Announcement of
Interim Results for the Term ending March 2007 (consolidated)

November 17, 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
(URL http://www.ssk-sasebo.co.jp)

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Board of Directors Meeting for the Approval of Results: November 17, 2006
Application of U.S. GAAP: No

I. Consolidated Business Results for the six-month period ended September 30, 2006 (April 1, 2006 ~ September 30, 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*	*%*
Half year ended September 30, 2006	25,743	9.4	285	-64.4	400	-47.2
Half year ended September 30, 2005	23,522	9.4	801	55.2	757	45.0
Year ended March 31, 2006	51,389		1,958		1,782	

	Net income		Net income per share
	Millions of yen	*%*	*Yen*
Half year ended September 30, 2006	552	-	3.41
Half year ended September 30, 2005	-217	-	-1.35
Year ended March 31, 2006	837		5.17

Note:

1. *Investment profit (loss) on equity method:*
   Half year ended September 30, 2006: (None-)
   Half year ended September 30, 2005: (¥ -0 million)
   Year ended March 31, 2006: ¥ -0 million
2. *Average number of shares outstanding (consolidated):*
   Half year ended September 30, 2006: 161,918,791
   Half year ended September 30, 2005: 161,927,637
   Year ended March 31, 2006: 161,925,403

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	Net assets	Shareholders' equity ratio	Shareholders' equity pre share
	Millions of yen	*Millions of yen*	*%*	*Yen*
September 30, 2006	66,004	16,842	25.5	104.02
September 30, 2005	54,963	15,344	27.9	94.76
March 31, 2006	62,068	16,693	26.9	103.09

Note:

1. *The number of shares outstanding at the end of the period (consolidated):*
   As of September 30, 2006: 161,915,190
   As of September 30, 2005: 161,925,901
   As of March 31, 2006: 161,921,873

(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, 2006	5,800	-4,728	0	12,347
Half year ended September 30, 2005	1,027	-3,138	-192	7,999
Year ended March 31, 2006	6,584	-5,108	-506	11,273

(4) Scope of consolidation and application of the equity method

Consolidated subsidiaries: 6
Non equity-method consolidated subsidiaries: 1
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) 1

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*
Year ending March 31, 2007	53,000	1,100	1,200

Reference: Forecast net income per share for the year: ¥ 7.41

Note: For information related to the above forecast, see page 5 of Appendix; Operating Results and Financial Position and 3. Forecast for the Whole Financial Year.

(Appendix)

Corporate Group Conditions

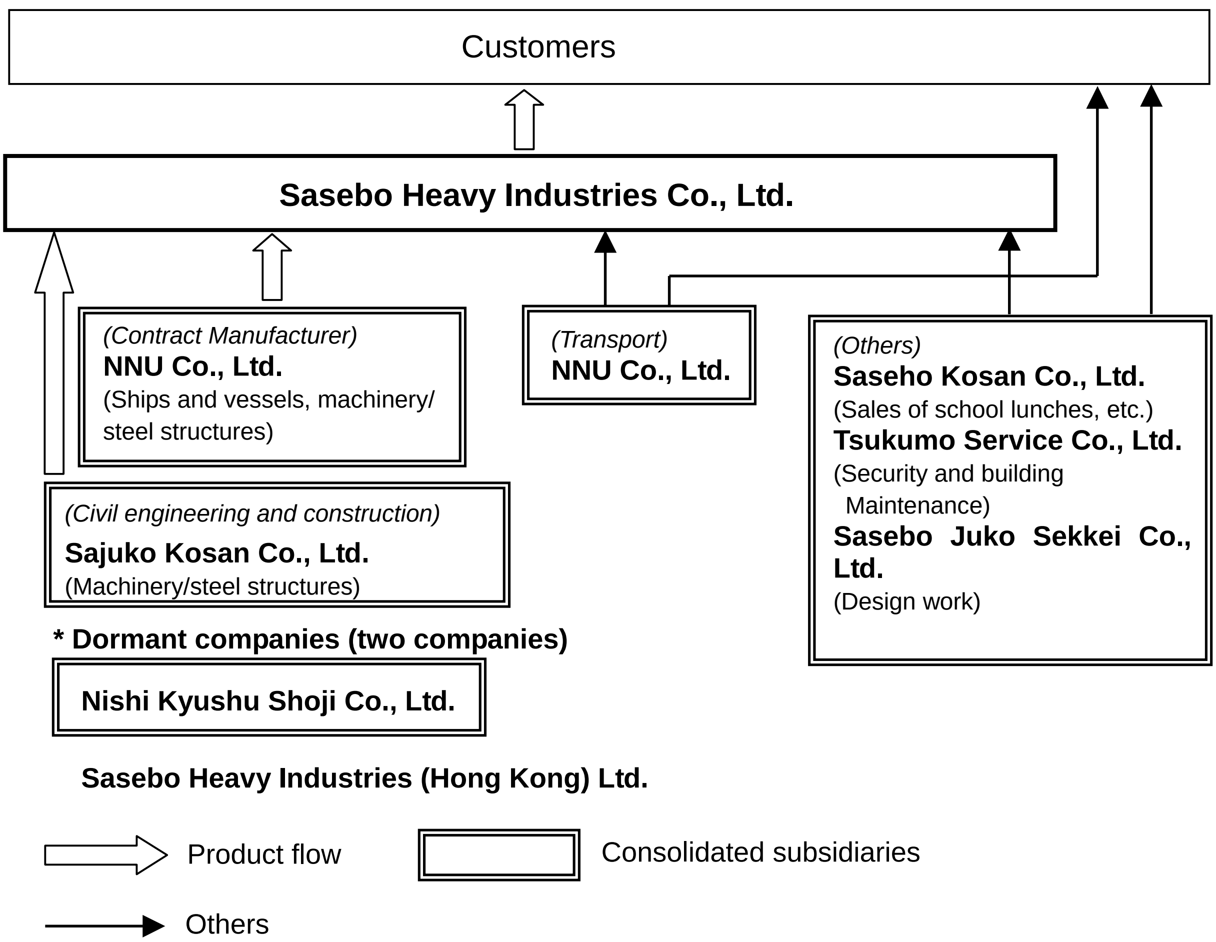
Sasebo Heavy Industries Co., Ltd. and its affiliates (comprised of the company and six subsidiaries [as of September 30, 2006]) engage primarily in the manufacture and sale of ships and vessels, machinery and steel structures. The positioning of the company and its affiliates, in their respective business segments, is as follows:

[Ships and Vessels]
Sasebo Heavy Industries Co., Ltd. conducts manufacturing and sales. 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.

The above information is summarized in the following operation chart:



Management Policy

1. Basic Management Policy

Through the company's motto "By 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 structure.

We regret to inform shareholders it is necessary for the company to waive payment of an interim dividend.

3. Targeted Management Index

Based upon the goals outlined in the mid-term management plan, the company sets as its priority goals the improvement of net sales, ordinary income and ROE, and will devote every effort to realize the policies set by each division.

4. Medium-Term Management Strategy

Sasebo developed its mid-term management plan in April 2003, with the aim of ‘early realization of a surplus structure’, and has been attempting to reconstruct its management. As a result, a surplus was posted for two consecutive years from fiscal 2004. In order to link the remaining issues, such as areas to be further strengthened to the next step, the company developed a new mid-term management plan in April 2006. For shipbuilding, Sasebo will conduct order receipt activities taking profitability into consideration, by renewing new ship construction facilities and will undertake hull form research and development aiming for selective development, manufacture and sale of high quality products that fulfill customer expectations. As a local shipyard at the Sasebo Naval Base, in addition to focusing efforts on naval vessel repair operations for the Japan Maritime Self-Defense Force and the United States Navy, the company will aim at quality and productivity improvements for marine equipment, and will try to improve its competitiveness in steel structure construction. Sasebo will thus challenge the trends of the times and the changing market, pursue innovation, and will strive to form a single unit to win against fierce competition, while utilizing traditional resources.

5. <u>Tasks to be Addressed by the Company</u>

Regarding new shipbuilding, the Japanese shipbuilding industry has a large volume of construction backlog. 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 further strengthen competitiveness and be able to face off against Korea and 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 retirement age, a generation of which many shipping building technicians are a part.

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

The major undertakings by respective segment are as follows:

① Shipbuilding Department

For new shipbuilding, the company will strive to secure profits through undertaking activities for order receipts mainly for hull forms and vessel type, in which the company specializes. Further, the company conducts development of new hull forms and is strengthening its new shipbuilding facilities, as can be seen from the installation of the new 300 ton crane at the Sasebo Naval Base ship construction dock in May this year. 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 company will try to improve marine equipment quality and productivity.

For the steel structure business, the company will try to achieve better price competitiveness through cost reductions and through improvements to its capability to make technical proposals.

6. Matters concerning the Parent Company

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, despite skyrocketing crude oil prices, the Japanese economy has continued to follow a path of recovery, resulting from steady corporate capital investment and increased personal consumption.

In the shipbuilding industry, global new shipbuilding orders received during the period of January to June totaled 46,426 thousand gross tons, for an increase of 28.2% compared to the corresponding period of the prior year. Such increase resulted from last-minute order placement before April 1 this year, on which day a new regulation came into effect for tanker and bulk carrier structures. Japanese new shipbuilding orders received during the same period totaled 11,304 thousand grow tons, up 22.1% over the same period last year.

In the machinery industry, private capital investment continues to rise supported by a favorable economic climate. However, public investment in the steel structure industry continues to show a tendency to decrease, and the order receipt environment continues to be harsh.

Given the above circumstances, the Sasebo Group posted consolidated orders received of ¥9,416 million, an increase of 88.5% over the corresponding period of the previous year, and a total sales amount of ¥25,743 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 ¥285 million was posted, for a decrease of 64.4% compared to the corresponding period of the prior year, which decrease resulted from the increased cost of steel materials and from poor efficiency in manufacturing vessels in a variety of hull forms due to diversification of hull forms. A consolidated ordinary income of ¥400 million was posted, for a decrease of 47.2%, compared to the corresponding period of the prior year, and a consolidated net income of ¥552 million yen was posted (a consolidated net loss of ¥217 million was posted during the same period in the previous year).

Operating results by business segment are as follows:

① Shipbuilding

The Group posted consolidated orders received of ¥4,443 million for its shipbuilding business, an increase of 394.1% over the same term last year; the orders received were for new shipbuilding including the construction of a 13,000 DWT coke vessel, ship repair work for Japan Maritime Self-Defense Force and United States Navy vessels, and for periodic/interim inspection operations for commercial vessels. The total amount of sales resulting from new shipbuilding and repair work was ¥21,723 million, for an increase of 12.2% over the same term last year. Five (5) newly-built ships were delivered during this interim period, including 3 units of 76,000 DWT bulk carriers and 2 units of 75,000 DWT tankers. In terms of profit and loss, an interim consolidated operating income of ¥342 million was posted, for a decrease of 65.7% over the same term last year.

② Machinery/Steel Structure

The Group posted consolidated orders received of ¥4,466 million for its machinery/steel structure business, an increase of 22.5% over the same term last year; 99 cases of equipment installation work for marine equipment and general industrial machinery, 20 cases of steel structure work mainly for domestic public works such as bridges and water gates. Sales of ¥3,520 million were posted by the machinery/steel structure business, a decrease of 4.9% over the same term last year; 82 cases of equipment installation work for marine equipment and general industrial machinery, 8 cases of steel structure work mainly for domestic public works such as bridges and water gates. An interim consolidated operating income of ¥610 million was posted, for an increase of 115.5% over the same term last year.

③ Others

Other business segments are comprised mainly of transport business and so on. The Group posted consolidated orders received of ¥507 million, for an increase of 12.6% over the same term last year. Sales of ¥499 million were posted, an increase of 10.3% over the same term last year, and an interim consolidated operating income of ¥49 million was posted (a consolidated operating loss of ¥23 million was posted for the interim period of the previous fiscal year).

2. Financial Position

At the end of this interim period, total assets increased by ¥3,935 million to ¥66,004 million and total liabilities increased by ¥3,787 million to ¥49,162 million, both compared to the end of fiscal year 2006, as a result of an increase in cash and deposits arising from increased advance payments received for new shipbuilding. Net assets were ¥16,842 million, an increase of ¥149 million compared to shareholders’ equity at the end of fiscal year 2006, as a result of increased retained earnings by ¥552 million and of a decrease in unrealized gains on other marketable securities by ¥401 million.

Regarding cash and cash equivalents during the subject interim period, the cash flows posted were an income of ¥5,800 million from operating activities, due to an increase in advances received, and an outgoing of ¥4,728 million from investment activities, due to spending on an increased number of time deposits with maturities exceeding three months, and on acquisition of tangible fixed assets and investment securities. In consequence, the cash and cash equivalent at the end of the subject interim period is ¥12,347 million, an increase of ¥1,074 million, including cash flow from financing activities.

Cash flow indicator trends are as follows:

	Fiscal Year ended March 31, 2005		Fiscal Year ended March 31, 2006		Interim Period ended September 30, 2006
	Interim	End of Period	Interim	End of Period	Interim
Equity Ratio *(%)*	32.6	28.6	27.9	26.9	25.5
Equity Ratio at Market Value *(%)*	50.7	61.8	69.2	74.6	79.2
Debt Repayment Period *(years)*	1.9	1.0	4.1	1.2	0.8
Interest Coverage Ratio *(times)*	87.0	54.3	12.4	45.7	75.4

(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.*

** For calculation of the debt repayment period for interim periods, the figures for interim periods have been doubled to convert operating cash flow to an annual basis.*

3. Forecast for the Whole Financial Year

The Sasebo Group forecasts fiscal 2007 consolidated orders received of ¥55,000 million (non-consolidated ¥54,000 million), consolidated net sales of ¥53,000 million (non-consolidated ¥52,000 million), a consolidated ordinary income of ¥1,100 million (non-consolidated ¥1,100 million) and a consolidated net income of ¥1,200 million (non-consolidated ¥1,200 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 following to be risks that might affect our future operating results:

① Economic Climate

Receipt of orders for new ships, which are the company's main product, is completely contingent upon economic situations such as currency movements and the condition of the world shipping market.

② Exchange Rate Fluctuations

For new shipbuilding in FY 2007, all sales of ships and vessels, for which US dollar-based contracts have been signed, have been posted during this interim period. The remainder are under yen-based contracts, for which the Group will suffer little adverse effect from exchange rate fluctuations. However, a sharp appreciation of the yen would 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 thus a sharp rise in the price of steel materials will squeeze the company's 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 interim period ended 30 September 2006

(Units: millions of yen)

	Sep. 30, 2006	March 31, 2006	Year-on-year change	Sep. 30, 2005
(Assets)				
Current assets	(37,198)	(34,044)	(3,153)	(28,229)
Cash & time deposits	18,716	15,425	3,290	12,158
Notes & accounts receivable	13,010	13,869	-858	11,218
Marketable securities	33	33	-0	33
Inventories	2,692	2,153	539	2,083
Deferred tax assets	1,343	799	544	1,026
Accounts receivable	644	507	136	657
Others	795	1,295	-500	1,083
Allowance for doubtful receivables	-38	-40	1	-32
Fixed assets	(28,806)	(28,024)	(781)	(26,733)
Tangible fixed assets	22,111	(21,453)	(657)	(21,481)
Buildings and structures	6,906	6,950	-44	6,534
Docks and building berths	795	820	-24	825
Machinery and transportation equipment	4,368	3,664	703	2,451
Tools, furniture and fixtures	236	220	15	205
Land	9,467	9,469	-2	9,450
Construction in progress	336	327	8	2,013
Intangible fixed assets	(177)	(184)	(-7)	(53)
Utility model rights	0	0	-0	0
Telephone subscription rights	11	11	-	11
Software	165	172	-7	40
Investment and other assets	(6,517)	(6,386)	(131)	(5,198)
Investment securities	5,113	4,739	374	3,892
Long-term loans receivable	17	21	-4	24
Deferred tax assets	1,085	1,197	-111	849
Others	812	855	-42	860
Allowance for doubtful receivables	-511	-427	-83	-428
Total Assets	66,004	62,068	3,935	54,963

(Units: millions of yen)

	Sep. 30, 2006	March 31, 2006	Year-on-year change	Sep. 30, 2005
(Liabilities)				
Current liabilities	(36,959)	(33,642)	(3,317)	(27,175)
Trade notes and accounts payable	18,964	18,056	907	15,627
Notes payable for equipment	993	1,128	-135	1,185
Short-term loans	1,669	1,810	-141	1,677
Bonds due for redemption within one year	100	100	-	100
Accrued income taxes	34	54	-19	39
Advances received	13,950	10,733	3,217	7,633
Reserves for warranty	35	32	3	28
Allowance for losses on construction contracts	31	46	-15	46
Others	1,182	1,681	-498	838
Fixed liabilities	(12,202)	(11,732)	(469)	(12,443)
Bonds	100	150	-50	200
Long-term loans	2,816	2,622	193	3,019
Long-term notes payable for equipment	-	-	-	367
Accrued retirement benefits	9,054	8,712	341	8,601
Allowance for special repairs	42	41	1	41
Deferred tax liabilities	10	12	-1	-
Others	178	194	-15	214
Total Liabilities	49,162	45,375	3,787	39,618

(Units: millions of yen)

	Sep. 30, 2006	March 31, 2006	Year-on-year change	Sep. 30, 2005
(Shareholder Equity)				
Common stock	-	8,414	-	8,414
Capital surplus	-	5,148	-	5,148
Retained earnings	-	1,734	-	678
Net unrealized gains on marketable securities	-	1,400	-	1,106
Foreign currency translation adjustments	-	1	-	1
Treasury stock	-	-4	-	-3
Total Shareholders' Equity	-	16,693	-	15,344
Total Liabilities & Shareholders' Equity	-	62,068	-	54,963
(Net Assets)				
Shareholders' equity	(15,842)	-	-	-
Common stock	8,414	-	-	-
Capital surplus	5,148	-	-	-
Retained earnings	2,286	-	-	-
Treasury stock	-6	-	-	-
Valuation & translation adjustments	(999)	-	-	-
Net unrealized gains on marketable securities	998	-	-	-
Foreign currency translation adjustments	1	-	-	-
Total Net Assets	16,842	-	-	-
Total Liabilities & Net Assets	66,004	-	-	-

(2) Consolidated Statement of Operations for the interim period ended 30 September 2006

(Units: millions of yen)

	September 30, 2006 (Apr. - Sep. 2006)		*September 30, 2005 (Apr. - Sep. 2005)*		*Year-on-year change*		*March 31, 2006 (Apr. 2005 - Mar. 2006)*	
		%		%		%		%
I. Net sales	25,743	100.0	23,522	100.0	2,221	100.0	51,389	100.0
II. Cost of sales	24,352		21,967		2,384		47,948	
Gross profit	1,391	5.4	1,554	6.6	-162	-7.3	3,440	6.7
III. Sales, general and administrative expenses	1,105		753		352		1,482	
Operating income	285	1.1	801	3.4	-515	-23.2	1,958	3.8
IV. Non-operating income	203		62		141		110	
Interest income and dividend income	35		28		6		36	
Life insurance dividend and insurance income	24		-		24		57	
Foreign exchange gain	129		15		114		-	
Other non-operating income	14		18		-4		15	
V. Non-operating expenses	89		106		-17		286	
Interest expense	76		83		-6		166	
Foreign exchange loss	-		-		-		49	
Other non-operating expenses	12		23		-11		70	
Ordinary income	400	1.6	757	3.2	-356	-16.0	1,782	3.5
VI. Extraordinary Income	9		3		6		7	
Gain on sales of fixed assets	8		3		5		7	
Gain on sales of investment securities	1		-		1		-	
VII. Extraordinary loss	10		953		-942		1,237	
Loss from disposal of fixed assets	10		576		-566		656	
Impairment loss on fixed assets	-		306		-306		306	
Losses due to violation of the Antimonopoly Law	-		-		-		200	
Loss on prior period adjustment	-		39		-39		39	
Valuation loss on investment securities	-		29		-29		29	
Other extraordinary losses	0		1		-1		5	
Interim net income (loss) before tax	399	1.6	-192	-0.8	592	26.7	552	1.1
Corporate income, inhabitant and enterprise taxes	8	0.0	8	0.0	-0	-0.0	18	0.0
Deferred income taxes	-161	-0.6	16	0.1	-177	-8.0	-303	-0.5
Interim net income (loss)	552	2.2	-217	-0.9	770	34.7	837	1.6

(3) Consolidated Statement of Retained Earnings for the interim period ended 30 September 2006

(Units: millions of yen)

	September 30, 2005 (Apr. - Sep. 2005)	*March 31, 2006 (Apr. 2005 – Mar. 2006)*
(Capital surplus)		
Capital surplus at beginning of period	5,148	5,148
Capital surplus at end of interim period	5,148	5,148
(Retained earnings)		
Retained earnings at beginning of period	896	896
Increase in retained earnings		
1. Interim net income	-	837
Decrease in retained earnings		
1. Interim net loss	217	-
Retained earnings at end of interim period	678	1,734

(4) Consolidated Statement of Changes in Net Assets for the interim period (April 1, 2006 to September 30, 2006)

(Unit: millions of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of March 31, 2006	8,414	5,148	1,734	-4	15,292
Changes during the period					
Net income			552		552
Purchase of treasury stock				-1	-1
Total changes during the period	-	-	552	-1	550
Balance as of Sep. 30, 2006	8,414	5,148	2286	-6	15,842

	Valuation & translation adjustments			Total net assets
	Unrealized gain or loss on marketable securities	Foreign currency translation adjustment	Total valuation & translation adjustments	
Balance as of March 31, 2006	1,400	1	1,401	16,693
Changes during the period				
Net income				552
Purchase of treasury stock				-1
Net change of items other than shareholder' equity during the period	-401		-401	-401
Total changes during the period	-401	-	-401	148
Balance as of Sep. 30, 2006	998	1	999	16,842

(5) Consolidated Statement of Cash Flow for the interim period ended 30 September 2006

(Unit: millions of yen)

	September 30, 2006 (Apr. - Sep. 2006)	*September 30, 2005 (Apr. - Sep. 2005)*	*March 31, 2006 (Apr. 2005 - Mar. 2006)*
I. Cash flow from operating activities			
Net income (loss) before income taxes	399	-192	552
Depreciation and amortization	603	442	1,025
Increase in allowance for doubtful accounts	81	75	83
Increase in accrued retirement benefits	341	326	437
Increase (decrease) in reserves for warranty	3	-3	1
Increase (decrease) in allowance for loss on construction work contracts	-15	46	46
Increase (decrease) in allowance for special repairs	1	-29	-29
Interest and dividend income	-35	-28	-37
Interest expenses	76	83	166
Foreign exchange gains (losses)	-2	-15	-15
Gain (loss) from sales of investment securities	-1	-	-
Loss on devaluation of investment securities	-	29	29
Loss from sales of fixed assets	-8	-3	-7
Loss from disposal of fixed assets	10	576	656
Loss from impairment of fixed assets	-	306	306
Decrease (increase) in trade receivables	847	-1,390	-4,043
Increase (decrease) in inventories and advance payment	-91	-1,221	-1,246
Decrease (increase) in accrued consumption tax payable	-129	-39	73
Decrease (increase) in other current assets	87	-9	248
Increase (decrease) in notes and accounts payable	993	2,386	4,728
Increase (decrease) in advances received	3,217	79	3,179
Increase (decrease) in other current liabilities	-315	-327	558
Investment losses under equity method	-	-0	0
Others	0	1	4
Sub Total	6,066	1,093	6,719
Interest and dividends received	32	30	38
Interest paid	-83	-77	-152
Income taxes paid	-14	-17	-20
Fines and penalties paid due to violation of the Antimonopoly Law	-200	-	-
Net cash provided by operating activities	5,800	1,027	6,584

II. Cash flow from investment activities			
Increase in deposits with maturity of more than three months	-2,216	-1,772	-1,816
Proceeds from sale of tangible fixed assets	11	4	13
Payments for purchase of tangible fixed assets	-1,474	-1,389	-2,808
Payments for purchase of intangible fixed assets	-12	-35	-174
Proceeds from sale of investment securities	8	-	-
Payments for purchase of investment securities	-1,055	-	-340
Proceeds from investments and sale of other assets	-	3	2
Proceeds from loans repaid	4	4	7
Decrease in other fixed assets	6	42	9
Increase (decrease) in other fixed liabilities	-0	4	0
Net cash used in investing activities	-4,728	-3,138	-5,108
III. Cash flow from financing activities			
Repayment of short-term loans	-100	-1,925	-1,925
Proceeds from long-term loans	500	1,950	1,950
Repayment of long-term loans	-347	-166	-429
Payment for redemption of bonds	-50	-50	-100
Dividends paid	-0	-0	-0
Payments for purchases of treasury stock	-1	-0	-1
Net cash used in financing activities	0	-192	-506
IV. Effect of exchange rate changes on cash and cash equivalents	2	15	15
V. Net increase (decrease) in cash and cash equivalents	1,074	-2,288	985
VI. Cash and cash equivalents at beginning of year	11,273	10,287	10,287
VII. Cash and cash equivalents at end of interim period	12,347	7,999	11,273

(Interim Statement of Cash Flow)

The relationship between the ending balance of cash and cash equivalents and the account items listed in the consolidated balance sheet:

	September 30, 2006		September 30, 2005		March 31, 2006	
Cash and time deposits	18,716	million yen	12,158	million yen	15,425	million yen
Marketable securities	33	million yen	33	million yen	33	million yen
Time deposits with maturity over three months	-6,402	million yen	-4,192	million yen	-4,186	million yen
Cash and cash equivalents	12,347	million yen	7,999	million yen	11,273	million yen

[Basis for 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 Co., Ltd., Sajuko Kosan Co., Ltd., Nishi-Kyushu Shoji Co., Ltd., Sasebo Juko Sekkei Co., Ltd.

(b) The company has one (1) non-consolidated subsidiary; Sasebo Heavy Industries (Hong Kong) Ltd. S.I. Gas Center Service Co., Ltd., which was a non-consolidated subsidiary until the previous fiscal year, has been excluded from the scope of the equity method application due to the sale of share ownership 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 subsidiaries is Sasebo Heavy Industries (Hong Kong) 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 or 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.

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.

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 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) Reserves for product warranty

Reserves for product warranties have been set aside and accounted for based on the estimated amount of service costs within the warranty period.

(3) 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.

(4) 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 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.

(5) 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.

(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 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

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

(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 significant matters serving as the basis for preparing the 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

Consumption taxes and local consumption taxes are accounted for based on the tax exclusion method.

5. Scope of funds in the interim consolidated cash flow statements

The funds (cash and cash equivalent) in the consolidated cash flow statements consist of cash in hand, demand deposits and short-term investments with 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 policy for presentation of Net Assets in the Balance Sheet

Effective from the current interim period, Sasebo adopted the ‘Accounting Standard for Presentation of Net Assets in the Balance Sheet’ (Accounting Standards Board of Japan, 2005.12.9, Corporate Accounting Standard No. 5) and the ‘Implementation Guidance on Accounting Standards for Presentation of Net Assets in the Balance Sheet’ (Accounting Standards Board of Japan, 2005.12.9, Corporate Accounting Standard Implementation Guidance No. 8).

The amount corresponding to the previous ‘Shareholder’ Equity’ is ¥16,842 million.

“Net Assets” in the interim balance sheet for the current interim period is presented in accordance with the revised rules pertaining to interim financial statements.

[Notes on Interim Consolidated Balance Sheets]

	(September 30, 2006)	(September 30, 2005)	(March 31, 2006)
1. Accumulated depreciation of tangible fixed assets	¥35,889 million	¥35,930 million	¥35,450 million

2. Assets pledged as collateral

Time deposits	¥4,092 million	¥4,614 million	¥4,176 million
Tangible fixed assets	¥7,854 million	¥7,993 million	¥7,994 million
Investment securities	¥3,060 million	¥1,226 million	¥3,430 million

3. Accounting for bills maturing on the final day of the interim term (consolidated)

Bills maturing on the final day of the interim term are settled on the clearing date. Since the final day of the interim term was a bank holiday, the amount of the bills is included in the interim term end balance as shown below:

Bills receivable	155 million yen
Bills payable	294 million yen
Bills payable on facilities	421 million yen

[Notes on Interim Consolidated Profit and Loss Statement]

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

	(September 30, 2006)	(September 30, 2005)	(March 31, 2006)
Salary wages	¥362 million	¥297 million	¥602 million
Retirement benefit expenses	¥54 million	¥28 million	¥59 million
Research and development expenses	¥94 million	¥14 million	¥22 million
Transfer to allowance for bad debt	¥81 million	¥75 million	¥83 million
Others	¥512 million	¥335 million	¥713 million
Total	¥1,105 million	¥753 million	¥1,482 million

[Notes on Consolidated Statement of Changes in Net Assets]

Current interim accounting period (April 1, 2006 to September 30, 2006)

1. Matters related to shares outstanding

Type of shares	March 31, 2006	Increase	Decrease	September 30, 2006
Common shares (thousands of shares)	161,955	-	-	161,955

2. Matters related to treasury stock

Type of shares	March 31, 2006	Increase	Decrease	September 30, 2006
Common shares (thousands of shares)	33	6	-	39

(Note) The increase in treasury stock resulted from the company's purchase of 6,000 odd-lot shares of less than one unit.