 DWT tanker. In terms of profit and loss, an interim consolidated operating income of ¥997 million was posted, for an increase of 52.0% over the same term last year, to which increased sales and cost reduction effects contributed.

② Machinery/Steel Structure

The Group posted consolidated orders received of ¥3,646 million for its machinery/steel structure business, a decrease of 10.7.9% over the same term last year; 105 cases of equipment installation work for marine equipment and general industrial machinery, 26 cases of steel structure work mainly for domestic public works such as bridges and water gates. Sales of ¥3,701 million were posted by the machinery/steel structure business, an increase of 27.7% over the same term last year; 82 cases of equipment installation work for marine equipment and general industrial machinery, 15 cases of steel structure work mainly for domestic public works such as bridges and water gates. An interim consolidated operating income of ¥283 million was posted, for an increase of 97.9% over the same term last year.

③ Others

Other business segments are comprised mainly of transport business and so on. The Group posted a consolidated orders received of ¥450 million, for a decrease of 1.8% over the same term last year. Sales of ¥453 million were posted, a decrease of 0.6% over the same term last year, and an interim consolidated operating loss of ¥23 million was posted (a consolidated operating income of ¥136 million was posted for the interim period of FY2004).

2. Financial Position

(1) Status of Assets

At the end of this interim period, total assets increased by ¥2,581 million to ¥54,963 million and total liabilities increased by ¥2,209 million to ¥39,618 million, both compared to the end of fiscal year 2005, as a result of an increase in accounts receivables and in purchase liabilities arising from increased sales. Shareholder equity was ¥15,344 million, an increase of ¥371 million compared to the end of fiscal year 2005, as a result of other marketable securities variation gains, despite registering an interim net loss.

(2) Cash Flow Status

During the subject interim period, the cash flows posted from sales activities increased by ¥1,027 million. The cash flows posted from investing activities decreased by ¥3,138 million, due to spending on an increased number of time deposits with maturities exceeding three months, and on acquisition of tangible fixed assets. The cash flows posted from financing activities decreased by ¥192 million, due to repayment of short- and long-term debt.

In consequence, the cash and cash equivalent at the end of the subject interim period is ¥7,999 million, a decreased of ¥2,288 million compared to the end of the previous fiscal year.

Cash flow indicator trends are as follows:

	Fiscal Year ended March 31, 2004		Fiscal Year ended March 31, 2005		Fiscal Year ending March 31, 2006
	Interim	End of Period	Interim	End of Period	Interim
Equity Ratio *(%)*	34.5	31.1	32.6	28.6	27.9
Equity Ratio at Market Value *(%)*	34.3	53.9	50.7	61.8	69.2
Debt Repayment Period *(years)*	—	—	1.0	1.0	8.1
Interest Coverage Ratio *(times)*	—	—	87.0	54.3	12.4

(Notes)

Equity Ratio: Shareholder equity/Total assets

Equity Ratio at Market Value: Market capitalization/Total assets

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

Interest Coverage Ratio: Operating cash flow/Interest payment

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

** Debt repayment period and interest coverage ratio for Fiscal Year 2004 are not indicated because cash flow from sales activities was negative.*

3. Forecast for the Whole Financial Year

The Sasebo Group forecasts fiscal 2006 consolidated orders received of ¥81,000 million (non-consolidated ¥80,000 million), consolidated net sales of ¥52,000 million (non-consolidated ¥51,000 million), a consolidated ordinary income of ¥1,500 million (non-consolidated ¥1,500 million) and a consolidated net income of ¥700 million (non-consolidated ¥700 million).
The exchange rate is assumed to be ¥110/$.

** The above forecast is an estimate based upon currently available information, and may include uncertain factors. Actual results may differ from the above figures, depending upon changes in business conditions.*

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, there is competition in global markets, where there is no distinction between domestic and overseas markets, and is completely contingent upon economic situations such as currency movements and the world shipping market.

② Exchange Rate Fluctuations

In FY 2006, 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 Materials such as Steel

Many of the company's products use steel as raw material, and further price increases for steel materials is expected. There is thus a concern over the squeezing of profits that will result from such price increases.

④ Public Works

Steel structure work is influenced by increases or decreases in the amount of public investment. In addition, the company's acceptance of a warning order issued by the Fair Trade Commission under the Antimonopoly Law will have an impact on future order receiving activities.

End of Document.

Consolidated Financial Statements

(1) Consolidated Balance Sheets for the interim period ended 30 September 2005

(Units: millions of yen)

	Sep. 30, 2005	March 31, 2005	Year-on-year change	Sep. 30, 2004
(Assets)	(54,963)	(52,382)	(2,581)	(45,359)
Current assets	(28,229)	(26,368)	(1,861)	(21,612)
Cash & time deposits	12,158	12,673	-515	9,424
Notes & accounts receivable	11,218	9,827	1,390	8,228
Marketable securities	33	33	-0	33
Inventories	2,083	1,150	933	1,212
Deferred tax assets	1,026	1,323	-296	911
Accounts receivable	657	787	-130	1,267
Others	1,083	605	478	560
Allowance for doubtful receivables	-32	-32	-0	-25
Fixed assets	(26,733)	(26,013)	(719)	(23,747)
Tangible fixed assets	(21,481)	(21,453)	(28)	(19,760)
Buildings and structures	6,534	4,766	1,768	4,896
Docks and building berths	825	756	69	765
Machinery and transportation equipment	2,451	2,488	-37	2,595
Tools, furniture and fixtures	205	186	19	169
Land	9,450	8,074	1,376	8,074
Construction in progress	2,013	5,181	-3,168	3,258
Intangible fixed assets	(53)	(23)	(29)	(24)
Utility model rights	0	0	-0	-
Telephone subscription rights	11	11	-	11
Software	40	10	29	12
Investment and other assets	(5,198)	(4,537)	(661)	(3,962)
Investment securities	3,892	2,939	952	2,777
Long-term loans receivable	24	28	-4	34
Deferred tax assets	849	966	-116	816
Others	860	955	-94	678
Allowance for doubtful receivables	-428	-352	-75	-344
Total Assets	54,963	52,382	2,581	45,359

(Units: millions of yen)

	Sep. 30, 2005	March 31, 2005	Year-on-year change	Sep. 30, 2004
(Liabilities)	(39,618)	(37,409)	(2,209)	(30,557)
Current liabilities	(27,175)	(26,352)	(822)	(21,254)
Trade notes and accounts payable	15,627	13,138	2,489	12,766
Notes payable for equipment	1,185	905	280	-
Short-term loans	1,677	3,334	-1,657	2,198
Bonds due for redemption within one year	100	100	-	100
Accrued income taxes	39	73	-33	101
Advances received	7,633	7,553	79	5,266
Allowances for guarantees on construction work	28	31	-3	29
Allowance for losses on construction contracts	46	-	46	-
Others	838	1,216	-377	792
Fixed liabilities	(12,443)	(11,057)	(1,386)	(9,302)
Bonds	200	250	-50	300
Long-term loans	3,019	1,502	1,516	670
Long-term notes payable for equipment	367	735	-367	-
Accrued retirement benefits	8,601	8,275	326	7,988
Allowance for special repairs	41	70	-29	60
Deferred tax liabilities	-	3	-3	3
Others	214	219	-5	280
(Shareholder equity)	(15,344)	(14,972)	(371)	(14,802)
Common stock	8,414	8,414	-	8,414
Additional paid-in capital	5,148	5,148	-	5,148
Accumulated earnings	678	896	-217	820
Net unrealized gains on securities	1,106	516	590	420
Foreign currency translation adjustments	1	0	0	0
Treasury stock	-3	-2	-0	-1
Total liabilities & shareholder equity	54,963	52,382	2,581	45,359

(2) Consolidated Statement of Operations for the interim period ended 30 September 2005

(Units: millions of yen)

	September 30, 2005		September 30, 2004		Year-on-year change		March 31, 2005	
(Ordinary Income and Expenses)		%		%		%		%
Operating Income and Expenses		100.0		100.0		100.0		100.0
Net sales	23,522		21,496		2,025		43,178	
Cost of sales	21,967		19,967		1,999		40,775	
Sales, general and administrative expenses	753		1,012		-259		1,653	
Operating income (loss)	801	3.4	516	2.4	284	14.8	749	1.7
Non-operating income and expenses								
Non-operating income								
Interest and dividend income	28		19		9		28	
Life insurance dividend and insurance income	-		-		-		39	
Foreign exchange gain (loss)	15		31		-16		16	
Other non-operating income (loss)	18		40		-22		12	
Non-operating expenses								
Interest expense	83		69		13		144	
Other non-operating expenses	23		16		7		38	
Ordinary income	757	3.2	522	2.4	234	12.3	663	1.5
(Extraordinary Income)								
Extraordinary income								
Gain on sales of investment securities	-		7		-7		13	
Reversal of allowances for doubtful accounts	-		-		-		6	
Gain on sales of fixed assets	3		63		-60		91	
Extraordinary loss								
Loss from disposal of fixed assets	576		8		568		22	
Impairment loss on fixed assets	306		-		306		-	
Loss on prior period adjustment	39		-		39		-	
Valuation loss on investment securities	29		-		29		-	
Valuation loss on golf memberships	1		-		1		-	
Industrial waste processing	-		-		-		745	
Interim net profit (loss) before tax	-192	-0.8	584	2.7	-777	-37.6	6	0.0
Net profit (loss) Corporate income, inhabitant and enterprise taxes	8	0.0	46	0.2	-37	-1.8	16	0.0
Income tax adjustment	16	0.1	-58	-0.3	74	3.6	-682	-1.6
Interim net profit (loss)	-217	-0.9	596	2.8	-814	-39.3	672	1.6

(3) Consolidated Statement of Retained Earnings for the interim period ended 30 September 2005

(Units: millions of yen)

	September 30, 2005	*September 30, 2004*	Year-on-year change	*March 31, 2005*
(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	896	223	672	223
Increase in retained earnings				
1. Interim net income	-	596	-596	672
Decrease in retained earnings				
1. Interim net loss	217	-	-217	-
Retained earnings at end of interim period	678	820	-142	896

(4) Consolidated Statement of Cash Flow for the interim period ended 30 September 2005

(Unit: millions of yen)

	September 30, 2005 (Apr. - Sep. 2005)	*September 30, 2004 (Apr. - Sep. 2004)*	*March 31, 2005 (Apr. 2004 - Mar. 2005)*
I. Cash flow from operating activities			
Net income (loss) before income taxes	-192	584	6
Depreciation and amortization	442	409	839
Increase (decrease) in allowance for doubtful accounts	75	-91	-76
Increase in accrued retirement benefits	326	634	921
Increase (decrease) in allowance for guaranteed construction work	-3	4	6
Increase in allowance for loss on construction work contracts	46	-	-
Increase (decrease) in allowance for special repairs	-29	-6	3
Interest and dividend income	-28	-19	-28
Interest expenses	83	69	144
Foreign exchange gains (losses)	-15	-29	-19
Gain (loss) from sales of investment securities	-	-7	-13
Gain (loss) from sales of property and equipment	-3	-63	-90
Loss on devaluation of investment securities	29	-	-
Loss from investment and sale of other assets	-	-	-1
Loss from disposal of property and equipment	576	8	22
Impairment loss on fixed assets	306	-	-
Decrease (increase) in trade receivables	-1,390	5,803	4,207
Increase (decrease) in inventories and advance payment	-1,221	-886	-997
Decrease (increase) in consumption tax receivables	-39	-479	201
Decrease (increase) in other current assets	-9	-117	-124
Increase (decrease) in notes and accounts payable	2,386	22	434
Increase (decrease) in advances received	79	719	3,007
Increase (decrease) in other current liabilities	-327	-528	-82
Others	1	1	1
Sub Total	1,093	6,028	7,959
Interest and dividends received	30	18	27
Interest paid	-77	-75	-139
Income taxes received (paid)	-17	42	-12
Net cash provided by operating activities	1,027	6,014	7,835

II. Cash flow from investment activities			
Increase in deposits with maturity of more than three months	-1,772	-1,220	-1,919
Proceeds from sale of tangible fixed assets	4	115	142
Payments for purchase of tangible fixed assets	-1,389	-1,432	-2,028
Payments for purchase of intangible fixed assets	-35	-	-7
Proceeds from sale of investment securities	-	36	70
Payments for purchase of investment securities	-	-341	-372
Proceeds from investments and sale of other assets	3	-	1
Payments for loans	-	-1	-1
Proceeds from loans repaid	4	7	13
Decrease in other fixed assets	42	0	82
Increase (decrease) in other fixed liabilities	4	-6	-7
Net cash used in investing activities	-3,138	-2,843	-4,025
III. Cash flow from financing activities			
Repayment of short-term loans	-1,925	-1,545	-546
Proceeds from long-term loans	1,950	-	1,051
Repayment of long-term loans	-166	-82	-164
Payment for redemption of bonds	-50	-50	-100
Dividends paid	-0	-5	-0
Payments for purchases of treasury stock	-0	-0	-1
Net cash used in financing activities	-192	-1,684	238
IV. Effect of exchange rate changes on cash and cash equivalents	15	29	19
V. Net increase (decrease) in cash and cash equivalents	-2,288	1,516	4,067
VI. Cash and cash equivalents at beginning of year	10,287	6,220	6,220
VII. Cash and cash equivalents at end of interim period	7,999	7,736	10,287

(Interim Statement of Cash Flow)

Relationship between the ending balance of cash and cash equivalents and the account items listed in the consolidated balance sheet

	September 30, 2005		September 30, 2004		March 31, 2005	
Cash and time deposits	12,158	million yen	9,424	million yen	12,673	million yen
Marketable securities	33	million yen	33	million yen	33	million yen
Time deposits with maturity over three months	-4,192	million yen	-1,720	million yen	-2,419	million yen
Cash and cash equivalents	7,999	million yen	7,736	million yen	10,287	million yen

[Basis of Presenting Financial Statements]

1. Scope of consolidation

(a) The consolidated subsidiaries consist of the following six (6) companies:
Saseho Kosan Co., Ltd., N.N.U. Co., Ltd., Tsukumo Service, 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, Interim Financial Statements related to the interim accounting periods of each company are used 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 at cost determined by the moving-average 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, 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, 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 (¥4,535 million) 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 is set aside and accounted for based on the actual results of the previous fiscal year.

(5) Allowance for losses on construction contracts

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

(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. Significant hedge accounting method

(1) Hedge accounting method

The Group has adopted an exceptional 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 is conducted in accordance with the practice guideline for financial instrument accounting.

6. Standard for profit appropriation

Sales are booked in accordance with the Completed Contract Method. 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).

7. 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 a 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 value fluctuations.

[Changes in Accounting Policies]

Accounting Standard for Impairment of Fixed Assets

Effective this interim 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 interim net loss before tax was increased by ¥306 million. In accordance with the revised regulations on interim consolidated financial statements, accumulated impairment loss is deducted directly from each asset.

[Notes on Interim Consolidated Balance Sheets]

	(September 30, 2005)	(September 30, 2004)	(March 31, 2005)
1. Accumulated depreciation of tangible fixed assets	¥35,930 million	¥35,102 million	¥35,450 million
2. Assets pledged as collateral			
Time deposits	¥4,614 million	¥2,553 million	¥3,181 million
Investment securities	¥3,003 million	¥2,038 million	¥2,172 million
Tangible fixed assets	¥7,993 million	¥8,059 million	¥7,871 million

[Notes on Interim Consolidated Profit and Loss Statement]

1. Major expense components and amounts of sales, general and administrative expenses

	(September 30, 2005)	(September 30, 2004)	(March 31, 2005)
Salary wages	¥297 million	¥346 million	¥623 million
Inquiry expenses	¥34 million	¥61 million	¥93 million
Retirement benefit expenses	¥28 million	¥41 million	¥92 million
Research and development expenses	¥14 million	¥287 million	¥324 million
Transfer to allowance for bad debt	¥75 million	0	—
Others	¥301 million	¥275 million	¥521 million
Total	¥753 million	¥1,012 million	¥1,653 million

2. Impairment loss on fixed asset

(1) Asset group for which impairment loss is recognized, and amount of impairment loss

Usage	Type	Location	Amount
Idle	Land	Shirage, Arifuku-cho, Sasebo-shi, and others	¥306 million

(2) Method of grouping assets

In principle, assets are grouped by their respective business type on a segment basis. Idle-assets are grouped by individual property.

(3) Process of recognizing impairment loss

The book value of the subject idle asset was reduced to the recoverable value due to a decline in the market price.

(4) Calculation of recoverable value

The recoverable value of the subject idle asset was calculated by the net disposal value, based on its real estate appraisal value.