

Summary of Consolidated Financial Results for the First Quarter of the Fiscal Year Ending March 31, 2009

July 31, 2008

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

Listing: 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 first quarter of the fiscal year ending March 31, 2009 (From April 1, 2008 to June 30, 2008)

(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 three months ended June 30, 2008	19,706	–	2,125	–	2,272	–	1,413	–
June 30, 2007	17,199	20.5	2,174	642.0	2,200	384.6	1,382	199.1

	Net income per share	Diluted net income per share
	<i>yen</i>	<i>yen</i>
For the three months ended June 30, 2008	8.81	–
June 30, 2007	8.54	–

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	<i>millions of yen</i>	<i>millions of yen</i>	%	<i>yen</i>
June 30, 2008	88,093	21,361	24.2	133.10
March 31, 2008	84,707	20,448	24.1	127.42

Reference: Equity

As of June 30, 2008: ¥21,361 million

As of March 31, 2008: ¥20,448 million

2. Cash dividends

	Cash dividends per share				
	First quarter	Second quarter	Third quarter	Fiscal year-end	Annual
	<i>yen</i>	<i>yen</i>	<i>yen</i>	<i>yen</i>	<i>yen</i>
For the fiscal year ended March 31, 2008	–	–	–	5.00	5.00
For the fiscal year ending March 31, 2009	–	/	/	/	–
For the fiscal year ending March 31, 2009 (Forecast)	/	–	–	5.00	5.00

Note: Revision of the forecast in the first quarter of FY2009: No

3. Consolidated forecast for the fiscal year ending March 31, 2009 (From April 1, 2008 to March 31, 2009)

(Percentages indicate year-on-year changes.)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	<i>millions of yen</i>	%	<i>millions of yen</i>	%	<i>millions of yen</i>	%	<i>millions of yen</i>	%	<i>yen</i>
For the six months ending September 30, 2008	40,000	22.4	2,850	(28.6)	2,800	(29.2)	1,700	21.3	10.59
For the year ending March 31, 2009	80,000	20.1	6,000	63.5	5,900	79.1	3,000	1.4	18.69

Note: Revision of the forecasts in the first quarter of FY2009: No

4. Others

- (1) **Changes in significant subsidiaries during the period** (changes in specified subsidiaries that affected the scope of consolidation): No
- (2) **Application of simplified accounting as well as specific accounting for preparing the quarterly consolidated financial statements:** Yes

Note: For more details, please refer to the section of “4. Others” of [Qualitative Information and Financial Statements] on pages 5-6.

- (3) **Changes in accounting policies, procedures and methods of presentation for preparing the quarterly consolidated financial statements** (changes to be described in the section of “Changes in basis of preparation for the quarterly consolidated financial statements”).

- A. Changes due to adoption of revised accounting standards: Yes
- B. Changes due to other reasons: No

Note: For more details, please refer to the section of “4. Others” of [Qualitative Information and Financial Statements] on pages 5-6.

(4) Number of issued shares (common stock)

A.	Total number of issued shares at the end of the period (including treasury stock)	
	As of June 30, 2008	161,955,000 shares
	As of March 31, 2008	161,955,000 shares
B.	Number of treasury stock at the end of the period	
	As of June 30, 2008	1,468,825 shares
	As of March 31, 2008	1,468,278 shares
C.	Average number of shares during the period (cumulative from the beginning of the fiscal year)	
	For the three months ended June 30, 2008	160,486,540 shares
	For the year ended March 31, 2008	161,362,493 shares

*** Proper use of the forecast, and other special matters**

Commencing with the current fiscal year, the “Accounting Standard for Quarterly Financial Reporting” (ASBJ Statement No. 12) and the “Guidance on Accounting Standard for Quarterly Financial Reporting” (ASBJ Guidance No. 14) are applied. Also, the quarterly consolidated financial statements are prepared in accordance with the “Regulation for Quarterly Consolidated Financial Statements.”

The forecast is based on judgments and estimates that have been made on the basis of currently available information and are subject to a number of risks and uncertainties. Changes in the company’s performance and other factors may cause actual results to differ from these forecast figures.

[Qualitative Information and Financial Statements]

1. Qualitative information on consolidated operating results

There was uncertainty in the Japanese economy during the first quarter of the fiscal year ending March 31, 2009, due to soaring fuel and raw material prices and financial anxieties across the globe in the wake of the sub-prime loan crisis in the U.S.

Under these conditions, the Sasebo Group posted ¥6,097 million in consolidated orders received, a 91.9% increase over the same period of the previous fiscal year, due to factors such as favorable orders in its machinery business. Consolidated net sales were ¥19,706 million, a 14.6% increase over the same period of the previous fiscal year thanks to the improvement of new ship prices, resulting in a 28.8% increase in order backlog at the end of the first quarter to ¥251,895 million. In terms of income, a consolidated operating income of ¥2,125 million was posted, resulting from the improvement of new ship prices despite soaring purchase prices for steel and other materials and equipment. A consolidated ordinary income of ¥2,272 million was posted due to the non-operating income such as foreign exchange gain, etc., and a consolidated net income of ¥1,413 million was posted after the deduction of income taxes.

Operating results by business segment are as follows:

(1) Shipbuilding

The Group posted consolidated orders received of ¥1,540 million for its shipbuilding business, including ship repair work for commercial vessels, an increase of 8.9% compared to the previous year. Net sales totaled ¥16,361 million from new shipbuilding and ship repair work representing a 17.7% increase over the same period of the previous fiscal year. New ships delivered during the first quarter totaled 3 ships: 2 units of 115,000 DWT crude oil tankers and 1 unit of 115,000 DWT product tanker. As a result, order backlog for new shipbuilding came to 35 units. In terms of income, ¥1,579 million in operating income was posted due to the improvement of new ship prices despite soaring purchase prices for steel and other materials and equipment.

(2) Machinery

The Group posted consolidated orders received of ¥3,906 million for its machinery business, an increase of 166.6% over the same period of the previous fiscal year, representing 91 orders of equipment-related work such as marine equipment and general industrial machinery. Net sales were ¥1,858 million, a 5.9% decrease over the same period of the previous fiscal year. In terms of income, operating income was ¥951 million resulting from the effects of increased production of crankshafts brought about by capital investments despite an increase in purchase prices for materials and equipment.

(3) Steel Structures

The Group posted consolidated orders received of ¥364 million for its steel structure business, representing 5 constructions of bridges, etc., 12.5 times the figure of the same period of the previous fiscal year, during which a halt of designation of operations at the main regions occurred. Net sales reached ¥1,199 million, a 13.5% increase from the same period of the previous fiscal year. An operating loss of ¥145 million was posted due to the accounting of low profitability construction orders.

(4) Others

Other business segments are comprised mainly of transport business, etc. The Group posted orders received of ¥286 million, for an increase of 6.8% over the same period of the previous fiscal year. Net sales of ¥286 million were posted, an increase of 7.9% over the previous year, and an operating income of ¥65 million was posted.

2. Qualitative information on consolidated financial position

(a) Assets

Current assets were ¥52,422 million, an increase of ¥1,191 million from the previous consolidated fiscal year-end. Non-current assets were ¥35,670 million, an increase of ¥2,194 million from the previous consolidated fiscal year-end. This was mainly due to the increase in property, plant and equipment as a result of capital investments.

As a result, total assets were ¥88,093 million, an increase of ¥3,385 million from the previous consolidated fiscal year-end.

(b) Liabilities

Current liabilities increased by ¥2,623 million to ¥57,089 million, as compared to the previous fiscal year-end. Such increase is mainly due to increases in accounts payable and short-term loans payable. Non-current liabilities decreased by ¥150 million to ¥9,642 million.

As a result, total liabilities were ¥66,732 million, an increase of ¥2,473 from the previous consolidated fiscal year-end.

(c) Net assets

Net assets for the first quarter increased by ¥912 million to ¥21,361 million compared to the consolidated fiscal year-end due to the recording of net income.

3. Qualitative information on consolidated forecast

There are no changes in the forecast for the fiscal year ending March 31, 2009, released at the time of the announcement of financial statements on May 15, 2008. Any future changes will be properly disclosed if such occurs.

4. Others

(1) Changes in significant subsidiaries during the period

No items to report

(2) Application of simplified accounting as well as specific accounting for preparing the quarterly consolidated financial statements

[Application of simplified accounting]

a. Calculation method of the estimated loss from bad loan on general credit

Because it is recognized that there is no material change between the actual rate of bad loan, etc. at the end of the first quarter of the current fiscal year, and the actual rate of bad loan, etc. calculated at the end of the previous fiscal year, the estimated loss from bad loan are calculated using the actual rate of bad loan, etc. at the end of the previous fiscal year.

b. Calculation method of income taxes, deferred tax assets and deferred tax liabilities

The calculation of the income tax payment amount is effectuated based on the method in which the addition and subtraction items and tax deduction items are limited to the important items only. Because of the low importance of consolidated subsidiaries, the income tax payment amount for such subsidiaries is calculated by multiplying income before income taxes by the effective tax rate after the application of tax accounting in the statement of income of the previous fiscal year. Pertaining to the determination of the recoverability of deferred tax assets, because of the recognition of the absence of any material changes in business environment and other factors and in temporary differences or other events occurring after the end of the previous fiscal year, the earnings forecasts and tax planning used in the previous consolidated fiscal year are used.

[Application of specific accounting for preparing the quarterly consolidated financial statements]

No items to report

(3) Changes in accounting policies, procedures and methods of presentation for preparing the quarterly consolidated financial statements

- a. Commencing with the first quarter under review, the “Accounting Standard for Quarterly Financial Reporting” (Accounting Standards Board of Japan, ASBJ Statement No. 12; March 14, 2007) and the “Guidance on Accounting Standard for Quarterly Financial Reporting” (Accounting Standards Board of Japan, ASBJ Guidance No. 14; March 14, 2007) are applied.
- b. From the first quarter of the current fiscal year, the “Accounting Standard for Measurement of Inventories” (Accounting Standards Board of Japan, ASBJ Statement No. 9, July 5; 2006) was applied, therefore, with respect to valuation standards, the cost method was replaced by the cost method (method involving the write-down of book value due to the decreased profitability of assets). Please note that the operating income, ordinary income and income before income taxes were not affected by this change.
- c. From the first quarter of the current fiscal year, the “Accounting Standard for Lease Transactions” (Accounting Standards Board of Japan, ASBJ Statement No. 13; June 17, 1993; final revision March 30, 2007) and the “Guidance on Accounting Standard for Lease Transactions” (Accounting Standards Board of Japan, ASBJ Guidance No. 16; January 18, 1994; final revision March 30, 2007) were applied early. Please note that the operating income, ordinary income and income before income taxes were not affected by this change.

5. Consolidated financial statements
(1) Consolidated balance sheets

(in millions of yen, unless otherwise noted)

	As of June 30, 2008	As of March 31, 2008 (Summary)
Assets		
Current assets		
Cash and deposits	22,851	18,779
Notes and accounts receivable—trade	20,891	24,006
Marketable securities	1,540	1,539
Merchandise	14	13
Raw materials and supplies	1,547	1,194
Partly-finished work	1,680	1,753
Accounts receivable—other	1,410	1,216
Deferred tax assets	1,496	1,570
Other current assets	1,039	1,219
Allowance for doubtful receivables	(50)	(62)
Total current assets	52,422	51,231
Non-current assets		
Property, plant and equipment	26,413	24,613
Intangible assets	189	153
Investments and other assets	9,067	8,708
Total non-current assets	35,670	33,476
Total assets	88,093	84,707

(in millions of yen, unless otherwise noted)

	As of June 30, 2008	As of March 31, 2008 (Summary)
Liabilities		
Current liabilities		
Notes and accounts payable—trade	21,987	20,117
Notes payable for equipment	1,246	1,116
Short-term loans payable	3,829	2,039
Current portion of bonds	—	50
Accrued income taxes	877	79
Advance received	23,383	25,273
Reserve for guaranteed contracts	65	65
Reserve for loss on construction contracts	3,918	3,258
Other current liabilities	1,782	2,446
Total current liabilities	57,089	54,465
Non-current liabilities		
Long-term loans payable	1,104	1,322
Deferred tax liabilities	4	3
Reserve for retirement benefits	8,188	8,142
Reserve for special repairs	21	28
Other non-current liabilities	323	295
Total non-current liabilities	9,642	9,793
Total liabilities	66,732	64,258
Net assets		
Shareholders' equity		
Common stock	8,414	8,414
Capital surplus	5,148	5,148
Retained earnings	7,607	6,996
Treasury stock	(974)	(974)
Total shareholders' equity	20,194	19,583
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	1,166	864
Foreign currency translation adjustments	0	0
Total valuation and translation adjustments	1,166	864
Total net assets	21,361	20,448
Total liabilities and net assets	88,093	84,707

(2) Consolidated statements of income*(in millions of yen, unless otherwise noted)*

	For the three months ended June 30, 2008	
		%
Net sales	19,706	100.0
Costs of sales	16,926	
Gross profit	2,779	14.1
Selling, general and administrative expenses:	654	
Operating income	2,125	10.8
Non-operating income	198	
Interest and dividend income	78	
Foreign exchange gains	105	
Other	14	
Non-operating expenses	51	
Interest expenses	48	
Other	3	
Ordinary income	2,272	11.5
Extraordinary income	91	
Gain on sales of non-current assets	62	
Reversal of allowance for doubtful accounts	29	
Extraordinary loss	30	
Loss on disposal of non-current assets	27	
Loss on valuation of investment securities	2	
Other	0	
Income before income taxes	2,333	11.8
Income taxes—current	859	4.4
Income taxes—deferred	60	0.3
Net income	1,413	7.2

(3) Consolidated statements of cash flows*(in millions of yen, unless otherwise noted)*

For the three months ended

June 30, 2008

Cash flows from operating activities	
Net income before income taxes	2,333
Depreciation and amortization	497
Increase (decrease) in allowance for doubtful receivables	(29)
Increase (decrease) in reserve for loss on construction contracts	660
Increase (decrease) in reserve for retirement benefits	46
Increase (decrease) in reserve for special repairs	(6)
Interest and dividend income	(78)
Interest expenses	48
Foreign exchange losses (gains)	(99)
Loss (gain) on sales of non-current assets	(62)
Loss (gain) on disposal of non-current assets	27
Loss (gain) on valuation of investment securities	2
Decrease (Increase) in notes and accounts receivable—trade	3,115
Decrease (Increase) in inventories	(281)
Decrease (Increase) in consumption taxes refund receivable	(188)
Decrease (increase) in other current assets	(47)
Increase (decrease) in notes and accounts payable—trade	1,728
Increase (decrease) in advance received	(1,890)
Increase (decrease) in other current liabilities	(772)
Others	246
Subtotal	<hr/> 5,298
Interest and dividends received	71
Interest paid	(45)
Income taxes paid	(47)
Net cash provided by operating activities	<hr/> 5,275 <hr/>

(in millions of yen, unless otherwise noted)

For the three months ended
June 30, 2008

<hr/>	
Cash flows from investing activities	
Payments into time deposits	(500)
Purchase of short-term investment securities	(530)
Proceeds from sales and redemption of short-term investment securities	530
Purchase of property, plant and equipment	(2,021)
Proceeds from sales of property, plant and equipment	63
Purchase of intangible assets	(23)
Purchase of investment securities	(58)
Collection of loans receivable	0
Others	19
Net cash used in investing activities	<hr/> (2,521) <hr/>
Cash flows from financing activities	
Net increase (decrease) in short-term loans payable	1,790
Repayment of long-term loans	(218)
Payment for redemption of bonds	(50)
Dividends paid	(802)
Payments for purchases of treasury stock	(0)
Others	(1)
Net cash provided by financing activities	<hr/> 717 <hr/>
Effect of exchange rate changes on cash and cash equivalents	37
Increase (decrease) in cash and cash equivalents	<hr/> 3,509 <hr/>
Cash and cash equivalents at beginning of period	17,807
Cash and cash equivalents at end of period	<hr/> 21,317 <hr/>

Commencing with the current fiscal year, the “Accounting Standard for Quarterly Financial Reporting” (ASBJ Statement No. 12) and the “Guidance on Accounting Standard for Quarterly Financial Reporting” (ASBJ Guidance No. 14) are applied. Also, the quarterly consolidated financial statements are prepared in accordance with the “Regulation for Quarterly Consolidated Financial Statements.”

(4) Notes on premise of going concern

For the first quarter of the fiscal year ending March 31, 2009 (from April 1, 2008 to June 30, 2008)

No items to report

(5) Segment Information

[Information by business segment]

For the three months ended June 30, 2008

(in millions of yen)

	Shipbuilding	Machinery	Steel structure	Others	Total	Elimination and corporate	Consolidated
I. Net sales and operating income (loss)							
Net sales							
(1) Outside customers	16,361	1,858	1,199	286	19,706	–	19,706
(2) Inter-segment sales and transfers	–	–	359	413	773	(773)	–
Total	16,361	1,858	1,558	699	20,479	(773)	19,706
Operating income (loss)	1,579	951	(145)	65	2,451	(325)	2,125

(Notes) 1. Businesses are segmented taking into consideration the similarities in the types and nature of products and their manufacturing and sales method as well as the income tabulation classification, related assets, etc.

2. Main products of each business segment

- (1) Shipbuilding: Building, repair, and conversion of oil tankers, bulk carriers, coal carriers, ore carriers, log carriers, LPG vessels, container carriers, naval ships, marine research vessels, etc.
- (2) Machinery: Steel making and processing machinery, press machinery, heat exchangers, pressure vessels, towers/vessels, boilers for marine use, marine machinery such as fin stabilizers, crankshafts and marine diesel machinery parts, rudders
- (3) Steel structure: Marine structure such as bridges, floating pontoons, hydraulic gates, steel penstocks, steel frames, cable cranes, steel pools, pontoons/caissons
- (4) Others: Transportation service, facility management, golf course, agencies, others

[Information by geographic segment]

Not indicated because no overseas consolidated subsidiaries or branch offices existed for the first quarter of the fiscal year ending March 31, 2009 (from April 1, 2008 to June 30, 2008)

[Overseas sales]

For the first quarter of the fiscal year ending March 31, 2009 (from April 1, 2008 to June 30, 2008)

	Asia	Central America	Africa	Others	Total
I. Overseas net sales (millions of yen)	10,648	4,040	47	270	15,007
II. Consolidated net sales (millions of yen)					19,706
III. Percentage of overseas net sales to consolidated net sales (%)	54.0	20.5	0.2	1.4	76.1

(Notes) 1. The classification of countries or regions is based on geographical proximity.

2. Main countries and regions affiliated to each classification:

- (1) Asia: Hong Kong, Singapore, South Korea, the Philippines
- (2) Central America: Panama, Bahamas
- (3) Africa: Liberia
- (4) Others: USA

3. "Overseas net sales" are the net sales of the Company and its consolidated subsidiaries in countries or areas outside Japan.

(6) Notes on significant changes in the amount of shareholders' equity

For the first quarter of the fiscal year ending March 31, 2009 (from April 1, 2008 to June 30, 2008)

No items to report

Production, Orders Received, and Sales

(1) Production

(in millions of yen, unless otherwise noted)

Product category	For the three months ended June 30, 2008		For the three months ended June 30, 2007		Change	
	Amount	%	Amount	%	Amount	%
Shipbuilding	15,850	83.1	12,531	82.5	3,318	26.5
Machinery	1,850	9.7	1,512	10.0	337	22.3
Steel structure	1,087	5.7	880	5.8	207	23.5
Others	286	1.5	260	1.7	25	9.9
Total	19,074	100.0	15,184	100.0	3,889	25.6

(2) Orders Received

(in millions of yen, unless otherwise noted)

Product category	For the three months ended June 30, 2008		For the three months ended June 30, 2007		Change	
	Amount	%	Amount	%	Amount	%
Shipbuilding	1,540	25.2	1,414	44.5	125	8.9
Machinery	3,906	64.1	1,465	46.1	2,441	166.6
Steel structure	364	6.0	29	1.0	334	1,146.0
Others	286	4.7	267	8.4	18	6.8
Total	6,097	100.0	3,177	100.0	2,920	91.9

(3) Order backlog

(in millions of yen, unless otherwise noted)

Product category	For the three months ended June 30, 2008		For the three months ended June 30, 2007		Change	
	Amount	%	Amount	%	Amount	%
Shipbuilding	236,027	93.7	178,553	91.3	57,473	32.2
Machinery	7,807	3.1	5,187	2.6	2,620	50.5
Steel structure	8,059	3.2	11,895	6.1	(3,835)	(32.3)
Others	–	–	10	0.0	(10)	(100.0)
Total	251,895	100.0	195,647	100.0	56,247	28.8

(Notes) 1. Order backlog is described by the complete contract method. Of order backlog amounts for the end of the first quarter of the current fiscal year, ¥24,122 million for shipbuilding and ¥2,200 million for steel structure are recorded as sales by the percentage of completion method. Of the order backlog amount for the end of the first quarter of the previous fiscal year, ¥15,743 million for shipbuilding and ¥2,375 million for steel structures are recorded as sales by the percentage of completion method.

2. The ¥446 million increase as a result of foreign exchange rate fluctuations with respect to the foreign denominated order backlog at the end of the previous fiscal year is added to the order backlog at the end of the first quarter of the current fiscal year.

(4) Sales*(in millions of yen, unless otherwise noted)*

Product category	For the three months ended June 30, 2008		For the three months ended June 30, 2007		Change	
	Amount	%	Amount	%	Amount	%
Shipbuilding	16,361	83.0	13,902	80.8	2,459	17.7
Machinery	1,858	9.4	1,974	11.5	(115)	(5.9)
Steel structure	1,199	6.1	1,057	6.2	142	13.5
Others	286	1.5	265	1.5	20	7.9
Total	19,706	100.0	17,199	100.0	2,506	14.6