Announcement of Financial Results for the Term ended March 2007 (consolidated)

May 18, 2007

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
(URL http://www.ssk-sasebo.co.jp)

Corporate Representative: Hidekazu Morishima/President
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TEL (03) 5213-7312
Scheduled Date for Annual General Meeting of Shareholders: June 28, 2007
Scheduled Date for Commencement of Dividend Payments: June 29, 2007
Scheduled Date for Submission of Annual Securities Report: June 29, 2007

Figures under one million yen have been rounded off.

1. Consolidated Business Results for the term ended March 2007 (April 1, 2006 ~March 31, 2007)

(1) Consolidated Operating Results

(Percentages represent changes from the previous year.)

	Net sales		Operating income		Ordinary income		Net income	
	Millions of yen	*%*	*Millions of yen*	*%*	*Millions of yen*	*%*	*Millions of yen*	*%*
Fiscal year ended March 31, 2007	53,846	4.8	2,157	10.2	2,245	26.0	2,627	213.7
Fiscal year ended March 31, 2006	51,389	19.0	1,958	161.4	1,782	168.8	837	24.6

	Net income per share	Diluted Net Income per Share	Return on Equity	Ordinary Income to Total Assets	Ordinary Income to Net Sales
	yen sen	*yen sen*	*%*	*%*	*%*
Fiscal year ended March 31, 2007	16. 23	-	14.4	3.3	4.0
Fiscal year ended March 31, 2006	5. 17	-	5.3	3.1	3.8

(Reference)
Investment profit/loss on equity method: Fiscal year ended March 31, 2007:¥ - million
Fiscal year ended March 31, 2006: ¥ -0 million

(2) Consolidated Financial Position

	Total assets	Net assets	Shareholder equity ratio	Net assets per share
	Millions of yen	*Millions of yen*	*%*	*yen sen*
Fiscal Year ended March 31, 2007	73,274	19,723	26.9	121. 81
Fiscal Year ended March 31, 2006	62,068	16,693	26.9	103. 09

(Reference)

Shareholder equity: *Fiscal year ended March 31, 2007: ¥19,723 million*
Fiscal year ended March 31, 2006: ¥ -million

(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, 2007	11,861	-4,904	-439	17,792
Fiscal Year ended March 31, 2006	6,584	-5,108	-506	11,273

2. Dividends Paid

	Dividend per share			Total Dividend Paid (annual)	Dividend Payout Ratio (consolidated)	Dividend on Equity Ratio (consolidated)
	Interim	Year-End	Annual			
	yen sen	*yen sen*	*yen sen*	*Millions of yen*	%	%
Fiscal Year ended March 31, 2007	-	2. 00	2. 00	323	12.3	1.8
Fiscal Year ended March 31, 2006	-	- -		-	—	—
Fiscal Year ending March 31, 2008 (Forecast)	-	5. 00	5. 00		22.5	

3. Forecast of Consolidated Operating Results for the Year ending March 31, 2008 (April 1, 2007 ~ March 31, 2008)

(Percentages represent changes from the previous year for full year figures, and from same period of the previous year for interim period figures.)

	Net sales		Operating income		Ordinary income		Net income		Net earnings per share
	Millions of yen	%	*Millions of yen*	%	*Millions of yen*	%	*Millions of yen*	%	*yen sen*
Interim	33,500	30.1	2,550	794.7	2,500	525.0	1,800	226.1	11. 11
Full Year	67,000	24.4	5,700	164.3	5,600	149.4	3,600	37.0	22. 23

4. Others

(1) Change of significant subsidiaries during the fiscal year (change of specific subsidiaries, accompanied by change in scope of consolidation): None

(2) Changes in accounting policies, procedures and presentation methods concerning the preparation of consolidated financial statements (to be stated under ‘Significant Changes in Basis of Presenting Consolidated Financial Statements’).
① Changes associated with revision of accounting standards: Yes
② Changes other than ① above: Yes
(Note) For details, see ‘Significant Changes in Basis of Presenting Consolidated Financial Statements’ on pages 23 – 24.

(3) Number of shares outstanding (common stock)
① Number of shares outstanding at the end of the year (including treasury stock)

As of March 31, 2007: 161,955,000
As of March 31, 2006: 161,955,000

② Number of treasury stock at the end of the year
As of March 31, 2007: 42,789
As of March 31, 2006: 33,127

(Note) For the number of shares used to calculate net income per share (consolidated), see ‘Per Share Information’.

(Reference) Outline of Individual Results

1. **Individual Business Results for the term ended March 2007 (April 1, 2006 ~March 31, 2007)**

(1) Individual Operating Results

(Percentages represent changes from the previous year.)

	Net sales		Operating income		Ordinary income		Net income	
	Millions of yen	*%*	*Millions of yen*	*%*	*Millions of yen*	*%*	*Millions of yen*	*%*
Fiscal year ended March 31, 2007	52,889	4.7	2,130	7.0	2,221	22.5	2,609	198.5
Fiscal year ended March 31, 2006	50,528	19.3	1,990	191.4	1,813	187.8	874	33.6

	Net income per share	Diluted Net Income per Share
	yen sen	*yen sen*
Fiscal year ended March 31, 2007	16. 12	-
Fiscal year ended March 31, 2006	5. 40	-

(2) Individual Financial Position

	Total assets	Net assets	Shareholder equity ratio	Net assets per share
	Millions of yen	*Millions of yen*	*%*	*yen sen*
Fiscal Year ended March 31, 2007	72,947	19,475	26.7	120. 29
Fiscal Year ended March 31, 2006	61,628	16,459	26.7	101. 65

(Reference)
Shareholder equity: *Fiscal year ended March 31, 2007: ¥19,475 million*
Fiscal year ended March 31, 2006: ¥ -million

2. **Forecast of Individual Operating Results for the Year ending March 31, 2008 (April 1, 2007 ~ March 31, 2008)**

(Percentages represent changes from the previous year for full year figures, and from same period of the previous year for interim period figures.)

	Net sales		Operating income		Ordinary income		Net income		Net earnings per share
	Millions of yen	*%*	*Millions of yen*	*%*	*Millions of yen*	*%*	*Millions of yen*	*%*	*yen sen*
Interim	33,000	30.6	2,550	873.3	2,500	559.6	1,800	235.8	11. 11
Full Year	66,000	24.8	5,700	167.6	5,600	152.1	3,600	38.0	22. 23

(Notes regarding forward-looking statements)

All forward-looking statements in this document are based on information currently available and on certain assumptions that we consider reasonable. Actual results may vary significantly due to various factors. Regarding the assumptions in the projected results above, and cautionary statements concerning the use of these projections, see *'1. Operating Results' on pages 5 – 10.*

1. Operating Results

(1) Analysis of Operating Results

① Outline of Consolidated Operating Results for the Year

Despite causes for concern, such as the uncertain outlook for crude oil prices, the economic upswing continued in Japan during this consolidated accounting period, as a result of the improved employment situation and increased capital investment against the backdrop of profit increase.

Orders received in the shipbuilding industry increased considerably, especially in South Korea and China, supported by increasing tonnage demand resulting from the booming maritime industry, and by the last-minute placement of tanker/bulk carrier orders prior to the strengthening of international rules. As a result, the global new shipbuilding orders received in 2006 totaled a record high of 93,635 thousand gross tons, for an increase of 56.1% over the previous year. Further, Japanese new shipbuilding orders received during the same period totaled 21,252 thousand gross tons, for an increase of 28.8% over the previous year,

In the machinery industry, private capital investment continued to increase as a result of growing corporate earnings and increasing demand. However, public investment in the steel structure industry is on a declining trend, and the environment for order receipts thus remained harsh.

Given the above circumstances, the Sasebo Group posted consolidated orders received of ¥64,610 million, a decrease of 47.0% over the previous year, which is as a reaction to the last-minute order placement the Group underwent during the previous year prior to the strengthening of international rules. The Group posted a total consolidated sales amount of ¥53,846 million, an increase of 4.8% over the previous year, and as a result, the order backlog at the end of the fiscal year reached ¥207,183 million in total, an increase of 5.6% over the previous year. In terms of profit and loss, despite price increases for materials such as steel, a consolidated operating income of ¥2,157 million was posted, for an increase of 10.2% over the previous year, resulting from productivity improvements by the Machinery Department. A consolidated ordinary income of ¥2,245 million was posted, for an increase of 26.0% compared to the previous year, and a consolidated net profit of ¥2,627 million was posted, for an increase of 213.7% over the previous year, as a result of a decrease in extraordinary losses.

Operating results by business segment are as follows:

(a) Shipbuilding

The Group posted consolidated orders received of ¥46,975 million for its shipbuilding business, a decrease of 59.0% compared to the previous year, during which time the Group experienced last-minute order placements prior to the strengthening of international rules; the orders received were for new shipbuilding including the construction of a total of 7 ships; 4 units of 115,000 DWT crude oil tankers, 2 units of 115,000 DWT product tankers, 1 unit of 13,000 DWT coke vessel, and for ship repairs for commercial vessels and naval repair work for Japan Maritime Self-Defense Force and United States Navy vessels. The total sales amount resulting from new shipbuilding and ship repair work was ¥43,999 million for an increase of 5.8% over the previous year. During this term, 10 newly-built ships were delivered; 3 units of 76,000 DWT bulk carriers, 2 units of 77,000 DWT coal carriers, 3 units of 115,000 DWT crude oil tankers and 2 units of 75,000 DWT crude oil tankers. The order backlog at the end of the fiscal year reached ¥189,366 million in total, an increase of 1.7% over the previous year, which order backlog is for 33 units of newly built ships and repair ships. In terms of profit and loss, the Group posted a consolidated operating income of ¥2,184 million, for a decrease of 1.1% over the previous year, due to price increases in materials such as steel, and due to smaller effectiveness in the manufacture of sister vessels resulting from increases in hull-form construction.

(b) Machinery/Steel Structure

The Group posted consolidated orders received of ¥16,634 million for its machinery/steel structure business, for an increase of 159.7% over the previous year; 192 cases of equipment-related work such as marine equipment and general industrial machinery totaling ¥6,291 million, 54 cases of steel structure work mainly for domestic public works such as bridges and water gates totaling ¥10,343 million. Sales of ¥8,848 million were posted by the machinery/steel structure business, remained roughly unchanged from the previous year, the breakdown of which is ¥6,369 million for equipment-related work and ¥2,478 million for steel structure work. The order backlog at the end of the fiscal year reached ¥17,809 million, an increase of 76.8% over the previous year. An operating income of ¥1,243 million was posted, for an increase of 102.1% over the previous year, resulting from the effects of increased production of crankshafts, which increased production was brought about by facility upgrades by the Machinery Department.

(c) Others

Other business segments are comprised mainly of transport business and so on. The Group posted orders received of ¥1,000 million, for an increase of 7.7% over the previous year. Sales of ¥998 million were posted, an increase of 7.4% over the previous year, and an operating income of ¥95 million was posted, for an increase of 763.6% over the previous year.

A consolidated operating income of ¥2,157 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, 2007	64,610	53,846	2,157	2,245	2,627	16.23
Fiscal Year ended March 31, 2006	121,822	51,389	1,958	1,782	837	5.17

[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, 2007	63,654	52,889	2,130	2,221	2,609	16.12
Fiscal Year ended March 31, 2006	120,961	50,528	1,990	1,813	874	5.40

② Forecast for the Next Fiscal Year

All companies in the shipbuilding industry have considerable work in progress for new shipbuilding. Thus, the volume of orders to be received is expected to become more stable than the previous year.

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 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 has work in progress for its new shipbuilding, which work in progress is sufficient for several years ahead. The projection for orders from then onward involves some risks in areas of cost estimates and currency exchange. The consolidated amount of orders received is therefore expected to be ¥50,000 million. Consolidated net sales are expected to be ¥67,000 million, due to anticipated improvements in the tonnage value of newly-built ships and the increased production of crankshafts. In terms of profit, consolidated operating income, consolidated ordinary income and consolidated net income are expected to be ¥5,700 million, ¥5,600 million and ¥3,600 million respectively, as a result of improvements in tonnage value of newly-built ships and in productivity by the Machinery Department.

(a) Forecast of Group's operating results

(Units: millions of yen)

Category	Orders Received	Net Sales	Operating Income	Ordinary Income	Net Income
Consolidated performance	50,000	67,000	5,700	5,600	3,600
Non-consolidated performance	49,000	66,000	5,700	5,600	3,600

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

(b) Forecast of operating results by business segment

(Units: millions of yen)

Category	Orders Received	Net Sales	Operating Income
Shipbuilding	36,000	52,500	5,400
Machinery/Steel Structure	13,000	13,500	2,000
Others	1,000	1,000	0
(Elimination)	-	-	-1,700
Total	50,000	67,000	5,700

(2) Analysis of Financial Position

① Analysis of Assets, Liabilities, Net Assets and Cash Flow

(a) Assets

Current assets were ¥43,550 million, an increase of ¥9,505 million from the previous fiscal year-end. Such increase is mainly due to an increase in cash and deposits and marketable securities in line with increased advances received. Fixed assets were ¥29,724 million, an increase of ¥1,700 million from the previous fiscal year-end.

As a result, total assets were ¥73,274 million, an increase of ¥11,205 million from the previous fiscal year-end.

(b) Liabilities

Current liabilities increased by ¥8,477 million to ¥42,120 million, as compared to the previous fiscal year-end. Such increase is mainly due to increases in advances received. Fixed liabilities decreased by ¥301 million to ¥11,431 million, as compared to the previous fiscal year-end.

As a result, total liabilities increased by ¥8,176 million to ¥53,551 million, as compared to the previous fiscal year-end.

(c) Net Assets

Net assets increased by ¥3,029 million to ¥19,723 million, mainly due to increased net income.

(d) Cash Flow

Cash flow from operating activities during this consolidated fiscal year increased by ¥11,861 million, resulting from an increase in net income before taxes and other adjustments and in advances received. Cash flow from investing activities decreased by ¥4,904 million due to payments for the acquisition of tangible fixed assets. Cash flow from financing activities decreased by ¥439 million due to repayment of short- and long-term debt.

As a result, cash and cash equivalents at the end of this consolidated fiscal year increased by ¥6,519 million to ¥17,792 million from the previous fiscal year-end.

② Cash Flow Indicator Trends

	March 31, 2003	March 31, 2004	March 31, 2005	March 31, 2006	March 31, 2007
Equity Ratio *(%)*	35.5	31.1	28.6	26.9	26.9
Equity Ratio at Market Value *(%)*	24.1	53.9	61.8	74.6	99.4
Ratio of Cash Flow to Interest-bearing Debt *(%)*	-	-	1.0	1.2	0.4
Interest Coverage Ratio *(times)*	-	-	54.3	39.6	75.0

(Notes)

1. *The calculation method for each indicator is shown below:*
   Equity Ratio: Shareholder equity/Total assets
   Equity Ratio at Market Value: Market capitalization/Total assets
   Ratio of Cash Flow to Interest-bearing Debt: Interest-bearing debt/Operating cash flow
   Interest Coverage Ratio: Operating cash flow/Interest payment
   * *Ratio of Cash Flow to Interest-bearing Debt and Interest Coverage Ratio are not indicated when the cash flow from operating activities was negative.*
2. *All indicators were calculated using the consolidated financial figures.*
3. *Total market value of shares is calculated as closing stock price at the end of the term multiplied by the number of shares outstanding (after excluding treasury stocks) at the end of the term.*
4. *The figures for cash flow from operating activities used the figures for cash flow from operating activities shown in the consolidated cash-flow statement.*
5. *Interest-bearing debt refers to all debts on the consolidated balance sheet, for which debts interest is paid. The amount of interest paid on the consolidated cash flow statement was used as interest payment.*

(3) Basic Policy for Profit Distribution and Dividends for the Current and Next Fiscal Years

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. The year-end dividend for fiscal 2007 is planned to be 2 yen per share. The year-end dividend for the next fiscal year will be 5 yen per share.

2. Corporate Group Conditions

Sasebo Heavy Industries Co., Ltd. and its affiliates (comprised of the company and six subsidiaries [as of March 31, 2007]) 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. Co., Ltd. (a consolidated subsidiary of the company).

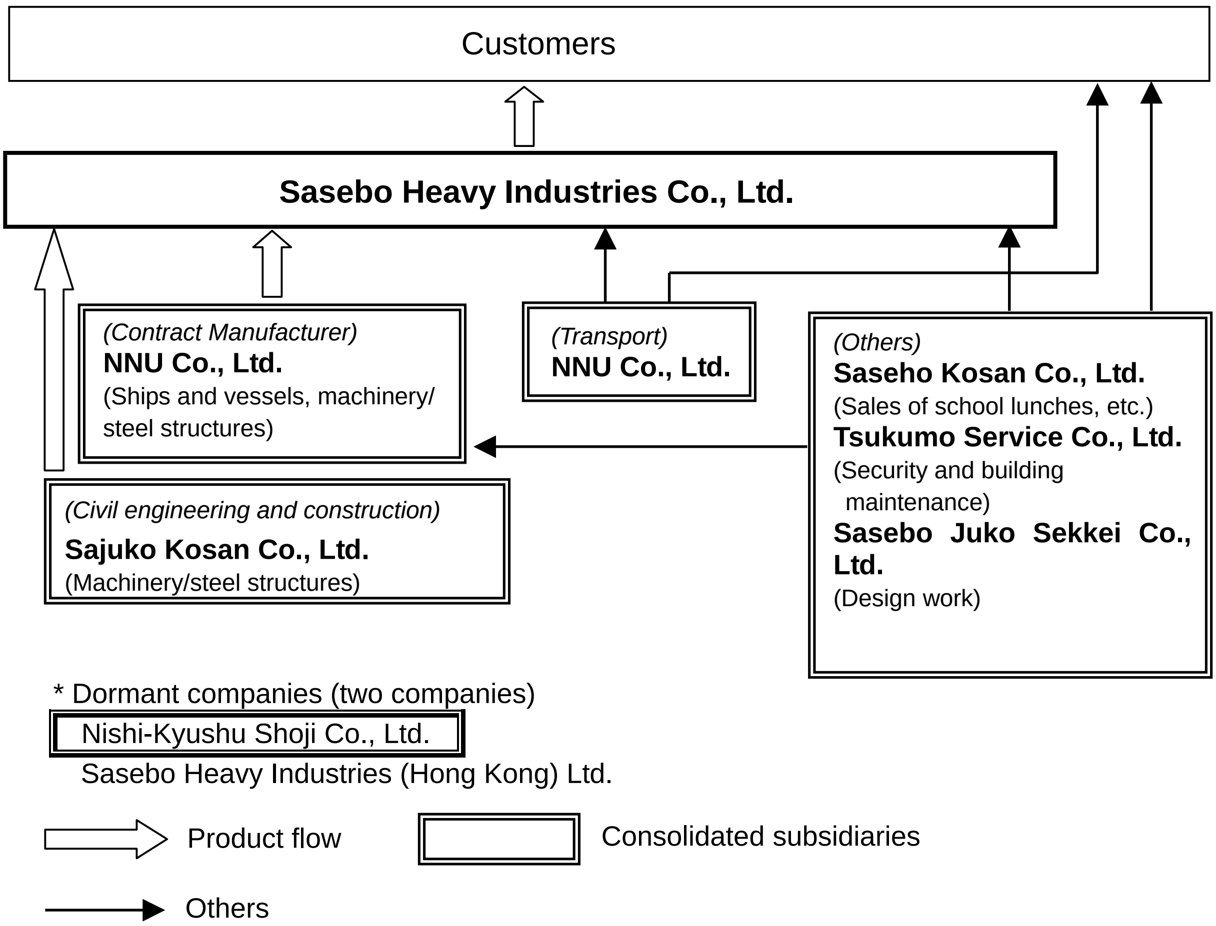
[Machinery/Steel Structure]

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) undertakes design work for the company.

The above information is summarized in the following operation chart:



3. Management Policy

(1) Basic Management Policy
(2) Targeted Management Index
(3) Medium- to Long-term Management Strategy
(4) Tasks to be Addressed by the Company

As there are no significant changes from the information disclosed in the Interim Results for the Term ending March 2007 (announced on November 17, 2006), disclosure of the above items is omitted.

The subject Interim Results for the Term ending March 2007 can be viewed at the following URLs:

(Sasebo Heavy Industries Co., Ltd. website)
http://www.ssk-sasebo.co.jp/ssk/us/home/index.html

(Tokyo Stock Exchange website)
http://www.tse.or.jp/listing/compsearch/index.html

Consolidated Financial Statements

(1) Consolidated Balance Sheets for the year ended March 31, 2007

(Units: millions of yen)

	Fiscal Year ended March 31, 2007	Fiscal Year ended March 31, 2006	Year-on-year change
(Assets)	(73,274)	(62,068)	(11,205)
Current assets	(43,550)	(34,044)	(9,505)
Cash & time deposits	21,271	15,425	5,845
Notes & accounts receivable	14,228	13,869	358
Marketable securities	1,537	33	1,504
Inventories	2,397	2,153	243
Accounts receivable	686	507	178
Deferred tax assets	2,486	799	1,687
Others	987	1,295	-308
Allowance for doubtful receivables	-45	-40	-5
Fixed assets	(29,724)	(28,024)	(1,700)
Tangible fixed assets	(22,252)	(21,453)	(799)
Buildings and structures	7,000	6,950	50
Docks and building berths	771	820	-48
Machinery and transportation equipment	4,340	3,664	676
Tools, furniture and fixtures	252	220	32
Land	9,467	9,469	-2
Construction in progress	419	327	91
Intangible fixed assets	(191)	(184)	(6)
Software	179	172	6
Utility model rights	0	0	-0
Telephone subscription rights	11	11	-
Investment and other assets	(7,280)	(6,386)	(894)
Investment securities	6,999	4,739	2,260
Long-term loans receivable	20	21	-1
Deferred tax assets	0	1,197	-1,196
Others	771	855	-84
Allowance for doubtful receivables	-511	-427	-83
Total Assets	73,274	62,068	11,205

(Units: millions of yen)

	Fiscal Year ended March 31, 2007	Fiscal Year ended March 31, 2006	Year-on-year change
(Liabilities)	(53,551)	(45,375)	(8,176)
Current liabilities	(42,120)	(33,642)	(8,477)
Trade notes and accounts payable	18,930	18,056	873
Notes payable for equipment	852	1,128	-275
Short-term loans	1,665	1,810	-145
Bonds due for redemption within one year	100	100	-
Accrued income taxes	44	54	-9
Advances received	18,174	10,733	7,440
Allowances for guarantees on construction work	74	32	42
Allowance for losses on construction contracts	76	46	30
Others	2,203	1,681	521
Fixed liabilities	(11,431)	(11,732)	(-301)
Bonds	50	150	-100
Long-term loans	2,431	2,622	-191
Deferred tax liabilities	100	12	88
Accrued retirement benefits	8,533	8,712	-179
Allowance for retirement benefits for directors and corporate auditors	102	-	102
Allowance for special repairs	50	41	9
Others	161	194	-32
(Net Assets)	(19,723)	-	-
Shareholder equity	17,916	-	-
Common stock	8,414	-	-
Additional paid-in capital	5,148	-	-
Retained earnings	4,361	-	-
Treasury stock	-7	-	-
Valuation and translation adjustment	1,806	-	-
Net unrealized gains on securities	1,805	-	-
Foreign currency translation adjustments	1	-	-
(Shareholder equity)	-	(16,693)	-
Common stock	-	8,414	-
Additional paid-in capital	-	5,148	-
Retained earnings	-	1,734	-
Net unrealized gains on securities	-	1,400	-
Foreign currency translation adjustments	-	1	-
Treasury stock	-	-4	-
Total liabilities, Net assets & Shareholder equity	73,274	62,068	11,205

(2) Consolidated Statement of Operations for the year ended March 31, 2007

(Units: millions of yen)

	Consolidated Fiscal Year ended March 31, 2007		Consolidated Fiscal Year ended March 31, 2006		Year-on-year change	
		%		%		%
Net sales	53,846	100.0	51,389	100.0	2,457	4.8
Cost of sales	49,549		47,948		1,600	
Gross profit	4,297	8.0	3,440	6.7	856	24.9
Sales, general and administrative expenses	2,139		1,482		657	
Operating income	2,157	4.0	1,958	3.8	199	10.2
Non-operating income	268		110		157	
Interest and dividends received	69		37		32	
Foreign exchange gain	128		-		128	
Other non-operating income	69		73		-4	
Non-operating expenses	180		286		-106	
Interest expense	162		166		-3	
Foreign exchange loss	-		49		-49	
Other non-operating expenses	17		70		-53	
Ordinary income	2,245	4.2	1,782	3.5	463	26.0
Extraordinary income	31		7		24	
Gain on sale of fixed assets	8		7		1	
Gain on sales of investment securities	23		-		23	
Extraordinary loss	311		1,237		-926	
Loss from disposal of fixed assets	242		656		-414	
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	0		29		-29	
Provision for reserve for director and corporate auditor retirement allowances	67		-		67	
Others	0		5		-5	
Net profit before tax adjustments	1,966	3.7	552	1.1	1,413	256.0
Corporate income, inhabitant and enterprise taxes	17	0.0	18	0.0	-0	
Income tax adjustments	-678	-1.3	-303	-0.6	-374	
Net profit	2,627	4.9	837	1.6	1,789	213.7

(3) Consolidated Statement of Retained Earnings for the year ended March 31, 2007

(Units: millions of yen)

	Consolidated Fiscal Year ended March 31, 2006
(Capital surplus)	
Capital surplus at beginning of year	
1. Capital reserves at beginning of year	5,148
Capital surplus at end of year	5,148
(Retained earnings)	
Retained earnings at beginning of year	
1. Consolidated retained earnings at beginning of year	896
Increase in retained earnings	
1. Current net profit	837
Retained earnings at end of year	1,734

(4) Consolidated Statement of Changes in Shareholders Equity

Consolidated Fiscal Year ended March 31, 2007. (from April 1, 2006 to March 31, 2007)

(Units: millions of yen)

	Shareholders equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholder equity
Balance as of March 31, 2006	8,414	5,148	1,734	-4	15,292
Changes during consolidated FY 2007					
Net income			2,627		2,627
Acquisition of treasury stock				-3	-3
Net changes of items other than shareholder equity during consolidated FY2007					
Total changes during consolidated FY2007	-	-	2,627	-3	2,624
Balance as of March 31, 2007	8,414	5,148	4,361	-7	17,916

	Valuation and translation adjustments			Total net assets
	Net unrealized gains on other securities	Foreign currency translation adjustments	Total valuation and translation adjustments	
Balance as of March 31, 2006	1,400	1	1,401	16,693
Changes during consolidated FY 2007				
Net income				2,627
Acquisition of treasury stock				-3
Net changes of items other than shareholder equity during consolidated FY2007	405	-0	405	405
Total changes during consolidated FY2007	405	-0	405	3,029
Balance as of March 31, 2007	1,805	1	1,806	19,723

(5) Consolidated Statement of Cash Flow for the year ended March 31,2007

(Unit: millions of yen)

	Consolidated Fiscal Year (Apr. 2006 ~ March 2007)	Consolidated Fiscal Year (Apr. 2005 ~ March 2006)	Year-on-year change
I. Cash flow from operating activities			
Net profit before income taxes	1,966	552	1,413
Depreciation and amortization	1,323	1,025	297
Increase in allowance for doubtful accounts	88	83	4
Increase (decrease) in accrued retirement benefits	-179	437	-616
Increase in reserves for director and corporate auditor retirement allowances	102	-	102
Increase in allowance for guaranteed construction work	42	1	41
Increase in allowance for loss on construction work contracts	30	46	-16
Increase (decrease) in allowance for special repairs	9	-29	39
Interest and dividend income	-69	-37	-32
Foreign exchange gains	-2	-15	13
Gain on sales of investments and other assets	-23	-	-23
Interest expenses	162	166	-3
Gains on sales of fixed assets	-8	-7	-1
Loss from devaluation of investment securities	-	29	-29
Loss from disposal of fixed assets	242	656	-414
Loss from impairment of fixed assets	-	306	-306
Increase in trade receivables	-374	-4,043	3,669
Increase in inventories and advance payment	-23	-1,246	1,223
Decrease (increase) in accrued consumption tax	-103	73	-176
Decrease in other current assets	106	248	-142
Increase in notes and accounts payable	748	4,728	-3,979
Increase in advances received	7,440	3,179	4,261
Increase in other current liabilities	697	558	139
Investment loss on equity method	-	0	-0
Others	0	4	-4
Sub Total	12,176	6,719	5,457
Interest and dividends received	65	38	26
Interest paid	-158	-152	-5
Income taxes paid	-22	-20	-1
Surcharge for antimonopoly law violations	-200	-	-200

Net cash provided by operating activities	11,861	6,584	5,276
II. Cash flow from investing activities			
Decrease (increase) in deposits with maturities exceeding three months	667	-1,816	2,483
Payments for acquisition of marketable securities	-1,497	-	-1,497
Proceeds from sale of tangible fixed assets	13	13	0
Payments for acquisition of tangible fixed assets	-2,492	-2,808	316
Proceeds from sales and redemption of investment securities	73	-	73
Payments for acquisition of investment securities	-1,628	-340	-1,287
Payments for acquisition of intangible fixed assets	-48	-174	126
Proceeds from investments and sale of other assets	-	2	-2
Proceeds from loans repaid	6	7	-0
Payments for loans	-5	-	-5
Decrease in other fixed assets	8	9	-1
Increase (decrease) in other fixed liabilities	-2	0	-2
Net cash used in investing activities	-4,904	-5,108	203
III. Cash flow from financing activities			
Repayment of short-term loans	-100	-1,925	1,825
Proceeds from long-term loans	500	1,950	-1,450
Repayment of long-term loans	-736	-429	-306
Payment for redemption of bonds	-100	-100	-
Dividends paid	-0	-0	0
Payments for purchases of treasury stock	-3	-1	-1
Net cash used in financing activities	-439	-506	67
IV. Effect of exchange rate changes on cash and cash equivalents	2	15	-13
V. Net increase in cash and cash equivalents	6,519	985	5,534
VI. Cash and cash equivalents at beginning of year	11,273	10,287	985
VII. Cash and cash equivalents at end of year	17,792	11,273	6,519

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

	March 31, 2007		March 31, 2006	
Cash and time deposits	21,271	million yen	15,425	million yen
Marketable securities	1,537	million yen	33	million yen
Time deposits with maturities exceeding three months	-3,519	million yen	-4,186	million yen
Bonds with redemption periods exceeding three months	-1,497	million yen	-	million yen
Cash and cash equivalents at end of year	17,792	million yen	11,273	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., N.N.U. Co., Ltd., Tsukumo Service Co., Ltd., Sajuko Kosan Co., Ltd., Nishi-Kyushu Shoji Co., Ltd., Sasebo Juko Sekkei Co., Ltd.

(b) Sasebo Heavy Industries (Hong Kong) Ltd. is the only non-consolidated subsidiary.
This non-consolidated subsidiary is small in size, and its total assets, sales, current term net profit or loss (amount in proportion to entity's equity) and retained earnings (amount in proportion to the entity's equity) have no significant impact on consolidated financial statements.
S.I. Gas Center Service Co., Ltd., which was a non-consolidated subsidiary until the previous consolidated fiscal year, has been eliminated from the scope of consolidation and excluded under the equity method, as shares held by the parent company were sold as of June 30, 2006.

2. Application of the equity method

(a) The number of non-consolidated subsidiaries accounted for by the equity method is one (1), which subsidiary is Sasebo Heavy Industries (Hong Kong) Ltd.

(b) Imari Wan Port Service is the only affiliate that is not accounted for under the equity method, as it has no significant impact on consolidated net income (amount in proportion to the entity's equity) and retained earnings (amount in proportion to the entity's equity) and has no significance as a whole.

(c) 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

Held-to-maturity securities – Stated at amortized cost (straight-line method).

Other securities

Securities with market value: Stated at fair market value based on market prices at the end of term. (All valuation differences are booked directly to the net assets.) Sales costs are calculated with the moving-average method.

Securities with no market value: Stated at cost determined by the moving-average method.

(2) Derivatives: Stated by the market value method.

(3) 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) Depreciation method for significant depreciable assets

Tangible fixed assets - The declining balance method is applied.

Intangible fixed assets - The straight-line 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 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 that arose from changes in the accounting standard (¥4,353 million) were 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 retirement benefits for directors and auditors

In preparation for the payment of director and auditor retirement benefits, provision is made for the amount required to be paid at the end of the fiscal year, in accordance with the internal regulations for retirement benefits for directors and auditors.

(4) 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.

(5) 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.

(6) 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.

(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) 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.

(f) 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. 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.

[Significant Changes in Basis of Presenting Consolidated Financial Statements]

1. Newly added article of allowance for director and auditor retirement benefits

The company formerly booked retirement benefit payments to directors and auditors as expenses when such payments were made. However, effective from this consolidated accounting year, the estimated payment amount calculated in accordance with internal regulations is recorded as an allowance for director and auditor retirement benefits. This change has been applied to reflect a decision made during the board of directors meeting and auditors meeting held on April 27, 2007, that subject to approval at a general shareholders meeting, the Company will abolish the retirement benefit program for its directors and auditors. At the general shareholders meeting to be held in June, payment amount of retirement benefits to directors and auditors will be decided, corresponding to their terms of office until the day the program is abolished, and that such payments will be made upon retirement.

Consequently, such allowance will be integrated into an annual compensation package, which is determined taking into consideration not only the company performance but also the contributions of each director and auditor. With the change above, the amount of ¥67 million yen, equivalent to retirement benefits of the prior year, was recorded as extraordinary loss, and the amount of ¥35 million yen incurred during this fiscal year was recorded as sales, general and administrative

expenses. As a result, consolidated operating income/consolidated ordinary income and net income before income taxes were recorded as ¥35 million and ¥102 million less respectively.
The subject change was made, with the director and auditor retirement benefit program review held in April 2007 as an opportunity, and the conventional method was applied during the consolidated interim period. Compared to the results with the subject change applied, consolidated interim operating income/consolidated interim ordinary income and interim net income before income taxes were recorded as ¥17 million and ¥85 million more respectively.

2. Accounting standard for presentation of net assets in the consolidated balance sheets
Effective from this fiscal year, the Company adopted the new accounting standard 'Accounting Standard for Presentation of Net Assets in the Balance Sheet' (Statement No.5 issued by Accounting Standards Board of Japan on December 9, 2005) and the implementation guidance for the accounting standard for presentation of net assets in the balance sheet (Financial Accounting Standard Implementation Guidance on No.8 issued by the Accounting Standards Board of Japan on December 9, 2005). Such adoption of new standards has no impact on gain and loss. The amount equivalent to shareholder equity under the old standard is ¥19,723 million.

Notes on the Consolidated Balance Sheet

	Consolidated FY2007	Consolidated FY2006
1. Assets Pledged as Collateral & Liabilities related to Pledged Assets		
Assets Pledged as Collateral	¥13,763 million	¥15,601 million
Liabilities related to Pledged Assets	¥5,710 million	¥7,341 million
2. Accumulated Depreciation of tangible assets	¥35,899 million	¥35,167 million
3. Matured bills as of March 31, 2007		
Bills receivable	¥91 million	¥ - million
Bills payable	¥672 million	¥ - million

Notes to Consolidated Statements of Changes in Net Assets

1. Number of shares outstanding

Type	As of March 31, 2006	Increase	Decrease	As of March 31, 2007
Common stock	161,955,000	-	-	161,955,000

2. Treasury stock

Type	As of March 31, 2006	Increase	Decrease	As of March 31, 2007
Common stock	33,127	9,662	-	42,789

3. Dividends

Resolution	Type of shares	Dividend resource	Amounts of dividends	Dividend per share	Record date	Effective date
June 28, 2007 (Annual shareholders meeting)	Common stock	Retained earnings	¥323 million	¥2.0	March 31, 2007	June 29, 2007

Disclosure of notes related to lease transactions, transactions with concerned parties, tax effect accounting, marketable securities, derivatives trading, and retirement benefits has been omitted, as the need for disclosure of such information in this document is considered not to be great.