Report of Earnings and Financial Statements for the Three Months Ended June 30, 2010 (Consolidated)

(Prepared pursuant to Japanese GAAP)

July 30, 2010

Listed company's name:	**Kawasaki Heavy Industries, Ltd.**
Listed on:	1st sections of the TSE, OSE, and NSE
Stock code:	7012
URL:	http://www.khi.co.jp/
Representative:	Satoshi Hasegawa, President
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Scheduled dates:

Submission of quarterly securities filing:	August 6, 2010
Commencement of dividend payments:	-
Supplementary materials to quarterly earnings:	Available
Quarterly earnings presentation:	Not conducted

1. Consolidated Financial Results for the Three Months ended June 30, 2010

(April 1 – June 30, 2010)

(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, 2010	277,387	8.0	11,657	-	11,386	-	5,883	-
Three Months Ended June 30, 2009	256,757	(15.1)	(5,374)	-	(1,499)	-	(1,719)	-

	Earnings per share	Earnings per share – diluted
	yen	yen
Three Months Ended June 30, 2010	3.52	3.47
Three Months Ended June 30, 2009	(1.03)	-

(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, 2010	1,325,586	282,937	20.8	165.35
March 31, 2010	1,352,439	283,053	20.4	166.13

Note: Shareholders' equity: June 30, 2010: 275,777 million yen
March 31, 2010: 277,081 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, 2010	-	0.00	-	3.00	3.00
Year ending March 31, 2011	-				
Year ending March 31, 2011 (forecast)		0.00	-	3.00	3.00

Note: Revision of dividend forecast during the three months ended June 30, 2010: None

3. Forecast of Consolidated Earnings for the Year Ending March 31, 2011
(April 1, 2010 – March 31, 2011)

(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, 2010	580,000	12.3	15,000	-	14,000	-	7,000	-	4.19
Full year	1,280,000	9.0	32,000	-	32,000	123.8	20,000	-	11.99

Note: Revision of earnings forecast during the three months ended June 30, 2010: Yes

4. Other Information

For further details, see “Other Information” on page 9 in the Accompanying Materials.

1) Changes in material subsidiaries during the period: None

*This refers to additions and removals of material subsidiaries to and from the consolidated group during the period.

2) Use of simplified accounting methods and specific accounting methods: Yes

*This refers to the use of simplified accounting methods and accounting methods specific to the preparation of quarterly consolidated financial statements.

3) Changes in accounting principles, procedures, and methods of disclosure

(1) Changes in accord with revisions to accounting standards: Yes

(2) Changes other than the above: None

*This refers to changes in accounting principles, procedures, and methods of disclosure used in the preparation of quarterly consolidated financial statements.

4) Number of shares issued and outstanding (common stock)

(1) Number of shares issued as of period-end (including treasury stock)

June 30, 2010: 1,669,629,122 shares
March 31, 2010: 1,669,629,122 shares

(2) Number of shares held in treasury as of period-end

June 30, 2010: 1,795,639 shares
March 31, 2010: 1,780,388 shares

(3) Average number of shares during respective periods

Three months ended June 30, 2010:	1,667,836,934 shares
Three months ended June 30, 2009:	1,668,223,431 shares

Quarterly review status

This report is exempt from the quarterly review of accounts conducted in accord with Japan's Financial Instruments and Exchange Act. As of this report's publication, the quarterly review of the quarterly financial results had not been completed.

*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 assumptions underlying earnings forecasts and other information regarding the use of such forecasts, refer to "Consolidated Earnings Outlook" on page 8 in the Accompanying Materials.

Accompanying Materials – Contents

1. Qualitative Information and Financial Statements

(1) Consolidated operating results

In the three months to June 30, 2010 (first quarter of the fiscal year ending March 31, 2011), the Japanese economy continued to recover from the recession ensuing from Lehman's fall, even showing signs of self-sustaining recovery. Nonetheless, the KHI Group continued to face an adverse operating environment, notably in the form of yen appreciation against the US dollar.

Overseas, some emerging market economies exhibited robust growth. In the US, however, the economic outlook remained murky. The global outlook was further clouded by unresolved concerns about sovereign default in certain European countries.

Although the Group's businesses remained under pressure from stiff headwinds against such a backdrop, nearly all of them reported improved performance. All business segments except Shipbuilding and Gas Turbines & Machinery saw growth in orders received, with the Rolling Stock and Aerospace segments winning large orders. Orders received grew on an aggregate basis also. Overall sales also grew despite sales declines in the Shipbuilding and Rolling Stock segments. Profits grew across all segments except Rolling Stock, largely by virtue of sales growth combined with fixed-cost cutting.

Relative to the year-earlier quarter, the Group's consolidated orders received increased ¥137.7 billion to ¥329.4 billion while consolidated net sales grew ¥20.6 billion to ¥277.3 billion. The Group earned quarterly operating income of ¥11.6 billion, recurring profit of ¥11.3 billion, and net income of ¥5.8 billion, which respectively represent improvements of ¥17.0 billion, ¥12.8 billion, and ¥7.6 billion from the year-earlier quarter's operating, recurring, and net losses.

Segment information for the fiscal first quarter is summarized below.

Segment Information

Effective from the first quarter of the current fiscal year, the Group adopted the Accounting Standards Board of Japan's *Accounting Standard for Disclosures about Segments of an Enterprise and Related Information* and associated guidance. The Group also changed the names of its Consumer Products & Machinery segment and Hydraulic Machinery segment to the Motorcycle & Engine segment and Precision Machinery segment, respectively, in conjunction with the April 2010 adoption of new industry segmentation for internal reporting. Additionally, the crushing machinery business—previously part of the Rolling Stock segment—and the industrial robot business—previously part of the Consumer Products & Machinery segment—were respectively transplanted to the Plant & Infrastructure Engineering segment and Precision Machinery segment effective from April 2010.

To reflect this change, the previous fiscal year's first-quarter figures for net sales, operating income/losses, and orders received in the table below have been restated based on the newly adopted accounting standard and guidance and resegmentation of operations.

Segment net sales, operating income, and orders received (billions of yen)

Segment	Quarter ended June 2010		Quarter ended June 2009		Orders received	
	Net sales	Operating income	Net sales	Operating income	Quarter ended June 2010	Quarter ended June 2009
Shipbuilding	28.6	3.3	39.4	(0.6)	1.6	1.8
Rolling Stock	26.6	1.7	37.5	1.9	101.5	25.5
Aerospace	34.2	(1.8)	26.6	(1.9)	36.5	11.4
Gas Turbines & Machinery	49.9	4.0	44.7	1.2	33.0	52.3
Plant & Infrastructure Engineering	20.4	0.2	16.5	(0.5)	32.0	15.8
Motorcycle & Engine	65.1	0.7	58.0	(3.9)	65.1	58.0
Precision Machinery	27.8	3.9	16.5	(0.3)	35.0	13.1
Other	24.4	0.0	17.2	(0.3)	24.2	13.5
Adjustments	—	(0.6)	—	(0.8)	—	—
Total	277.3	11.6	256.7	(5.3)	329.4	191.7

Note: Net sales include only sales to external customers.

Shipbuilding

With no new shipbuilding orders for a second consecutive fiscal first quarter, consolidated orders received were flat year on year at ¥1.6 billion.

Consolidated net sales decreased ¥10.7 billion year on year to ¥28.6 billion, due to the decrease in sales of large vessels.

Consolidated operating income increased ¥3.9 billion year on year to ¥3.3 billion, largely reflecting improved margins.

Rolling Stock

Consolidated orders received increased ¥76 billion year on year to ¥101.5 billion, due mainly to a large subway car order from the Washington Metropolitan Area Transit Authority.

Consolidated net sales fell ¥10.8 billion to ¥26.6 billion, largely as a result of a decline in overseas sales.

Despite the sales decline and impact of yen appreciation, quarterly consolidated operating income was flat year on year at ¥1.7 billion, largely due to cost cutting.

Aerospace

Consolidated orders received rose ¥25.1 billion year on year to ¥36.5 billion, largely as a result of growth in orders for component parts for the Boeing 777.

Consolidated net sales increased ¥7.5 billion year on year to ¥34.2 billion, lifted by growth in sales to Japan's Ministry of Defense and sales of component parts for the Boeing 787.

Despite such sales growth, the Aerospace segment incurred a quarterly consolidated operating loss of ¥1.8 billion, roughly unchanged from the year-earlier quarter due mainly to yen appreciation.

Gas Turbines & Machinery

Consolidated orders received decreased ¥19.2 billion year on year to ¥33.0 billion, largely as a result of a falloff in orders for aircraft engine components, for which large orders were received in the year-earlier quarter, and marine diesel engines.

Consolidated net sales grew ¥5.1 billion year on year to ¥49.9 billion, bolstered by growth in gas compression module sales.

Consolidated operating income increased ¥2.7 billion year on year to ¥4.0 billion, owing largely to sales growth.

Plant & Infrastructure Engineering

Consolidated orders received rose ¥16.2 billion year on year to ¥32.0 billion, as a result of an influx of domestic and overseas orders for a variety of plant facilities.

Consolidated net sales increased ¥3.9 billion year on year to ¥20.4 billion, largely reflecting growth in domestic sales of LNG storage tanks and overseas sales of major plant installations. Consolidated operating income increased ¥800 million year on year to ¥200 million, owing largely to sales growth.

Motorcycle & Engine

Consolidated net sales grew ¥7.0 billion year on year to ¥65.1 billion, largely as result of sales growth in emerging market economies.

Although yen appreciation detracted from profits, its adverse impact was more than offset by sales growth coupled with fixed-cost cutting and marginal profit ratio improvements resulting from urgent measures to improve profitability. The segment earned consolidated operating income of ¥700 million, a ¥4.7 billion improvement from the year-earlier quarter's operating loss.

Precision Machinery

Consolidated orders received increased ¥21.8 billion year on year to ¥35.0 billion, driven mainly by demand from the construction machinery industry.

Consolidated net sales grew ¥11.3 billion year on year to ¥27.8 billion, largely by virtue of growth in sales to the construction machinery industry and sales of clean manipulators for semiconductor and FPD production processes.

Such sales growth lifted consolidated operating income to ¥3.9 billion, a ¥4.2 billion improvement from the year-earlier quarter's operating loss.

Other Operations

Consolidated net sales grew ¥7.1 billion year on year to ¥24.4 billion. Consolidated operating income improved ¥400 million from the year-earlier quarter.

(2) Consolidated financial position

At June 30, 2010, consolidated assets totaled ¥1,325.5 billion, a decrease of ¥26.8 billion from March 31, 2010. The decrease was attributable to reduction in trade receivables due to collection of receivables. Consolidated liabilities totaled ¥1,042.6 billion at June 30, a decrease of ¥26.7 billion from March 31, 2010. The decrease was attributable to reduction in trade payables, partially offset by a ¥21.2 billion increase in interest-bearing debt to ¥450.1 billion, largely as a result of bond issuance. Consolidated net assets decreased ¥100 million from March 31, 2010, to ¥282.9 billion at June 30, largely as a result of a dividend distribution offset by quarterly net income.

(3) Consolidated earnings outlook

In light of its fiscal first-quarter operating results, marked by brisk sales growth in emerging markets, the Company has raised its consolidated earnings forecasts for the first half of the fiscal year ending March 31, 2011, to ¥15.0 billion on the operating income line, ¥14.0 billion on the recurring profit line, and ¥7.0 billion on the net income line. For the full fiscal year ending March 31, 2011, the Company has left unchanged its existing earnings forecast (announced April 27, 2010) in light of uncertainties surrounding exchange rates, materials costs, and economic conditions in advanced economies.

The Company's earnings forecasts assume exchange rates of ¥90 to the US dollar and ¥115 to the euro.

2. Other Information

(1) Overview of changes in material subsidiaries

Not applicable

(2) Overview of simplified accounting methods and specific accounting methods used

Simplified accounting methods

(i) 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.

(ii) 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.

(iii) 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.

(iv) Income taxes and 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.

(v) Elimination of unrealized gains/losses on inventory

For some products, the Company calculates unrealized gains/losses on inventory 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, which 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) Overview of changes in accounting principles, procedures, and methods of disclosure

Changes related to accounting standards

(i) Adoption of the *Accounting Standard for Asset Retirement Obligations* and the *Guidance on Accounting Standard for Asset Retirement Obligations*

Effective the first quarter of the fiscal year ending March 31, 2011, the Company adopted the *Accounting Standard for Asset Retirement Obligations* (Statement No. 18, March 31, 2008) and its associated *Guidance on Accounting Standard for Asset Retirement Obligations* (Guidance No. 21, March 31, 2008).

Due to adoption of the standard and guidance, operating income and recurring profit were each decreased by 5 million yen, and income before income taxes were decreased by 275 million yen.

(ii) Adoption of the *Accounting Standard for Equity Method of Accounting for Investments* and the *Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method*

Effective the first quarter of the fiscal year ending March 31, 2011, the Company adopted the *Accounting Standard for Equity Method of Accounting for Investments* (ASBJ Statement No. 16, March 10, 2008) and the *Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method* (PITF No. 24, March 10, 2008) and made some adjustments required for preparation of consolidated financial statements. The resultant effect on profit and loss is negligible.

Changes related to methods of disclosure

Due to adoption of the *Cabinet Office Ordinance on Partial Revision of the Regulations Concerning the Terminology, Forms and Preparation Methods of Financial Statements and Others* (Cabinet Office Ordinance No. 5, March 24, 2009) based on the *Accounting Standard for Consolidated Financial Statements* (ASBJ Statement No. 22, December 26, 2008), the Company used the account title “Income before minority interests” for the three months ended June 30, 2010.

3. Consolidated Financial Statements

(1) Consolidated Balance Sheets

	Millions of yen	
	Three months ended June 30, 2010	As of March 31, 2010
Assets		
Current assets		
Cash on hand and in banks	25,548	34,745
Trade receivables	371,018	400,264
Merchandise and finished products	41,857	56,807
Work in process	304,786	281,023
Raw materials and supplies	76,246	80,392
Other current assets	87,890	80,868
Allowance for doubtful receivables	(2,711)	(2,424)
Total current assets	904,635	931,678
Fixed assets		
Net property, plant and equipment	282,293	284,407
Intangible assets		
Goodwill	806	866
Other	19,328	19,852
Total intangible assets	20,134	20,718
Investments and other assets		
Other	119,575	116,905
Allowance for doubtful receivables	(1,052)	(1,270)
Total investments and other assets	118,522	115,635
Total fixed assets	420,950	420,761
Total assets	1,325,586	1,352,439
Liabilities		
Current liabilities		
Trade payables	253,730	302,739
Short-term debt	120,061	125,614
Income taxes payable	4,438	4,833
Accrued bonuses	16,332	14,202
Provision for losses on construction contracts	15,148	17,991
Other provisions	16,451	18,910
Advances from customers	109,629	99,532
Other	120,566	109,098
Total current liabilities	656,358	692,923
Long-term liabilities		
Bonds payable	70,513	60,513
Long-term debt	209,184	209,360
Employees’ retirement and severance benefits	87,000	89,240
Other provisions	10,465	10,419
Other	9,126	6,929
Total long-term liabilities	386,290	376,463
Total liabilities	1,042,648	1,069,386
Net assets		
Shareholders’ equity		
Common stock	104,328	104,328
Capital surplus	54,275	54,275
Retained earnings	138,612	137,689
Treasury stock	(555)	(552)
Total shareholders’ equity	296,661	295,741

Valuation and translation adjustments		
Net unrealized gains (losses) on securities	4,151	5,305
Gains (losses) on hedging items	(245)	(162)
Foreign currency translation adjustment	(24,789)	(23,803)
Total valuation and translation adjustments	(20,883)	(18,659)
Minority interests	7,160	5,972
Total net assets	282,937	283,053
Total net assets and liabilities	1,325,586	1,352,439

(2) Consolidated Statements of Income

	Millions of yen	
	Three months ended June 30, 2009	Three months ended June 30, 2010
Net sales	256,757	277,387
Cost of sales	225,996	231,766
Gross profit	30,760	45,620
Selling, general and administrative expenses		
Salaries and benefits	9,514	9,311
R&D expenses	7,596	7,329
Other	19,024	17,322
Total selling, general and administrative expenses	36,135	33,963
Operating income (loss)	(5,374)	11,657
Non-operating income		
Interest income	750	506
Dividend income	319	342
Equity in income of non-consolidated subsidiaries and affiliates	314	2,275
Foreign exchange gain, net	3,256	-
Other	2,071	1,298
Total non-operating income	6,711	4,423
Non-operating expenses		
Interest expense	1,441	1,202
Foreign exchange loss, net	-	952
Loss on valuation of securities	-	1,547
Other	1,395	991
Total non-operating expenses	2,836	4,694
Recurring profit (loss)	(1,499)	11,386
Extraordinary losses		
Effect of the adoption of the *Accounting Standard for Asset Retirement Obligations*	-	270
Provision for doubtful accounts of affiliates	-	215
Total extraordinary losses	-	485
Income (loss) before income taxes and minority interests	(1,499)	10,901
Income taxes	28	4,579
Income before minority interests	-	6,322
Minority interests in net income of consolidated subsidiaries	191	438
Net income (loss)	(1,719)	5,883

(3) Consolidated Cash Flow Statement

	Millions of yen	
	Three months ended June 30, 2009	Three months ended June 30, 2010
Cash flow from operating activities		
Income (loss) before income taxes and minority interests	(1,499)	10,901
Depreciation and amortization	11,174	11,214
Increase (decrease) in provisions	(2,123)	(5,076)
Interest and dividend income	(1,069)	(849)
Interest expense	1,441	1,202
(Gain) loss on valuation of securities	-	1,547
Investment (gain) loss on equity method	(314)	(2,275)
(Gain) loss on sale and disposal of property, plant, and equipment	18	-
(Increase) decrease in trade receivables	51,092	41,979
(Increase) decrease in inventories	(5,632)	(7,459)
Increase (decrease) in trade payables	(71,111)	(68,260)
Increase (decrease) in advances from customers	8,370	9,934
Other	(8,509)	13,149
Subtotal	(18,163)	6,008
Cash received for interest and dividends	1,333	822
Cash paid for interest	(1,537)	(1,446)
Cash paid for income taxes	(8,908)	(5,202)
Net cash provided by operating activities	(27,276)	182
Cash flow from investing activities		
Acquisition of property, plant and equipment and intangible assets	(23,340)	(12,111)
Proceeds from sale of property, plant and equipment and intangible assets	300	298
Acquisition of investments in securities	(11)	(9)
Proceeds from sale of investments in securities	1	0
(Increase) decrease in short-term loans receivable	73	88
Additions to long-term loans receivable	(19)	(3)
Proceeds from collection of long-term loans receivable	29	20
Other	163	(594)
Net cash used for investing activities	(22,801)	(12,310)
Cash flow from financing activities		
Increase (decrease) in short-term debt	5,132	(14,204)
Proceeds from long-term debt	50,000	160
Repayment of long-term debt	(640)	(718)
Proceeds from issuance of bonds	-	20,000
Redemption of bonds payable	(10,000)	-
Acquisition of treasury stock	(3)	(4)
Proceeds from stock issuance to minority shareholders	-	979
Cash dividends paid	(3,684)	(3,871)
Cash dividends paid to minority interests	(426)	(418)
Other	(9)	(19)
Net cash provided by financing activities	40,367	1,902
Effect of exchange rate changes	(1,353)	371
Increase (decrease) in cash and cash equivalents	(11,064)	(9,854)
Cash and cash equivalents at beginning of period	31,413	34,137
Cash and cash equivalents at end of period	20,348	24,283

(4) Notes on the going-concern assumption

Not applicable

(5) Segment information

1) Information by industry segment

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, snow plows, crushers
Aerospace	Aircraft
Gas Turbines & Machinery	Jet engines, general-purpose gas turbine generators, prime 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, administration 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

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, 2010, 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, 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

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 initiated 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.

3). Overseas sales

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

Segment Information

1. Overview of reportable segments

The Company’s reportable segments are components of the company about which separate financial information is available. These segments are subject to periodic reviews by the Company’s board of directors to decide how to allocate resources and assess performance. The Company’s operations are divided into internal companies based on product categories. Certain authority is delegated to each of the internal companies, based on which they conduct businesses in Japan and overseas. The Company’s operations are therefore segmented based on each internal company’s product categories. The Company’s eight reportable segments are the Shipbuilding segment, the Rolling Stock segment, the Aerospace segment, the Gas Turbines & Machinery segment, the Plant & Infrastructure Engineering segment, the Motorcycle & Engine segment, the Precision Machinery segment, and the Other segment. Main segment businesses are listed below.

Industry segment	Major products
Shipbuilding	Construction and sale of ships and other vessels, etc.
Rolling Stock	Production and sale of rolling stock, snow plows, etc.
Aerospace	Production and sale of aircraft, etc.
Gas Turbines & Machinery	Production and sale of jet engines, general-purpose gas turbine generators, prime movers, etc.
Plant & Infrastructure Engineering	Production and sale of industrial equipment, boilers, environmental equipment, steel structures, crushers, etc.
Motorcycle & Engine	Production and sale of motorcycles, personal watercraft, all-terrain vehicles (ATV), utility vehicles, general-purpose gasoline engines, etc.
Precision Machinery	Production and sale of industrial hydraulic products, industrial robots, etc.
Other	Production and sale of construction machinery, commercial activities, sales/order agency and intermediary activities, administration of welfare facilities, etc.

2. Sales and income (loss) by reportable segment

Three months ended June 30, 2010 (April 1, 2010 – June 30, 2010)

Millions of yen

	External sales	Intersegment sales	Total sales	Operating income (loss)
Shipbuilding	28,659	342	29,001	3,318
Rolling Stock	26,680	93	26,773	1,779
Aerospace	34,211	390	34,601	(1,857)
Gas Turbines & Machinery	49,906	5,937	55,843	4,057
Plant & Infrastructure Engineering	20,456	785	21,242	285
Motorcycle & Engine	65,169	321	65,490	774
Precision Machinery	27,854	2,818	30,672	3,958
Other	24,449	7,012	31,462	35
Reportable segment total	277,387	17,701	295,088	12,352
Adjustments*1	-	(17,701)	(17,701)	(695)
Consolidated total	277,387	-	277,387	11,657

Notes:

1.Breakdown of adjustments:

Millions of yen

Income	Amount
Intersegment sales eliminated	(299)
Corporate expenses*	(396)
Total	(695)

*Corporate expenses represent expenses not attributable to reportable segments such as selling, general and administrative expenses.

2. Segment income adjustments are based on operating income reported on the quarterly consolidated statements of income for the corresponding period.

3. Impairment loss on fixed assets and goodwill by reportable segment

Not applicable

Additional information

Effective the first quarter of the fiscal year ending March 31, 2011, the Company adopted the *Revised Accounting Standard for Disclosures about Segments of an Enterprise and Related Information* (ASBJ Statement No. 17, revised March 27, 2009) and its associated *Guidance on the Accounting Standard for Disclosures about Segments of an Enterprise and Related Information* (Guidance No. 20, March 21, 2008).

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

Not applicable

4. Supplementary information

(1) Orders and sales (consolidated)

Effective from the first quarter of the current fiscal year, the Group adopted *Accounting Standard for Disclosures about Segments of an Enterprise and Related Information* and associated guidance. The Group also changed the names of its Consumer Products & Machinery segment and Hydraulic Machinery segment to the Motorcycle & Engine segment and Precision Machinery segment, respectively, in conjunction with the April 2010 adoption of new industry segmentation for internal reporting. Additionally, the crushing machinery business- previously part of the Rolling Stock segment and the industrial robot business- previously part of the Consumer Products & Machinery segment were respectively transplanted to the Plant & Infrastructure Engineering segment and Precision Machinery segment effective from April 2010.

To reflect this change, the figures of orders received, net sales, and order backlog of the three months ended June 30, 2009 and the year ended March 31, 2010 in the table below have been restated based on the newly adopted accounting standard and guidance and the resegmentation of operations.

Orders received

	Three months ended June 30, 2009		Three months ended June 30, 2010		Year ended March 31, 2010	
	million yen	% of total	million yen	% of total	million yen	% of total
Shipbuilding	1,844	0.9	1,662	0.5	16,128	1.6
Rolling Stock	25,514	13.3	101,583	30.8	66,269	6.6
Aerospace	11,460	5.9	36,594	11.1	171,380	17.1
Gas Turbines & Machinery	52,334	27.3	33,080	10.0	226,228	22.5
Plant & Infrastructure Engineering	15,814	8.2	32,061	9.7	135,664	13.5
Motorcycle & Engine	58,077	30.2	65,169	19.7	203,084	20.2
Precision Machinery	13,167	6.8	35,065	10.6	84,948	8.4
Other	13,519	7.0	24,271	7.3	97,584	9.7
Total	191,733	100.0	329,488	100.0	1,001,290	100.0

Note: The Motorcycle & Engine segment’s orders received are equal to its net sales as production is based mainly on estimated demand.

Net sales

	Three months ended June 30, 2009		Three months ended June 30, 2010		Year ended March 31, 2010	
	million yen	% of total	million yen	% of total	million yen	% of total
Shipbuilding	39,403	15.3	28,659	10.3	151,893	12.9
Rolling Stock	37,507	14.6	26,680	9.6	150,071	12.7
Aerospace	26,696	10.4	34,211	12.3	188,892	16.1
Gas Turbines & Machinery	44,753	17.4	49,906	17.9	191,379	16.3
Plant & Infrastructure Engineering	16,535	6.4	20,456	7.3	107,580	9.1
Motorcycle & Engine	58,077	22.6	65,169	23.4	203,084	17.3
Precision Machinery	16,506	6.4	27,854	10.0	82,715	7.0
Other	17,277	6.7	24,449	8.8	97,855	8.3
Total	256,757	100.0	277,387	100.0	1,173,473	100.0

Order backlog

	Year ended March 31, 2010		Three months ended June 30, 2010		Three months ended June 30, 2009	
	million yen	% of total	million yen	% of total	million yen	% of total
Shipbuilding	218,134	14.4	190,840	12.3	318,550	19.4
Rolling Stock	378,391	25.1	450,531	29.1	461,275	28.1
Aerospace	264,788	17.5	264,565	17.1	269,533	16.4
Gas Turbines & Machinery	426,506	28.3	396,484	25.6	407,384	24.8
Plant & Infrastructure Engineering	153,830	10.2	165,354	10.7	124,894	7.6
Motorcycle & Engine	-	-	-	-	-	-
Precision Machinery	30,772	2.0	41,375	2.6	25,199	1.5
Other	34,635	2.2	34,457	2.2	31,144	1.9
Total	1,507,057	100.0	1,543,609	100.0	1,637,981	100.0

(2) Net sales by geographic area (consolidated)

Net sales by geographic area in the current fiscal year's first-quarter and the previous fiscal year's first-quarter in accord with *the Revised Accounting Standard for Disclosures about Segments of an Enterprise and Related Information* and its associated *Guidance on the Accounting Standard for Disclosures about Segments of an Enterprise and Related Information* are listed below.

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

Millions of yen

Japan	120,031	46.7%
The U.S.A	51,584	20.0%
Europe	26,585	10.3%
Asia	35,692	13.9%
Other areas	22,863	8.9%
Total	256,757	100.0%

Three months ended June 30, 2010 (April 1, 2010 – June 30, 2010)

Millions of yen

Japan	116,903	42.1%
The U.S.A	61,558	22.1%
Europe	25,163	9.0%
Asia	47,603	17.1%
Other areas	26,158	9.4%
Total	277,387	100.0%