

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

October 31, 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: November 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 six months of the fiscal year ending March 31, 2014 (From April 1, 2013 to September 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 six months ended								
September 30, 2013	15,227	(24.7)	(2,503)	–	(2,494)	–	(3,222)	–
September 30, 2012	20,221	(44.3)	(1,384)	–	(1,730)	–	(1,993)	–

Note: Comprehensive income

For the six months ended September 30, 2013: ¥(2,666) million [–%]
 For the six months ended September 30, 2012: ¥(2,093) million [–%]

	Net income per share	Diluted net income per share
For the six months ended	<i>yen</i>	<i>yen</i>
September 30, 2013	(20.09)	–
September 30, 2012	(12.43)	–

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
As of	<i>millions of yen</i>	<i>millions of yen</i>	%
September 30, 2013	58,674	24,678	42.1
March 31, 2013	65,795	27,345	41.6

Reference: Equity

As of September 30, 2013: ¥24,678 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	–	0.00			
For the year ending March 31, 2014 (Forecast)			–	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: None

* Notes

(1) **Changes in significant subsidiaries during the first six 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 polices 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 September 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 September 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 six months ended September 30, 2013	160,464,250 shares
For the six months ended September 30, 2012	160,468,140 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

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1. Qualitative information on settlement of accounts for the first six months

(1) Information on operating results

During the first six months of the fiscal year ending March 31, 2014, there were signs that the Japanese economy was moving gradually toward recovery, mainly on the back of improvements in corporate earnings and the employment situation reflecting a correction in the strength of the yen in line with economic measures implemented by the administration of Prime Minister Shinzo Abe. Overseas economies, on the other hand, were afflicted by concerns including the direction of the fiscal problem in the U.S. and future weakening of the growth potential of emerging countries, despite signs that the European economy had bottomed out. Japan not only faces the risk that such deterioration in overseas economies could create downward pressure on the economy, but also concerns that the confirmation of a hike in consumption tax scheduled for April 2014 could have an adverse effect. As a result, the economic outlook remains unclear.

Under such circumstances, the Sasebo Group posted consolidated orders received of ¥21,909 million, an increase of 58.6% from the same period of the previous fiscal year, owing to new shipbuilding orders for 6 units, among other factors. Consolidated net sales amounted to ¥15,227 million, decreasing 24.7% 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 September 30, 2013 was ¥35,874 million, an increase of 4.2% from the same period of the previous fiscal year. In terms of income, the Group posted a consolidated operating loss of ¥2,503 million (vs. consolidated operating loss of ¥1,384 million in the same period of the previous fiscal year) and a consolidated ordinary loss of ¥2,494 million (vs. consolidated ordinary loss of ¥1,730 million in the same period of the previous fiscal year). The losses were mainly due to deterioration in profit and loss as a result of the fall in net sales and an increase in provision for loss on construction contracts in line with the receipt of low-priced new shipbuilding orders. In addition to the aforementioned, after recording extraordinary loss associated with the implementation of the voluntary retirement program and income taxes, consolidated net loss was ¥3,222 million (vs. consolidated net loss of ¥1,993 million in the same period of the previous fiscal year).

Results by segment are as follows.

(a) Shipbuilding

The Group posted orders received of ¥17,806 million in the shipbuilding business, a 52.2% increase from the same period of the previous fiscal year. Included in this amount were new shipbuilding orders for a total of 6 units, consisting of 5 units of 77,000 DWT bulk carriers and 1 unit of 84,000 DWT bulk carrier, as well as ship repairs for the Japan Maritime Self-Defense Force, United States Navy vessels, and commercial vessels. Net sales amounted to ¥13,164 million, decreasing 27.5% 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 ¥2,683 million (vs. segment loss of ¥1,597 million in the same period of the previous fiscal year). New ships delivered during the first six months of the current fiscal year totaled 4 units of 75,000 DWT bulk carriers. As a result, the order backlog for new shipbuilding came to 11 units.

(b) Machinery

The Group posted orders received of ¥3,444 million in the machinery business, an increase of 132.1% 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. This was mainly the result of strong growth in orders received for tank systems for LPG ship use. Net sales amounted to ¥1,404 million, decreasing 2.4% from the same period of the previous fiscal year mainly as a result of the impact of lower crankshaft prices. The machinery business posted a segment loss of ¥137 million (vs. segment loss of ¥64 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 ¥657 million, an increase of 4.0% from the same period of the

previous fiscal year. Segment profit was ¥8 million, a decrease of 80.4% from the same period of the previous fiscal year.

(2) Information on financial position

(Total assets)

Total assets were ¥58,674 million, a decrease of ¥7,120 million from the previous fiscal year-end. This was mainly due to a decrease in cash and deposits resulting from repayments of loans. Current assets were ¥34,487 million, a decrease of ¥4,800 million from the previous fiscal year-end and non-current assets were ¥24,187 million, a decrease of ¥2,320 million from the previous fiscal year-end.

(Liabilities)

Total liabilities were ¥33,996 million, a decrease of ¥4,453 million from the previous fiscal year-end. Current liabilities were ¥23,527 million, an increase of ¥2,607 million from the previous fiscal year-end. This was mainly due to an increase in advance received in line with the receipt of new shipbuilding orders. Non-current liabilities were ¥10,468 million, a decrease of ¥7,060 million from the previous fiscal year-end. This was mainly due to repayments of loans.

(Net assets)

Total net assets were ¥24,678 million, a decrease of ¥2,666 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.

(Analysis of cash flows)

Cash and cash equivalents at the end of the first six months of the current fiscal year were ¥21,080 million, a decrease of ¥2,580 million from the previous fiscal year-end.

The respective cash flow positions are as follows.

(Cash flows from operating activities)

Net cash provided by operating activities was ¥1,359 million. This was mainly the result of an increase in advance received in line with the receipt of new shipbuilding orders.

(Cash flows from investing activities)

Net cash provided by investing activities was ¥3,595 million. This was mainly due to payouts from time deposits.

(Cash flows from financing activities)

Net cash used in financing activities was ¥7,522 million. This was mainly due to repayment of long-term loans.

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

In the outlook of the Japanese economy, expectations for fiscal and monetary policies taken by the government have driven depreciation in the yen, and signs of economic recovery, though modest, are emerging. On the other hand, Japan not only faces the risk of downward pressure from uncertainties surrounding overseas economies, including the fiscal problem in the U.S. and the future direction of emerging countries, but also concerns that the confirmation of a hike in consumption tax scheduled for April 2014 could have an adverse effect on the economy. As a result, the economic outlook remains unclear.

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, the Group formulated “a new medium term business plan” and publically announced it on May 17, 2013. Under this plan, the Group’s basic policy is to maintain and expand net sales by transforming the composition of its sales while also establishing an earnings structure that is resistant to environmental changes by reviewing and strengthening the structure of its operations. Under the plan, the Group 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.

At present, there are no changes to the forecast announced on August 12, 2013. However, 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 six 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; the mark before a figure indicates the amount is negative)

	As of March 31,2013	As of September 30,2013
Assets		
Current assets		
Cash and deposits	25,403	21,262
Notes and accounts receivable-trade	11,489	10,321
Short-term investment securities	40	-
Merchandise and finished goods	15	14
Work in process	619	1,401
Raw materials and supplies	346	476
Other	1,371	1,010
Total current assets	39,287	34,487
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	8,064	7,842
Land	5,753	5,640
Other, net	5,935	5,649
Total property, plant and equipment	19,753	19,132
Intangible assets	200	184
Investments and other assets		
Investment securities	3,241	3,291
Other	3,577	1,845
Allowance for doubtful receivables	265	265
Total investments and other assets	6,553	4,870
Total non-current assets	26,507	24,187
Total assets	65,795	58,674
Liabilities		
Current liabilities		
Notes and accounts payable - trade	9,926	9,631
Notes payable - facilities	61	132
Short-term loans payable	5,369	4,619
Income taxes payable	17	46
Advance received	1,493	2,938
Provision for construction warranties	29	28
Provision for loss on construction contracts	2,325	4,009
Other	1,698	2,121
Total current liabilities	20,920	23,527
Non-current liabilities		
Long-term loans payable	13,522	6,788
Deferred tax liabilities	325	395
Provision for retirement benefits	3,428	3,019
Provision for special repairs	34	35
Other	218	230
Total non-current liabilities	17,529	10,468
Total liabilities	38,449	33,996

(in millions of yen; the mark before a figure indicates the amount is negative)

	As of March 31,2013	As of September 30,2013
Net assets		
Shareholders' equity		
Capital stock	8,414	8,414
Capital surplus	5,148	5,148
Retained earnings	14,638	11,415
Treasury stock	977	978
Total shareholders' equity	27,222	23,999
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	239	723
Deferred gains or losses on hedges	116	44
Total accumulated other comprehensive income	122	679
Total net assets	27,345	24,678
Total liabilities and net assets	65,795	58,674

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

(in millions of yen; the mark before a figure indicates the amount is negative)

	For the six months ended September 30,2012	For the six months ended September 30,2013
Net sales	20,221	15,227
Costs of sales	20,320	16,690
Gross loss	98	1,463
Selling, general and administrative expenses	1,285	1,040
Operating loss	1,384	2,503
Non-operating income		
Interest and dividends income	44	37
Foreign exchange gains	-	184
Other	28	9
Total non-operating income	72	231
Non-operating expenses		
Interest expenses	224	142
Foreign exchange losses	182	-
Other	12	79
Total non-operating expenses	418	222
Ordinary loss	1,730	2,494
Extraordinary income		
Gain on sales of noncurrent assets	593	59
Gain on sales of golf memberships	0	0
Total extraordinary income	594	59
Extraordinary loss		
Loss on sales of non-current assets	-	13
Loss on disposal of non-current assets	6	26
Loss on valuation of investment securities	485	-
Special extra retirement payments	-	693
Other	20	40
Total extraordinary losses	511	773
Loss before income taxes	1,648	3,208
Income taxes - current	110	14
Income taxes for prior periods	234	-
Total income taxes	345	14
Loss before minority interests	1,993	3,222
Minority interests in income	-	-
Net loss	1,993	3,222

Quarterly consolidated statements of comprehensive income (cumulative)

(in millions of yen; the mark before a figure indicates the amount is negative)

	For the six months ended September 30,2012	For the six months ended September 30,2013
Loss before minority interests	1,993	3,222
Other comprehensive income		
Valuation difference on available-for-sale securities	102	484
Deferred gains or losses on hedges	3	72
Total other comprehensive income	99	556
Comprehensive income	2,093	2,666
Comprehensive income attributable to		
Owners of the parent	2,093	2,666
Minority interests	-	-

(3) Quarterly consolidated statements of cash flows

(in millions of yen; the mark before a figure indicates the amount is negative)

	For the six months ended September 30,2012	For the six months ended September 30,2013
Cash flows from operating activities		
Loss before income taxes	1,648	3,208
Depreciation and amortization	1,279	1,056
Increase(decrease) in provision for loss on construction contracts	2,448	1,683
Increase(decrease) in provision for retirement benefits	116	409
Increase(decrease) in provision for construction warranties	6	1
Increase(decrease) in provision for special repairs	5	0
Interest and dividend income	44	37
Interest expenses	224	142
Foreign exchange losses(gains)	38	56
Loss(gain) on sales of property, plant and equipment	593	45
Loss(gain) on disposal of non-current assets	6	26
Loss(gain) on valuation of investment securities	485	-
Decrease(increase) in notes and accounts receivable-trade	842	1,168
Decrease(increase) in inventories	283	910
Decrease(increase) in consumption taxes refund receivable	333	160
Decrease(increase) in other current assets	242	166
Increase(decrease) in notes and accounts payable-trade	4,947	295
Increase(decrease) in advance received	1,231	1,445
Increase(decrease) in other current liabilities	2,000	594
Other	-	39
Subtotal	7,135	1,441
Interest and dividends received	44	33
Interest paid	225	147
Income taxes paid	1,694	8
Income taxes refund	-	41
Net cash provided by operating activities	9,010	1,359
Cash flows from investing activities		
Payments into time deposits	3,121	45
Proceeds from withdrawal of time deposits	1,040	3,472
Payments for retirement of property, plant and equipment	20	4
Purchase of property, plant and equipment	698	483
Proceeds from sales of property, plant and equipment	633	163
Purchase of intangible assets	7	17
Proceeds from sales and redemption of investment securities	-	510
Payments of loans receivable	-	0
Collection of loans receivable	0	0
Other	6	0
Net cash used in investing activities	2,167	3,595

(in millions of yen; the mark before a figure indicates the amount is negative)

	For the six months ended September 30,2012	For the six months ended September 30,2013
Cash flows from financing activities		
Net increase(decrease) in short-term loans payable	100	-
Repayment of long-term loans	2,076	7,484
Dividends paid	797	4
Payments for purchases of treasury stock	0	0
Other	7	32
Net cash used in financing activities	2,982	7,522
Effect of exchange rate changes on cash and cash equivalents	38	14
Increase(decrease) in cash and cash equivalents	14,198	2,580
Cash and cash equivalents at beginning of period	41,882	23,661
Cash and cash equivalents at end of period	27,683	21,080

(4) 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 six months ended September 30, 2013

No items to report

(Segment information)

[Segment information]

I. For the six months ended September 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	18,150	1,438	19,589	632	20,221	–	20,221
Inter-segment sales and transfers	9	–	9	765	774	(774)	–
Total	18,159	1,438	19,598	1,398	20,996	(774)	20,221
Segment profit or (loss)	(1,597)	(64)	(1,662)	43	(1,618)	234	(1,384)

- (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 ¥234 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.

II. For the six months ended September 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	13,164	1,404	14,569	657	15,227	–	15,227
Inter-segment sales and transfers	–	–	–	776	776	(776)	–
Total	13,164	1,404	14,569	1,434	16,003	(776)	15,227
Segment profit or (loss)	(2,683)	(137)	(2,820)	8	(2,811)	307	(2,503)

- (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 ¥307 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 six months ended September 30, 2012		For the six months ended September 30, 2013		Change	
	Amount	%	Amount	%	Amount	%
Shipbuilding	18,285	88.0	12,884	83.0	(5,401)	(29.5)
Machinery	1,851	8.9	1,976	12.7	125	6.8
Others	632	3.1	657	4.3	25	4.0
Total	20,769	100.0	15,518	100.0	(5,251)	(25.3)

2) Orders received

(in millions of yen, unless otherwise noted)

	For the six months ended September 30, 2012		For the six months ended September 30, 2013		Change	
	Amount	%	Amount	%	Amount	%
Shipbuilding	11,698	84.7	17,806	81.3	6,108	52.2
Machinery	1,483	10.7	3,444	15.7	1,960	132.1
Others	632	4.6	657	3.0	25	4.0
Total	13,815	100.0	21,909	100.0	8,093	58.6

3) Order backlog

(in millions of yen, unless otherwise noted)

	As of September 30, 2012		As of September 30, 2013		Change	
	Amount	%	Amount	%	Amount	%
Shipbuilding	32,471	94.3	32,201	89.8	(270)	(0.8)
Machinery	1,969	5.7	3,672	10.2	1,703	86.5
Others	–	–	–	–	–	–
Total	34,440	100.0	35,874	100.0	1,433	4.2

(Notes) 1. Order backlog is described by the complete contract method. Of order backlog amounts as of September 30, 2013, ¥5,711 million for shipbuilding and, of those as of September 30, 2012, ¥15,612 million for shipbuilding are recorded as sales by the percentage-of-completion method.

2. A ¥492 million increase resulting from exchange rate fluctuations in the foreign currency-denominated order backlog as of the previous fiscal year-end has been subtracted from the consolidated order backlog as of September 30, 2013.

4) Sales

(in millions of yen, unless otherwise noted)

	For the six months ended September 30, 2012		For the six months ended September 30, 2013		Change	
	Amount	%	Amount	%	Amount	%
Shipbuilding	18,150	89.8	13,164	86.5	(4,986)	(27.5)
Machinery	1,438	7.1	1,404	9.2	(33)	(2.4)
Others	632	3.1	657	4.3	25	4.0
Total	20,221	100.0	15,227	100.0	(4,994)	(24.7)