Report of Earnings and Financial Statements for the Six Months Ended September 30, 2013 (Consolidated)

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, 2013	-	0.00	-	5.00	5.00
Year ending March 31, 2014	-	0.00			

(3) Average number of shares during respective periods

Six months ended September 30, 2013:	1,671,782,411 shares
Six months ended September 30, 2012:	1,671,809,081 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, and do not mean that the Company promises to achieve these figures. 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

Accompanying Materials – Contents

1. Qualitative Information and Financial Statements

(1) Consolidated operating results

In the first half of the fiscal year ending March 31, 2014, the global economy grew at a generally moderate pace as developed economies such as the U.S. and Japan assumed the role of global economic growth driver from China and other emerging market economies. In the U.S., employment conditions continue to recover and energy-related demand is projected to grow by virtue of the shale gas revolution. The European economy, however, has continued to languish. The impact of slowing growth in emerging market economies and reduction of monetary easing in the U.S. are concerns going forward.

The Japanese economy has continued to grow moderately, driven largely by increased public investment funded by fiscal mobilization coupled with improvement in the export environment in the wake of yen depreciation. Policy effects from the government's growth strategy are expected to spur growth in private capital investment and household incomes, leading to a stable economic growth, but weakness in emerging market economies is a downside risk.

Amid such an economic environment, the Group achieved growth in overall orders received in the fiscal first-half as order growth in segments such as Gas Turbine & Machinery and Rolling Stock offset order declines in the Ship & Offshore Structure and Plant & Infrastructure, among others. First-half sales increased in total despite sales declines in several segments, including Precision Machinery and Plant & Infrastructure. These sales declines were outweighed by sales growth in the Motorcycle & Engine, Aerospace, and other segments. First-half operating income increased substantially in the wake of profit growth or renewed profitability in the Rolling Stock, Aerospace, Motorcycle & Engine, and other segments.

The Group’s first-half consolidated orders received increased ¥62.3 billion year on year to ¥592.8 billion. Consolidated net sales totaled ¥595.0 billion, a ¥20.0 billion year-on-year increase, and consolidated operating income increased ¥16.4 billion year on year to ¥26.8 billion. As a result of operating income growth, consolidated recurring profit increased ¥2.6 billion year on year to ¥22.7 billion even as foreign exchange gains and losses netted to a loss versus a net gain in the year-earlier period. Consolidated net income increased ¥0.5 billion year on year to ¥13.0 billion.

Consolidated operating performance in the first half of fiscal year is summarized by segment below.

Segment Information

Segment net sales, operating income, and orders received (billions of yen) the Washington Metropolitan Area Transit Authority and Sapporo City Transportation Bureau.

Consolidated net sales increased ¥8.5 billion year on year to ¥59.9 billion as overseas sales to customers in Singapore, North America and elsewhere offset a decline in domestic sales.

Consolidated operating income totaled ¥3.7 billion, a ¥6.8 billion year-on-year improvement stemming from growth in high-margin sales and yen depreciation.

Aerospace

Consolidated orders grew ¥5.1 billion year on year to ¥96.1 billion. The increase was attributable to growth in orders for components for the Boeing 787.

Consolidated net sales increased ¥13.1 billion year on year to ¥122.3 billion, largely as a result of growth in Boeing 777 and 787 component sales coupled with steady sales to Japan's Ministry of Defense.

Consolidated operating income showed a sharp ¥5.8 billion increase year on year to ¥10.2 billion, largely by virtue of sales growth and yen depreciation.

Gas Turbine & Machinery

Despite the impact of a change in the accounting treatment of aircraft engine components, consolidated orders received increased ¥18.6 billion year on year to ¥84.1 billion, largely as a result of growth in orders for gas engines and hydropower systems.

Consolidated net sales decreased ¥15.8 billion year on year to ¥77.3 billion, but when adjusted to factor out the sales decline attributable to the change in accounting treatment of aircraft engine components, consolidated net sales were largely unchanged year on year as growth in sales of aircraft engine components and gas engines offset a decline in marine diesel engine sales.

With consolidated net sales adjusted to factor out the aforementioned accounting change, consolidated operating income was largely unchanged year on year at ¥3.5 billion.

Plant & Infrastructure

Consolidated orders received totaled ¥46.1 billion, a ¥5.1 billion decrease from the year-earlier period, when the segment booked large overseas orders.

Consolidated net sales decreased ¥7.1 billion year on year to ¥39.2 billion despite growth in sales of shield tunneling machines and environmental infrastructure contracts. The sales decline was chiefly attributable to reductions in conveyance equipment sales and large overseas contracts.

Consolidated operating income declined ¥1.4 billion year on year to ¥1.7 billion as a result of the sales decline coupled with deterioration in profit margins.

Motorcycle & Engine

Consolidated net sales rose ¥35.7 billion year on year to ¥139.7 billion, boosted by motorcycle line with its existing forecasts, the Company has left its full-year earnings forecasts unchanged.

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

2. Summary Information (Notes)

(1) Changes affecting the status of material subsidiaries (scope of consolidation)

Not applicable

(2) 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 second 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 policies, changes in accounting estimates, and correction of errors

Changes in accounting policies

Adoption of new accounting standard for retirement benefits

Effective from the first quarter of the fiscal year ending March 31, 2014, the Company adopted the Accounting Standards Board of Japan's new Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, May 17, 2012) and its accompanying implementation guidelines, “Guidance on Accounting Standard for Retirement Benefits” (ASBJ Guidance No. 25, May 17, 2012), both of which take effect from the start of the first fiscal year beginning on or after April 1, 2013. The Company has switched to recognizing the excess of retirement benefit obligations over pension assets as retirement and severance benefit liabilities and booked previously unrecognized actuarial losses and unrecognized prior service costs as retirement and severance benefit liabilities. Additionally, the Company revised its method of calculating retirement benefit obligations and service costs and changed its method of attributing projected retirement and severance benefit obligations to accounting periods from a straight line basis to a benefit formula basis.

When recognizing a retirement benefit liability in the amount of the excess of retirement benefit obligations over pension assets as of the start of the first quarter of the fiscal year ending March 31, 2014, the Company debited accumulated other comprehensive income's cumulative adjustment for retirement benefits to reflect recognition of the liability in accord with the transitional measures provided in Paragraph 37 of the Accounting Standard for Retirement Benefits. The Company also debited its capital surplus account as of beginning of the first quarter of the fiscal year ending March 31, 2014, to reflect the effect of the change in its method of calculating retirement benefit obligations and service costs.

These debits reduced accumulated other comprehensive income and capital surplus as of the beginning of the first quarter of the fiscal year ending March 31, 2014, by ¥20,389 million and

The reclassification reduced work in process as of the beginning of the first quarter of the fiscal year ending March 31, 2014, by ¥26,781 million and increased property, plant and equipment and intangible assets by ¥26,555 million and ¥226 million relative to what they would have been in the absence of the reclassification.

Previously, the specialized jigs and tools' book value was transferred from work in process to cost of sales upon the sale of the aircraft components for which the jigs and tools were used. From now

Changes in accounting policies which are difficult to distinguish from changes in accounting estimates and changes in accounting estimates.

Changes in depreciation method and depreciable lives

The Company and its domestic consolidated subsidiaries have previously used the declining balance method to depreciate their property, plant and equipment (except for buildings (excluding fixtures) acquired on or after April 1, 1998, which have been depreciated by the straight line method). Effective from the first quarter of the fiscal year ending March 31, 2014, they have switched to using the straight line method for all property, plant and equipment.

In accord with *Kawasaki Business Vision 2020*, the Company and its consolidated subsidiaries actively conduct overseas operations ranging from production to sales while treating their domestic plants as development and production hubs where advanced technological capabilities are concentrated. Given this configuration, overseas capital investment is expected to become even more important than before.

As a result of the change in the depreciation method in response to such a change in the capital investment environment, Group production facilities are expected to operate stably. The economic benefits of capital investments will accordingly accrue evenly over time. The Company therefore decided that switching to the straight line method of depreciation would more accurately reflect the state of its operations from the standpoint of appropriately reporting quarterly and annual income and losses.

Additionally, the Company and its domestic consolidated subsidiaries have previously depreciated their machinery and tools based mainly on depreciable lives prescribed in the Corporation Tax Act. In conjunction with the change in depreciation method, they have revised their machinery and tools' depreciable lives effective from the first quarter of the fiscal year ending March 31, 2014. They did

3. Consolidated Financial Statements

(1) Consolidated balance sheets

	Millions of yen	
	As of March 31, 2013	Six months ended September 30, 2013
Assets		
Current assets		
Cash on hand and in banks	38,525	32,103
Trade receivables	432,649	408,284

Deferred gains (losses) on hedges	(5,998)	(6,846)
Foreign currency translation adjustments	(17,665)	(3,169)
Remeasurements of defined benefit plans	-	(20,066)
Total accumulated other comprehensive income	(19,139)	(24,314)

(2) Consolidated statements of income and comprehensive income

Consolidated statements of income

	Millions of yen	
	Six months ended September 30, 2012	Six months ended September 30, 2013
Net sales	574,999	595,077
Cost of sales	488,593	486,913
Gross profit	86,406	108,164
Selling, general and administrative expenses		
Salaries and benefits	20,683	22,290
R&D expenses	18,203	18,187
Provision for doubtful accounts	269	332
Other	36,858	40,512
Total selling, general and administrative expenses	76,014	81,323
Operating income	10,391	26,840
Non-operating income		
Interest income	836	475
Dividend income	285	275
Equity in income of non-consolidated subsidiaries and affiliates	5,920	5,016
Foreign exchange gain, net	3,581	-
Other	3,120	1,850
Total non-operating income	13,744	7,617
Non-operating expenses		
Interest expense	2,073	2,018
Foreign exchange loss, net	-	7,583
Other	1,896	2,067
Total non-operating expenses	3,969	11,669
Recurring profit	20,165	22,788
Income before income taxes and minority interests	20,165	22,788
Income taxes	6,629	8,777
Income before minority interests	13,536	14,010
Minority interests in net income of consolidated subsidiaries	1,107	1,008
Net income (loss)	12,429	13,001

Consolidated statements of comprehensive income

	Millions of yen	
	Six months ended September 30, 2012	Six months ended September 30, 2013
Income before minority interests	13,536	14,010
Other comprehensive income		
Net unrealized gains (losses) on securities	(2,362)	1,231
Deferred gains (losses) on hedges	2,331	(817)
Foreign currency translatio on ad7l 7cmeSeptemb267 -0.04 b26.003-731 Tw7t0270 is6.04 06 ther comprey ensive income		

(3) Consolidated cash flow statements

	Millions of yen	
	Six months ended September 30, 2012	Six months ended September 30, 2013
Cash flow from operating activities		
Income before income taxes		

(4) Notes on financial statements

Notes on the going-concern assumption

Not applicable

Notes on significant changes in the amount of shareholders' equity

Not applicable

Segment information and others

Segment information

1. Six months ended September 30, 2012 (April 1, 2012 – September 30, 2012)

[redacted]

previously used the declining balance method to depreciate their property, plant and equipment (except for buildings (excluding fixtures) acquired after March 31, 1998, which have been depreciated by the straight line method), but they have now switched to using the straight line method for all property, plant and equipment effective from the first quarter of the fiscal year ending March 31, 2014.

Additionally, the Company and its domestic consolidated subsidiaries have previously depreciated

Net sales

	Six months ended September 30, 2012	Six months ended September 30, 2013	Year ended March 31, 2013

(3) Supplementary information on earnings forecasts for the fiscal year ending March 31, 2014

1) Consolidated earnings outlook

Billions of yen

	Outlook for the year ending March 31, 2014 (fiscal 2013)			Fiscal 2012 (ended March 31, 2013) (actual)
	Revised forecast (A)	Forecast issued April 25, 2013 (B)	Change (A – B)	
Net sales	1,380.0	1,380.0	-	1,288.8
Operating income	60.0	60.0	-	42.0 Ne¥.1d9.02 608.69.02 6

(b) Orders received

Billions of yen

Segment	Outlook for the year ending March 31, 2014 (fiscal 2013)			Fiscal 2012 (ended March 31, 2013) (actual)
	Revised outlook (A)	Forecast issued April 25, 2013 (B)	Change (A – B)	
Ship & Offshore Structure	120.0	120.0	-	105.7
Rolling Stock	160.0	160.0	-	124.4
Aerospace	260.0	250.0	10.0	283.4
Gas Turbine & Machinery	220.0	220.0	-	255.5
Plant & Infrastructure	130.0	130.0	-	113.6
Motorcycle & Engine	290.0	290.0	-	251.8
Precision Machinery	140.0	150.0	(10.0)	109.7
Other	130.0	130.0	-	125.1
Total	1,450.0	1,450.0	-	1,369.5