

**Summary of Consolidated Financial Results
for the First Three Months of the Fiscal Year Ending March 31, 2011
<under Japanese GAAP>**

July 29, 2010

Company name: **Sasebo Heavy Industries Co., Ltd.**
 Listing: Tokyo Stock Exchange 1st Section
 Osaka Securities Exchange 1st Section
 Fukuoka Stock Exchange
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Scheduled date to file quarterly securities report: August 12, 2010
 Scheduled date to commence dividend payments: –
 Preparation of supplementary material on quarterly financial results: None
 Holding of quarterly financial results presentation meeting: None

Figures less than one million yen have been omitted.

**1. Consolidated financial results for the first three months of the fiscal year ending
March 31, 2011 (From April 1, 2010 to June 30, 2010)**

(1) Consolidated operating results (cumulative) *(Percentages indicate year-on-year changes.)*

	Net sales		Operating income		Ordinary income		Net income	
	<i>millions of yen</i>	%						
For the three months ended								
June 30, 2010	8,398	(52.4)	1,133	83.6	1,065	108.6	1,747	507.2
June 30, 2009	17,659	(10.4)	617	(71.0)	510	(77.5)	287	(79.6)

	Net income per share	Diluted net income per share
For the three months ended	<i>yen</i>	<i>yen</i>
June 30, 2010	10.89	–
June 30, 2009	1.79	–

(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, 2010	82,162	25,879	31.5	161.27
March 31, 2010	80,840	25,126	31.1	156.57

Reference: Equity

As of June 30, 2010: ¥25,879 million
 As of March 31, 2010: ¥25,126 million

2. Cash dividends

	Annual dividends				
	First quarter-end	Second quarter-end	Third quarter-end	Year-end	Total
	<i>yen</i>	<i>yen</i>	<i>yen</i>	<i>yen</i>	<i>yen</i>
For the year ended March 31, 2010	–	–	–	4.00	4.00
For the year ending March 31, 2011	–				
For the year ending March 31, 2011 (Forecast)		–	–	5.00	5.00

Note: Revision of the forecast in the first quarter of FY2011: None

3. Consolidated forecast for the fiscal year ending March 31, 2011 (From April 1, 2010 to March 31, 2011)

(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, 2010	23,000	(30.9)	3,000	(25.4)	2,850	(19.0)	2,900	41.2	18.07
For the year ending March 31, 2011	65,000	2.1	6,000	(25.3)	5,700	(23.0)	5,000	33.9	31.16

Note: Revision of the forecast in the first quarter of FY2011: None

4. Others (For details, please refer to “Other information” on page 7 of the Attached Materials)

(1) **Changes in significant subsidiaries during the current quarter:** None

Note: Changes in specified subsidiaries that affected the scope of consolidation during the current quarter

(2) **Application of simplified accounting and special accounting:** Yes

Note: Application of simplified accounting and special accounting for preparing the quarterly consolidated financial statements

(3) **Changes in accounting policies, procedures and methods of presentation**

A. Changes due to adoption of revised accounting standards: Yes

B. Changes due to other reasons: None

Note: Changes in accounting policies, procedures and methods of presentation for preparing quarterly consolidated financial statements stated in the section of “changes in significant matters forming the basis of preparing the quarterly consolidated financial statements”

(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, 2010	161,955,000 shares
As of March 31, 2010	161,955,000 shares

B. Number of treasury shares at the end of the period

As of June 30, 2010	1,478,961 shares
As of March 31, 2010	1,478,734 shares

C. Average number of outstanding shares during the period
(cumulative from the beginning of the fiscal year)

For the three months ended June 30, 2010	160,476,114 shares
For the three months ended June 30, 2009	160,478,885 shares

*** Indication regarding execution of quarterly review procedures**

This quarterly financial results report is not subject to the quarterly review procedures in accordance with the Financial Instruments and Exchange Act. At the time of disclosure of this quarterly financial results report, the quarterly review procedures are incomplete.

*** Explanation concerning proper use of the forecasts and other specific matters**

All forward-looking statements in this document are based on information currently available and on certain assumptions that we consider reasonable. Actual results may vary significantly due to various factors. Regarding the conditions in the forecasts above and cautionary statements concerning the use of these forecasts, see “Qualitative information on consolidated forecast” on page 3 of the Attached Materials to this quarterly financial results report.

Attached Materials

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1. Qualitative information on consolidated financial results for the first three months

(1) Qualitative information regarding consolidated operating results

The Japanese economy during the first quarter of the fiscal year ending March 31, 2011 showed signs of a partial recovery as exports increased on the heels of expanded internal demand in China and other emerging countries whose economic growth is continuing. However, trends such as delayed improvement in the employment situation and others were eating away at the self-sustainability of economic recovery and Europe's financial instability caused the yen to continue on a rising trend pushing down stock markets. Thus, the economy's future direction still remained unclear.

Under the above circumstances, the Sasebo Group posted consolidated orders received of ¥8,720 million, an increase of 129.4% over the same period of the previous fiscal year. One of the factors behind this result was that we started again to accept new shipbuilding orders. The Group posted total consolidated sales of ¥8,398 million, a decrease of 52.4% from the same period of the previous fiscal year resulting from such factors as the application of the completed-contract method to account for some of the new shipbuilding sales. The consolidated order backlog at the end of the first quarter of the current fiscal year was ¥115,083 million, a decrease of 48.6% from the same period of the previous fiscal year, partially attributable to our unwillingness of getting new shipbuilding orders in the previous fiscal year and the cancellation of new shipbuilding contracts for 8 units received up to the previous fiscal year, despite the acceptance of new shipbuilding orders mentioned above. In terms of income, as a result of improved profitability in the shipbuilding business due in part to the sales posting of new shipbuilding more profitable than those in the same period of the previous fiscal year, consolidated operating income was ¥1,133 million, an 83.6% increase over the same period of the previous fiscal year with ordinary income of ¥1,065 million, a 108.6% increase. The cancellation fees relating to the cancelled new shipbuilding contracts was posted as extraordinary income, resulting in a net income of ¥1,747 million, an increase of 507.2% over the same period of the previous fiscal year.

Results by segment are as follows.

(a) Shipbuilding

The Group posted orders received of ¥7,714 million in the shipbuilding business. Included in this amount were new shipbuilding orders for 2 units of 75,000 DWT bulk carriers as well as ship repairs for United States Navy vessels and for commercial vessels, among others. Net sales amounted to ¥6,601 million due in part to the application of the completed-contract method to account for some of the new shipbuilding sales. New ships delivered during the first quarter totaled 2 ships: 1 unit of 115,000 DWT crude oil tanker and 1 unit of 180,000 DWT bulk carrier. In addition, there was the cancellation of new shipbuilding contracts for 8 units received up to the previous fiscal year and as a result, the order backlog for new shipbuilding came to 18 units. In terms of income, segment profit was ¥555 million due to factors such as the sales recording of new shipbuilding more profitable than those of the same period of the previous fiscal year.

(b) Machinery

The Group posted orders received of ¥736 million for its machinery business representing orders of equipment-related work for marine equipment and general industrial machinery, etc. Net sales amounted to ¥1,527 million due to the withdrawal from the bridges business among other factors. In terms of income, segment profit was ¥472 million as a result of the decline in net sales and other factors.

(c) Others

Other business segments are comprised mainly of meal delivery service, etc. The Group posted orders received of ¥269 million. Net sales were ¥269 million and segment profit was ¥12 million.

(2) Qualitative information on consolidated financial position

(Assets)

Current assets were ¥48,512 million, an increase of ¥2,494 million from the previous fiscal year-end. This was mainly due to an increase in cash and deposits resulting from delivery of new ships. The application of the completed-contract method to account for some of the new shipbuilding sales resulted in a ¥5,946 million increase in work in process, while notes and accounts receivable-trade fell ¥6,496 million compared to the end of the previous fiscal year. Non-current assets were ¥33,650 million, a decrease of ¥1,172 million from the previous fiscal year-end. This was mainly due to a decrease in property, plant and equipment resulting from depreciation etc. and a decrease in investment securities accompanying the stock market decline.

As a result, total assets were ¥82,162 million, an increase of ¥1,322 million from the previous fiscal year-end.

(Liabilities)

Current liabilities were ¥40,499 million, an increase of ¥180 million from the previous fiscal year-end. This was mainly because of an increase in accrued income taxes resulting from the recording of net income despite a decrease in advance received. Non-current liabilities were ¥15,783 million, an increase of ¥388 million from the previous fiscal year-end. This was mainly due to an increase in long-term loans payable.

As a result, total liabilities were ¥56,283 million, an increase of ¥569 million from the previous fiscal year-end.

(Net assets)

Total net assets were ¥25,879 million, an increase of ¥752 million from the previous fiscal year-end. This was mainly due to an increase in retained earnings resulting from the recording of net income despite a decrease in valuation difference on available-for-sale securities accompanying the stock market decline.

(3) Qualitative information on consolidated forecast

Although predicting potential impacts on the Group's future performance such as the purchase price trend for steel and other materials and equipment continues to be difficult, the consolidated operating results for the first quarter of the current fiscal year was in line with the Group's plan. Consequently, there are no changes to the forecast announced on May 26, 2010. Any future change will be appropriately disclosed.

2. Other information

(1) Summary of changes in significant subsidiaries

No items to report

(2) Summary of simplified accounting and special accounting

[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 occurred after the end of the previous fiscal year, the financial forecast 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) Summary of changes in accounting policies, procedures and methods of presentation

Application of “Accounting Standards for Asset Retirement Obligations,” etc.

Effective from the first quarter of the current fiscal year, “Accounting Standards for Asset Retirement Obligations” (ASBJ Statement No. 18, March 31, 2008) and “Guidance on Accounting Standards for Asset Retirement Obligations” (ASBJ Guidance No. 21, March 31, 2008) are applied.

As a result, operating income and ordinary income decreased by ¥0 million, respectively, and income before income taxes decreased by ¥8 million.

(4) Summary of significant events, etc. regarding premise of going concern

No items to report

3. Consolidated financial statements

(1) Consolidated balance sheets

(in millions of yen, unless otherwise noted)

	As of June 30, 2010	As of March 31, 2010 (Summary)
Assets		
Current assets		
Cash and deposits	24,705	22,876
Notes and accounts receivable—trade	10,658	17,155
Short-term investment securities	70	40
Merchandise and finished goods	17	16
Work in process	9,089	3,143
Raw materials and supplies	947	580
Deferred tax assets	455	308
Other	2,568	1,898
Allowance for doubtful receivables	(1)	(1)
Total current assets	48,512	46,017
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	9,767	9,917
Land	7,546	7,567
Other, net	10,088	10,575
Total property, plant and equipment	27,402	28,060
Intangible assets	221	239
Investments and other assets		
Investment securities	3,438	4,052
Deferred tax assets	2,278	2,035
Other	580	706
Allowance for doubtful receivables	(271)	(271)
Total investments and other assets	6,025	6,522
Total non-current assets	33,650	34,822
Total assets	82,162	80,840

(in millions of yen, unless otherwise noted)

	As of June 30, 2010	As of March 31, 2010 (Summary)
Liabilities		
Current liabilities		
Notes and accounts payable—trade	15,270	16,168
Notes payable—facilities	788	610
Short-term loans payable	4,906	4,068
Income taxes payable	1,444	159
Advance received	15,631	16,960
Provision for construction warranties	56	56
Provision for loss on construction contracts	590	5
Other	1,812	2,289
Total current liabilities	40,499	40,319
Non-current liabilities		
Long-term loans payable	9,969	9,614
Deferred tax liabilities	2	2
Provision for retirement benefits	5,512	5,430
Provision for special repairs	39	35
Other	258	311
Total non-current liabilities	15,783	15,394
Total liabilities	56,283	55,713
Net assets		
Shareholders' equity		
Capital stock	8,414	8,414
Capital surplus	5,148	5,148
Retained earnings	13,281	12,175
Treasury stock	(976)	(976)
Total shareholders' equity	25,867	24,761
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	12	365
Total valuation and translation adjustments	12	365
Total net assets	25,879	25,126
Total liabilities and net assets	82,162	80,840

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

	For the three months ended June 30, 2009	For the three months ended June 30, 2010
Net sales	17,659	8,398
Cost of sales	16,352	6,675
Gross profit	1,306	1,722
Selling, general and administrative expenses	689	589
Operating income	617	1,133
Non-operating income		
Interest and dividends income	40	39
Other	17	6
Total non-operating income	57	46
Non-operating expenses		
Interest expenses	48	65
Foreign exchange losses	110	35
Other	5	13
Total non-operating expenses	164	114
Ordinary income	510	1,065
Extraordinary income		
Contract cancellation revenue	–	2,042
Gain on sales of non-current assets	0	0
Reversal of allowance for doubtful receivables	1	–
Other	–	22
Total extraordinary income	1	2,064
Extraordinary loss		
Loss on sales of non-current assets	1	–
Loss on disposal of non-current assets	14	8
Impairment loss	–	34
Loss on valuation of investment securities	0	–
Other	–	7
Total extraordinary losses	15	51
Income before income taxes	497	3,078
Income taxes—current	190	1,488
Income taxes—deferred	18	△157
Total income taxes	209	1,330
Income before minority interests	287	1,747
Minority interests in income	–	–
Net income	287	1,747

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

	For the three months ended June 30, 2009	For the three months ended June 30, 2010
Cash flows from operating activities		
Income before income taxes	497	3,078
Depreciation and amortization	762	891
Increase (decrease) in allowance for doubtful receivables	(10)	–
Increase (decrease) in provision for loss on construction contracts	195	585
Increase (decrease) in provision for retirement benefits	46	82
Increase (decrease) in provision for special repairs	6	4
Interest and dividend income	(40)	(39)
Interest expenses	48	65
Foreign exchange losses (gains)	0	0
Loss (gain) on sales of property, plant and equipment	0	(0)
Loss (gain) on disposal of non-current assets	14	8
Impairment losses	–	34
Loss (gain) on valuation of investment securities	0	–
Decrease (increase) in notes and accounts receivable—trade	(1,541)	6,496
Decrease (increase) in inventories	470	(6,314)
Decrease (increase) in consumption taxes refund receivable	187	(171)
Decrease (increase) in other current assets	(333)	(501)
Increase (decrease) in notes and accounts payable—trade	(2,046)	(134)
Increase (decrease) in advance received	(1,336)	(1,329)
Increase (decrease) in other current liabilities	(842)	(623)
Subtotal	(3,920)	2,132
Interest and dividends received	36	38
Interest paid	(59)	(73)
Income taxes paid	(1,831)	(190)
Net cash provided by operating activities	(5,774)	1,906

(in millions of yen, unless otherwise noted)

	For the three months ended June 30, 2009	For the three months ended June 30, 2010
Cash flows from investing activities		
Proceeds from sales and redemption of securities	500	–
Purchase of property, plant and equipment	(2,011)	(831)
Payments for retirement of property, plant and equipment	–	(15)
Proceeds from sales of property, plant and equipment	2	0
Proceeds from sales and redemption of investment securities	–	30
Payments of loans receivable	(2)	–
Collection of loans receivable	0	0
Other	27	67
Net cash used in investing activities	(1,484)	(748)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	3,247	300
Proceeds from long-term loans	–	1,100
Repayment of long-term loans	(218)	(207)
Dividends paid	(802)	(482)
Payments for purchases of treasury stock	(0)	(0)
Other	(3)	(7)
Net cash used in financing activities	2,221	701
Effect of exchange rate changes on cash and cash equivalents	(0)	(0)
Increase (decrease) in cash and cash equivalents	(5,037)	1,859
Cash and cash equivalents at beginning of period	16,898	22,916
Cash and cash equivalents at end of period	11,860	24,776

(4) Notes on premise of going concern

No items to report

(5) Segment information

[Information by business segment]

For the three months ended June 30, 2009

(in millions of yen, unless otherwise noted)

	Shipbuilding	Machinery and steel structure	Others	Total	Elimination and corporate	Consolidated
Net sales						
(1) Outside customers	14,739	2,645	274	17,659	–	17,659
(2) Inter-segment sales and transfers	–	336	451	787	(787)	–
Total	14,739	2,981	725	18,447	(787)	17,659
Operating income	94	775	36	905	(288)	617

(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 and steel structure: Steel making and processing machinery, press machinery, heat exchangers, pressure vessels, tower/vessels, boilers for marine use, marine machinery such as fin stabilizers, crankshafts and marine diesel machinery parts, rudders, bridges, floating pontoons, hydraulic gates, steel penstocks, steel frames, cable cranes, steel pools, marine structure such as pontoons/caissons
- (3) Others: Transportation service, facility management, golf course, agencies, others

3. Additional information

The Company decided by resolution at its Board of Directors held on March 26, 2009, to withdraw from the bridges business, the mainstay product of the steel structure segment. The estimated time of withdrawal is around March 2010, which is when the construction backlog is scheduled to be completed. Because this business comprises only activities to finish the construction backlog, the materiality of amounts have considerably dropped and it is no longer the size at which segment information is independently presented. Steel structure business other than the bridges business will be merged with the existing machinery business which shares similarities with respect to products and manufacturing method, and will continue. As of April 1, 2009, Machinery & Steel Structure Division was newly established. As a result, the previous business segments of "Shipbuilding," "Machinery," "Steel structure," and "Others," have been changed to "Shipbuilding," "Machinery and steel structure," and "Others." Net sales to outside customers, inter-segment sales and transfers and operating income for "Steel structure" which is now included in "Machinery and steel structure" was ¥987 million, ¥336 million and ¥19 million, respectively.

[Information by geographic segment]

For the three months ended June 30, 2009

Not indicated because no overseas consolidated subsidiaries or branch offices existed in the first quarter.

[Overseas sales]

For the three months ended June 30, 2009

(in millions of yen, unless otherwise noted)

	Asia	Central America	Africa	Others	Total
I. Overseas net sales	6,835	2,259	2,778	535	12,409
II. Consolidated net sales	–	–	–	–	17,659
III. Percentage of overseas net sales to consolidated net sales (%)	38.7	12.8	15.8	3.0	70.3

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

2. Main countries and regions affiliated to each classification:

- (1) Asia: Hong Kong, Singapore, the Philippines
- (2) Central America: Panama
- (3) Africa: Liberia
- (4) Others: USA, UK, the Marshall Islands

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

[Segment information]
(Additional information)

Effective from the first quarter of the current fiscal year, “Accounting Standard for Disclosures about Segments of an Enterprise and Related Information” (ASBJ Statement No. 17, March 27, 2009) and “Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information” (ASBJ Guidance No. 20, March 21, 2008).

1. Overview of reportable segments

The reportable segments of the Company are constituent units of the Company whose separate financial information is obtainable. These segments are periodically examined by the Board of Directors for the purpose of deciding the allocation of business resources and evaluating the operating results.

The organizational framework of the Company is a business unit organization whose purpose is the optimal, company-wide distribution of business resources and the meticulous management of income/loss for each business. Accordingly, the Company consists of segments divided by product based on business units, and “Shipbuilding” and “Machinery” are reportable segments.

“Shipbuilding” is engaged in building, repair and conversion of oil tankers, bulk carriers, naval ships, marine research vessels, etc. “Machinery” is engaged in manufacture and sales of crankshafts and marine diesel machinery parts, marine machinery such as fin stabilizers, and steel making and processing machinery, etc.

2. Information on net sales, profit or loss amount by reportable segment

For the three months ended June 30, 2010

(in millions of yen, unless otherwise noted)

	Reportable segments			Others	Total	Adjustment	Amount recorded in the quarterly consolidated statement of income (Note 3)
	Shipbuilding	Machinery	Total				
Net sales							
Outside customers	6,601	1,527	8,128	269	8,398	–	8,398
Inter-segment sales and transfers	–	–	–	509	509	(509)	–
Total	6,601	1,527	8,128	779	8,908	(509)	8,398
Segment profit	555	472	1,027	12	1,039	93	1,133

- (Notes) 1. The “Others” category is a business segment not included in the reportable segments. It includes school meal service, golf course business and transportation business, etc.
2. Selling, general and administrative expenses and other corporate expenses are distributed to each segment based on budget amounts and any budgetary variances between actual expenses and the budgeted amount are not distributed. These budgetary variances are included in the ¥93 million recorded as adjustment in segment profit.
3. Segment profit is adjusted with operating income in the quarterly consolidated statement of income.

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

No items to report

4. Supplemental information

Production, orders received and sales

(1) Production

(in millions of yen, unless otherwise noted)

	For the three months ended June 30, 2010		For the three months ended June 30, 2009		Change	
	Amount	%	Amount	%	Amount	%
Shipbuilding	15,170	90.5	17,144	87.0	(1,973)	(11.5)
Machinery	1,321	7.9	2,294	11.6	(960)	(42.4)
Others	269	1.6	274	1.4	(18)	(1.8)
Total	16,761	100.0	19,713	100.0	(2,952)	(15.0)

(2) Orders received

(in millions of yen, unless otherwise noted)

	For the three months ended June 30, 2010		For the three months ended June 30, 2009		Change	
	Amount	%	Amount	%	Amount	%
Shipbuilding	7,714	88.5	1,377	36.2	6,336	459.9
Machinery	736	8.4	2,149	56.6	(1,400)	(65.7)
Others	269	3.1	274	7.2	(18)	(1.8)
Total	8,720	100.0	3,802	100.0	4,918	129.4

(3) Order backlog

(in millions of yen, unless otherwise noted)

	For the three months ended June 30, 2010		For the three months ended June 30, 2009		Change	
	Amount	%	Amount	%	Amount	%
Shipbuilding	110,729	96.2	211,504	94.4	(100,774)	(47.7)
Machinery	4,354	3.8	12,543	5.6	(8,188)	(65.3)
Others	–	–	–	–	–	–
Total	115,083	100.0	224,047	100.0	(108,963)	(48.6)

(Note) Order backlog is described by the complete contract method. Of order backlog amounts as of June 30, 2010, ¥11,659 million for shipbuilding and ¥645 million for machinery and, of those as of June 30, 2009, ¥29,678 million for shipbuilding and ¥4,590 million for machinery are recorded as sales by the percentage of completion method.

(4) Sales

(in millions of yen, unless otherwise noted)

	For the three months ended June 30, 2010		For the three months ended June 30, 2009		Change	
	Amount	%	Amount	%	Amount	%
Shipbuilding	6,601	78.6	14,739	83.5	(8,138)	(55.2)
Machinery	1,527	18.2	2,645	15.0	(1,104)	(42.2)
Others	269	3.2	274	1.5	(18)	(1.8)
Total	8,398	100.0	17,659	100.0	(9,260)	(52.4)