

Translation

## Summary of Consolidated Financial Results for the First Three Months of the Fiscal Year Ending March 31, 2014 <under Japanese GAAP>

August 12, 2013

Company name: **Sasebo Heavy Industries Co., Ltd.**  
Listing: Tokyo Stock Exchange 1st Section  
Fukuoka Stock Exchange  
Stock code: 7007  
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Scheduled date to file quarterly securities report: August 13, 2013

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, 2014 (From April 1, 2013 to June 30, 2013)**

#### **(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 three months ended								
June 30, 2013	7,721	(29.4)	(349)	–	(241)	–	(892)	–
June 30, 2012	10,932	(39.5)	297	(90.9)	104	(96.7)	(416)	–

Note: Comprehensive income

For the three months ended June 30, 2013: ¥(696) million [–%]

For the three months ended June 30, 2012: ¥(698) million [–%]

	Net income per share	Diluted net income per share
For the three months ended	<i>yen</i>	<i>yen</i>
June 30, 2013	(5.56)	–
June 30, 2012	(2.60)	–

#### **(2) Consolidated financial position**

	Total assets	Net assets	Equity ratio
As of	<i>millions of yen</i>	<i>millions of yen</i>	%
June 30, 2013	66,103	26,648	40.3
March 31, 2013	65,795	27,345	41.6

Reference: Equity

As of June 30, 2013: ¥26,648 million

As of March 31, 2013: ¥27,345 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, 2013	–	0.00	–	0.00	0.00
For the year ending March 31, 2014	–				
For the year ending March 31, 2014 (Forecast)		0.00	–	0.00	0.00

Note: Revision of the forecast most recently announced: None

## 3. Consolidated forecast for the fiscal year ending March 31, 2014 (From April 1, 2013 to March 31, 2014)

(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, 2014	30,000	(16.5)	(2,400)	–	(2,800)	–	(3,600)	–	(22.43)

Note: Revision of the forecast most recently announced: Yes

Consolidated forecast for the six-month period is not presented as financial target is managed only on an annual basis.

### \* Notes

(1) **Changes in significant subsidiaries during the first three months of the current fiscal year**  
(changes in specified subsidiaries that affected the scope of consolidation): None

(2) **Application of special accounting for preparing the quarterly consolidated financial statements:** None

(3) **Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements after error corrections**

A. Changes in accounting policies due to adoption of revised accounting standards: None

B. Changes in accounting policies due to other reasons: None

C. Changes in accounting estimates: None

D. Restatement of prior period financial statements after error corrections: None

(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, 2013	161,955,000 shares
As of March 31, 2013	161,955,000 shares

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

As of June 30, 2013	1,491,420 shares
As of March 31, 2013	1,488,730 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, 2013	160,464,753 shares
For the three months ended June 30, 2012	160,468,608 shares

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

This quarterly financial results report is exempt from the quarterly review procedures pursuant to the Financial Instruments and Exchange Act. At the time of disclosure of this quarterly financial results report, the quarterly review procedures are in progress.

**\* Explanation and other specific matters concerning proper use of the forecast**

All forward-looking statements in this document are based on information currently available and on certain assumptions that we consider reasonable and include elements of risk and uncertainty. The Company makes no assurances concerning their realization. Therefore, investors are advised and recommended not to base their investment decisions on the statements in this document alone. Please be informed that as a result of various factors, actual financial results may differ considerably from these financial forecasts. Factors affecting actual financial results include the economic situation surrounding the Sasebo Group and the foreign exchange rate of the yen against the US dollar.

Attached Materials

Index

- 1. Qualitative information on settlement of accounts for the first three months ..... 2
  - (1) Information on operating results ..... 2
  - (2) Information on financial position..... 3
  - (3) Information on consolidated forecast and other forward-looking statements ..... 3
- 2. Matters on summary information (notes) ..... 4
  - (1) Changes in significant subsidiaries during the first three months of the current fiscal year..... 4
  - (2) Application of special accounting for preparing the quarterly consolidated financial statements... 4
  - (3) Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements after error corrections ..... 4
- 3. Quarterly consolidated financial statements ..... 5
  - (1) Quarterly consolidated balance sheets ..... 5
  - (2) Quarterly consolidated statements of income and comprehensive income..... 7
  - (3) Notes to quarterly consolidated financial statements ..... 9
    - (Notes on premise of going concern) ..... 9
    - (Notes on significant changes in the amount of shareholders' equity) ..... 9
    - (Segment information) ..... 9
- 4. Supplemental information ..... 10
  - Production, orders received and sales ..... 10

## **1. Qualitative information on settlement of accounts for the first three months**

### **(1) Information on operating results**

During the first three months of the fiscal year ending March 31, 2014, the Japanese economy showed signs of recovery mainly on the back of correction in the strength of the yen and improved corporate earnings as a result of economic measures implemented by the administration of Prime Minister Shinzo Abe. Overseas economies, on the other hand, were afflicted by concerns about economic slowdown primarily reflecting the prolonged downturn in Europe and the weakened growth potential of emerging countries. Accordingly, the economic outlook for Japan remains unclear because of the risk of downward pressure from these external factors.

Under such circumstances, the Sasebo Group posted consolidated orders received of ¥10,602 million, an increase of 103.3% from the same period of the previous fiscal year, owing to new shipbuilding orders for 3 units, among other factors. Consolidated net sales amounted to ¥7,721 million, decreasing 29.4% from the same period of the previous fiscal year because of progress on low-priced new shipbuilding orders. As a result, the consolidated order backlog as of June 30, 2013 was ¥36,324 million, a decrease of 15.9% from the same period of the previous fiscal year. In terms of income, the Group posted a consolidated operating loss of ¥349 million (vs. consolidated operating income of ¥297 million in the same period of the previous fiscal year) mainly due to a deterioration in profit and loss in line with the fall in net sales. The Group posted a consolidated ordinary loss of ¥241 million (vs. consolidated ordinary income of ¥104 million in the same period of the previous fiscal year) as a result of the recording of foreign exchange income and others. In addition to the aforementioned, after the losses mentioned in “Notice Regarding Result of Applications for Voluntary Retirement at the Company and Recording of Extraordinary Loss,” which was separately announced today (in Japanese only), and others were included in extraordinary items, and income taxes were recorded, consolidated net loss was ¥892 million (vs. consolidated net loss of ¥416 million in the same period of the previous fiscal year).

Results by segment are as follows.

#### **(a) Shipbuilding**

The Group posted orders received of ¥8,194 million in the shipbuilding business, a 101.2% increase from the same period of the previous fiscal year. Included in this amount were new shipbuilding orders for 3 units of 77,000 DWT bulk carriers and ship repairs for the Japan Maritime Self-Defense Force, United States Navy vessels, and commercial vessels. Net sales amounted to ¥6,865 million, decreasing 31.1% from the same period of the previous fiscal year as a result of progress on low-priced new shipbuilding orders. The shipbuilding business posted a segment loss of ¥402 million (vs. segment profit of ¥150 million in the same period of the previous fiscal year). The order backlog for new shipbuilding as of June 30, 2013 came to 10 units.

#### **(b) Machinery**

The Group posted orders received of ¥2,217 million in the machinery business, an increase of 162.9% from the same period of the previous fiscal year, representing equipment-related work in the areas of equipment for marine use and general industrial machinery, etc. Net sales were ¥664 million, a slight decline of 0.7% from the same period of the previous fiscal year. This was mainly the result of firmness in sales of machineries for chemical industry and sales to public enterprises, which partially offset the impact of lower crankshaft prices caused by deterioration in the shipping market. The machinery business posted a segment loss of ¥75 million (vs. segment loss of ¥30 million in the same period of the previous fiscal year).

#### **(c) Others**

The “Others” business segment is comprised mainly of meal delivery service, etc. Orders received and net sales were both ¥191 million, a decrease of 36.2% from the same period of the previous fiscal year and segment loss was ¥39 million (vs. segment profit of ¥21 million in the same period of the previous fiscal year).

## **(2) Information on financial position**

(Total assets)

Total assets were ¥66,103 million, an increase of ¥308 million from the previous fiscal year-end. Current assets were ¥41,383 million, an increase of ¥2,096 million from the previous fiscal year-end and non-current assets were ¥24,719 million, a decrease of ¥1,788 million from the previous fiscal year-end. This was mainly due to the transfer of certain time deposits from non-current assets to current assets.

(Liabilities)

Total liabilities were ¥39,454 million, an increase of ¥1,004 million from the previous fiscal year-end. Current liabilities were ¥27,496 million, an increase of ¥6,575 million from the previous fiscal year-end and non-current liabilities were ¥11,958 million, a decrease of ¥5,570 million from the previous fiscal year-end. This was mainly due to the transfer of certain long-term loans payable from non-current liabilities to current liabilities.

(Net assets)

Total net assets were ¥26,648 million, a decrease of ¥696 million from the previous fiscal year-end. This was mainly due to a decrease in retained earnings resulting from the recording of consolidated net loss.

## **(3) Information on consolidated forecast and other forward-looking statements**

In the outlook of the Japanese economy, expectations for new fiscal and monetary policies taken by the Japan's new administration have been driving depreciation in the yen, and signs of economic recovery, though modest, are emerging. Meanwhile, the economic outlook remains unclear due to the risk of downward pressure from uncertainties surrounding the overseas economy such as the European debt problems.

In the shipbuilding industry, new shipbuilding prices continue to be at a low level amid the ongoing surplus supply of new ships and low sea-freight charges. Furthermore, regarding orders received, as new shipbuilding completions continue to be at the highest ever level, the Company expects that competition for new orders received will further intensify in future. Given the aforementioned, major challenges facing the ship yards in Japan are implementation of further cost reductions to face off against South Korea and China, strengthening of competitiveness by developing high value-added vessels, and passing down of technical skills from the experienced employees to younger generations. In the machinery industry, although the Company expects demand related to reconstruction of the areas affected by the Great East Japan Earthquake, there is a concern over worsening profitability in equipment for marine use, including crankshafts, a core product of the Company, due to the slowdown in the new shipbuilding market.

To address these difficult business circumstances, on October 25, 2012, the Group announced Management Policies for the Coming Three Years (Business Structure Reforms), under which the Company will downsize new shipbuilding business operations, its major business, while other businesses excluding new shipbuilding, such as naval and ship repair business, will be reinforced. Thereby the Group aimed to return to profitability in the 2014 fiscal year under the policy to implement the business portfolio transformation. In line with this management policy, the Group re-examined its net sales goals in the course of developing detailed plans by the end of 2015 fiscal year, and found that the goals in businesses excluding new shipbuilding were unlikely to be achieved and that it would be difficult to return to profitability in the 2014 fiscal year as set in the previous business plan.

Thus taking the aforementioned background into account, the Group re-examined the whole business plan and re-established "a new medium term business plan", which was announced in public on May 17, 2013. While the new plan has the same management policy framework as before, which consists of addressing business portfolio transformation as a key policy, the Group has decided to establish a robust earnings structure against environmental changes while maintaining and expanding net sales, and aims to return to profitability in the 2015 fiscal year and attain stable profitability in or after the 2016 fiscal year by working together as a whole group. In addition, considering the harsh prospects for the business environment for new shipbuilding business, the Group judged that taking the earliest

action on substantial cut in fixed costs is the most critical management task. For the purpose of developing an optimal personnel structure and streamlining the existing organizations, a volunteer retirement program was resolved at the Board of Directors' meeting held on May 17, 2013, and was subsequently announced in public.

The details of this volunteer retirement program are described in "Notice Regarding Result of Applications for Voluntary Retirement at the Company and Recording of Extraordinary Loss," which was announced today (in Japanese only). In light of these developments, in our consolidated forecast for the year ending March 31, 2014, the full-year forecast that was announced in the financial results released on May 17, 2013, has been revised as of today. If there is any change in the future, it will be appropriately disclosed.

## **2. Matters on summary information (notes)**

### **(1) Changes in significant subsidiaries during the first three months of the current fiscal year**

No items to report

### **(2) Application of special accounting for preparing the quarterly consolidated financial statements**

No items to report

### **(3) Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements after error corrections**

No items to report

### **3. Quarterly consolidated financial statements**

#### **(1) Quarterly consolidated balance sheets**

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

	As of March 31,2013	As of June 30,2013
<b>Assets</b>		
Current assets		
Cash and deposits	25,403	28,659
Notes and accounts receivable-trade	11,489	10,077
Short-term investment securities	40	-
Merchandise and finished goods	15	15
Work in process	619	805
Raw materials and supplies	346	354
Other	1,371	1,471
Total current assets	39,287	41,383
Non-current assets		
Property,plant and equipment		
Buildings and structures,net	8,064	7,966
Land	5,753	5,668
Other,net	5,935	5,798
Total property,plant and equipment	19,753	19,433
Intangible assets	200	198
Investments and other assets		
Investment securities	3,241	3,450
Other	3,577	1,902
Allowance for doubtful receivables	(265)	(265)
Total investments and other assets	6,553	5,087
Total non-current assets	26,507	24,719
Total assets	65,795	66,103
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable-trade	9,926	10,450
Notes payable-facilities	61	197
Short-term loans payable	5,369	9,619
Income taxes payable	17	4
Advance received	1,493	2,172
Provision for construction warranties	29	29
Provision for loss on construction contracts	2,325	2,259
Other	1,698	2,763
Total current liabilities	20,920	27,496
Non-current liabilities		
Long-term loans payable	13,522	8,613
Deferred tax liabilities	325	361
Provision for retirement benefits	3,428	2,756
Provision for special repairs	34	34
Other	218	194
Total non-current liabilities	17,529	11,958
Total liabilities	38,449	39,454



(in millions of yen, unless otherwise noted)

	As of March 31,2013	As of June 30,2013
Net assets		
Shareholders' equity		
Capital stock	8,414	8,414
Capital surplus	5,148	5,148
Retained earnings	14,638	13,745
Treasury stock	(977)	(978)
Total shareholders' equity	<u>27,222</u>	<u>26,329</u>
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	239	406
Deferred gains or losses on hedges	(116)	(87)
Total accumulated other comprehensive income	<u>122</u>	<u>318</u>
Total net assets	<u>27,345</u>	<u>26,648</u>
Total liabilities and net assets	<u>65,795</u>	<u>66,103</u>

**(2) Quarterly consolidated statements of income and comprehensive income**  
**Quarterly consolidated statements of income (cumulative)**

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

	For the three months ended June 30,2012	For the three months ended June 30,2013
Net sales	10,932	7,721
Costs of sales	10,057	7,526
Gross profit	874	195
Selling, general and administrative expenses	577	544
Operating income(loss)	297	(349)
Non-operating income		
Interest and dividends income	32	29
Foreign exchange gains	-	232
Other	9	1
Total non-operating income	41	263
Non-operating expenses		
Interest expenses	114	82
Foreign exchange losses	113	-
Other	7	73
Total non-operating expenses	234	155
Ordinary income(loss)	104	(241)
Extraordinary income		
Gain on sales of golf memberships	0	-
Gain on sales of noncurrent assets	-	59
Total extraordinary income	0	59
Extraordinary loss		
Loss on disposal of non-current assets	1	2
Loss on valuation of investment securities	108	-
Special extra retirement payments	-	701
Total extraordinary losses	110	704
Loss before income taxes	(5)	(886)
Income taxes-current	176	6
Income taxes for prior periods	234	-
Total income taxes	411	6
Loss before minority interests	(416)	(892)
Minority interests in income	-	-
Net loss	(416)	(892)

## Quarterly consolidated statements of comprehensive income (cumulative)

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

	For the three months ended June 30,2012	For the three months ended June 30,2013
Loss before minority interests	(416)	(892)
Other comprehensive income		
Valuation difference on available-for-sale securities	(278)	167
Deferred gains or losses on hedges	(2)	28
Total other comprehensive income	(281)	196
Comprehensive income	(698)	(696)
Comprehensive income attributable to		
Owners of the parent	(698)	(696)
Comprehensive income attributable to minority in terests	-	-

### (3) Notes to quarterly consolidated financial statements

#### (Notes on premise of going concern)

No items to report

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

For the three months ended June 30, 2013

No items to report

#### (Segment information)

[Segment information]

I. For the three months ended June 30, 2012

Information on net sales and profit or loss amount by reportable segment

(in millions of yen)

	Reportable segments			Others (Note 1)	Total	Adjustment (Note 2)	Amount recorded in the quarterly consolidated statement of income (Note 3)
	Shipbuilding	Machinery	Total				
Net sales							
Outside customers	9,964	669	10,633	299	10,932	–	10,932
Inter-segment sales and transfers	–	–	–	398	398	(398)	–
Total	9,964	669	10,633	698	11,331	(398)	10,932
Segment profit or (loss)	150	(30)	120	21	142	155	297

- (Notes) 1. The “Others” category is a business segment not included in the reportable segments. It includes meal delivery 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 of ¥155 million are recorded as adjustment to segment profit.
3. Segment profit or (loss) is adjusted with operating income in the quarterly consolidated statement of income.

II. For the three months ended June 30, 2013

Information on net sales and profit or loss amount by reportable segment

(in millions of yen)

	Reportable segments			Others (Note 1)	Total	Adjustment (Note 2)	Amount recorded in the quarterly consolidated statement of income (Note 3)
	Shipbuilding	Machinery	Total				
Net sales							
Outside customers	6,865	664	7,530	191	7,721	–	7,721
Inter-segment sales and transfers	–	–	–	427	427	(427)	–
Total	6,865	664	7,530	618	8,148	(427)	7,721
Segment profit or (loss)	(402)	(75)	(478)	(39)	(518)	168	(349)

- (Notes) 1. The “Others” category is a business segment not included in the reportable segments. It includes meal delivery 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 of ¥168 million are recorded as adjustment to segment profit.
3. Segment profit or (loss) is adjusted with operating loss in the quarterly consolidated statement of income.

## 4. Supplemental information

### Production, orders received and sales

#### 1) Production

(in millions of yen, unless otherwise noted)

	For the three months ended June 30, 2012		For the three months ended June 30, 2013		Change	
	Amount	%	Amount	%	Amount	%
Shipbuilding	10,172	89.3	6,510	86.8	(3,661)	(36.0)
Machinery	916	8.1	798	10.6	(118)	(12.9)
Others	299	2.6	191	2.6	(108)	(36.2)
Total	11,388	100.0	7,500	100.0	(3,888)	(34.1)

#### 2) Orders received

(in millions of yen, unless otherwise noted)

	For the three months ended June 30, 2012		For the three months ended June 30, 2013		Change	
	Amount	%	Amount	%	Amount	%
Shipbuilding	4,073	78.1	8,194	77.3	4,120	101.2
Machinery	843	16.2	2,217	20.9	1,373	162.9
Others	299	5.7	191	1.8	(108)	(36.2)
Total	5,216	100.0	10,602	100.0	5,386	103.3

#### 3) Order backlog

(in millions of yen, unless otherwise noted)

	As of June 30, 2012		As of June 30, 2013		Change	
	Amount	%	Amount	%	Amount	%
Shipbuilding	41,073	95.1	33,139	91.2	(7,934)	(19.3)
Machinery	2,097	4.9	3,185	8.8	1,087	51.8
Others	–	–	–	–	–	–
Total	43,171	100.0	36,324	100.0	(6,847)	(15.9)

(Notes) 1. Order backlog is described by the complete contract method. Of order backlog amounts as of June 30, 2013, ¥9,653 million for shipbuilding and, of those as of June 30, 2012, ¥23,459 million for shipbuilding are recorded as sales by the percentage-of-completion method.

2. An ¥801 million increase resulting from exchange rate fluctuations in the foreign currency-denominated order backlog as of the previous fiscal year-end has been factored into the consolidated order backlog as of June 30, 2013.

#### 4) Sales

(in millions of yen, unless otherwise noted)

	For the three months ended June 30, 2012		For the three months ended June 30, 2013		Change	
	Amount	%	Amount	%	Amount	%
Shipbuilding	9,964	91.2	6,865	88.9	(3,098)	(31.1)
Machinery	669	6.1	664	8.6	(4)	(0.7)
Others	299	2.7	191	2.5	(108)	(36.2)
Total	10,932	100.0	7,721	100.0	(3,211)	(29.4)