

**Summary of Consolidated Financial Results
for the First Three Months of the Fiscal Year Ending March 31, 2015
<under Japanese GAAP>**

July 31, 2014

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, 2014
 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, 2015 (From April 1, 2014 to June 30, 2014)**

(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, 2014	7,507	(2.8)	(705)	–	(733)	–	(712)	–
June 30, 2013	7,721	(29.4)	(349)	–	(241)	–	(892)	–

Note: Comprehensive income

For the three months ended June 30, 2014: ¥(494) million [–%]

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

	Net income per share	Diluted net income per share
For the three months ended	<i>yen</i>	<i>yen</i>
June 30, 2014	(4.44)	–
June 30, 2013	(5.56)	–

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
As of	<i>millions of yen</i>	<i>millions of yen</i>	%
June 30, 2014	56,327	24,604	43.7
March 31, 2014	56,087	25,098	44.7

Reference: Equity

As of June 30, 2014: ¥24,604 million

As of March 31, 2014: ¥25,098 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, 2014	–	0.00	–	0.00	0.00
For the year ending March 31, 2015	–				
For the year ending March 31, 2015 (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, 2015 (From April 1, 2014 to March 31, 2015)

(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, 2015	30,000	(3.1)	(300)	–	(500)	–	(600)	–	(3.73)

Note: Revision of the forecast most recently announced: None

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: Yes
- 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, 2014	161,955,000 shares
As of March 31, 2014	161,955,000 shares

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

As of June 30, 2014	1,491,740 shares
As of March 31, 2014	1,491,740 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, 2014	160,463,260 shares
For the three months ended June 30, 2013	160,464,753 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 three months

(1) Information on operating results

During the first three months of the fiscal year ending March 31, 2015, the Japanese economy generally continued to gradually recover, mainly on the back of improvements in corporate earnings, increased capital investments and improvement in the employment situation, reflecting economic measures implemented by the Japanese government. Meanwhile overseas, although the U.S. economy followed a trend of recovery and the European economy continued to experience an upturn, the economic outlook remained uncertain, with concerns about the outlook of the emerging countries, geopolitical risks, and other issues.

Under such circumstances, the Sasebo Group posted consolidated orders received of ¥23,075 million, an increase of 117.6% 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 ¥7,507 million, decreasing 2.8% from the same period of the previous fiscal year due mainly to a decline in the number of ship repair orders, despite steady performance in the machinery business. As a result, the consolidated order backlog as of June 30, 2014 was ¥71,113 million, an increase of 95.8% from the same period of the previous fiscal year. In terms of income, due to further construction of new vessels with limited profit potential and other factors, the Group posted a consolidated operating loss of ¥705 million (vs. consolidated operating loss of ¥349 million in the same period of the previous fiscal year) and a consolidated ordinary loss of ¥733 million (vs. consolidated ordinary loss of ¥241 million in the same period of the previous fiscal year). In addition to the aforementioned, after recording extraordinary income/loss and income taxes, consolidated net loss was ¥712 million (vs. consolidated net loss of ¥892 million in the same period of the previous fiscal year).

Results by segment are as follows.

(a) Shipbuilding

The Group posted orders received of ¥22,038 million in the shipbuilding business, a 169.0% increase from the same period of the previous fiscal year. Included in this amount were new shipbuilding orders for 6 units of 85,000 DWT bulk carriers and ship repairs for the Japan Maritime Self-Defense Force, United States Navy vessels, and commercial vessels. Net sales amounted to ¥5,876 million, decreasing 14.4% from the same period of the previous fiscal year as a result of a decrease in the number of ship repair orders. The shipbuilding business posted a segment loss of ¥526 million (vs. segment loss of ¥402 million in the same period of the previous fiscal year). New ships delivered during the first three months of the current fiscal year totaled 2 units of 78,000 DWT bulk carriers. As a result, the order backlog for new shipbuilding came to 21 units.

(b) Machinery

The Group posted orders received of ¥776 million in the machinery business, a decrease of 65.0% 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 amounted to ¥1,370 million, increasing 106.1% from the same period of the previous fiscal year mainly due to steady performance in machineries for chemical industry. The machinery business posted a segment loss of ¥13 million (vs. segment loss of ¥75 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 ¥260 million, an increase of 36.3% from the same period of the previous fiscal year. Segment profit was ¥56 million (vs. segment loss of ¥39 million in the same period of the previous fiscal year).

(2) Information on financial position

(Total assets)

Total assets were ¥56,327 million, an increase of ¥240 million from the previous fiscal year-end. This was mainly due to an increase in cash and deposits resulting from an increase in advance received. Current assets were ¥34,794 million, an increase of ¥1,142 million from the previous fiscal year-end and non-current assets were ¥21,533 million, a decrease of ¥901 million from the previous fiscal year-end.

(Liabilities)

Total liabilities were ¥31,723 million, an increase of ¥734 million from the previous fiscal year-end. This was mainly due to an increase in advance received. Current liabilities were ¥23,537 million, an increase of ¥1,451 million from the previous fiscal year-end and non-current liabilities were ¥8,185 million, a decrease of ¥717 million from the previous fiscal year-end.

(Net assets)

Total net assets were ¥24,604 million, a decrease of ¥494 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 economic environment surrounding the Group, the shipbuilding industry is seeing a sign of a rebound in new ship prices, while the oversupply of vessels remains, pushing down ship prices at low level. Furthermore, regarding orders received, with a great number of new shipbuilding completions, competition from both domestic and international ship yards will likely become increasingly intensified, making it even tougher to obtain orders. In the machinery industry, for example in the field of equipment for marine use, including crankshafts, the Company's core product, the business environment continues to be difficult due mainly to sluggish markets in new shipbuilding except a part of the businesses moving upward.

On May 23, 2014, the Company concluded a share exchange agreement with Namura Shipbuilding Co., Ltd. This business integration was agreed upon as a result of consultations on the severe industry environment and the situation of the companies as set forth above. The companies will focus on realizing two main objectives which they consider to be essential conditions for survival: enhancing design and development capabilities, and enhancing procurement capabilities. In addition, the companies aim to enhance their respective competitiveness and business development capabilities, as well as those of the group as a whole, by working together in ensuring their respective flexibility on the sales and production side, cooperating in the ship repair business field, and streamlining administrative departments. The companies also aim to continuously enhance corporate value through the expansion of scale and quality improvement. Presently, the management integration is scheduled to take place on October 1, 2014. Both companies have established integration committees and are proceeding with consultations aimed at ensuring the synergy effect can be realized as soon as possible.

The Sasebo Group is working unitedly based on its "new medium term business plan" announced on May 17, 2013, to return to profitability in the 2015 fiscal year and stable profitability in or after the 2016 fiscal year by establishing a robust earnings structure against environmental changes while maintaining and expanding net sales. The Group will also pursue improvement in corporate value by strengthening corporate governance and forming the optimal allocation of business resources at the entire Group level.

With regard to major steps by segments, the new shipbuilding business, the Company's major business, has been working to construct the most feasible operation framework to establish a structure capable of responding to any changes in the market environment flexibly, and to strengthen cost competitiveness by improving production efficiency and reducing materials and equipment costs. In addition, the business has concentrated on the development of high value-added vessels, thus launched new types of energy vessels into markets, such as a wide and shallow draft bulk carrier with 85,000 DWT and a further energy-efficient bulk carrier with 78,000 DWT. In the ship repair business, targeting at increasing orders, the business focuses on improving technical strength to deal

with large naval vessels, strengthening the naval business through the implementation of strategic capital investment and beefing up competitiveness through cost reductions in the commercial vessel business. In the machinery business, to break the dependence on crankshafts, we are working to expand orders received in the areas of machineries for chemical industry such as LPG tanks for ship and port structures.

At present, there are no changes to the forecast announced on May 9, 2014. 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 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

(Changes in accounting policies)

Regarding the “Accounting Standard for Retirement Benefits” (ASBJ Statement No. 26, May 17, 2012. Hereinafter, referred to as “Retirement Benefits Accounting Standard”) and the “Guidance on Accounting Standard for Retirement Benefits” (ASBJ Guidance No. 25, May 17, 2012. Hereinafter, referred to as “Retirement Benefits Guidance”), the Company has applied the provisions set forth in the main clauses of Paragraph 35 of the Retirement Benefits Accounting Standard and Paragraph 67 of the Retirement Benefits Guidance from this first quarter, reviewed its calculation method for retirement benefit obligations and current service costs, and changed its method of attributing expected benefit to periods from the straight-line basis to the benefit formula basis. Concerning the bond maturity that forms the basis for determination of discount rate, the Company has changed from a method that is based on a period approximate to the expected average remaining working lives of the employees to one that uses a single weighted average discount rate reflecting the estimated timing and amount of benefit payment.

The adoption of the Accounting Standards for Retirement Benefits, etc. will not have an impact on operating results.

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 31,2014	As of June 30,2014
Assets		
Current assets		
Cash and deposits	20,235	22,000
Notes and accounts receivable-trade	9,967	9,412
Merchandise and finished goods	15	14
Work in process	1,853	1,692
Raw materials and supplies	305	465
Other	1,275	1,208
Total current assets	33,652	34,794
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	7,583	7,410
Land	5,489	5,489
Other, net	5,271	5,060
Total property, plant and equipment	18,344	17,960
Intangible assets	169	157
Investments and other assets		
Investment securities	3,025	3,234
Other	1,161	446
Allowance for doubtful receivables	△265	△265
Total investments and other assets	3,921	3,415
Total non-current assets	22,434	21,533
Total assets	56,087	56,327
Liabilities		
Current liabilities		
Notes and accounts payable—trade	9,829	10,006
Notes payable—facilities	68	88
Short-term loans payable	4,369	4,370
Income taxes payable	63	35
Advance received	4,021	5,487
Provision for construction warranties	17	17
Provision for loss on construction contracts	2,468	2,318
Other	1,247	1,212
Total current liabilities	22,085	23,537

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

	As of March 31,2014	As of June 30,2014
Non-current liabilities		
Long-term loans payable	5,553	4,893
Deferred tax liabilities	535	553
Provision for special repairs	47	31
Provision for environmental measures	174	174
Net defined benefit liability	2,340	2,306
Other	252	228
Total non-current liabilities	8,903	8,185
Total liabilities	30,989	31,723
Net assets		
Shareholders' equity		
Capital stock	8,414	8,414
Capital surplus	5,148	5,148
Retained earnings	11,790	11,077
Treasury stock	△978	△978
Total shareholders' equity	24,374	23,661
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	472	669
Deferred gains or losses on hedges	△47	11
Remeasurements of defined benefit plans	298	261
Total accumulated other comprehensive income	724	942
Total net assets	25,098	24,604
Total liabilities and net assets	56,087	56,327

(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 three months ended June 30,2013	For the three months ended June 30,2014
Net sales	7,721	7,507
Costs of sales	7,526	7,593
Gross profit	195	△86
Selling, general and administrative expenses	544	619
Operating income(loss)	△349	△705
Non-operating income		
Interest and dividends income	29	38
Foreign exchange gains	232	—
Other	1	3
Total non-operating income	263	42
Non-operating expenses		
Interest expenses	82	54
Foreign exchange losses	—	13
Other	73	1
Total non-operating expenses	155	70
Ordinary loss	△241	△733
Extraordinary income		
Gain on sales of noncurrent assets	59	37
Other	—	11
Total extraordinary income	59	48
Extraordinary loss		
Loss on sales of non-current assets	—	0
Loss on disposal of non-current assets	2	0
Loss on valuation of investment securities	—	4
Special extra retirement payments	701	—
Total extraordinary losses	704	5
Loss before income taxes	△886	△690
Income taxes—current	6	22
Total income taxes	6	22
Loss before minority interests	△892	△712
Minority interests in income	—	—
Net loss	△892	△712

Quarterly consolidated statements of comprehensive income (cumulative)

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

	For the three months ended June 30,2013	For the three months ended June 30,2014
Loss before minority interests	Δ 892	Δ 712
Other comprehensive income		
Valuation difference on available-for-sale securities	167	197
Deferred gains or losses on hedges	28	58
Remeasurements of defined benefit plans, net of tax	—	Δ 37
Total other comprehensive income	196	218
Comprehensive income	Δ 696	Δ 494
Comprehensive income attributable to		
Owners of the parent	Δ 696	Δ 494
Minority interests	—	—

(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, 2014

No items to report

(Segment information)

[Segment information]

I. 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.

II. For the three months ended June 30, 2014

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	5,876	1,370	7,246	260	7,507	–	7,507
Inter-segment sales and transfers	–	–	–	399	399	(399)	–
Total	5,876	1,370	7,246	659	7,906	(399)	7,507
Segment profit or (loss)	(526)	(13)	(540)	56	(484)	(221)	(705)

- (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 ¥(221) 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, 2013		For the three months ended June 30, 2014		Change	
	Amount	%	Amount	%	Amount	%
Shipbuilding	6,510	86.8	5,886	79.9	(623)	(9.6)
Machinery	798	10.6	1,224	16.6	426	53.4
Others	191	2.6	260	3.5	69	36.3
Total	7,500	100.0	7,372	100.0	(128)	(1.7)

2) Orders received

(in millions of yen, unless otherwise noted)

	For the three months ended June 30, 2013		For the three months ended June 30, 2014		Change	
	Amount	%	Amount	%	Amount	%
Shipbuilding	8,194	77.3	22,038	95.5	13,844	169.0
Machinery	2,217	20.9	776	3.4	(1,440)	(65.0)
Others	191	1.8	260	1.1	69	36.3
Total	10,602	100.0	23,075	100.0	12,472	117.6

3) Order backlog

(in millions of yen, unless otherwise noted)

	As of June 30, 2013		As of June 30, 2014		Change	
	Amount	%	Amount	%	Amount	%
Shipbuilding	33,139	91.2	68,252	96.0	35,113	106.0
Machinery	3,185	8.8	2,860	4.0	(324)	(10.2)
Others	—	—	—	—	—	—
Total	36,324	100.0	71,113	100.0	34,788	95.8

(Notes) 1. Order backlog is described by the complete contract method. Of order backlog amounts as of June 30, 2014, ¥7,854 million for shipbuilding and, of those as of June 30, 2013, ¥9,653 million for shipbuilding are recorded as sales by the percentage-of-completion method.

2. A ¥529 million decrease 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 June 30, 2014.

4) Sales

(in millions of yen, unless otherwise noted)

	For the three months ended June 30, 2013		For the three months ended June 30, 2014		Change	
	Amount	%	Amount	%	Amount	%
Shipbuilding	6,865	88.9	5,876	78.3	(988)	(14.4)
Machinery	664	8.6	1,370	18.2	705	106.1
Others	191	2.5	260	3.5	69	36.3
Total	7,721	100.0	7,507	100.0	(214)	(2.8)