Report of Earnings and Financial Statements for the Three Months Ended June 30, 2009

July 31, 2009

Listed company's name: **Kawasaki Heavy Industries, Ltd.**
Listed on: 1st sections of TSE, OSE, NSE
Stock code: 7012
URL: http://www.khi.co.jp/
Representative: Satoshi Hasegawa, President
Contact: Minoru Akioka, Senior Manager, Accounting Department
Tel: +81 3-3435-2130
Scheduled dates:
Submission of quarterly securities filing: August 7, 2009
Commencement date of dividend payments -

1. Consolidated Financial Results for the Three Months Ended June 30, 2009 (April 1, 2009 to June 30, 2009)

(Amounts in millions of yen rounded down to the nearest million yen)

(1) Operating Results

(Percentage figures represent changes versus the year-ago period)

	Net sales		Operating income		Recurring profit		Net income	
	million yen	%	million yen	%	million yen	%	million yen	%
Three months ended June 30, 2009	256,757	(15.1)	(5,374)	-	(1,499)	-	(1,719)	-
Three months ended June 30, 2008	302,531	-	8,246	-	14,824	-	8,101	-

	Earnings per share	Earnings per share – diluted
	yen	yen
Three months ended June 30, 2009	(1.03)	-
Three months ended June 30, 2008	4.85	4.74

(2) Financial Condition

	Total assets	Net assets	Ratio of shareholders' equity to total assets	Net assets per share
	million yen	million yen	%	yen
June 30, 2009	1,370,845	292,333	20.9	172.40
March 31, 2009	1,399,770	295,245	20.7	174.10

Note: Shareholders' equity: June 30, 2009: 287,613 million yen
March 31, 2009: 290,440 million yen

2. Dividends

Record date or term	Dividend per share				
	End of first quarter	End of second quarter	End of third quarter	End of financial year	Full year
	yen	yen	yen	yen	yen
Year ended March 31, 2009	-	0.00	-	3.00	3.00
Year ending March 31, 2010	-				
Year ending March 31, 2010 (forecast)		0.00	-	3.00	3.00

Note: Revision of dividend forecast during the three months ended June 30, 2009: None

3. Forecast of Consolidated Earnings for the Year Ending March 31, 2010 (April 1, 2009 to March 31, 2010)

(Percentage figures represent changes versus the year-ago period)

	Net sales		Operating income		Recurring profit		Net income		Earnings per share
	million yen	%	million yen	%	million yen	%	million yen	%	yen
For six months ending September 30, 2009	570,000	(12.7)	(12,000)	-	(8,000)	-	(6,000)	-	(3.60)
Full year	1,240,000	(7.3)	5,000	(82.5)	10,000	(74.1)	6,000	(48.8)	3.60

Note: Revision of earnings forecast during the three months ended June 30, 2009: None

4. Other Information

1) Changes affecting the status of material subsidiaries (scope of consolidation): None

2) Use of simplified accounting methods and/or accounting methods specific to the preparation of quarterly consolidated financial statements: Yes
Note: For details, see “4. Other information” on page 7 in the “Qualitative Information and Financial Statements” section.

3) Changes in accounting principles, procedures, and methods of presentation used in the preparation of quarterly consolidated financial statements:
(1) Changes in accordance with revisions to accounting standards: Yes
(2) Changes other than (1) above: None
Note: For details, see “4. Other information” on page 7 in the “Qualitative Information and Financial Statements” section.

4) Number of shares issued (common stock)
(1) Number of shares issued at end of period (treasury stock included):
June 30, 2009: 1,669,629,122 shares
March 31, 2009: 1,669,629,122 shares
(2) Number of shares held in treasury at end of period:
June 30, 2009: 1,410,665 shares
March 31, 2009: 1,394,288 shares
(3) Average number of outstanding shares (for the three months):
Three months ended June 30, 2009: 1,668,223,431 shares
Three months ended June 30, 2008: 1,668,298,012 shares

***Appropriate Use of Financial Forecasts and Other Important Matters**

Forward-Looking Statements

These materials contain various forward-looking statements and other forecasts regarding performance and other matters. Such statements are based on information available at the time of preparation. Actual results may differ from those expressed or implied by forward-looking statements due to a range of factors. For the assumptions underlying the earnings forecasts presented and other information regarding the use of such forecasts, refer to “3. Consolidated Earnings Outlook” on page 6 in the “Qualitative Information and Financial Statements” section.

Qualitative Information and Financial Statements

1. Consolidated Operating Results

In the three months to June 30, 2009 (first quarter of the fiscal year ending March 31, 2010), the Japanese economy emerged from the crisis conditions of the preceding half-year but remained under pressure from a capital spending slump, export slowdown, deteriorating employment environment, and downturn in consumer spending. The global economy, particularly Europe and the Americas, likewise continue to languish, although some emerging economies showed signs of recovery.

This adverse operating environment weighed heavily on KHI Group businesses, all of which experienced declines in order bookings in the first quarter. Although the Shipbuilding and Rolling Stock segments managed to achieve sales growth, overall sales declined. Profits declined across all business segments under the weight of yen appreciation and downturns in European and American markets.

Relative to the year-earlier quarter, the Group's consolidated order bookings declined ¥197.6 billion to ¥191.7 billion while consolidated net sales decreased ¥45.7 billion to ¥256.7 billion. The Group consequently incurred a consolidated operating loss of ¥5.3 billion, recurring loss of ¥1.4 billion, and net loss of ¥1.7 billion. These losses respectively represent decreases of ¥13.6 billion, ¥16.3 billion, and ¥9.8 billion from the year-earlier quarter's operating, recurring, and net incomes.

Consolidated operating performance in the three months to June 30, 2009, is summarized by segment below.

Effective from the first quarter of the current fiscal year, the Construction Machinery business, previously part of the Rolling Stock segment (formerly the Rolling Stock & Construction Machinery segment), is included in the Other segment, as disclosed below on page 14 under the heading “Information by industry segment” (subsection (5), 1) in part 5, “Consolidated Financial Statements”).

Shipbuilding

With no newbuilding orders received in the first quarter, consolidated order bookings decreased ¥18.7 billion year on year to ¥1.8 billion.

Consolidated net sales increased ¥20.3 billion year on year to ¥39.4 billion, boosted by a spate of sales of large vessels.

Profitability was eroded by yen appreciation and material cost inflation, resulting in a consolidated operating loss of ¥600 million, a decrease of ¥600 million from the year-earlier quarter's operating income.

Rolling Stock

Consolidated order bookings included orders from Singapore for subway cars but declined to ¥28 billion, down ¥70.1 billion from the year-earlier quarter, which was marked by an influx of large orders.

Consolidated net sales grew ¥4.7 billion year on year to ¥40.8 billion, bolstered by growth in overseas

sales of rolling stock.

Despite the sales growth, consolidated operating income decreased ¥700 million year on year to ¥1.6 billion as a result of yen appreciation.

The year-on-year change figures for the Rolling Stock segment are adjusted to reflect the impact of the resegmentation involving the Construction Machinery business.

Aerospace

Consolidated order bookings decreased ¥16.0 billion year on year to ¥11.4 billion as a result of decreased orders for component parts for the Boeing 777 and other aircraft.

Consolidated net sales decreased ¥12.8 billion year on year to ¥26.6 billion, largely due to declines in sales to Japan's Ministry of Defense and sales of Boeing 777 component parts.

The decline in sales coupled with yen appreciation resulted in a ¥2.1 billion consolidated operating loss, a ¥2.3 billion decrease from the year-earlier quarter's operating income.

Gas Turbines & Machinery

Consolidated order bookings declined ¥6.8 billion year on year to ¥52.3 billion, largely as a result of a decline in orders for marine diesel engines and an absence of orders for diesel generators.

Consolidated net sales were flat year on year at ¥44.7 billion, buoyed by a sustained high level of sales of certain products, including components for aircraft engines, marine diesel engines, and gas turbine generator systems.

Although sales held firm, consolidated operating income decreased ¥1.3 billion year on year to ¥900 million, largely as a result of yen appreciation.

Plant & Infrastructure Engineering

Despite a diverse influx of plant orders, consolidated order bookings fell to ¥13.2 billion, down ¥15.4 billion from the year-earlier quarter, when the segment booked a large order for LNG storage tanks.

Consolidated net sales decreased ¥7.0 billion year on year to ¥13.1 billion, largely reflecting a falloff in overseas sales of large plant installations.

The sales decline resulted in a consolidated operating loss of ¥600 million, ¥2.3 billion below the year-earlier quarter's operating income.

Consumer Products & Machinery

Consolidated net sales fell ¥33.7 billion year on year to ¥60.2 billion amid a decline in European and North American motorcycle sales coupled with a falloff in industrial robots sales.

The sales decline, compounded by yen appreciation against the US dollar and euro, led to a consolidated operating loss of ¥5.6 billion, ¥3.8 billion worse than the year-earlier quarter's operating loss.

Hydraulic Machinery

Consolidated order bookings fell ¥17.9 billion year on year to ¥10.9 billion, mainly as a result of diminished demand from construction machinery makers.

Consolidated net sales were down ¥8.6 billion year on year to ¥14.3 billion, largely due to decreased sales to construction machinery makers.

Operating income decreased in tandem with sales, down ¥1.4 billion year on year to ¥1.1 billion.

Other Operations

Consolidated net sales declined ¥8.2 billion year on year to ¥17.2 billion. Operating income decreased ¥800 million year on year to the breakeven level.

The year-on-year change figures for the Other segment are adjusted to reflect the impact of the resegmentation involving the Construction Machinery business.

2. Consolidated Financial Position

At June 30, 2009, consolidated assets totaled ¥1,370.8 billion, a decrease of ¥28.9 billion from March 31, 2009. The decrease was attributable to reduction in trade receivables resulting from collection of receivables and reduced sales. The decrease in receivables outweighed growth in property, plant and equipment due to capital investment and growth in work-in-process stemming from progress toward completion of existing contracts. Consolidated liabilities totaled ¥1,078.5 billion at June 30, a decrease of ¥26.0 billion from March 31, 2009. The decrease was attributable to reduction in trade payables, partially offset by growth in borrowings and advances from customers. Consolidated net assets decreased ¥2.9 billion from March 31, 2009, to ¥292.3 billion at June 30, largely as a result of the first quarter's net loss and payment of dividends.

3. Consolidated Earnings Outlook

Operating results to date have been tracking roughly in line with the Company's existing earnings forecast (announced April 28, 2009) for the fiscal year ending March 31, 2010. The Company has accordingly left its existing forecast unchanged.

The Company's earnings forecast assumes exchange rates of ¥95 to the US dollar and ¥130 to the euro.

4. Other Information

1) Changes affecting the status of material subsidiaries (scope of consolidation) during the period
Not applicable

2) Use of simplified accounting and/or accounting procedures specific to preparation of quarterly consolidated financial statements

Simplified accounting

(1) Bad debt estimation method for general claims
The Company estimates the value of uncollectible general claims based on the preceding fiscal year's actual credit loss rate, unless the credit loss rate is deemed to have substantially changed relative to the historical rate calculated at the end of the preceding fiscal year.

(2) Inventory valuation method
The Company estimates quarter-end inventories by a rational method based on the preceding fiscal year's physical inventory count, without conducting a physical inventory count.

The Company writes down inventory from book value to estimated net realizable value only when its utility has clearly diminished. In the case of inventory expected to be disposed of and slow-moving inventory with a turnover period that extends beyond the Company’s operating cycle, the Company writes the inventory down to its estimated liquidation value. Such inventories are carried at their written-down book value, unless their value was deemed to have substantially changed during the first quarter of the fiscal year under review.

(3) Fixed-asset depreciation method
For fixed asset depreciated by the declining-balance method, the Company calculates quarterly depreciation expense by prorating annual depreciation expense. For certain consolidated subsidiaries, quarterly depreciation expense is calculated by prorating annual depreciation expense based on a budget that factors in expected acquisitions, sales, and disposals of fixed assets during the fiscal year.

(4) Deferred-tax asset and liability calculation method
To assess deferred assets' collectability, the Company uses tax planning and earnings forecasts used in the preceding fiscal year if it deems that the operating environment and status of temporary differences have not changed substantially since the preceding fiscal year-end.

If the operating environment or status of temporary differences is deemed to have changed substantially since the preceding fiscal year-end, the Company uses said tax planning and earnings forecasts adjusted to reflect the changes' impact.

(5) Elimination of unrealized gains/losses on inventories
For some products, the Company calculates unrealized gains/losses on inventories using the gain/loss rate used in the preceding fiscal year or quarter or a gain/loss rate based on rational budgeting, unless business conditions are deemed to have changed substantially from the preceding fiscal year or quarter.

Accounting procedures specific to preparation of quarterly consolidated financial statements

The Company calculates tax expense by rationally estimating its effective tax rate after application of deferred-tax accounting to pretax net income for the fiscal year that includes the first quarter under review and multiplying quarterly pretax net income by said estimated effective tax rate. If unable to use the estimated effective tax rate, the Company calculates tax expense by multiplying the statutory effective tax rate by quarterly pretax net income adjusted to reflect material differences other than temporary differences.

Income taxes are reported inclusive of income tax adjustments.

3) Changes in accounting principles, procedures, or presentation methods applicable to preparation of quarterly consolidated financial statements

Changes related to accounting standards

Change in accounting standard for construction revenue and cost
The Company previously used the percentage-of-completion method for accounting revenues associated mainly with construction contracts with a contract amount of three billion yen or more and a construction period of over one year, and other construction works were accounted for with the completed-contract method. Effective the first quarter of the fiscal year ending March 31, 2010, however, in conjunction with adoption of the *Accounting Standard for Construction Contracts* (ASBJ Statement No.15, December 27, 2007) and its accompanying *Guidance on Accounting Standard for Construction Contracts* (ASBJ Guidance No.18, December 27, 2007), the percentage-of-completion method was applied to construction contracts that were started during the first quarter ended June 30, 2009, for which certain elements were determinable with certainty at the end of the first quarter. The percentage of completion is estimated with the proportion-of-cost method, under which the percentage of construction completed during the period is calculated as the ratio of the construction cost incurred during that period relative to the total construction cost. The completed-contract method was applied to other works.
Due to this change, net sales was 1,809 million yen higher, and operating loss, recurring loss, loss before income taxes and minority interests were each 95 million yen lower.
The change's impact by segment is detailed below under “Segment Information” in the “Consolidated Financial Statements” section.

5. Consolidated Financial Statements

(1) Consolidated Balance Sheets

	Millions of yen	
	As of June 30, 2009	As of March 31, 2009
Assets		
Current assets		
Cash on hand and in banks	20,894	31,955
Trade receivables	352,316	402,341
Merchandise and finished products	64,106	69,609
Work in process	341,711	325,578
Raw materials and supplies	80,105	81,253
Other current assets	99,508	88,169
Allowance for doubtful receivables	(2,834)	(3,111)
Total current assets	955,809	995,796
Fixed assets		
Net property, plant and equipment	291,809	284,117
Intangible assets		
Goodwill	1,046	1,106
Other	18,788	18,466
Total intangible assets	19,835	19,573
Investments and other assets		
Other	104,673	101,470
Allowance for doubtful receivables	(1,282)	(1,187)
Total investments and other assets	103,391	100,283
Total fixed assets	415,036	403,974
Total assets	1,370,845	1,399,770
Liabilities		
Current liabilities		
Trade payables	289,023	358,478
Short-term borrowings	150,404	157,082
Income taxes payable	1,669	8,710
Accrued bonuses	15,719	14,241
Provision for losses on construction contracts	18,477	20,930
Other provisions	12,690	15,049
Advances from customers	136,632	125,762
Other	128,964	129,751
Total current liabilities	753,582	830,006
Long-term liabilities		
Bonds payable	40,990	40,990
Long-term debt	190,209	140,715
Employees' retirement and severance benefits	81,664	79,969
Other provisions	3,999	3,980
Other	8,066	8,862
Total long-term liabilities	324,929	274,518
Total liabilities	1,078,512	1,104,525
Net assets		
Shareholders' equity		
Common stock	104,328	104,328
Capital surplus	54,316	54,281
Retained earnings	147,377	154,272
Treasury stock	(470)	(467)
Total shareholders' equity	305,551	312,415
Valuation and translation adjustments		
Net unrealized gains (losses) on securities	4,921	3,139
Gains (losses) on hedging items	(976)	(263)
Foreign currency translation adjustments	(21,882)	(24,850)
Total valuation and translation adjustments	(17,938)	(21,974)
Minority interests	4,719	4,804
Total net assets	292,333	295,245
Total net assets and liabilities	1,370,845	1,399,770

(2) Consolidated Statements of Income

	Millions of yen	
	Three months ended June 30, 2008	Three months ended June 30, 2009
Net sales	302,531	256,757
Cost of sales	254,443	225,996
Gross profit	48,088	30,760
Selling, general and administrative expenses		
Salaries and benefits	10,063	9,514
R&D expenses	8,211	7,596
Other	21,567	19,024
Total selling, general and administrative expenses	39,842	36,135
Operating income (loss)	8,246	(5,374)
Non-operating income		
Interest income	969	750
Dividend income	676	319
Equity income of non-consolidated subsidiaries and affiliates	1,355	314
Foreign exchange gain, net	4,414	3,256
Other	2,535	2,071
Total non-operating income	9,952	6,711
Non-operating expenses		
Interest expense	1,849	1,441
Other	1,524	1,395
Total non-operating expenses	3,374	2,836
Recurring profit (loss)	14,824	(1,499)
Income (loss) before income taxes and minority interests	14,824	(1,499)
Income taxes	6,454	28
Minority interests in net income of consolidated subsidiaries	267	191
Net income (loss)	8,101	(1,719)

(3) Consolidated Cash Flow Statement

	Millions of yen	
	Three months ended June 30, 2008	Three months ended June 30, 2009
Cash flow from operating activities		
Income (loss) before income taxes and minority interests	14,824	(1,499)
Depreciation and amortization	9,541	11,174
Increase (decrease) in provisions	1,807	(2,123)
Interest and dividend income	(1,646)	(1,069)
Interest expense	1,849	1,441
Investment (gain) loss on equity method	(1,355)	(314)
(Gain) loss on sale and disposal of property, plant, and equipment	(941)	18
(Increase) decrease in trade receivables	83,284	51,092
(Increase) decrease in inventories	(34,443)	(5,632)
Increase (decrease) in trade payables	(79,785)	(71,111)
Increase (decrease) in advances from customers	25,465	8,370
Other	(2,063)	(8,509)
Subtotal	16,536	(18,163)
Cash received for interest and dividends	1,772	1,333
Cash paid for interest	(1,880)	(1,537)
Cash paid for income taxes	(20,013)	(8,908)
Net cash provided by operating activities	(3,584)	(27,276)
Cash flow from investing activities		
Acquisition of property, plant and equipment and intangible assets	(14,922)	(23,340)
Proceeds from sale of property, plant and equipment and intangible assets	1,452	300
Acquisition of investments in securities	(12)	(11)
Proceeds from sale of investments in securities	300	1
Acquisition of equity interest in subsidiaries resulting in change in scope of consolidation	(943)	-
(Increase) decrease in short-term loans receivable	(6)	73
Additions to long-term loans receivable	(17)	(19)
Proceeds from collection of long-term loans receivable	17	29
Other	(686)	163
Net cash used for investing activities	(14,818)	(22,801)
Cash flow from financing activities		
Increase (decrease) in short-term borrowings	18,886	5,132
Proceeds from long-term debt	8	50,000
Repayment of long-term debt	(506)	(640)
Redemption of bonds payable	-	(10,000)
Acquisition of treasury stock	(4)	(3)
Cash dividends paid	(5,952)	(3,684)
Cash dividends paid to minority interests	(329)	(426)
Other	-	(9)
Net cash provided by financing activities	12,100	40,367
Effect of exchange rate changes	(649)	(1,353)
Increase (decrease) in cash and cash equivalents	(6,952)	(11,064)
Cash and cash equivalents at beginning of period	38,169	31,413
Cash and cash equivalents at end of period	31,217	20,348

(4) Notes on the going-concern assumption

Not applicable

(5) Segment Information

1) Information by industry segment

Three months ended June 30, 2008 (April 1, 2008 – June 30, 2008)

Millions of yen

	External sales	Intersegment sales	Total sales	Operating income (loss)
Shipbuilding	19,091	186	19,277	24
Rolling Stock & Construction Machinery	36,103	258	36,362	2,381
Aerospace	39,563	393	39,956	218
Gas Turbines & Machinery	44,984	4,259	49,244	2,258
Plant & Infrastructure Engineering	20,283	2,891	23,175	1,695
Consumer Products & Machinery	94,006	1,861	95,868	(1,834)
Hydraulic Machinery	23,008	2,039	25,048	2,632
Other	25,489	9,956	35,446	939
Total	302,531	21,848	324,379	8,316
Eliminations/corporation	-	(21,848)	(21,848)	(69)
Consolidated total	302,531	-	302,531	8,246

Notes: 1. Method of segmentation

Business segmentation is based on the categorization used by management.

2. Major products by industry segment

Industry segment	Major products
Shipbuilding	Ships and vessels
Rolling Stock & Construction Machinery	Rolling stock, construction machinery, snowplows, crushers
Aerospace	Aircrafts
Gas Turbines & Machinery	Jet engines, general-purpose gas turbine generators, movers
Plant & Infrastructure Engineering	Industrial equipment, boilers, environmental equipment, steel structures
Consumer Products & Machinery	Motorcycles, personal watercraft, all-terrain vehicles (ATV), utility vehicles, general-purpose gasoline engines, industrial robots
Hydraulic Machinery	Industrial hydraulic products
Other	Commercial activities, sales/order agency and intermediary activities, management of welfare facilities

3. Change in inventory valuation standard and method

The Company previously valued ordinary held-for-sale inventories mainly at cost by the specific identification, moving average, and FIFO methods. In conjunction with adoption of the *Accounting Standard for Measurement of Inventories* (ASBJ Statement No. 9, as revised July 5, 2006), the Company switched to valuing inventories mainly at cost (writing down of inventories' carrying value to reflect impairment of the goods' utility) by the specific identification, moving average, and FIFO methods. Due to this change, operating income for the first quarter of the fiscal year ending March 31, 2009, in the Rolling Stock & Construction Machinery business was 380 million yen lower; in the Aerospace business, 440 million yen lower; in the Gas Turbines & Machinery business, 633 million yen lower; in the Consumer Products & Machinery business, 369 million yen lower; in the Hydraulic Machinery business, 131 million yen lower; and in the Other businesses, 5 million yen lower.

4. Change in useful life for property, plant and equipment
The Company and its consolidated subsidiaries in Japan have revised machinery's useful life pursuant to 2008 amendments to the tax code. Due to this change, operating income for the first quarter of the fiscal year ending March 31, 2009, in the Shipbuilding business was 124 million yen lower; in the Rolling Stock & Construction Machinery business, 83 million yen lower; in the Aerospace business, 54 million yen lower; in the Gas Turbines & Machinery business, 52 million yen lower; in the Plant & Infrastructure Engineering business, 16 million yen lower; in the Consumer Products & Machinery business, 52 million yen lower; and in the Other businesses, 6 million yen lower; while in the Hydraulic Machinery business, it was 20 million yen higher.

Three months ended June 30, 2009 (April 1, 2009 – June 30, 2009)

Millions of yen

	External sales	Intersegment sales	Total sales	Operating income (loss)
Shipbuilding	39,403	115	39,518	(661)
Rolling Stock	40,843	158	41,001	1,610
Aerospace	26,696	376	27,072	(2,152)
Gas Turbines & Machinery	44,753	4,355	49,108	946
Plant & Infrastructure Engineering	13,199	641	13,841	(611)
Consumer Products & Machinery	60,256	578	60,834	(5,680)
Hydraulic Machinery	14,327	1,649	15,977	1,182
Other	17,277	7,630	24,907	83
Total	256,757	15,504	272,262	(5,283)
Eliminations/corporation	-	(15,504)	(15,504)	(90)
Consolidated total	256,757	-	256,757	(5,374)

Notes: 1. Method of segmentation

Business segmentation is based on the categorization used by management.

2. Major products by industry segment

Industry segment	Major products
Shipbuilding	Ships and vessels
Rolling Stock	Rolling stock, snowplows, crushers
Aerospace	Aircrafts
Gas Turbines & Machinery	Jet engines, general-purpose gas turbine generators, movers
Plant & Infrastructure Engineering	Industrial equipment, boilers, environmental equipment, steel structures
Consumer Products & Machinery	Motorcycles, personal watercraft, all-terrain vehicles (ATV), utility vehicles, general-purpose gasoline engines, industrial robots
Hydraulic Machinery	Industrial hydraulic products
Other	Construction machinery, commercial activities, sales/order agency and intermediary activities, management of welfare facilities

3. Change in method of segmentation

In October 2008, the Company, Hitachi Construction Machinery Co., Ltd., and TCM Corporation reached an agreement on forming an alliance with respect to their wheel loader businesses. The alliance is to involve (i) joint research and development and (ii) a spin-off of the Company's wheel loader operation into a newly created subsidiary of the Company, and Hitachi's investment in that subsidiary.

In accord with the agreement, the construction machinery business was spun-off in April 2009 and succeeded by the Company's subsidiary, KCM Corporation. As a result, said business's relationship with the Rolling Stock & Construction Machinery segment was weakened, and effective the first quarter of the fiscal year ending March 31, 2010, it was therefore shifted from the Rolling Stock & Construction Machinery segment to the Other segment.

Due to this change, compared with what they would have been under the previous method, net sales for the first quarter of the fiscal year ending March 31, 2010, in the Rolling Stock segment was 3,270 million yen lower (including 3,269 million yen of external sales) and in the Other segment, 3,107 million yen higher (including 3,269 million yen of external sales). By the same comparison, operating income in the Rolling Stock segment was 613 million yen higher and in the Other segment, 617 million yen lower.

4. Change in accounting standard for construction revenue and cost

As stated under the heading "Changes related to accounting standards" in part 4., (3) of the "Qualitative Information and Financial Statements" section, the Company previously used the percentage-of-completion method for accounting of revenues associated mainly with

construction contracts with a contract amount of three billion yen or more and a construction period of over one year, and other construction works were accounted for with the completed-contract method. Effective the first quarter of the fiscal year ending March 31, 2010, however, in conjunction with adoption of the *Accounting Standard for Construction Contracts* (ASBJ Statement No.15, December 27, 2007) and its accompanying *Guidance on Accounting Standard for Construction Contracts* (ASBJ Guidance No.18, December 27, 2007), the percentage-of-completion method was applied to construction contracts that were started during the first quarter ended June 30, 2009, for which certain elements were determinable with certainty at the end of the first quarter. The percentage of completion is estimated with the proportion-of-cost method, under which the percentage of construction completed during the period is calculated as the ratio of the construction cost incurred during that period relative to the total construction cost. The completed-contract method was applied to other works.

Due to this change, net sales for the first quarter of the fiscal year ending March 31, 2009, in the Shipbuilding segment was 1,148 million yen higher; in the Gas Turbines & Machinery segment, 657 million yen higher; and in the Plant & Infrastructure Engineering segment, 3 million yen higher. Also due to the change, operating income in the Gas Turbines & Machinery segment was 84 million yen higher, while operating loss in the Shipbuilding segment was 10 million yen lower, and in the Plant & Infrastructure Engineering segment, it was lower by approximately 0 million yen.

2) Information by geographic area

Three months ended June 30, 2008 (April 1, 2008 – June 30, 2008)

Millions of yen

	External sales	Intersegment sales	Total sales	Operating income (loss)
Japan	206,344	56,974	263,319	4,740
North America	51,067	6,646	57,714	71
Europe	34,858	1,333	36,191	1,023
Asia	7,810	9,344	17,154	529
Other areas	2,450	53	2,504	158
Total	302,531	74,352	376,884	6,523
Eliminations/corporate	-	(74,352)	(74,352)	1,722
Consolidated total	302,531	-	302,531	8,246

Notes: 1. Classification method of geographic segment: by geographic proximity
2. Major countries or regions in each segment other than Japan:

North America	The U.S.A. and Canada
Europe	The Netherlands, the United Kingdom, and Germany
Asia	Thailand, Indonesia, the Philippines, and Korea
Other areas	Australia and Brazil

3. Change in inventory valuation standard and method

The Company previously valued ordinary held-for-sale inventories mainly at cost by the specific identification, moving average, and FIFO methods. In conjunction with adoption of the *Accounting Standard for Measurement of Inventories* (ASBJ Statement No. 9, as revised July 5, 2006), the Company switched to valuing inventories mainly at cost (writing down of inventories' carrying value to reflect impairment of the goods' utility) by the specific identification, moving average, and FIFO methods. Due to this change, operating income for the first quarter of the fiscal year ending March 31, 2009, in Japan was 1,961 million yen lower.

4. Change in useful life for property, plant and equipment

The Company and its consolidated subsidiaries in Japan have revised machinery's useful life pursuant to 2008 amendments to the tax code. Due to this change, operating income for the first quarter of the fiscal year ending March 31, 2009, in Japan was 369 million yen lower.

Three months ended June 30, 2009 (April 1, 2009 – June 30, 2009)

Millions of yen

	External sales	Intersegment sales	Total sales	Operating income (loss)
Japan	189,189	33,474	222,664	(7,295)
North America	35,850	5,541	41,391	(1,403)
Europe	21,333	432	21,765	1,023
Asia	8,736	12,975	21,712	1,786
Other areas	1,647	38	1,686	69
Total	256,757	52,462	309,220	(5,821)
Eliminations/corporate	-	(52,462)	(52,462)	446
Consolidated total	256,757	-	256,757	(5,374)

Notes: 1. Classification method of geographic segment: by geographic proximity
2. Major countries or regions in each segment other than Japan:

North America	The U.S.A. and Canada
Europe	The Netherlands, the United Kingdom, and Germany
Asia	Thailand, Indonesia, the Philippines, and Korea
Other areas	Australia and Brazil

3. Change in accounting standard for construction revenue and cost

As stated in 4. (3), “Changes related to accounting standards,” in the “Qualitative Information and Financial Statements” section, the Company previously used the percentage-of-completion method for accounting revenues associated mainly with construction contracts with a contract amount of three billion yen or more and a construction period of over one year, and other construction works were accounted for with the completed-contract method. Effective the first quarter of the fiscal year ending March 31, 2010, however, in conjunction with adoption of the *Accounting Standard for Construction Contracts* (ASBJ Statement No.15, December 27, 2007) and its accompanying *Guidance on Accounting Standard for Construction Contracts* (ASBJ Guidance No.18, December 27, 2007), the percentage-of-completion method was applied to construction contracts which were started during the first quarter ended June 30, 2009, for which certain elements were determinable with certainty at the end of the first quarter. The percentage of completion is estimated with the proportion-of-cost method, under which the percentage of construction completed during the period is calculated as the ratio of the construction cost incurred during that period relative to the total construction cost. The completed-contract method was applied to other works.

Due to this change, net sales for the first quarter of the fiscal year ending March 31, 2010, in Japan was 1,809 million yen higher, while operating loss in Japan was 95 million yen lower.

2. Overseas sales

Three months ended June 30, 2008 (April 1, 2008 – June 30, 2008)

Millions of yen

	Overseas sales	Consolidated net sales	Ratio of overseas sales to consolidated sales (%)
North America	69,690	-	23.0
Europe	39,454	-	13.0
Asia	35,587	-	11.7
Other areas	29,238	-	9.6
Total	173,971	302,531	57.5

Notes: 1. "Overseas sales" includes sales by the Company and its consolidated subsidiaries to the countries and regions other than Japan.
2. Classification method of geographic segment: by geographic proximity
3. Major countries or regions in each segment:

North America	The U.S.A. and Canada
Europe	The United Kingdom, France, the Netherlands, Italy and Spain
Asia	China, Korea and Taiwan
Other areas	Brazil, Panama, and Australia

Three months ended June 30, 2009 (April 1, 2009 – June 30, 2009)

Millions of yen

	Overseas sales	Consolidated net sales	Ratio of overseas sales to consolidated sales (%)
North America	54,002	-	21.0
Europe	26,585	-	10.3
Asia	35,692	-	13.9
Other areas	20,445	-	7.9
Total	136,725	256,757	53.2

Notes: 1. "Overseas sales" includes sales by the Company and its consolidated subsidiaries to the countries and regions other than Japan.
2. Classification method of geographic segment: by geographic proximity
3. Major countries or regions in each segment:

North America	The U.S.A. and Canada
Europe	The United Kingdom, Germany, France, Italy, and the Netherlands
Asia	China, Taiwan, Korea and the Philippines
Other areas	Panama, Australia and Marshall Islands

(6) Note on Significant Changes in the Amount of Shareholders' Equity

Not applicable

6. Other

Orders and sales (consolidated)

Effective the first quarter of the fiscal year ending March 31, 2010, the construction machinery division was shifted from the Rolling Stock & Construction Machinery segment to the Other segment. Due to this change, compared with what they would have been under the previous method, orders received for the first quarter of the fiscal year ending March 31, 2010, in the Rolling Stock segment was 2,254 million yen lower, and in the Other segment, 2,254 million yen higher. Also due to the change, net sales in the Rolling Stock segment was 3,269 million yen lower, and in the Other segment, 3,269 million yen higher. Order backlog in the Rolling Stock segment was 2,727 million yen lower, and in the Other segment, 2,727 million yen higher.

1) Orders received

	Three months ended June 30, 2008		Three months ended June 30, 2009		Year ended March 31, 2009	
	million yen	% of total	million yen	% of total	million yen	%
Shipbuilding	20,628	5.2	1,844	0.9	71,512	4.6
Rolling Stock	98,200	25.2	28,075	14.6	264,603	17.1
Aerospace	27,517	7.0	11,460	5.9	239,176	15.5
Gas Turbines & Machinery	59,148	15.1	52,334	27.2	355,517	23.0
Plant & Infrastructure Engineering	28,751	7.3	13,253	6.9	83,648	5.4
Consumer Products & Machinery	94,006	24.1	60,256	31.4	336,459	21.8
Hydraulic Machinery	28,921	7.4	10,988	5.7	84,142	5.4
Other	32,196	8.2	13,519	7.0	105,528	6.8
Total	389,371	100.0	191,733	100.0	1,540,589	100.0

Note: The Consumer Products & Machinery segment's orders received are equal to its net sales as production is based mainly on estimated demand.

2) Net sales

	Three months ended June 30, 2008		Three months ended June 30, 2009		Year ended March 31, 2009	
	million yen	% of total	million yen	% of total	million yen	%
Shipbuilding	19,091	6.3	39,403	15.3	126,426	9.4
Rolling Stock	36,103	11.9	40,843	15.9	186,454	13.9
Aerospace	39,563	13.0	26,696	10.3	200,424	14.9
Gas Turbines & Machinery	44,984	14.8	44,753	17.4	195,156	14.5
Plant & Infrastructure Engineering	20,283	6.7	13,199	5.1	105,178	7.8
Consumer Products & Machinery	94,006	31.0	60,256	23.4	336,459	25.1
Hydraulic Machinery	23,008	7.6	14,327	5.5	84,919	6.3
Other	25,489	8.4	17,277	6.7	103,579	7.7
Total	302,531	100.0	256,757	100.0	1,338,597	100.0

3) Order backlog

	Year ended March 31, 2009		Three months ended June 30, 2009		Three months ended June 30, 2008	
	million yen	% of total	million yen	% of total	million yen	%
Shipbuilding	356,937	21.0	318,550	19.4	420,167	25.7
Rolling Stock	478,565	28.1	473,953	28.9	485,123	29.7
Aerospace	286,600	16.8	269,533	16.4	241,840	14.8
Gas Turbines & Machinery	405,196	23.8	407,384	24.8	267,120	16.3
Plant & Infrastructure Engineering	112,162	6.6	112,216	6.8	143,903	8.8
Consumer Products & Machinery	-	-	-	-	-	-
Hydraulic Machinery	28,539	1.6	25,199	1.5	35,228	2.1
Other	31,160	1.8	31,144	1.9	35,918	2.2
Total	1,699,162	100.0	1,637,981	100.0	1,629,302	100.0