Quarterly Financial Statements for the Nine Months Ended December 31, 2008

January 30, 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: Tadaharu Ohashi, President
Contact: M(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	%
Nine months ended December 31, 2008	954,962	-	14,706	-	21,578	-	7,460	-
Nine months ended December 31, 2007	1,051,155	4.9	53,771	20.4	48,008	32.9	28,962	25.5

	Earnings per share	Earnings per share – diluted
	yen	yen
Nine months ended December 31, 2008	4.47	4.41
Nine months ended December 31, 2007	17.38	16.95

(2) Financial Condition

	Total assets	Net assets	Ratio of net assets to total assets	Net assets per share
	million yen	million yen	%	yen
December 31, 2008	1,425,028	303,362	20.8	178.24
March 31, 2008	1,378,769	319,037	22.7	187.73

Note: Shareholders' equity: December 31, 2008: 297,351 million yen
March 31, 2008: 313,192 million yen

2. Dividends

Record date	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, 2008	—	0.00	—	5.00	5.00
Year ending					

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

Forward-Looking Statements

1. The Company has revised its consolidated full-year earnings forecasts for the fiscal year ending March 31, 2009, which were released on October 31, 2008. This document reflects the revised forecasts.
2. The year-end dividend for the fiscal year ending March 31, 2009, has not yet been determined because the Company downwardly revised its earnings outlook and the operating environment remains uncertain. Kawasaki Heavy Industries, Ltd., will issue further information on dividends after evaluating results of operations for the full fiscal year ending March 31, 2009, and the Company's earnings outlook for the fiscal year ending March 31, 2010.
3. 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.

Other Important Matters

Effective this consolidated fiscal year, the Company has adopted the Accounting Standard for Quarterly Financial Reporting (Accounting Standards Board of Japan (ASBJ) Statement No. 12) and its accompanying Guidance on Accounting Standard for Quarterly Financial Reporting (ASBJ

Qualitative Information and Financial Statements

1. Consolidated operating results

In the nine months to December 31, 2008 (first three quarters of the fiscal year ending March 31, 2009), the Japanese economy entered a steep downturn marked by a consumer spending slump, retrenchment in capital spending, deterioration in employment conditions, and an export slowdown amid precipitous yen appreciation, most notably against the euro and US dollar.

Much of the global economy, including hitherto buoyant emerging economies, likewise slowed markedly or sank into recession under the weight of the financial crisis that originated in the US.

Amid such an operating environment, certain KHI Group businesses (e.g., Rolling Stock & Construction Machinery, Gas Turbines & Machinery) continued to perform solidly in the three quarters to December 31, but the Aerospace, Shipbuilding, and Consumer Products & Machinery segments all saw their earnings decline in the wake of yen appreciation and a falloff in American and European demand.

Relative to the corresponding year-earlier period, the Group's consolidated order bookings in the nine months to December 31 decreased ¥56.3 billion to ¥1,087.2 billion, net sales fell ¥96.1 billion to ¥954.9 billion, operating income declined ¥39.0 billion to ¥14.7 billion, recurring profit fell ¥26.4 billion to ¥21.5 billion, and net income decreased ¥21.5 billion to ¥7.4 billion.

Consolidated operating performance in the nine months to December 31, 2008, is summarized by segment below.

Shipbuilding

The Shipbuilding segment booked new orders for one LPG tanker and five bulk carriers, but its consolidated order bookings nonetheless shrank to ¥64.1 billion, a ¥119.3 billion decrease from the year-earlier period, when it benefited from a heavy influx orders for bulk carriers.

Consolidated net sales fell ¥16.5 billion year-on-year to ¥95.8 billion, largely reflecting a decline in sales of large vessels.

The decline in sales weighed on profitability, as did the yen's appreciation against the dollar and sharp increases in material costs. The segment incurred an operating loss of ¥2.5 billion, ¥5.5 billion below its operating income in the year-earlier period.

Rolling Stock & Construction Machinery

Consolidated order bookings increased ¥28.1 billion year-on-year to ¥186.4 billion by virtue of orders for *shinkansen* (bullet trains), electric commuter trains, and locomotives from JR Group and other railway companies, and, overseas, orders for subway cars for the New York City subway system.

Consolidated net sales grew ¥14.5 billion year-on-year to ¥131.8 billion as growth in overseas sales of rolling stock offset a decline in North American sales of construction machinery.

Sales growth boosted operating income to ¥7.7 billion, a ¥3.6 billion year-on-year increase.

Aerospace

Although the Aerospace segment won new orders for parts for the Boeing 767 and 777 jetliners, its consolidated order bookings fell ¥37.8 billion year-on-year to ¥87.7 billion.

Consolidated net sales were down ¥45.0 billion year-on-year to ¥126.4 billion as a result of declines in sales to Japan's Ministry of Defense and sales of Boeing 767 and 777 parts, coupled with the yen's appreciation against the dollar.

Profitability-wise, the decrease in sales was compounded by cost increases, including inventory valuation losses. The segment incurred an operating loss of ¥4.3 billion, ¥16.7 billion below its operating income in the year-earlier period.

Gas Turbines & Machinery

Consolidated order bookings rose ¥120.5 billion year-on-year to ¥279.3 billion, lifted by growth in orders for ship propulsion systems, diesel generator systems, and marine diesel engines. New orders for aircraft engine parts for Trent XWB aircraft engines also contributed to order growth.

Consolidated net sales grew ¥8.4 billion year-on-year to ¥138.8 billion, driven largely by growth in sales of marine diesel engines and gas turbine generator systems.

Despite this sales growth, operating income declined ¥600 million year-on-year to ¥6.7 billion, largely as a result of material price inflation and inventory valuation losses.

Plant & Infrastructure Engineering

Despite an influx of orders for LNG storage tanks and various plant facilities, consolidated order bookings decreased ¥4.4 billion year-on-year to ¥61.6 billion.

Consolidated net sales fell ¥16.0 billion year-on-year to ¥66.1 billion as growth in overseas cement plant sales was outweighed by declines in revenues from trash incineration plant and bridge projects.

Operating income grew ¥1.4 billion to ¥5.3 billion, largely by virtue of an increase in high-margin contracts, reflecting greater selectivity in screening incoming orders.

Consumer Products & Machinery

Consolidated net sales fell ¥57.7 billion year-on-year to ¥247.8 billion in the wake of the yen's progressive appreciation against the dollar and euro, a decline in industrial robot sales to the semiconductor industry, and a drop in North American and European motorcycle sales.

The segment incurred a ¥7.7 billion operating loss, ¥22.4 billion below its operating income in the year-earlier period.

Hydraulic Machinery

Consolidated order bookings grew ¥3.8 billion year-on-year to ¥71.5 billion, driven chiefly by demand from construction machinery manufacturers.

Consolidated net sales were up ¥7.1 billion year-on-year to ¥68.2 billion by virtue of strong sales to the construction machinery industry through mid-year.

Operating income grew in tandem with sales, up ¥500 million year-on-year to ¥7.0 billion.

Other Operations

Consolidated net sales rose ¥9.0 billion year-on-year to ¥79.8 billion. Operating profit grew ¥800 million year-on-year to ¥2.6 billion.

2. Consolidated Financial Condition

At December 31, 2008, the Company had total consolidated assets of ¥1,425 billion, an increase of ¥46.2 billion from March 31, 2008. The increase was largely attributable to fixed-asset growth stemming from capital investment, and accretion of

(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 base inventories' carrying value to reflect impairment of the goods' utility) by the specific identification, moving average, and FIFO methods in conjunction with adoption of Accounting Standard for Measurement of Inventories (ASBJ Statement No. 9, as revised July 5, 2006). In the first three quarters of the current fiscal year, this change resulted in a ¥4,577 million reduction in gross profit, operating income, recurring profit, and pretax net income.

The change's impact by segment is detailed below in the relevant note to the financial statements.

(3) Adoption of Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements

Effective from the first quarter of the current fiscal year, the Company has adopted the Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements (ASBJ Practical Issues Task Force Report No. 18, May 17, 2006).

This change had no impact on earnings in the first three quarters of the current fiscal year.

(4) Adoption of accounting standard for lease transactions (lessee transactions)

Effective from the first quarter of the current fiscal year, the Company has adopted the Accounting Standard for Lease Transactions (ASBJ Statement No. 13, issued June 17, 1993; last revised March 30, 2007) and accompanying Guidance on Accounting Standard for Lease Transactions (ASBJ Guidance No. 16, issued January 18, 1994; last revised March 30, 2007) in conjunction with their applicability to quarterly financial statements from the first fiscal year beginning on or after April 1, 2008. As a result of their adoption, the Company has changed its accounting treatment of finance leases that do not transfer ownership. When it is the lessee in such lease transactions, the Company now treats the leases as ordinary sales transactions, whereas it previously treated them as operating leases. To depreciate assets leased in finance lease transactions that do not transfer ownership, the Company uses the straight-line method with a useful life equivalent to the lease term and a salvage value of zero.

For transactions with a lease inception date predating the current fiscal year, the Company is maintaining status quo accounting treatment of finance lease transactions that do not transfer ownership.

This change's impact on earnings in the first three quarters of the current fiscal year is immaterial.

(5) Adoption of accounting standard for lease transactions (lessor transactions)

Effective from the first quarter of the current fiscal year, the Company has adopted the Accounting Standard for Lease Transactions (ASBJ Statement No. 13, issued June 17, 1993; last revised March 30, 2007) and accompanying Guidance on Accounting Standard for Lease Transactions (ASBJ Guidance No. 16, issued January 18, 1994; last revised March 30, 2007) in conjunction with their applicability to quarterly financial statements from the first fiscal year beginning on or after April 1, 2008. As a result of their adoption, the Company has changed its accounting treatment of finance leases that do not transfer ownership. When it is the lessor in such lease transactions, the Company now treats the leases as ordinary sales transactions, whereas it previously treated them as operating leases.

For transactions with a lease inception date predating the current fiscal year, the Company is maintaining status quo accounting treatment of finance lease transactions that do not transfer ownership.

This change's impact on earnings in the first three quarters of the current fiscal year is immaterial.

Additional information

The Company and its domestic consolidated subsidiaries have revised machinery's useful life pursuant to 2008 amendments to the tax code. These revisions resulted in a ¥1.14 billion reduction in operating income, recurring profit, and pretax net income in the first three quarters of the current fiscal year.

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 December 31, 2008	As of March 31, 2008
Assets		
Current assets		
Cash on hand and in banks	52,050	39,875
Trade receivables	330,733	417,934
Merchandise and finished products	70,033	62,386
Work in process	368,983	296,265
Raw materials and supplies	83,661	80,656
Other current assets	107,713	89,303
Allowance for doubtful receivables	(3,291)	(4,140)
Total current assets	1,009,885	982,282
Fixed assets		
Net property, plant and equipment	279,851	259,927
Intangible assets		
Goodwill	1,166	41
Other	16,927	16,012
Total intan		

	Millions of yen	
	As of December 31, 2008	As of March 31, 2008
Net assets		
Shareholders' equity		
Common stock	104,328	104,328
Capital surplus	54,282	54,290
Retained earnings	150,005	151,401
Treasury stock	(465)	(459)
Total shareholders' equity	308,151	309,560
Valuation and translation adjustments		
Net unrealized gains (losses) on securities	1,393	10,292
Gains (losses) on hedging items	7,017	5,217
Foreign currency translation adjustment	(19,211)	(11,878)
Total valuation and translation adjustments	(10,800)	3,631
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(2) Consolidated Statements of Income

	Millions of yen Nine months ended December 31, 2008
Net sales	954,962
Cost of sales	819,888
Gross profit	135,074
Selling, general and administrative expenses	
Salaries and benefits	31,018
R&D expenses	26,465
Other	62,882
Total selling, general and administrative expenses	120,367
Operating income	14,706
Non-operating income	
Interest income	2,360
Dividend income	1,200
Gain on sale of marketable and investment securities	642
Equity income of non-consolidated subsidiaries and affiliates	6,512
Foreign exchange gain, net	2,629
Other, net	3,187
Total non-operating income	16,533
Non-operating expenses	
Interest expense	4,965
Other, net	4,695
Total non-operating expenses	9,660
Recurring profit	21,578
Extraordinary income	
Gain on sale of business	594
Total extraordinary income	594
Extraordinary losses	
Provision for losses on damages suit	5,165
Total extraordinary losses	5,165
Income before income taxes and minority interests	17,007
Income taxes	8,389
Minority interests in net income of consolidated subsidiaries	1,158
Net income	7,460

(3) Consolidated Cash flow Statement

	Millions of yen
	Nine months ended December 31, 2008
Cash flow from operating activities	
Income before income taxes and minority interests	17,007
Depreciation and amortization	31,472

Effective this consolidated fiscal year, Kawasaki Heavy Industries, Ltd. has adopted the Accounting Standard for Quarterly Financial Reporting (Accounting Standards Board of Japan (ASBJ) Statement No. 12) and its accompanying Guidance on Accounting Standard for Quarterly Financial Reporting (ASBJ Guidance No. 14). The consolidated financial statements for nine months ended December 31, 2008, were prepared in accord with the Regulations on Terminology, Format and Preparation of Quarterly Financial Statements.

(4) Notes on the going-concern assumption: Not applicable

(5) Segment Information

1) Information by industry segment

Nine months ended December 31, 2008 (April 1, 2008 – December 31, 2008)

Millions of yen

	External sales	Intersegment sales	Total sales	Operating income (loss)
Shipbuilding	95,805	1,064	96,869	(2,577)
Rolling Stock & Construction Machinery	131,801	1,049	132,851	7,707
Aerospace	126,484	1,294	127,778	(4,333)
Gas Turbines & Machinery	138,835	13,208	152,044	6,740
Plant & Infrastructure Engineering	66,122	8,610	74,732	5,328
Consumer Products & Machinery	247,844	5,232	253,077	(7,752)
Hydraulic Machinery	68,216	6,384	74,600	7,000
Other	79,852	30,420	110,272	2,682
Total				

3. Change in inventory valuation standard and method

As stated in section 4.–3)–(2) of the “Qualitative Information and Financial Statements” section, the Company previously valued ordinary held-for-sale inventories mainly at cost by the specific identification, moving ay7fi5dk u3.6(ae6(on,)5a.8(e)7.9(n)-d.6(n) FI.8(a)Fi)3 .2(g,ae6(on,)8Fi)Are6(otsg

FIFO methods in conjunction with adoption of the Accounting Standard for Measurement of Inventories (ASBJ Statement No. 9, as revised July 5, 2006). In the first three quarters of the fiscal year ending March 31, 2009, this change resulted in a ¥4,577 million reduction in operating income for Japan.

4. Change in useful life for property, plant and equipment
As stated under "Additional information" in section 4.–3) of the "Qualitative Information and Financial Statements" section, the Company and its domestic consolidated subsidiaries have revised machinery's useful life and asset groupings pursuant to 2008 amendments to the tax code.
In the first three quarters of the fiscal year ending March 31, 2009, this change resulted in a ¥1,140 million reduction in operating income for Japan.

2. Overseas sales

Nine months ended December 31, 2008 (April 1, 2008 – December 31, 2008)
Millions of yen

	Overseas sales	Consolidated net sales	Ratio of overseas sales to consolidated sales (%)
North America	215,893	—	22.6
Europe	88,772	—	9.2
Asia	108,776	—	11.3
Other areas	112,806	—	11.8
Total	526,248	954,962	55.1

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	U.S.A. and Canada
Europe	United Kingdom, France, Netherlands, Germany, and Spain
Asia	China, Korea, Philippines, and Taiwan
Other areas	Panama, Bahamas, Brazil, and Australia

(6) Note on Significant Changes in the Amount of Shareholders' Equity: Not applicable

For reference:

Consolidated Financial Statements for the Nine Months ended December 31, 2007

(April 1, 2007 – December 31, 2007)

(1) Consolidated Statements of Income

	Millions of yen
	Nine months ended December 31, 2007
Net sales	1,051,155
Cost of sales	878,853
Gross profit	172,301

(2) Orders, net sales and order backlog by industry segment

1) Orders

	Nine months ended December 31, 2007		Nine months ended December 31, 2008		Year ended March 31, 2008	
	million yen	% of total	million yen	% of total	million yen	% of total
Shipbuilding	183,510	16.0	64,117	5.8	251,331	15.6
Rolling Stock & Construction Machinery	158,351	13.8	186,497	17.1	183,254	11.3
Aerospace	125,604	10.9	87,737	8.0	202,505	12.5
Gas Turbines & Machinery	158,745	13.8	279,316	25.6	227,422	14.1
Plant & Infrastructure Engineering	66,083	5.7	61,629	5.6	106,045	6.5
Consumer Products & Machinery	305,579	26.7	247,844	22.7	433,962	26.9
Hydraulic Machinery	67,669	5.9	71,520	6.5	92,334	5.7
Other	78,110	6.8	88,629	8.1	113,900	7.0
Total	1,143,656	100.0	1,087,292	100.0	1,610,756	100.0

Note: The Consumer Products & Machinery

Supplementary information on earnings forecasts for the fiscal year ending March 31, 2009

(1) Consolidated earnings outlook

Billions of yen

	Outlook for the year ending March 31, 2009	