

## Outline of Consolidated Financial Results for the Nine Months Ended December 31, 2007

January 31, 2008

Company name: **Sasebo Heavy Industries Co., Ltd.**

Listings: Tokyo Stock Exchange 1st Section  
Osaka Securities Exchange 1st Section  
Fukuoka Stock Exchange

Stock code: 7007

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*Figures less than one million yen have been omitted.*

### 1. Consolidated financial results for the nine months ended December 31, 2007 (From April 1, 2007, to December 31, 2007)

#### (1) Consolidated operating results

*(Percentages indicate year-on-year changes.)*

	Net sales		Operating income		Ordinary income		Net income	
	<i>millions of yen</i>	%	<i>millions of yen</i>	%	<i>millions of yen</i>	%	<i>millions of yen</i>	%
For the nine months ended December 31, 2007	50,192	27.2	5,687	450.0	5,643	389.0	3,050	134.1
December 31, 2006	39,469	5.9	1,034	(42.7)	1,154	(35.1)	1,303	125.0
For the year ended March 31, 2007	53,846		2,157		2,245		2,627	

	Net income per share	Diluted net income per share
	<i>yen</i>	<i>yen</i>
For the nine months ended December 31, 2007	18.87	-
December 31, 2006	8.05	-
For the year ended March 31, 2007	16.23	-

#### (2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	<i>millions of yen</i>	<i>millions of yen</i>	%	<i>yen</i>
As of December 31, 2007	81,526	21,153	25.9	130.88
As of December 31, 2006	71,450	17,958	25.1	110.91
As of March 31, 2007	73,274	19,723	26.9	121.81

**2. Consolidated prospects for the fiscal year ending March 31, 2008**  
**(From April 1, 2007, to March 31, 2008)** [Reference]

Regarding the consolidated prospects for the fiscal year ending March 2008 (previously announced on October 31, 2007), the Company has not made any revision to the forecasts.

**3. Others**

- (1) Significant changes in subsidiaries during the period (changes in specified subsidiaries that affected the scope of consolidation): None
- (2) Application of simplified accounting methods: Yes
- (3) Changes in accounting methods from the most recent consolidated fiscal year: Yes

(Note): For details, see 3. Others of “Qualitative Information and Financial Statements” on pages 3 to 4.

**\* Appropriate use of prospects**

*The prospects have been determined based upon currently available information, and contain uncertain factors. Due to changing factors affecting performance, actual results may differ from the prospect figures.*

## [Qualitative Information and Financial Statements]

### 1. Qualitative information on consolidated operating results

During the nine months that ended on December 31, 2007, there were increases in capital investment and improvements in employment conditions on the back of steady corporate profits, and the Japanese economy continued on a moderate path to recovery. Nevertheless, because of worrisome factors such as soaring fuel and raw material prices as well as US recession fears following the sub-prime mortgage financial crisis, feelings of uncertainty about the future of the economy have heightened.

Given the above circumstances, the group companies of Sasebo Heavy Industries (hereinafter the “Group”) posted an amount of consolidated orders received of ¥57,255 million, up 5.1% year on year, and the consolidated order backlog was ¥218,351 million.

The Group posted consolidated net sales of ¥50,192 million, up 27.2% year on year, resulting from increased sales achieved by the Shipbuilding Department. A total of eight newly-built ships were delivered by the end of the nine-month period—four units of 115,000 DWT tankers, two units of 76,000 DWT bulk carriers, one 77,000 DWT coal carrier, and one 13,000 DWT coke vessel.

In terms of profit and loss, a consolidated operating income of ¥5,687 million, up 450.0% year on year, and a consolidated ordinary income of ¥5,643 million, up 389.0% year on year, were posted. These increases resulted from improvements in the tonnage value of newly-built ships and productivity increases achieved by the Machinery Department, which offset price increases for steel materials. Although extraordinary losses occurred from items such as “Loss on valuation of investment securities,” consolidated net income increased 134.1% year on year to ¥3,050 million.

### 2. Qualitative information on consolidated financial position

Total assets at the end of the period (December 31, 2007) increased by ¥8,251 million, amounting to ¥81,526 million, compared to the end of the previous fiscal year. In addition to an increase of ¥2,048 million in “Notes and accounts receivable—trade,” the main changes in current assets were an increase of ¥7,961 million in “Marketable securities” since negotiable certificates of deposits, which had been previously treated under “Cash and deposits,” must now be treated as “Marketable securities” in accordance with “Practical Guidelines for Financial Instrument Accounting (JICPA Accounting Committee Report No. 14, July 4, 2007, latest revision).” Following this change, cash and cash equivalents decreased by ¥2,536 million. In current liabilities, “Advance received” increased by ¥5,028 million.

Although own stock repurchasing decreased net assets by ¥966 million, this was offset by a ¥2,726 million increase in retained earnings. As a result, net assets increased by ¥1,430 million to ¥21,153 million compared to the end of the previous fiscal year.

### 3. Others

#### (1) Application of the simplified accounting methods

Based on the criteria for preparing the interim consolidated financial statements, certain simplified

accounting methods have been applied to the extent that they do not lead to great misjudgments by interested parties such as investors.

(2) Changes in accounting methods from the most recent consolidated fiscal year

Effective from the nine-month period that ended on December 31, 2007, in line with the revision of the Corporate Tax Law, non-current assets acquired on or after April 1, 2007, are depreciated under the depreciation method stipulated in the revised Corporate Tax Law (buildings excluded). Such changes in the depreciation method have immaterial effect on operating income, ordinary income or net income.

[Attached Materials]

**1. Consolidated Balance Sheets for the Nine Months Ended December 31, 2007 (Summary)***(in millions of yen)*

	As of December 31, 2007	As of March 31, 2007	Increase (decrease)	As of December 31, 2006
<b>Assets</b>				
I. Current assets				
Cash and deposits	18,734	21,271	(2,536)	24,539
Notes and accounts receivable—trade	16,277	14,228	2,048	11,574
Marketable securities	9,498	1,537	7,961	33
Inventories	2,391	2,397	(5)	2,347
Deferred tax assets	1,239	2,486	(1,247)	1,343
Other current assets	2,298	1,674	624	2,277
Allowance for doubtful receivables	(55)	(45)	(10)	(38)
Total current assets	50,384	43,550	6,834	42,077
II. Non-current assets				
Property, plant and equipment	23,602	22,252	1,350	22,358
Buildings and structures	6,711	7,000	(288)	7,212
Machinery and equipment	4,217	4,340	(123)	4,256
Land	9,165	9,467	(302)	9,467
Construction in progress	2,457	419	2,038	404
Other property and equipment	1,051	1,024	27	1,017
Intangible assets	164	191	(27)	192
Intangible assets	164	191	(27)	192
Investments and others	7,374	7,280	94	6,821
Investment securities	6,824	6,999	(175)	5,663
Deferred tax assets	200	0	199	857
Others	862	791	71	812
Allowance for doubtful receivables	(511)	(511)	(0)	(511)
Total non-current assets	31,141	29,724	1,417	29,372
<b>Total assets</b>	<b>81,526</b>	<b>73,274</b>	<b>8,251</b>	<b>71,450</b>
<b>Liabilities</b>				
I. Current liabilities				
Notes and accounts payable—trade	20,823	18,930	1,893	18,183
Notes payable for equipment	1,079	852	226	588
Short-term loans payable	2,922	1,665	1,257	2,269
Current portion of bonds	50	100	(50)	100
Advance received	23,202	18,174	5,028	18,890
Reserve for guaranteed contracts	73	74	(1)	35
Reserve for loss on construction contracts	79	76	3	44
Other current liabilities	1,414	2,247	(833)	1,330
Total current liabilities	49,643	42,120	7,523	41,442
II. Non-current liabilities				
Bonds	—	50	(50)	50
Long-term loans payable	1,363	2,431	(1,068)	2,555
Deferred tax liabilities	8	100	(92)	10
Reserve for retirement benefits	8,996	8,533	463	9,220
Reserve for directors' retirement benefits	—	102	(102)	—
Reserve for special repairs	55	50	4	42
Other non-current liabilities	305	161	143	170
Total non-current liabilities	10,729	11,431	(701)	12,049
<b>Total Liabilities</b>	<b>60,373</b>	<b>53,551</b>	<b>6,821</b>	<b>53,491</b>

*(in millions of yen)*

	As of December 31, 2007	As of March 31, 2007	Increase (decrease)	As of December 31, 2006
<b><u>Net Assets</u></b>				
Shareholders' equity				
Common stock	8,414	8,414	–	8,414
Capital surplus	5,148	5,148	–	5,148
Retained earnings	7,088	4,361	2,726	3,038
Treasury stock	(974)	(7)	(966)	(7)
Total shareholders' equity	19,676	17,916	1,760	16,593
Valuation and translation adjustments				
Valuation difference on available-for-sale securities	1,475	1,805	(329)	1,363
Foreign currency translation adjustments	1	1	(0)	1
Total valuation and translation adjustment	1,476	1,806	(330)	1,364
<b>Total Net Assets</b>	<b>21,153</b>	<b>19,723</b>	<b>1,430</b>	<b>17,958</b>
<b>Total Liabilities &amp; Net Assets</b>	<b>81,526</b>	<b>73,274</b>	<b>8,251</b>	<b>71,450</b>

## 2. Consolidated Statements of Income for the Nine Months Ended December 31, 2007 (Summary)

(in millions of yen, except as otherwise noted)

	For the nine months ended December 31, 2007		For the nine months ended December 31, 2006		Increase (decrease)	For the year ended March 31, 2007	
		%		%			%
I. Net sales	50,192	100.0	39,469	100.0	10,722	53,846	100.0
II. Cost of sales	42,825		36,845		5,980	49,549	8.0
Gross profit	7,366	14.7	2,624	6.6	4,742	4,297	4.0
III. Selling, general and administrative expenses	1,679		1,590		88	2,139	4.0
Operating income	5,687	11.3	1,034	2.6	4,653	2,157	
IV. Non-operating income							
Interest and dividend income	127		60		67	69	
Foreign exchange gains	–		129		(129)	128	
Other	28		67		(39)	69	
Total non-operating income	155		257		(101)	268	
V. Non-operating expenses							
Interest expenses	123		121		2	162	
Foreign exchange losses	47		–		47	–	
Other	29		15		13	17	
Total non-operating expenses	200		136		63	180	
Ordinary income	5,643	11.2	1,154	2.9	4,488	2,245	4.2
VI. Extraordinary income							
Gain on sales of non-current assets	0		8		(8)	8	
Gain on sales of investment securities	–		23		(23)	23	
Total extraordinary gains	0		31		(31)	31	
VII. Extraordinary loss							
Loss on disposal of non-current assets	96		34		61	242	
Loss on sales of non-current assets	6		–		6	–	
Impairment losses	446		–		446	–	
Loss on valuation of investment securities	804		–		804	0	
Other	54		0		54	68	
Total extraordinary losses	1,408		34		1,373	311	
Income before income taxes	4,235	8.4	1,151	2.9	3,084	1,966	3.7
Income taxes—current	11		8		3	17	
Income taxes—deferred	1,173		(161)		1,334	(678)	
<b>Net income</b>	<b>3,050</b>	<b>6.1</b>	<b>1,303</b>	<b>3.3</b>	<b>1,746</b>	<b>2,627</b>	<b>4.9</b>

## Status of Production, Orders Received, and Sales

### (1) Production

*(in millions of yen, except as otherwise noted)*

Segment	For the nine months ended December 31, 2007		For the nine months ended December 31, 2006		Increase (decrease)		For the year ended March 31, 2007	
	Amount	%	Amount	%	Amount	% change	Amount	%
Shipbuilding	40,081	82.7	32,275	82.6	7,806	24.2	42,775	81.3
Machinery	4,478	9.2	4,035	10.3	443	11.0	5,645	10.7
Steel structure	3,092	6.4	2,020	5.2	1,072	53.1	3,223	6.1
Others	808	1.7	752	1.9	55	7.4	990	1.9
Total	48,460	100.0	39,082	100.0	9,377	24.0	52,635	100.0

### (2) Orders Received

*(in millions of yen, except as otherwise noted)*

Segment	For the nine months ended December 31, 2007		For the nine months ended December 31, 2006		Increase (decrease)		For the year ended March 31, 2007	
	Amount	%	Amount	%	Amount	% change	Amount	%
Shipbuilding	50,438	88.1	44,061	80.9	6,377	14.5	46,975	72.7
Machinery	5,347	9.3	4,777	8.7	569	11.9	6,291	9.7
Steel structure	661	1.2	4,891	9.0	(4,230)	(86.5)	10,343	16.0
Others	808	1.4	763	1.4	44	5.9	1,000	1.6
Total	57,255	100.0	54,494	100.0	2,760	5.1	64,610	100.0

### (3) Order Backlog

*(in millions of yen, except as otherwise noted)*

Segment	For the nine months ended December 31, 2007		For the nine months ended December 31, 2006		Increase (decrease)		For the year ended March 31, 2007	
	Amount	%	Amount	%	Amount	% change	Amount	%
Shipbuilding	201,106	92.1	195,346	93.6	5,760	3.0	189,366	91.4
Machinery	5,506	2.5	6,087	2.9	(581)	(9.6)	5,696	2.8
Steel structure	11,737	5.4	7,251	3.5	4,486	61.9	12,112	5.8
Others	—	—	14	0.0	(14)	(100.0)	7	0.0
Total	218,351	100.0	208,700	100.0	9,650	4.6	207,183	100.0

*(Note) Order backlog is described by the complete contract method. Of order backlog amounts for the nine months ended December 31, 2007, ¥15,777 million for shipbuilding and ¥4,067 million for steel structure are recorded as sales by the percentage of completion method.*

### (4) Sales

*(in millions of yen, except as otherwise noted)*

Segment	For the nine months ended December 31, 2007		For the nine months ended December 31, 2006		Increase (decrease)		For the year ended March 31, 2007	
	Amount	%	Amount	%	Amount	% change	Amount	%
Shipbuilding	40,415	80.5	32,877	83.3	7,538	22.9	43,999	81.7
Machinery	5,537	11.0	4,466	11.3	1,071	24.0	6,369	11.8
Steel structure	3,431	6.9	1,372	3.5	2,059	150.1	2,478	4.6
Others	808	1.6	754	1.9	53	7.1	998	1.9
Total	50,192	100.0	39,469	100.0	10,722	27.2	53,846	100.0