

Summary of Consolidated Financial Results for the Six Months of the Fiscal Year Ending March 31, 2009

October 30, 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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Scheduled date to file quarterly report: November 13, 2008

Figures less than one million yen have been omitted.

1. Consolidated financial results for the six months of the fiscal year ending March 31, 2009 (From April 1, 2008 to September 30, 2008)

(1) Consolidated operating results (cumulative)

(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 six months ended								
September 30, 2008	38,053	–	4,150	–	4,246	–	2,583	–
September 30, 2007	32,681	27.0	3,990	1,300.0	3,954	888.5	1,402	154.0

	Net income per share	Diluted net income per share
	<i>yen</i>	<i>yen</i>
For the six months ended		
September 30, 2008	16.10	–
September 30, 2007	8.66	–

(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				
September 30, 2008	88,020	21,854	24.8	136.18
March 31, 2008	84,707	20,448	24.1	127.42

Reference: Equity

As of September 30, 2008: ¥21,854 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 second 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 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 second quarter of FY2009: No

4. Others

(1) **Changes in significant subsidiaries during the period** (changes in specified subsidiaries resulting in the change in scope of consolidation): No

(2) **Application of simplified accounting and special 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 revisions to accounting standards and other regulations: 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 September 30, 2008	161,955,000 shares
	As of March 31, 2008	161,955,000 shares
B.	Number of treasury shares at the end of the period	
	As of September 30, 2008	1,470,244 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 six months ended September 30, 2008	160,485,731 shares
	For the six months ended September 30, 2007	161,909,835 shares

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

Commencing with the current fiscal year, the quarterly consolidated financial statements conform to the “Accounting Standard for Quarterly Financial Reporting” (ASBJ [Accounting Standards Board of Japan] Statement No. 12) and the “Guidance on Accounting Standard for Quarterly Financial Reporting” (ASBJ Guidance No. 14). They are also 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

The Japanese economy during the six months of the fiscal year ending March 31, 2009 entered a recession due to soaring raw material prices and a downturn in the global economy started from the ever deepening sub-prime loan crisis in the US and the ensuing financial crisis.

In the shipbuilding industry, in spite of a decrease of 34.7% compared to the same period of the previous year in sharp contrast of the record amount of orders posted in the previous fiscal year, global new shipbuilding orders received between January and June in this year continued at a high level with a total of 56,070 thousand gross tons. Further, the Japanese new shipbuilding orders received during the same period decreased by 30.2% compared to the previous year to 8,544 thousand gross tons because of the roughly 3 to 4 year backlog at shipyards causing them to restrain new order receipts. In the machinery industry, capital investments cooled off because an economic slowdown in the global economy became apparent, however, with respect to crankshafts, a core product of the Company, supply and demand were continuingly tight thanks to continuing favorable conditions in the new shipbuilding environment. In the steel structure industry, public investment continued on a declining trend and the environment for order receipts thus remained harsh in spite of the improvement in the successful bidding rate for public works.

Under these conditions, the Sasebo Group posted ¥32,782 million in consolidated orders received, a 38.8% decrease over the same period of the previous fiscal year. Consolidated net sales were ¥38,053 million, a 16.4% increase over the same period of the previous fiscal year thanks to the improvement of new ship prices, resulting in a 14.3% increase in order backlog at the end of the six months period under review to ¥268,793 million. In terms of income, a consolidated operating income of ¥4,150 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 ¥4,246 million was posted due to the non-operating income such as foreign exchange gains, etc., and a consolidated net income of ¥2,583 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 a total of ¥26,279 million (including ship repairs for commercial vessels) for its shipbuilding business, a decrease of 46.7% compared to the same period of the previous fiscal year representing new shipbuilding of a total of 3 ships: 1 unit of 84,500m³ LPG vessel and 2 units of 75,000 DWT bulk carriers. The order received in and before the previous fiscal year for 2 units of 180,000 DWT bulk carriers was changed to 4 units of 75,000 DWT bulk carriers by an alteration of contract. Net sales amounted to ¥31,424 million for new shipbuilding and ship repairs, up 20.2% compared to the same period of the previous fiscal year. New ships delivered during the six months period under review totaled 4 ships: 2 units of 115,000 DWT crude oil tankers and 2 units of 115,000 DWT product tanker. As a result, order backlog for new shipbuilding came to 39 units. In terms of income, ¥3,448 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 ¥5,340 million for its machinery business, an increase of 64.8% over the same period of the previous fiscal year, representing 140 orders of equipment-related work such as marine equipment and general industrial machinery. Net sales were ¥3,879 million, a 2.7% decrease over the same period of the previous fiscal year. In terms of income, operating income was ¥1,765 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 Structure

The Group posted consolidated orders received of ¥595 million for its steel structure business, an increase of 22.3% over the same period of the previous fiscal year, representing 14 constructions of bridges, etc. Net sales reached ¥2,182 million, a 7.7% increase from the same period of the previous fiscal year. An operating loss of ¥318 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 ¥566 million, for an increase of 10.1% over the same period of the previous fiscal year. Net sales of ¥566 million were posted, an increase of 10.1% over the same period of the previous fiscal year, and an operating income of ¥78 million was posted.

2. Qualitative information on consolidated financial position

(a) Assets

Current assets were ¥53,230 million, an increase of ¥1,999 million from the previous consolidated fiscal year-end. Non-current assets were ¥34,789 million, an increase of ¥1,312 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 ¥88,020 million, an increase of ¥3,312 million from the previous consolidated fiscal year-end.

(b) Liabilities

Current liabilities increased by ¥2,021 million to ¥56,486 million, as compared to the previous consolidated fiscal year-end. Such increase is mainly due to increases in accounts payable and short-term loans payable. Non-current liabilities decreased by ¥114 million to ¥9,679 million.

As a result, total liabilities were ¥66,165 million, an increase of ¥1,907 from the previous consolidated fiscal year-end.

(c) Net assets

Net assets for the second quarter increased by ¥1,405 million to ¥21,854 million compared to the consolidated fiscal year-end due to the recording of net income.

3. Qualitative information on consolidated forecast

The six months of the fiscal year ending March 31, 2009 saw increases in operating income, ordinary income and net income due to the postponement of the recording of depreciation expenses and repair expenses following the review of the capital investment action plan. However, because these expenses are expected to be recorded within the fiscal year as per the plan, no change has been made to the fiscal year forecasts announced along with the financial results on May 15, 2008.

Any future change will be appropriately disclosed.

4. Others

(1) Changes in significant subsidiaries during the period

No items to report

(2) Application of simplified accounting and special accounting for preparing the quarterly consolidated financial statements

[Application of simplified accounting]

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. 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 forecasts and tax planning used in the previous consolidated fiscal year are used.

[Application of special 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 of the fiscal year, the quarterly consolidated financial statements conform to the “Accounting Standard for Quarterly Financial Reporting” (ASBJ Statement No. 12; March 14, 2007) and the “Guidance on Accounting Standard for Quarterly Financial Reporting” (ASBJ Guidance No. 14; March 14, 2007).
- b. From the first quarter of the fiscal year, the “Accounting Standard for Measurement of Inventories” (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 fiscal year, the “Accounting Standard for Lease Transactions” (ASBJ Statement No. 13; June 17, 1993; final revision March 30, 2007) and the “Guidance on Accounting Standard for Lease Transactions” (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 September 30, 2008	As of March 31, 2008 (Summary)
Assets		
Current assets		
Cash and deposits	17,812	18,779
Notes and accounts receivable—trade	25,670	24,006
Marketable securities	2,040	1,539
Merchandise and finished goods	14	13
Raw materials and supplies	1,445	1,194
Partly-finished work	1,955	1,753
Accounts receivable—other	1,594	1,216
Deferred tax assets	1,600	1,570
Other current assets	1,157	1,219
Allowance for doubtful receivables	(61)	(62)
Total current assets	53,230	51,231
Non-current assets		
Property, plant and equipment	26,104	24,613
Intangible assets	157	153
Investments and other assets	8,527	8,708
Total non-current assets	34,789	33,476
Total assets	88,020	84,707

(in millions of yen, unless otherwise noted)

	As of September 30, 2008	As of March 31, 2008 (Summary)
Liabilities		
Current liabilities		
Notes and accounts payable—trade	22,298	20,117
Notes payable for equipment	1,334	1,116
Short-term loans payable	2,439	2,039
Current portion of bonds	—	50
Accrued income taxes	1,816	79
Advance received	23,853	25,273
Reserve for guaranteed contracts	40	65
Reserve for loss on construction contracts	3,439	3,258
Other current liabilities	1,265	2,466
Total current liabilities	56,486	54,465
Non-current liabilities		
Long-term loans payable	1,018	1,322
Deferred tax liabilities	3	3
Reserve for retirement benefits	8,332	8,142
Reserve for special repairs	20	28
Other non-current liabilities	305	295
Total non-current liabilities	9,679	9,793
Total liabilities	66,165	64,258
Net assets		
Shareholders' equity		
Common stock	8,414	8,414
Capital surplus	5,148	5,148
Retained earnings	8,777	6,996
Treasury stock	(975)	(974)
Total shareholders' equity	21,364	19,583
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	489	864
Foreign currency translation adjustments	0	0
Total valuation and translation adjustments	489	864
Total net assets	21,854	20,448
Total liabilities and net assets	88,020	84,707

(2) Consolidated statements of income

(in millions of yen, unless otherwise noted)

	For the six months ended September 30, 2008	
		%
Net sales	38,053	100.0
Costs of sales	32,537	
Gross profit	5,515	14.5
Selling, general and administrative expenses	1,364	
Operating income	4,150	10.9
Non-operating income	250	
Interest and dividend income	116	
Foreign exchange gains	73	
Other	61	
Non-operating expenses	155	
Interest expenses	95	
Other	59	
Ordinary income	4,246	11.2
Extraordinary income	315	
Gain on sales of non-current assets	296	
Reversal of allowance for doubtful receivables	19	
Extraordinary loss	303	
Loss on disposal of non-current assets	64	
Loss on sales of non-current assets	194	
Loss on valuation of investment securities	43	
Other	0	
Income before income taxes	4,258	11.2
Income taxes—current	1,779	4.7
Income taxes—deferred	(105)	(0.3)
Net income	2,583	6.8

(3) Consolidated statements of cash flows

(in millions of yen, unless otherwise noted)

	For the six months ended September 30, 2008
I. Cash flows from operating activities	
Income before income taxes	4,258
Depreciation and amortization	1,051
Increase (decrease) in allowance for doubtful receivables	(78)
Increase (decrease) in reserve for retirement benefits	189
Increase (decrease) in reserve for guaranteed contracts	(25)
Increase (decrease) in reserve for loss on construction contracts	181
Increase (decrease) in reserve for special repairs	(8)
Interest and dividend income	(116)
Gains on sales of non-current assets	(296)
Interest expenses	95
Foreign exchange gains	(69)
Loss on sales of non-current assets	194
Loss on disposal of non-current assets	64
Loss on valuation of investment securities	43
Decrease (increase) in notes and accounts receivable—trade	(1,663)
Decrease (increase) in inventories and advance payment	(246)
Decrease (increase) in consumption taxes refund receivable	(445)
Decrease (increase) in other current assets	(98)
Increase (decrease) in notes and accounts payable—trade	2,039
Increase (decrease) in advance received	(1,420)
Increase (decrease) in other current liabilities	(1,221)
Subtotal	<u>2,428</u>
Interest and dividends received	129
Interest paid	(87)
Income taxes paid	(32)
Net cash provided by operating activities	<u><u>2,437</u></u>

(in millions of yen, unless otherwise noted)

For the six months ended
September 30, 2008

II. Cash flows from investing activities	
Net decrease (increase) in deposits with maturities exceeding three months	1,035
Purchase of short-term investment securities	(1,000)
Proceeds from sales of short-term investment securities	500
Payments for retirement of property, plant and equipment	(20)
Purchase of property, plant and equipment	(3,368)
Proceeds from sales of property, plant and equipment	1,291
Purchase of investment securities	(646)
Proceeds from sales and redemption of investment securities	510
Purchase of intangible assets	(2)
Collection of loans receivable	1
Decrease (increase) in other non-current assets	49
Increase (decrease) in other non-current liabilities	(33)
Net cash used in investing activities	(1,683)
III. Cash flows from financing activities	
Proceeds from short-term loans	900
Repayment of long-term loans	(804)
Payments for redemption of bonds	(50)
Dividends paid	(795)
Payments for purchases of treasury stock	(0)
Others	(4)
Net cash used in financing activities	(755)
IV. Effect of exchange rate changes on cash and cash equivalents	36
V. Increase (decrease) in cash and cash equivalents	34
VI. Cash and cash equivalents at beginning of period	17,807
VII. Cash and cash equivalents at end of period	17,842

Commencing with the current fiscal year, the quarterly consolidated financial statements conform to 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). They are also prepared in accordance with the “Regulation for Quarterly Consolidated Financial Statements.”

(4) Notes on premise of going concern

For the second quarter of the current fiscal year (from July 1, 2008 to September 30, 2008)

No items to report

(5) Segment information

[Information by business segment]

For the six months ended September 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	31,424	3,879	2,182	566	38,053	–	38,053
(2) Inter-segment sales and transfers	–	–	591	815	1,406	(1,406)	–
Total	31,424	3,879	2,773	1,382	39,459	(1,406)	38,053
Operating income (loss)	3,448	1,765	(318)	78	4,974	(823)	4,150

(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: Bridges, floating pontoons, hydraulic gates, steel penstocks, steel frames, cable cranes, steel pools, marine structures such as 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 six months ended September 30, 2008.

[Overseas sales]

For the six months ended September 30, 2008

	Asia	Central America	Africa	Others	Total
I. Overseas net sales (millions of yen)	16,698	12,117	147	389	29,352
II. Consolidated net sales (millions of yen)					38,053
III. Percentage of overseas net sales to consolidated net sales (%)	43.9	31.8	0.4	1.0	77.1

(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, Taiwan
- (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 six months ended September 30, 2008 (from April 1, 2008 to September 30, 2008)

No items to report

Production, Orders Received and Sales

(1) Production

(in millions of yen, unless otherwise noted)

Product category	For the six months ended September 30, 2008		For the six months ended September 30, 2007		Change	
	Amount	%	Amount	%	Amount	%
Shipbuilding	30,158	82.6	25,905	83.3	4,252	16.4
Machinery	3,617	9.9	2,933	9.4	684	23.3
Steel structure	2,180	6.0	1,733	5.6	447	25.8
Others	566	1.5	514	1.7	51	10.1
Total	36,523	100.0	31,087	100.0	5,436	17.5

(2) Orders received

(in millions of yen, unless otherwise noted)

Product category	For the six months ended September 30, 2008		For the six months ended September 30, 2007		Change	
	Amount	%	Amount	%	Amount	%
Shipbuilding	26,279	80.2	49,291	92.1	(23,012)	(46.7)
Machinery	5,340	16.3	3,240	6.1	2,100	64.8
Steel structure	595	1.8	486	0.9	108	22.3
Others	566	1.7	514	0.9	51	10.1
Total	32,782	100.0	53,533	100.0	(20,750)	(38.8)

(3) Order backlog

(in millions of yen, unless otherwise noted)

Product category	As of September 30, 2008		As of September 30, 2007		Change	
	Amount	%	Amount	%	Amount	%
Shipbuilding	253,254	94.2	218,067	92.8	35,186	16.1
Machinery	7,221	2.7	4,948	2.1	2,272	45.9
Steel structure	8,316	3.1	12,090	5.1	(3,773)	(31.2)
Others	–	–	–	–	–	–
Total	268,793	100.0	235,106	100.0	33,686	14.3

(Notes) 1. Order backlog is described by the complete contract method. Of order backlog amounts for the end of the second quarter of the current fiscal year, ¥31,672 million for shipbuilding and ¥3,209 million for steel structure are recorded as sales by the percentage of completion method. Of the order backlog amount for the end of the second quarter of the previous fiscal year, ¥19,621 million for shipbuilding and ¥3,082 million for steel structure are recorded as sales by the percentage of completion method.

2. The ¥242 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 second quarter of the current fiscal year.

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

Product category	For the six months ended September 30, 2008		For the six months ended September 30, 2007		Change	
	Amount	%	Amount	%	Amount	%
Shipbuilding	31,424	82.6	26,151	80.0	5,272	20.2
Machinery	3,879	10.2	3,988	12.2	(108)	(2.7)
Steel structure	2,182	5.7	2,027	6.2	155	7.7
Others	566	1.5	514	1.6	51	10.1
Total	38,053	100.0	32,681	100.0	5,371	16.4

[Reference]

Interim Consolidated Statement of Income of the Previous Year

(Units: Millions of yen)

Accounts	September 30, 2007 (Apr. - Sep. 2007)	
		%
I. Net sales	32,681	100.0
II. Cost of sales	27,476	
Gross profit	5,205	15.9
III. Sales, general and administrative expenses	1,215	
Operating income	3,990	12.2
IV. Non-operating income	91	
Interest income and dividend income	75	
Foreign exchange gain	-	
Other non-operating income	16	
V. Non-operating expenses	127	
Interest expense	92	
Foreign exchange loss	13	
Other non-operating expenses	22	
Ordinary income	3,954	12.1
VI. Extraordinary Income	0	
Gain on sale of fixed assets	0	
Gain on sale of investment securities	-	
VII. Extraordinary loss	1,367	
Loss on sale of fixed assets	6	
Loss from disposal of fixed assets	56	
Impairment loss	446	
Provision for allowance for director retirement benefits	-	
Valuation loss on investment securities	803	
Other extraordinary losses	54	
Interim net income before tax	2,587	7.9
Corporate income, inhabitant and enterprise taxes	11	0.0
Income tax adjustment	1,173	3.6
Interim net income	1,402	4.3