Report of Earnings and Financial Statements for the Nine Months Ended December 31, 2010 (Consolidated)

(Prepared pursuant to Japanese GAAP)

January 31, 2011

Listed company's name: **Kawasaki He nd(2c51(sewuncmCnes, Ltd.1 1 Tf0 Tc 0 Tw 0 Ts 1014.09)TETI**

Quarterly earnings presentation: Not conducted

1. Consolidated Financial Results for the Nine Months ended December 31, 2010
(April 1 – December 31, 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	%
Nine months ended December 31, 2010	870,540	9.0	38,750	-	45,215	-	28,159	-
Nine months ended December 31, 2009	798,060	(16.4)	(14,046)	-	(5,501)	-	(10,323)	-

	Earnings per share	Earnings per share – diluted
	yen	yen
Nine months ended December 31, 2010	16.87	16.60
Nine months ended December 31, 2009	(6.18)	-

(2) Financial Condition

	Total assets	Net assets	Ratio of shareholders' equity to total assets	Net assets per share
	million yen	million yen	%	yen
December 31, 2010	1,399,980	299,264	20.7	174.29
March 31, 2010	1,352,439	283,053	20.4	166.13

Note: Shareholders' equity: December 31, 2010: 291,138 million yen
March 31, 2010: 277,081 million yen

Nine months ended December 31, 2009: 1,668,191,279 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 nine months to December 31, 2010 (first three quarters of the fiscal year ending March 31, 2011), Japan's economic recovery stalled. The KHI Group continued to face an adverse business environment, largely due to progressive yen appreciation.

The global economy is generally in a moderate recovery trend, although emerging market economies' previously strong growth has been slowing somewhat. The US economic outlook, however, remains uncertain. Lingering anxieties about certain European countries' financial systems are another risk that warrants concern.

Amid such an economic environment, operating performance improved across all of the Group's businesses in the fiscal third quarter. Orders received grew in all business segments except the Gas Turbine & Machinery segment. Overall orders received also increased, bolstered by large orders booked by the Rolling Stock and Aerospace segments. Overall sales also grew despite reduced sales in the Ship & Offshore Structure, Rolling Stock, and Plant & Infrastructure segments. In terms of profitability, all businesses increased their profits or reduced their losses by virtue of sales growth and/or cost cutting despite the impact of yen appreciation.

In the first three quarters of the fiscal year, the Group's consolidated orders received grew ¥224.1 billion year on year to ¥874.0 billion. Consolidated net sales increased ¥72.4 billion year on year to ¥870.5 billion over the same timeframe. The Group earned operating income of ¥38.7 billion, recurring profit of ¥45.2 billion, and net income of ¥28.1 billion in the first three fiscal quarters. These earnings respectively represent improvements of ¥52.7 billion, ¥50.7 billion, and ¥38.4 billion from the year-earlier period's operating, recurring, and net losses.

Consolidated segment information for the first three quarters of the fiscal year 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 *Revised Accounting Standard for Disclosures about Segments of an Enterprise and Related Information* (ASBJ Statement No. 17, March 27, 2009) and associated *Guidance on the Accounting Standard for Disclosures about Segments of an Enterprise and Related Information* (ASBJ Guidance No. 20, March 21, 2008). The Group also renamed its Consumer Products & Machinery segment the Motorcycle & Engine segment and its Hydraulic Machinery segment the Precision Machinery segment in conjunction with new industry segmentation for internal reporting adopted in April 2010. Also effective from April 2010, the crushing machine business was shifted from the Rolling Stock segment to the Plant & Infrastructure segment and the industrial robot business was shifted from the Consumer Products & Machinery segment to the Precision Machinery segment. Additionally, the Group renamed its Shipbuilding segment the Ship & Offshore Structure segment in conjunction with its October 2010 reorganization.

To reflect this change, year-earlier figures for net sales, operating income/loss, 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)

	Nine months ended December 31,	Orders received

period, when revenues from large newbuild sales were recognized.

Despite an increase in reserves against losses on construction contracts, consolidated operating income increased ¥4.1 billion year on year to ¥4.9 billion, largely as a result of improved margins.

Rolling Stock

Consolidated orders received increased ¥68.6 billion year on year to ¥124.1 billion, largely by virtue of subway car orders from the Washington Metropolitan Area Transit Authority.

Consolidated net sales were down ¥14.9 billion year on year to ¥95.5 billion, largely as a result of a decline in overseas railway car sales.

Consolidated operating income increased ¥600 million year on year to ¥5.9 billion as the decline in sales was offset by improved margins.

Aerospace

Consolidated orders received were up ¥43.7 billion year on year to ¥123.7 billion, largely as a result of growth in orders for component parts for the Boeing 777 and 787.

Consolidated net sales grew ¥15.6 billion year on year to ¥135.0 billion. The increase was largely attributable to growth in sales to Japan’s Ministry of Defense and sales of Boeing 787 component parts.

Consolidated operating income increased ¥1.6 billion year on year to ¥2.0 billion, largely by virtue of sales growth.

Gas Turbine & Machinery

Consolidated orders received totaled ¥113.6 billion, a ¥24.9 billion decrease from the year-earlier period, when large orders for aircraft engine components and gas compression improved amid brisk progress in fulfilling existing orders.

Motorcycle & Engine

Consolidated net sales grew ¥15.1 billion year on year to ¥159.2 billion, buoyed by sales growth

Domestic economic conditions remain challenging amid a falloff in consumption and capital spending in response to economic uncertainty, and loss of international competitiveness due to persistent yen strength. Despite this adverse environment, the Company continues to vigorously push ahead with rebuilding its earnings foundation to re-embark on a sustained growth trajectory.

The Company has left its existing consolidated sales forecast unchanged at ¥1,280 billion in light of its solid sales to date.

The Company has raised its consolidated operating income forecast to ¥40 billion, ¥8 billion above its initial forecast. It did so to reflect the steady progress of company-wide measures to improve profitability through such means as reducing fixed costs and boosting productivity, most notably in the Precision Machinery segment, which is expanding its earnings foundation duciMacTJ60(Adons

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

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 resulting effect on profit and loss is negligible.

(iii) Adoption of the *Accounting Standard for Business Combinations*

Effective the first quarter of the fiscal year ending March 31, 2011, the Company adopted the *Accounting Standard for Business Combinations* (ASBJ Statement No. 21, December 26, 2008), the *Accounting Standard for Consolidated Financial Statements* (ASBJ Statement No. 22, December 26, 2008), the *Amendments to Accounting Standard for Research and Development Costs* (ASBJ Statement No. 23, December 26, 2008), the *Revised Accounting Standard for Business Divestitures* (ASBJ Statement No. 7, December 26, 2008), the *Revised Accounting Standard for Equity Method of Accounting for Investments* (ASBJ Statement No. 16, December 26, 2008), and the *Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures* (ASBJ Guidance No. 10, December 26, 2008).

Valuation and translation adjustments	
Net unrealized gains (losses) on securities	4,119

(2) Consolidated Statements of Income

	Millions of yen	
	Nine Months ended December 31, 2009	Nine Months ended December 31, 2010
Net sales	798,060	870,540
Cost of sales	702,312	727,702
Gross profit	95,747	142,837
Selling, general and administrative expenses		
Salaries and benefits	30,024	29,123
Provision for doubtful receivables	-	148
R&D expenses	25,872	24,160
Other	53,898	50,654

Other

(3) Consolidated Cash Flow Statement

	Millions of yen	
	Nine Months ended December 31, 2009	Nine Months ended December 31, 2010
Cash flow from operating activities		
(12,689) Income (loss) before income taxes and minority interests	(12,689)	44,642
Depreciation and amortization	36,986	36,348
Increase (decrease) in provisions	3,653	(15,662)
Interest and dividend income	(2,937)	(1,901)
Interest expense	4,184	3,590
Investment (gain) loss on equity method	(4,363)	(7,076)
(Gain) loss on sale and disposal of property, plant, and equipment	502	355
(Increase) decrease in trade receivables	7,379	(6,521)
(Increase) decrease in inventories	(1,724)	(35,651)
Increase (decrease) in trade pa2T1 1 3ET Tw Tm[618.2006 Tm((1,901))TjETEMC651.t02361.85o0948posal of		

(4) Notes on the going-concern assumption

Not applicable

(5) Segment information

1) Information by industry segment

Nine months ended December 31, 2009 (April 1, 2009 – December 31, 2009)

Millions of yen

	External sales	Intersegment sales	Total sales	Operating income (loss)
Shipbuilding	111,725	1,116	112,841	779
Rolling Stock	122,339	1,814	124,153	4,654
Aerospace	119,368	1,512	120,881	(617)
Gas Turbines & Machinery	128,858	16,100	144,958	2,797
Plant & Infrastructure Engineering	47,195	6,667	53,862	(158)
Consumer Products & Machinery	152,380	1,894	154,275	(25,653)
Hydraulic Machinery	47,187	5,336	52,523	4,339
Other	69,006	22,846	91,852	(208)
Total	798,060	57,288	855,348	(14,067)
Eliminations/corporation	-	(57,288)	(57,288)	20
Consolidated total	798,060	-	798,060	(14,046)

Notes: 1. Method of segmentation

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

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 second 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 nine months ended December 31, 2009 in Japan was 23,763 million yen higher, while operating loss in Japan was 1,301 million yen lower.

3) Overseas sales

Nine months ended December 31, 2009 (April 1, 2009 – December 31, 2009)

Millions of yen

	Overseas sales	Consolidated net sales	Ratio of overseas sales to consolidated sales (%)
North America	158,250	-	19.8
Europe	60,582	-	7.5
Asia	118,267	-	14.8
Other areas	77,658	-	9.7
Total	414,758	798,060	51.9

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, Germany and the Netherlands
Asia	China, Taiwan, the Philippines, Indonesia and Korea
Other areas	Panama, Brazil and Australia

Segment Information

Income	Amount
Intersegment sales eliminated	0
Corporate expenses*	(2,315)
Total	(2,315)

*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 fiscal year ending March 31, 2011, the Group adopted the *Revised Accounting Standard for Disclosures about Segments of an Enterprise and Related Information* (ASBJ Statement No.17, March 27, 2009) and its associated *Guidance on the Accounting Standard for Disclosures about Segments of an Enterprise and Related Information* (ASBJ Guidance No.20, March 21, 2009). The Group also changed the name of its Consumer Products & Machinery segment to the Motorcycle & Engine segment and the name of its Hydraulic Machinery segment to the Precision Machinery segment in conjunction with the April 2010 adoption of new industry segmentation for internal reporting. Also effective from April 2010, the crushing machine business was shifted from the Rolling Stock segment to the Plant & Infrastructure segment and the industrial robot business was shifted from the Consumer Products & Machinery segment to the Precision Machinery segment. Additionally, in conjunction with its October 2010 organizational restructuring, the Group renamed its Shipbuilding segment the Ship & Offshore Structure segment.

To reflect this change, orders received, net sales, and order backlog for the nine months ended December 31, 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

	Nine months ended December 31, 2009		Nine months ended December 31, 2010		Year ended March 31, 2010	
	million yen	% of total	million yen	% of total	million yen	% of total
Ship & Offshore Structure	10,484	1.6	67,256	7.6	16,128	1.6
Rolling Stock	55,563	8.5	124,166	14.2	66,269	6.6
Aerospace	79,950	12.3	123,700	14.1	171,380	17.1
Gas Turbine & Machinery	138,589	21.3	113,677	13.0	226,228	22.5
Plant & Infrastructure	98,733	15.1	105,436	12.0	135,664	13.5
Motorcycle & Engine	144,069	22.1	159,219	18.2	203,084	20.2
Precision Machinery	54,820	8.4	106,719	12.2	84,948	8.4
Other	67,688	10.4	73,893	8.4	97,584	9.7
Total	649,900	100.0	874,070	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

	Nine months ended December 31, 2009		Nine months ended December 31, 2010		Year ended March 31, 2010	
	million yen	% of total	million yen	% of total	million yen	% of total
Ship & Offshore Structure	111,725	14.0	93,222	10.7	151,893	12.9
Rolling Stock	110,510	13.8	95,588	10.9	150,071	12.7
Aerospace	119,368	14.9	135,020	15.5	188,892	16.1
Gas Turbine & Machinery	128,858	16.1	149,644	17.1	191,379	16.3
Plant & Infrastructure	59,024	7.3	56,479	6.4	107,580	9.1
Motorcycle & Engine	144,069	18.0	159,219	18.2	203,084	17.3
Precision Machinery	55,497	6.9	99,091	11.3	82,715	7.0
Other	69,006	8.6	82,272	9.4	97,855	8.3
Total	798,060	100.0	870,540	100.0	1,173,473	100.0

(3) Supplementary information on earnings forecasts for the fiscal year ending March 31, 2011

1) Consolidated earnings outlook

Billions of yen

	Outlook for the year ending March 31, 2011 (fiscal 2011)			Fiscal 2010 (ended March 31, 2010) (actual)
	Revised forecast (A)	Forecast issued November 2, 2010 (B)	Change (A – B)	
Net sales	1,280.0	1,280.0	-	1,173.4
Operating income	40.0	32.0	8.0	(1.3)
Recurring profit	46.0	32.0	14.0	14.2
Net income	29.0	20.0	9.0	(10.8)
Orders received	1,340.0	1,340.0	-	1,001.2
Before-tax ROIC (%)	5.6%	5.6%	-	0.2%

Notes: 1. Outlook's assumed foreign exchange rates: ¥83 = US$1, ¥110 = 1 euro

2. Before-tax ROIC = (income before income taxes + interest expense) / invested capital.

2) Outlook by reportable segment

(a) Net sales and operating income (loss)

Billions of yen

	Outlook for the year ending March 31, 2011 (fiscal 2011)		
	Revised forecast (A)	Forecast issued	