Report of Earnings and Financial Statements for the Fiscal Year Ended March 31, 2014 (Consolidated)
(Prepared pursuant to Japanese GAAP)

April 25, 2014

Listed company's name: **Kawasaki Heavy Industries, Ltd.**

Listed on: 1st sections of the TSE, and NSE
Stock code: 7012
URL: http://www.khi.co.jp/
Representative: Shigeru Murayama, President
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Scheduled dates:
Ordinary general meeting of shareholders June 26, 2014
Commencement date of dividend payments June 27, 2014
Submission of financial statements: June 26, 2014

Supplementary materials to financial results Available
Earnings presentation: Conducted (for institutional investors and analysts)

1. Consolidated Financial Results for the Fiscal Year Ended March 31, 2014 (April 1, 2013 – March 31, 2014)

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

(1) Operating Results

Years ended March 31 (Millions of yen) (Percentage figures indicate change compared with the previous fiscal year)

	Net sales		Operating income		Recurring profit		Net income	
		%		%		%		%
2014	1,385,482	7.4	72,351	72.0	60,605	54.1	38,601	25.0
2013	1,288,881	(1.1)	42,062	(26.8)	39,328	(38.1)	30,864	32.3

Note: Comprehensive income Fiscal year ended March 31, 2014: ¥ 68,705 million 56.0%
Fiscal year ended March 31, 2013: ¥ 44,039 million 79.2%

Years ended March 31

	Earnings per share	Earnings per share – diluted	Return on equity	Return on assets	Operating income to net sales
	Yen	Yen	%	%	%
2014	23.09	-	11.0	4.0	5.2
2013	18.46	-	9.5	2.7	3.2

For reference: Equity in income of non consolidated subsidiaries and affiliates
Fiscal year ended March 31, 2014: ¥ 7,016 million
Fiscal year ended March 31, 2013: ¥ 8,530 million

(2) Financial Condition

March 31 (Millions of yen)

	Total assets	Net assets	Equity ratio	Net assets per share
			%	Yen
2014	1,554,430	376,686	23.3	217.16
2013	1,466,290	349,881	23.0	202.32

For reference: Shareholders' equity March 31, 2014: ¥ 363,041 million
March 31, 2013: ¥ 338,240 million

(3) Cash Flow Position

Years ended March 31 (Millions of yen)

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of year
2014	151,721	(77,559)	(62,505)	45,431
2013	28,101	(81,160)	57,671	36,971

2. Dividends

Years ended/ending March 31

Record date or term	Dividend per share					Total dividends paid (annual)	Payout ratio (consolidated)	Dividends / Net assets (consolidated)
	1Q	2Q	3Q	Year-end	Full year			
	Yen	Yen	Yen	Yen	Yen	million yen	%	%
2013	-	0.00	-	5.00	5.00	8,358	27.0	2.5
2014	-	0.00	-	6.00	6.00	10,030	25.9	2.7
2015 (forecast)	-	3.00	-	4.00	7.00		28.5	

3. Forecast of Consolidated Earnings for the Fiscal Year Ending March 31, 2015 (April 1, 2014 – March 31, 2015)

(Millions of yen)(Percentage figures indicate change compared with the previous fiscal year)

	Net sales		Operating income		Recurring profit		Net income		Earnings per share
		%		%		%		%	Yen
For six months ending September 30, 2014	650,000	9.2	22,000	(18.0)	14,000	(38.5)	8,500	(34.6)	5.08
Full year	1,490,000	7.5	73,000	0.8	66,000	8.9	41,000	6.2	24.52

***Notes**

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

*This refers to additions and removals of material subsidiaries to and from the consolidated group during the period. For further details, see “Changes in basis of preparation of financial statements” on page 24 in the Accompanying Materials.

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

(ⅰ) Changes in accounting policies in accord with revisions to accounting standards: None

(ⅱ) Changes in accounting policies other than (ⅰ): Yes

(ⅲ) Changes in accounting estimates: Yes

(ⅳ) Correction of errors: None

* The above changes correspond to Article 14-7 in the “Ordinance on Terminology, Forms and Preparation Methods of Consolidated Financial Statements”. For further details, see “Changes in accounting policies, changes in accounting estimates, and correction of errors” on page 24 in the Accompanying Materials.

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

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

March 31, 2014: 1,671,892,659 shares
March 31, 2013: 1,671,892,659 shares

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

March 31, 2014: 141,710 shares
March 31, 2013: 100,116 shares

(ⅲ) Average number of shares during respective periods
March 31, 2014: 1,671,770,272 shares
March 31, 2013: 1,671,803,541 shares

For reference: Overview of Non-Consolidated Financial Results

(1) Operating Results

Years ended March 31 (Millions of yen) (Percentage figures indicate change compared with the previous fiscal year)

	Net sales		Operating income		Recurring profit		Net income	
		%		%		%		%
2014	1,011,603	2.8	36,108	187.1	35,905	84.7	32,099	87.0
2013	983,921	(1.9)	12,573	(49.8)	19,433	(48.8)	17,158	49.3

	Earnings per share	Earnings per share – diluted
	Yen	Yen
2014	19.20	-
2013	10.26	-

(2) Financial Condition

March 31 (Millions of yen)

	Total assets	Net assets	Equity ratio	Net assets per share
			%	Yen
2014	1,243,533	273,193	21.9	163.41
2013	1,195,116	258,479	21.6	154.61

Note: Shareholders' equity March 31, 2014: ¥ 273,193 million
March 31, 2013: ¥ 258,479 million

*** Review Status**

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

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

Forward-Looking Statements

These materials contain earnings forecast and other forward-looking statements based on information available to the company at the time of disclosure and the company makes no assurances as to the actual results and/or other outcomes, which may differ from those expressed or implied herein due to various factors. For assumptions underlying earnings forecasts and other information regarding the use of such forecasts, refer to "(iii) Consolidated Earnings Outlook" on page 8 in section "(1) Consolidated Operating Results" of "1. Qualitative Information and Financial Statements" in the Accompanying Materials.

How to Obtain Supplementary Briefing Material on Financial Results and Details of the Financial Results Briefing

The Company plans to conduct a briefing for institutional investors and analysts on Friday April 25, 2014, and to post the briefing material on financial results to be used for the briefing on TDnet and the Company's website simultaneously with the announcement of financial results.

Accompanying Materials – Contents

1. Qualitative Information and Financial Statements

(1) Consolidated operating results

(i) Overview of consolidated operating results

In fiscal 2013 (the year ended March 31, 2014), the global economy recovered moderately, spearheaded by developed economies, in the wake of US economic recovery and improvement in European economies. Emerging market economies, by contrast, downshifted from their historical growth trend, largely due to weakness in domestic demand. The global economy as a whole is expected to continue growing at a modest pace for the time being, with developed economies, led by the US, offsetting weakness in emerging market economies. However, a number of downside risks pose concern, including the impact of tapering of US monetary easing, the European debt crisis's future course and rising geopolitical tensions.

The Japanese economy recovered moderately, bolstered by fiscal and monetary stimulus policies. Another driver of the economic recovery was a pickup in personal consumption stemming from a demand rush ahead of April's consumption tax increase. The Japanese economy is expected to remain in a recovery trend against a backdrop of improvement in employment conditions and the income environment and expansion of public investment. However, weakness in overseas economies and the impact of a reflexive contraction in demand in the wake of the demand rush preceding the consumption tax increase pose concern as downside risks to the Japanese economy.

Amid such an economic environment, the Group's overall orders received increased in fiscal 2013 despite decreased orders in certain segments. The increase in overall orders was chiefly attributable to the Motorcycle & Engine, Precision Machinery, and Ship & Offshore Structure segments. Overall sales likewise increased, as increased sales in segments such as Motorcycle & Engine and Aerospace offset sales declines in other segments, including Plant & Infrastructure and Ship & Offshore Structure. Operating income increased substantially. Segments that contributed to the increase include Motorcycle & Engine, Aerospace, and Rolling Stock.

The Group’s consolidated orders received increased by ¥85.8 billion year on year to ¥1,455.4 billion. Consolidated net sales totaled ¥1,385.4 billion, a ¥96.6 billion year-on-year increase, and consolidated operating income increased by ¥30.2 billion year on year to ¥72.3 billion. As a result of operating income growth, consolidated recurring profit increased by ¥21.2 billion year on year to ¥60.6 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 by ¥7.7 billion year on year to ¥38.6 billion.

Consolidated operating performance in the fiscal year ended March 31, 2014, is summarized by segment below.

(ii) Segment information

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

	Fiscal year ended March 31						Orders received		
	2014 (A)		2013 (B)		Change (A – B)		Fiscal year ended March 31		
	Net sales	Operating income	Net sales	Operating income	Net sales	Operating income	2014 (A)	2013 (B)	Change (A – B)
Ship & Offshore Structure	80.8	(2.0)	90.3	4.1	(9.4)	(6.1)	117.8	105.7	12.1
Rolling Stock	147.9	7.5	129.9	2.2	17.9	5.3	133.0	124.4	8.6
Aerospace	280.7	26.2	239.1	14.8	41.5	11.4	286.3	283.4	2.8
Gas Turbine & Machinery	189.2	10.4	207.0	7.0	(17.7)	3.4	222.0	255.5	(33.5)
Plant & Infrastructure	103.8	6.3	115.8	9.7	(11.9)	(3.4)	103.9	113.6	(9.6)
Motorcycle & Engine	322.2	16.1	251.8	2.3	70.3	13.7	322.2	251.8	70.3
Precision Machinery	123.2	10.4	130.4	8.4	(7.1)	1.9	127.2	109.7	17.5
Other	137.2	4.4	124.2	1.2	13.0	3.2	142.6	125.1	17.4
Adjustments	-	(7.2)	-	(8.0)	-	0.8	-	-	-
Total	1,385.4	72.3	1,288.8	42.0	96.6	30.2	1,455.4	1,369.5	85.8

Note: 1. Net sales include only sales to external customers.

2. A change in the accounting treatment of aircraft engine components reduced the Gas Turbine & Machinery segment's sales and orders received for the fiscal year ended March 31, 2014, by ¥37.4 billion and ¥56.8 billion, respectively, relative to what they would have been in the absence of the change. The change had no effect on income.

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

Ship & Offshore Structure

Consolidated orders received increased by ¥12.1 billion year on year to ¥117.8 billion. The Group booked nine newbuild orders, including orders for liquefied gas (LNG and LPG) carriers and a large offshore service vessel.

Consolidated net sales decreased by ¥9.4 billion year on year to ¥80.8 billion as an increase in construction of liquefied gas carriers failed to offset a decrease in construction of bulk carriers and other vessels.

The segment incurred a consolidated operating loss of ¥2.0 billion, a ¥6.1 billion downturn from the previous fiscal year's consolidated operating income. The deterioration in profitability was chiefly attributable to higher steel prices and a new provision for losses on construction contracts.

Rolling Stock

Consolidated orders received grew ¥8.6 billion to ¥133.0 billion, largely due to orders for commuter car by the Long Island Rail Road and Metro-North Railroad and orders for subway car by the Washington Metropolitan Area Transit Authority and Sapporo City Transportation Bureau.

Consolidated net sales increased by ¥17.9 billion year on year to ¥147.9 billion, largely due to the growth in overseas sales to customers in North America and Singapore.

Consolidated operating income increased by ¥5.3 billion year on year to ¥7.5 billion, largely by cost reduction and yen depreciation.

Aerospace

Consolidated orders grew by ¥2.8 billion year on year to ¥286.3 billion. The increase was attributable to the growth in orders for components for Boeing 787.

Consolidated net sales increased by ¥41.5 billion year on year to ¥280.7 billion, largely due to the growth in sales of component parts for Boeing777 and 787 coupled with the growth in sales to Japan's Ministry of Defense.

Consolidated operating income showed a sharp increase of ¥11.4 billion increase year on year to ¥26.2 billion, largely by virtue of sales growth and yen depreciation.

Gas Turbine & Machinery

Consolidated orders received decreased by ¥33.5 billion year on year to ¥222.0 billion. Adjusted to factor out a change in accounting treatment of aircraft engine components that detracted from orders received by ¥56.8 billion, consolidated orders received increased by ¥23.3 billion year on year. The increase was mainly attributable to increased orders for gas engines and aircraft engine components.

Consolidated net sales decreased by ¥17.7 billion year on year to ¥189.2 billion, but when adjusted to factor out said change in accounting treatment, which detracted from sales by ¥37.4 billion, consolidated net sales increased by ¥19.7 billion year on year. Major year-on-year changes in sales included decreases in sales of marine gas turbines and marine diesel engines and increases in sales of aircraft engine components and gas engines.

Consolidated operating income increased by ¥3.4 billion year on year to ¥10.4 billion, largely as a result of the increase in sales adjusted to factor out the effect of the change in accounting treatment of aircraft engine components.

Plant & Infrastructure

Consolidated orders received decreased by ¥9.6 billion year on year to ¥103.9 billion despite orders received on LNG tanks for CPC Corporation, Taiwan's Taichung LNG Terminal Expansion Project.

Consolidated net sales decreased by ¥11.9 billion year on year to ¥103.8 billion despite an increase in environmental infrastructure contracts. The sales decline was chiefly attributable to a lower sales for conveyance equipment and large overseas contracts.

Consolidated operating income declined by ¥3.4 billion year on year to ¥6.3 billion, largely due to the sales decline coupled with shrinkage in profit margins.

Motorcycle & Engine

Consolidated net sales rose by ¥70.3 billion year on year to ¥322.2 billion, boosted by motorcycle sales growth in the US and emerging-market economies, particularly Indonesia and Thailand.

Consolidated operating income showed a sharp increase of ¥13.7 billion increase year on year to ¥16.1 billion, largely by virtue of sales growth and improved profitability.

Precision Machinery

Consolidated orders received increased by ¥17.5 billion year on year to ¥127.2 billion, largely by virtue of the growth in orders for cleaning robots for semiconductor manufacturing equipment and industrial robots for the automotive industry.

Consolidated net sales declined by ¥7.1 billion year on year to ¥123.2 billion, as growth in sales of cleaning robots for semiconductor manufacturing equipment and industrial robots for the automotive industry were insufficient to offset declines in sales of other products, particularly hydraulic equipment.

Consolidated operating income increased by ¥1.9 billion year on year to ¥10.4 billion, largely as a result of growth in sales of cleaning robots for semiconductor manufacturing equipment and industrial robots for the automotive industry and yen depreciation.

Other Operations

Consolidated net sales increased by ¥13.0 billion year on year to ¥137.2 billion.

Consolidated operating income increased by ¥3.2 billion year on year to ¥4.4 billion.

(iii) Consolidated earnings outlook

The Group's operating environment is generally improving despite an uncertain outlook for emerging market economies. In fiscal 2014 (the year ending March 31, 2015), the Group plans to make further progress in implementing ROIC management, realize a leaner corporate structure, steadily invest in future growth sectors, and endeavor to enduringly enhance its corporate value.

For fiscal 2014, the Company forecasts consolidated net sales of ¥1,490 billion, a year-on-year increase of ¥100 billion expected to be concentrated mainly in the Aerospace and Gas Turbine & Machinery segments.

In terms of earnings, the Company forecasts consolidated operating income of ¥73 billion, recurring profit of ¥66 billion, net income of ¥41 billion, and ROIC of 8.6%. The Company plans to achieve these forecasts by increasing capital efficiency through ROIC management while maintaining ongoing strenuous efforts to improve earnings across all operations through such means as cutting fixed and overhead expenses and boosting productivity.

The Company’s earnings forecasts assume exchange rates of ¥100 to the US dollar and ¥135 to the euro.

(2) Consolidated financial position

(i) Financial condition

(A) Assets

At March 31, 2014, consolidated assets totaled ¥1,554.4 billion, a 6.0% increase from March 31, 2013. Of this total, current assets accounted for ¥1,005.7 billion, a 1.0% year-on-year decrease chiefly attributable to a decrease in trade receivables. Fixed assets totaled ¥548.6 billion at March 31, 2014, a 22.0% increase from the previous fiscal year, mainly as a result of capital investments that added to holdings of property, plant and equipment.

(B) Liabilities

Consolidated liabilities increased 5.5% year on year to ¥1,177.7 billion at March 31, 2014, despite decreases in both long- and short-term debt. The increase was mainly attributable to recognition of previously unrecognized retirement and severance benefit liabilities.

(C) Net assets

Consolidated net assets at March 31, 2014, totaled ¥376.6 billion, a 7.7% increase from March 31, 2013. While dividend payments and the aforementioned recognition of previously unrecognized retirement and severance benefit liabilities detracted from consolidated net assets, these factors were more than offset by net income and improvement in foreign currency translation adjustments due to yen depreciation.

(ii) Cash flows

(A) Cash flows from operating activities

Operating activities provided net cash of ¥151.7 billion, a ¥123.6 billion increase from the previous fiscal year. Major sources of operating cash flow included depreciation expense of ¥37.8 billion, a ¥25.9 billion increase in advances from customers, a ¥20.0 billion increase in trade payables, and a ¥17.7 billion decrease in trade receivables. Major uses of operating cash flow included tax payments of ¥18.3 billion.

(B) Cash flows from investing activities

Investing activities used net cash of ¥77.5 billion, ¥3.6 billion less than in the previous fiscal year, mainly to acquire property, plant and equipment.

(C) Cash flows from financing activities

Financing activities used net cash of ¥62.5 billion, a ¥120.1 billion swing from the previous fiscal year's net cash inflow from financing activities. The cash outflow was mainly due to debt repayments.

(iii) Cash flow ratios

Fiscal year ended March 31:	2010	2011	2012	2013	2014
Equity ratio (%)	20.4	21.3	22.4	23.0	23.3
Market-value equity ratio (%)	31.8	45.1	31.0	33.6	40.8
Debt-to-cash-flow ratio (%)	1,421.2	523.7	480.5	1,724.6	293.0
Interest-coverage ratio (times)	5.5	17.2	19.0	6.7	36.0

Notes:

1. Ratios are calculated as follows.
   Ratio of shareholders' equity to total assets: Shareholders' equity / Total assets
   Market-value equity ratio: Market capitalization / Total assets
   Debt-to-cash-flow ratio: Interest-bearing debt / Cash flow from operating activities
   Interest-coverage ratio: Cash flow from operating activities / Interest paid
2. All ratios are calculated using consolidated-basis financial data.
3. Market capitalization is calculated by multiplying the closing price of the company's stock by the number of shares issued and outstanding (excluding treasury stock) at the end of the fiscal year.
4. The figure for cash flow from operating activities is taken from cash flow from operating activities on the consolidated statement of cash flows.
5. Interest-bearing debt is all interest-bearing debt listed under liabilities on the consolidated balance sheet. Interest paid is the figure for "Cash paid for interest" on the consolidated statement of cash flows.

(3) Dividend policy and dividends for the fiscal years 2014 and 2015

As a basic policy, the Company aims to meet shareholders' expectations by endeavoring to enhance its corporate value, paying dividends commensurate with earnings, and internally retaining funds sufficient to continue returning the fruits of its operations to stakeholders, conducting R&D and making forward-looking capital investments as a supplier of key societal infrastructure.

The Company has a basic policy of distributing surplus retained earnings as dividends twice a year, once after the fiscal second quarter and once after fiscal year-end. Interim dividends are authorized by the Board of Directors; year-end dividends are authorized at general meetings of shareholders.

After comprehensively considering its earnings forecast, the sufficiency of its retained earnings, and other relevant factors in light of said policies, the Company intends to pay a dividend of ¥6 per share (¥0 interim dividend, ¥6 year-end dividend) for fiscal 2013. After paying the dividend, the Company plans to use residual internally retained funds to repay debt and invest in operations.

The Company's Articles of Incorporation authorize the Company to pay interim dividends as defined in Article 454(5) of the Companies Act.

For fiscal 2014, the Company plans to pay dividends of ¥7 per share (¥3 interim dividend plus ¥4 year-end dividend).

(4) Business and other risks

No risks other than those disclosed under the heading "Business and Other Risks" in the Company's most recent full-year statutory financial report (filed June 26, 2013) have surfaced since said filing. Updated risk disclosures are therefore omitted here.

2. Status of Group

There have been no material changes in the “Chart of Operations (Nature of Operations)” and the “Status of Affiliated Companies” in the Company’s most recent full-year statutory financial report (filed June 26, 2013). Updated disclosure of them is therefore omitted here.

3. Management Strategy

(1) Basic management strategy

The Group has embraced a mission of creating new value conducive to formation of an affluent, beautiful society in harmony with the global environment through utilization of its broad array of sophisticated technological capabilities in accord with its Group Mission Statement, "Kawasaki, working as one for the good of the planet." To concretely fulfill this Group Mission, the Group formulated *Kawasaki Business Vision 2020* (*2020 Vision*) and designated "Land, Sea and Air Transport Systems," "Energy & Environmental Engineering," and "Industrial Equipment" as its principal business sectors. With its innovative, leading-edge technological capabilities, the Group aims to help customers and society realize their potential by nimbly providing products and services that meet the diverse needs of people throughout the world.

As a basic policy, the Group aims to meet shareholders' expectations by endeavoring to enhance its corporate value, paying dividends commensurate with earnings, and internally retaining funds sufficient to continue returning the fruits of its operations to stakeholders, conducting R&D and making forward-looking capital investments as a supplier of key societal infrastructure.

(2) Target management metrics

In the ultimate aim of enhancing its corporate value, the Group has adopted profit targets (operating income, recurring profit, and net income) and ROIC (return on invested capital: earnings before interest and taxes (EBIT) ÷ invested capital), a measure of capital efficiency, as its target metrics of operating performance.

The Group aims to maximize its corporate value into the future by achieving ROIC in excess of its weighted-average cost of capital (WACC). Additionally, the Group will endeavor to optimize its business portfolio by using ROIC as a performance metric for each of its business units (BU), the smallest unit into which its operations are classified.

(3) Medium- to long-term management strategy

In April 2013, the Group unveiled the new medium-term business plan, *Medium-Term Business Plan 2013 (MTBP 2013)*, for fiscal 2013 through 2015. Under *MTBP 2013*, the Group is endeavoring to expand its business foundations, secure a future revenue base, and solidify its management system in the aim of achieving *MTBP 2013*'s fiscal 2015 performance targets: net sales of ¥1,600 billion, operating income of ¥90 billion, recurring profit of ¥85 billion, and ROIC of at least 11% (before taxes).

Regarding *Kawasaki Business Vision 2020* (*2020 Vision*), the Group will rededicate itself to the core principle of "quality over quantity" in accord with its Management Principles by focusing on expanding profits and improving investment efficiency instead of placing priority on expanding the scale of its sales, and endeavoring to realize these aims.

In conjunction with the appointment of a new management team in June 2013, the Group has placed enhancement of corporate value at the heart of its management strategy and decided to intensify its commitment to ROIC management. Corporate value is the total present value of the Group's future earnings. In enhancing corporate value, the Group will place priority on perpetually earning profits in excess of its cost of invested capital for the Group as a whole while concentrating its management resources in businesses with promising medium- to long-term growth prospects.

In fiscal 2014, the middle year of *MTBP 2013*'s three-year term, the Group will pursue the following priorities with all of its might to better ensure achievement of *MTBP 2013*'s targets.

(4) Management priorities

1. Enhance corporate value

As a specific means of enhancing corporate value, the Group has adopted ROIC management in the aim of making business segments' current status and future growth potential more visible at the BU level and resolving ROIC-based financial issues and issues related to strengthening core competencies in each BU. In formulating its fiscal 2014 business plan, the Group identified issues to be resolved and hurdles to be cleared for the future growth of every BU, comprehensively taking into account factors such as the business environment, growth potential, and core competencies in addition to financial issues. In particular, the Group will provide company-wide support to BUs that need to improve ROIC, maximally capitalizing on the benefits of Group management, in the aim of structurally transforming them into BUs that contribute to corporate value "without strain, without risk and without delay."

2. Pursue synergies

In strengthening BUs' core competencies, the Group believes that BUs can mutually improve their core competencies to a greater degree by pursuing not only intra-BU initiatives but also synergies that transcend boundaries between BUs or internal companies. Accordingly, the Group has adopted a new priority of building a framework for combining multiple BUs' core competencies across organizational boundaries to expeditiously realize new products and new businesses in accord with *MTBP 2013*'s targets. Additionally, to increase synergies at the company-wide level, the Group will strengthen cross-functional activities, mainly in the headquarters' Corporate Technology and Marketing Divisions, and endeavor to recruit, cultivate and strengthen engineering talent that will support the Group's technological capabilities.

3. Create spare investment capacity

Although the Group reduced interest-bearing debt to its target level at fiscal 2013-end, it will endeavor to further reduce debt and achieve its ROIC target by fiscal 2015, and continue to improve free cash flow by undertaking specific initiatives based on the individual BUs' cash conversion cycle in related organizational units. Such interest-bearing debt reduction's primary objective is to create spare investment capacity in pursuit of future growth. Accordingly, the Group's policy of continuing to invest in requisite human resources, plant and equipment, and R&D while focusing on investment efficiency remains unchanged in fiscal 2014.

4. Strengthen risk management

The Group is endeavoring to strengthen risk management with respect to large-scale capital investments, R&D, and involvement in major projects and new development programs. Specifically, the Group is implementing measures to identify various risks in advance and minimize them. Meanwhile, in terms of incoming orders, the Group is stepping up initiatives such as front-loading to meet customers' diverse specifications. When formulating growth strategies, the Group places priority on ex ante management of large-scale risks and sound management decision-making.

One of the biggest risks to the Group's earnings power is exchange rate volatility. The Group believes that the fundamental key to managing currency risk is operationally taking action to strengthen core competencies enough to withstand exchange rate volatility, strengthen global production operations, and exhaustively cut costs. The Group is endeavoring to strengthen its ability to weather exchange rate volatility on an ongoing basis.

5. Strengthen corporate governance

The Group has adopted an internal company system. Its profit level has been steadily rising as a result of internal companies autonomously running their businesses on their own authority and responsibility. Going forward, the Group will maintain a policy of maximally pursuing the benefits of an internal company system. However, with interest-bearing debt progressively increasing in recent years, managing management resources on a company-wide level has become an urgent issue. To better manage management resources on a company-wide level, the Group must further pursue a suitable corporate governance regime, including optimal organization of corporate headquarters and internal companies.

In making management decisions, the Group aims to be a "refreshing business group" in which unrestrained discussion is valued and all personnel faithfully act in accord with policies set through such discussion. Additionally, the Group will unremittingly endeavor to actively engage in dialogue with capital markets and improve management transparency and objectivity for the benefit of shareholders and investors.

6. Augment CSR activities

For CSR as a whole, the Group is pursuing action goals it has set for each of its CSR themes. It is also conducting activities to actively solicit outside opinions through such means as dialogues with experts and feedback from external evaluations. In terms of compliance, the Group has prescribed regulations regarding corporate ethics and endeavors to ensure that its workforce is fully aware of applicable laws through such means as distribution of guidebooks in addition to e-learning and tiered education programs. The Group will further step up such initiatives. In the environmental realm, the Group plans to strengthen its environmental management based on its Eighth Environmental

Management Activities Plan. As measures to reduce CO_2 emissions and energy consumption, the Group plans to expand successful energy visualization systems from its model plan to other business locations. Additionally, the Group is endeavoring to improve employees' work-life balance, most notably through childcare support policies, and build a workplace environment where diversity is respected, through such means as globalizing human resources, designing barrier-free workplaces, and increasing employment of disabled individuals by establishing a special subsidiary. Going forward, the Group will further deepen coordination between business operations and CSR activities, conduct CSR activities on a Group-wide basis, including overseas, and cooperate more with suppliers and customers in terms of CSR.

Individual business segments’ priorities are as follows.

(i) Ship & Offshore Structure: Increase orders received for liquefied gas (LNG and LPG) carriers ; commercialize new sector including offshore vessels and LNG-fueled ships, etc.; expand Chinese operations and launch operations in Brazil; and strengthen the foundations of the naval shipping business

(ii) Rolling Stock: Improve competitiveness by developing leading-edge technologies and products, including new rolling stock, that meet customers' needs; strengthen project management capabilities to accommodate growth in overseas projects; and build an optimal global business model that includes overseas production, overseas supply chains, and utilization of partnerships

(iii) Aerospace: Establish a mass production system for C-2 transport and P-1 fixed-wing patrol aircraft, including repair services and parts resupply, and apply it to derivative aircraft; accommodate growth in Boeing 787 component production and apply to derivative aircraft including Boeing 777-X

(iv) Gas Turbine & Machinery: Develop an energy solutions business based on high-efficiency industrial gas turbines and gas engines; meet domestic demand for dispersed power sources and cultivate overseas markets; and develop new models of jet engines for civilian aircraft and improve jet engine production efficiency

(v) Plant & Infrastructure: Improve competitiveness in the energy and environmental engineering sector by upgrading existing products; expand overseas operations, mainly in emerging-market and resource-producing economies, by rapidly commercializing new products and technologies, and strengthening overseas partnerships; and strengthen engineering capability by cultivating human resources.

(vi) Motorcycle & Engine: Build a premium brand; improve cost-competitiveness by optimizing production operations and expanding supply chains globally; expand sales in emerging markets in which the segment is already active (e.g., Southeast Asia, Brazil); cultivate new markets, and develop advanced technologies for environmental compliance

(vii) Precision Machinery: Maintain high share of market for hydraulic components for excavators and expand presence in global market for construction machinery other than excavators; improve cost-competitiveness in the robot sector, and expand robot sales in emerging markets

(viii) Other: Strengthen development capabilities, expand global market share and increase earnings through an alliance with Hitachi Construction Machinery Co., Ltd. in the construction machinery business

Notes:

These materials contain earnings forecast and other forward-looking statements based on information available to the company at the time of disclosure and the company makes no assurances as to the actual results and/or other outcomes.

4. Consolidated Financial Statements

(1) Consolidated balance sheets

March 31	Millions of yen	
	2013	2014
Assets		
Current assets		
Cash on hand and in banks	38,525	47,949
Trade receivables	432,649	415,664
Merchandise and finished products	61,446	56,673
Work in process	311,107	302,511
Raw materials and supplies	87,551	98,848
Deferred tax assets	37,648	33,046
Other current assets	50,671	54,165
Allowance for doubtful receivables	(2,785)	(3,104)
Total current assets	1,016,813	1,005,754
Fixed assets		
Net property, plant and equipment		
Buildings and structures,	124,206	144,147
Machinery and equipment,	86,141	99,768
Land	62,318	62,866
Leased assets,	111	1,987
Construction in progress	19,198	29,330
Other,	13,815	45,810
Total property, plant and equipment	305,792	383,912
Intangible assets	19,446	17,262
Investments and other assets		
Investments in securities	22,729	14,167
Long-term loans	409	424
Deferred tax assets	36,428	52,711
Other	65,605	80,906
Allowance for doubtful receivables	(936)	(710)
Total investments and other assets	124,236	147,500
Total fixed assets	449,476	548,675
Total assets	1,466,290	1,554,430

Liabilities		
Current liabilities		
Trade payables	281,062	252,107
Electronically recorded obligations-operating	-	53,923
Short-term debt	213,510	190,757
Lease obligations, current	347	404
Income taxes payable	3,756	10,100
Deferred tax liabilities	1,793	442
Accrued bonuses	20,060	22,118
Provision for product warranties	6,148	10,535
Provision for losses on construction contracts	18,719	13,560
Advances from customers	108,213	137,598
Current portion of bonds	10,000	-
Commercial paper	6,000	-
Asset retirement obligations	133	49
Other	112,793	103,818
Total current liabilities	782,540	795,415
Long-term liabilities		
Bonds payable	70,000	110,000
Long-term debt	184,362	141,343
Lease obligations	433	2,139
Deferred tax liabilities	5,511	6,630
Provision for loss on damages suit	569	395
Provision for environmental measures	4,512	3,669
Employees' retirement and severance benefits	62,300	-
Net defined benefit liability	-	97,048
Asset retirement obligations	551	487
Other	5,626	20,614
Total long-term liabilities	333,868	382,328
Total liabilities	1,116,409	1,177,744
Net assets		
Shareholders' equity		
Common stock	104,484	104,484
Capital surplus	54,393	54,393
Retained earnings	198,528	217,449
Treasury stock	(27)	(43)
Total shareholders' equity	357,379	376,284
Accumulated other comprehensive income		
Net unrealized gains (losses) on securities, net of tax	4,524	2,652
Deferred gains (losses) on hedges	(5,998)	(3,803)
Foreign currency translation adjustments	(17,665)	6,416
Remeasurements of defined benefit plans	-	(18,509)
Total accumulated other comprehensive income	(19,139)	(13,243)
Minority interests	11,641	13,645
Total net assets	349,881	376,686
Total liabilities and net assets	1,466,290	1,554,430

(2) Consolidated statements of income and comprehensive income

Consolidated statements of income

Years ended March 31	Millions of yen	
	2013	2014
Net sales	1,288,881	1,385,482
Cost of sales	1,085,469	1,140,293
Gross profit	203,412	245,189
Selling, general and administrative expenses		
Salaries and benefits	43,088	46,662
Advertising expenses	8,130	10,633
R&D expenses	41,709	40,398
Provision for doubtful accounts	114	10
Other	68,305	75,132
Total selling, general and administrative expenses	161,349	172,837
Operating income	42,062	72,351
Non-operating income		
Interest income	876	919
Dividend income	765	397
Gain on sales of securities	1,424	1,187
Equity in income of non-consolidated subsidiaries and affiliates	8,530	7,016
Other	5,980	2,669
Total non-operating income	17,576	12,190
Non-operating expenses		
Interest expense	4,151	3,991
Foreign exchange losses	9,919	14,785
Other	6,239	5,159
Total non-operating expenses	20,310	23,936
Recurring profit	39,328	60,605
Extraordinary income		
Gain on contribution of securities to retirement benefit trust	-	3,323
Gain on transfer of benefit obligation relating to employees' pension fund	8,624	-
Total extraordinary income	8,624	3,323
Extraordinary losses		
Loss on disaster	-	2,142
Loss on impairment of fixed assets	363	476
Loss on environmental measures	1,437	-
Total extraordinary losses	1,800	2,618
Income before income taxes and minority interests	46,152	61,310
Income taxes		
Current	10,590	15,902
Deferred	2,550	4,409
Total income taxes	13,140	20,311
Income before minority interests	33,011	40,998
Minority interests in net income of consolidated subsidiaries	2,147	2,396
Net income	30,864	38,601

Consolidated statements of comprehensive income

Years ended March 31	Millions of yen	
	2013	2014
Income before minority interests	33,011	40,998
Other comprehensive income		
Net unrealized gains (losses) on securities	541	(1,852)
Deferred gains (losses) on hedges	(6,381)	2,314
Foreign currency translation adjustments	11,712	11,996
Remeasurements of defined benefit plans	-	1,870
Share of other comprehensive income of associates accounted for using equity method	5,155	13,377
Total other comprehensive income	11,027	27,706
Comprehensive Income attributable to:	44,039	68,705
Owners of the parent company	40,940	64,908
Minority interests	3,099	3,797

(3) Consolidated statements of changes in net assets

Years ended March 31	Millions of yen	
	2013	2014
Shareholders' equity		
Common stock		
Balance at end of previous year	104,484	104,484
Changes during the period		
Total changes during the period	-	-
Balance at end of year	104,484	104,484
Capital surplus		
Balance at end of previous year	54,393	54,393
Changes during the period		
Treasury stock disposed	-	0
Total changes during the period	-	0
Balance at end of year	54,393	54,393
Retained earnings		
Balance at end of previous year	176,414	198,528
Cumulative effect of changes in accounting policies	-	(11,523)
Restated Balance	176,414	187,005
Changes during the period		
Cash dividend	(8,359)	(8,358)
Net income	30,864	38,601
Treasury stock disposed	(0)	-
Increase (decrease) by change of consolidation period of subsidiaries	(204)	201
Decrease resulting from increase in equity method affiliate	(185)	-
Total changes during the period	22,114	30,444
Balance at end of year	198,528	217,449
Treasury stock		
Balance at end of previous year	(22)	(27)
Changes during the period		
Treasury stock purchased	(5)	(16)
Treasury stock disposed	0	0
Total changes during the period	(4)	(16)
Balance at end of year	(27)	(43)
Total shareholders' equity		
Balance at end of previous year	335,270	357,379
Cumulative effect of changes in accounting policies	-	(11,523)
Restated Balance	335,270	345,856
Changes during the period		
Cash dividend	(8,359)	(8,358)
Net income	30,864	38,601
Treasury stock purchased	(5)	(16)
Treasury stock disposed	0	0
Increase (decrease) by change of consolidation period of subsidiaries	(204)	201
Decrease resulting from increase in equity method affiliate	(185)	-
Total changes during the period	22,109	30,428
Balance at end of year	357,379	376,284

Comprehensive income		
Net unrealized gain (loss) on securities		
Balance at end of previous year	3,989	4,524
Changes during the period		
Net changes in items other than shareholders' equity	535	(1,871)
Total changes during the period	535	(1,871)
Balance at end of year	4,524	2,652
Deferred gains (losses) on hedges		
Balance at end of previous year	246	(5,998)
Changes during the period		
Net changes in items other than shareholders' equity	(6,244)	2,195
Total changes during the period	(6,244)	2,195
Balance at end of year	(5,998)	(3,803)
Foreign currency translation adjustments		
Balance at end of previous year	(33,451)	(17,665)
Changes during the period		
Net changes in items other than shareholders' equity	15,785	24,081
Total changes during the period	15,785	24,081
Balance at end of year	(17,665)	6,416
Remeasurements of defined benefit plans		
Balance at end of previous year	-	-
Cumulative effect of changes in accounting policies	-	(20,410)
Restated Balance	-	(20,410)
Changes during the period		
Net changes in items other than shareholders' equity	-	1,900
Total changes during the period	-	1,900
Balance at end of year	-	(18,509)
Total comprehensive income		
Balance at end of previous year	(29,215)	(19,139)
Cumulative effect of changes in accounting policies	-	(20,410)
Restated Balance	(29,215)	(39,549)
Changes during the period		
Net changes in items other than shareholders' equity	10,076	26,306
Total changes during the period	10,076	26,306
Balance at end of year	(19,139)	(13,243)
Minority interests		
Balance at end of previous year	9,868	11,641
Changes during the period		
Net changes in items other than shareholders' equity	1,772	2,004
Total changes during the period	1,772	2,004
Balance at end of year	11,641	13,645
Total net assets		
Balance at end of previous year	315,922	349,881
Cumulative effect of changes in accounting policies	-	(31,933)
Restated Balance	315,922	317,947
Changes during the period		
Cash dividend	(8,359)	(8,358)
Net income for the year (loss)	30,864	38,601
Treasury stock purchased	(5)	(16)
Treasury stock disposed	0	0
Increase (decrease) by change of consolidation period of subsidiaries	(204)	201

Decrease resulting from increase in equity method affiliate	(185)	-
Net changes in items other than shareholders' equity	11,848	28,310
Total changes during the period	33,958	58,738
Balance at end of year	349,881	376,686

(4) Consolidated statements of cash flows

Years ended March 31	Millions of yen	
	2013	2014
Cash flows from operating activities		
Income before income taxes and minority interests	46,152	61,310
Depreciation and amortization	48,385	37,838
Loss on impairment of fixed assets	363	476
Increase (decrease) in employees' retirement and severance benefits	(10,970)	-
Increase (decrease) in net defined benefit liability	-	(2,830)
Increase (decrease) in accrued bonuses	(521)	1,839
Increase (decrease) in allowance for doubtful receivables	(653)	(129)
Increase (decrease) in provision for product warranties	(1,195)	4,117
Increase (decrease) in provision for losses on construction contracts	(12,617)	(5,345)
Increase (decrease) in provision for losses on damages suit	(340)	(102)
Increase (decrease) in provision for environmental measures	1,261	(915)
Loss on disposal of inventories	1,711	1,339
(Gain) loss on sale of marketable and investment securities	(1,424)	(1,187)
(Gain) loss on valuation of securities	55	619
(Gain) loss on sale of property, plant, and equipment	1,032	1,043
Equity in income non-consolidated subsidiaries and affiliates	(8,530)	(7,016)
Interest and dividend income	(1,641)	(1,317)
Interest expense	4,151	3,991
(Increase) decrease in trade receivables	10,601	17,750
(Increase) decrease in inventories	(10,711)	(1,295)
(Increase) decrease in other current assets	8,073	1,349
Increase (decrease) in trade payables	(41,150)	20,059
Increase (decrease) in advances from customers	5,670	25,978
Increase (decrease) in other current liabilities	4,015	7,713
Other	(2,332)	2,969
Subtotal	39,384	168,258
Cash received for interest and dividends	8,668	6,018
Cash paid for interest	(4,194)	(4,210)
Cash paid for income taxes	(15,756)	(18,345)
Net cash provided by operating activities	28,101	151,721
Cash flows from investing activities		
Decrease (increase) in time deposits with maturities over three months	(310)	(584)
Acquisition of property, plant and equipment	(65,517)	(77,396)
Proceeds from sale of property, plant and equipment	348	2,212
Acquisition of intangible assets	(4,898)	(2,778)
Proceeds from sale of intangible assets	33	595
Acquisition of investments in securities	(571)	(610)
Proceeds from sale of investments in securities	2,899	2,695
Acquisition of investments in subsidiaries of affiliate	(12,339)	(2,063)
Decrease (increase) in short-term loans receivable	(11)	196
Additions to long-term loans receivable	(44)	(64)
Proceeds from collection of long-term loans receivable	101	84
Payments for lease and guarantee deposits	(1,152)	-
Other	305	152
Net cash used for investing activities	(81,160)	(77,559)
Cash flows from financing activities		
Increase (decrease) in short-term debt, net	42,129	(64,139)
Proceeds from long-term debt	44,327	40,430
Repayment of long-term debt	(28,837)	(58,749)
Proceeds from issuance of bonds	20,000	40,000
Redemption of bonds payable	(10,000)	(10,000)
Acquisition of treasury stock	(4)	(17)
Proceeds from stock issuance to minority shareholders	217	-
Cash dividends paid	(8,351)	(8,363)
Cash dividends paid to minority shareholders	(1,326)	(1,532)
Other	(482)	(132)
Net cash used for financing activities	57,671	(62,505)
Effect of exchange rate changes	(886)	(4,001)
Net increase (decrease) in cash and cash equivalents	3,726	7,655
Cash and cash equivalents at beginning of period	33,245	36,971
Increase (decrease) in cash and cash equivalents by change of consolidation period of subsidiaries	-	804
Cash and cash equivalents at end of period	36,971	45,431

(5) Notes on financial statements

Notes on the going-concern assumption

Not applicable

Basis of preparation of financial statements

Other than information disclosed under the heading "*Changes in basis of preparation of financial statements*" below, no material changes have been made from the information disclosed in the Company's most recent full-year statutory financial report (filed June 26, 2013). An updated disclosure is therefore omitted here.

Changes in basis of preparation of financial statements

1. Change in the scope of consolidation

(1) Change in the scope of consolidation

Two companies were added as consolidated subsidiaries because they were newly established by the Company.

One company ceased to be consolidated subsidiaries as they were dissolved through absorption .

(2) Number of consolidated subsidiaries after change

96 companies

2. Change in application of the equity method

(1) Non-consolidated subsidiaries which are accounted for under the equity method:

None

(2) Associated companies which are accounted for under the equity method

(i) Change in associated companies which are accounted for under the equity method

One company was newly accounted for using the equity method as it was newly established by the Group.

(ii) Number of associated companies accounted for under the equity method after change

18 companies

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 fiscal year ended 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 fiscal year ended 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 retained earnings account as of beginning of the fiscal year ended 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 retained earnings as of the beginning of the fiscal year ended March 31, 2014, by ¥20,410 million and ¥11,125 million, respectively. The effect on income is minimal.

Treatment of FIA

When the Company's main partners sell jet engines to airlines, the airlines demand a type of discount called fleet introductory assistance (FIA). The Company is charged a share of this FIA in proportion to its involvement in projects. The Company has previously included these FIA charges in cost of sales. Effective from the fiscal year ended March 31, 2014, the Company has switched to reporting FIA charges as a deduction from sales.

After reassessing its FIA transactions in light of the Japanese Institute of Certified Public Accountants' Accounting Practice Committee Research Report No. 13, "Research Report on Revenue Recognition in Japan (Interim Report)," issued in July 2009, the Company decided that this revised treatment results in a more appropriate presentation of its operating performance.

The Company deducted FIA charges from sales in the fiscal year ended March 31, 2014, and because the impact of this accounting policy change on the consolidated financial statements as a whole is minimal, the Company did not apply the change retrospectively.

The change reduced both sales and cost of sales for the fiscal year ended March 31, 2014, by ¥37,499 million, relative to what they would have been in the absence of the change, but it had no effect on operating income, recurring profit, or income before income taxes and minority interests.

The impact of the change on segment results is disclosed below under "(2) Calculation methods for sales, income (loss), assets, liabilities and other items by reportable segment" on page 29.

Treatment of specialized jigs and tools for civilian aircraft

The Company and some of its consolidated subsidiaries have reclassified jigs and tools used in the Aerospace segment's civilian aircraft manufacturing operations from inventory (work in process) to property, plant and equipment as a result of a reassessment of these jigs and tools' balance sheet classification in light of their growing size and functionality.

The Company and its applicable consolidated subsidiaries reclassified the jigs and tools as of the previous fiscal year-end and carried the revised asset balances over as beginning balances of the fiscal year ended March 31, 2014. Since the impact of the reclassification on the consolidated financial statements as a whole is minimal, they did not apply the reclassification retrospectively.

The reclassification reduced work in process as of the beginning of the fiscal year ended 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 on, the jigs and tools will be depreciated as fixed assets and their depreciation will be allocated between cost of sales and work in process. The impact of this change on earnings is minimal.

Treatment of subsidies related to aircraft development

In developing aircraft and jet engines, the Company receives development-related subsidies pursuant to the Aircraft Industry Promotion Act. The Company previously placed priority on the subsidy transactions' legal form by recognizing the subsidies as revenue received in consideration for development deliverables, charging the revenues' corresponding development expenses to cost of sales, and recognizing projected future obligations related to the subsidies as warranty obligations. From the fiscal year ended March 31, 2014, the Company is placing more priority on the subsidy transactions' economic substance and has revised its accounting treatment accordingly. Specifically, the Company no longer recognizes the subsidies as revenue and, on its balance sheet, it now recognizes projected future obligations as liabilities and capitalizes development expenses as inventory.

After reassessing the subsidy transactions by placing priority on their substance in light of the Japanese Institute of Certified Public Accountants' Accounting Practice Committee Research Report No. 13, "Research Report on Revenue Recognition in Japan (Interim Report)", issued in July 2009, the Company decided that this revised treatment results in a more appropriate presentation of its operating performance and financial condition.

At March 31, 2014, the Company capitalized the development expenses as inventory and recognized a liability as described above. Since the impact of these changes on the consolidated financial statements as a whole is minimal, the Company did not apply the changes retrospectively. The impact of the changes on earnings is minimal.

As a result, the work in process, accounts payable-other and long-term accounts payable-other balance at March 31, 2014 increased by ¥14,409 million, ¥1,160 million and ¥13,249 million, respectively. The impact of the changes on earnings was minimal.

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 fiscal year ended 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 fiscal year ended March 31, 2014. They did so based on a comprehensive reassessment of the machinery and tools' physical and economic lives, taking into account various factors including product life spans and the risk of production process obsolescence.

As a result of these changes, consolidated operating income, recurring profit, and income before income taxes and minority interests for the fiscal year ended March 31, 2014, were ¥13,602 million higher than they would have been in the absence of the changes.

The impact of these changes on individual segments is disclosed below under "(2) Calculation methods for sales, income (loss), assets, liabilities and other items by reportable segment" on page 29.

Additional Information

Not applicable

Consolidated balance sheets

Fiscal year ended March 31, 2014 (As of March 31, 2014)

Information is omitted here as its disclosure in this report is not of material importance.

Consolidated Statements of Income

Fiscal year ended March 31, 2014 (April 1, 2013 – March 31, 2014)

1. Loss on impairment of fixed assets

(1) Outline asset groups in which loss on impairment of fixed assets was recognized

Location	Purpose	Type
Wakamatsu-ku, Kitakyushu-city, Fukuoka	Operating property	Land, Buildings and structures, etc.

(2) Method for asset grouping

Asset grouping is based on line of business, and principle assets held for lease and idle assets are treated as independent asset groups.

(3) Reason for recognition of loss on impairment of fixed assets

The book values of some assets were written down to recoverable amounts due to diminished expectation of future use.

(4) Calculation of recoverable amount

Recoverable amounts are measured by net sales price or utility value. Net sales price is principally calculated based on assessment by a real estate appraiser or on fixed assets' tax-assessment values. Utility value is calculated based on expected future cash flows.

(5) Loss on impairment of fixed assets

A write-down of 476 million yen was recorded as loss on impairment of fixed assets in extraordinary losses. Amounts by asset type are listed below.

Land	381 million yen
Buildings and structures	63 million yen
Other	30 million yen
	476 million yen

2. Loss on disaster was caused by a major snowstorm on February 15, 2014, as a result of which an aircraft hangar's roof collapsed at consolidated subsidiary's NIPPI Corporation's Atsugi Plant. The loss was largely attributable to destruction of fixed assets and inventory and expenses to tear down the building.

Other than the notes on consolidated statements of income stated above, information is omitted here as its disclosure in this report is not of material importance.

Information Omitted

Notes on the unapplied accounting policies, consolidated statements of comprehensive income, consolidated statements of changes in shareholders' equity, the consolidated cash flow statements, lease transactions, related-party transactions, tax-effect accounting, financial instruments, securities, derivative transactions, retirement benefits, stock-based compensation, business combination, asset retirement obligations, investment and rental property, and special purpose companies are omitted here, as their disclosure in this report is not of material importance.

Segment information and others

1. 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 Ship & Offshore Structure segment, the Rolling Stock segment, the Aerospace segment, the Gas Turbine & Machinery segment, the Plant & Infrastructure segment, the Motorcycle & Engine segment, the Precision Machinery segment, and the Other segment.

Main segment businesses are listed below.

Industry segment	Major products
Ship & Offshore Structure	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	Production and sale of industrial equipment, boilers, environmental equipment, steel structures, crushers, etc.
Motorcycle & Engine	Production and sale of motorcycles, all-terrain vehicles (ATV), utility vehicles, personal watercraft ("JET SKI"), 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) Calculation methods for sales, income (loss), assets, liabilities and other items by reportable segment

Accounting methods applied for calculation of sales, income (loss), assets, liabilities, and other items by industry segment largely correspond to information presented under "*Basis of preparation of financial statements*" on page 24. Segment income is based on operating income. Intersegment sales or transfers are based on market prices.

Treatment of FIA

As disclosed above under "4. (5) *Changes in accounting policies, changes in accounting estimates, and correction of errors*" on page 24, airlines demand a type of discount called fleet introductory assistance (FIA) when they purchase jet engines from Company's main partners, and the Company is charged a share of this FIA in proportion to its involvement in projects. The Company previously included these FIA charges in cost of sales but has switched to reporting them as a deduction from sales effective from the fiscal year ended March 31, 2014.

This change reduced the Gas Turbine & machinery segment's sales for the fiscal year ended March 31, 2014, by ¥37,499 million relative to what they would have been in the absence of the change, but it had no impact on segment income.

Changes in depreciation method and depreciable lives

As disclosed above under "4. (5) Changes in accounting policies, changes in accounting estimates, and correction of errors" on page 24, 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 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 fiscal year ended March 31, 2014.

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 fiscal year ended March 31, 2014.

As a result of these changes, segment income for the fiscal year ended March 31, 2014, increased by ¥628 million in the Rolling Stock segment, ¥3,626 million in the Aerospace segment, ¥1,966 million in the Gas Turbine & Machinery segment, ¥847 million in the Plant & Infrastructure segment, ¥1,851 million in the Motorcycle & Engine segment, ¥2,607 million in the Precision Machinery segment, and ¥1,446 million in the Other segment, and segment loss for the fiscal year ended March 31, 2014, improved by ¥626 million in the Ship & Offshore Structure segment,all relative to what they would have been in the absence of the changes.

(3) Sales, income (loss), assets, liabilities, and other items by reportable segment

Fiscal year ended March 31, 2013 (April 1, 2012 – March 31, 2013)

(Millions of yen)

	Sales			Segment income (loss)	Segment assets	Other items			
	External sales	Intersegment sales or transfer	Total			Depreciation/ amortization	Loss on impairment of fixed assets	Investment in equity-method affiliates	Increase in property, plant and equipment and intangibles
Ship & Offshore Structure	90,343	1,999	92,342	4,162	112,612	1,363	-	35,434	1,780
Rolling Stock	129,973	2,887	132,861	2,215	163,527	3,536	-	98	2,807
Aerospace	239,172	2,289	241,461	14,827	311,659	10,769	-	-	17,170
Gas Turbines & Machinery	207,008	19,404	226,412	7,033	251,808	6,100	-	1,085	9,324
Plant & Infrastructure	115,813	15,114	130,928	9,772	115,470	1,861	-	11,767	4,376
Motorcycle & Engine	251,858	757	252,615	2,397	271,548	10,480	-	994	14,865
Precision Machinery	130,455	14,027	144,482	8,452	114,699	7,712	-	-	12,319
Other Operations	124,256	32,872	157,128	1,270	144,209	2,426	363	2,521	2,149
Total	1,288,881	89,352	1,378,234	50,131	1,485,535	44,250	363	51,902	64,795
Adjustments	-	(89,352)	(89,352)	(8,069)	(19,244)	4,135	-	-	13,829
Consolidated total	1,288,881	-	1,288,881	42,062	1,466,290	48,385	363	51,902	78,624

Fiscal year ended March 31, 2014 (April 1, 2013 – March 31, 2014)

(Millions of yen)

	Sales			Segment income (loss)	Segment assets	Other items			
	External sales	Intersegment sales or transfer	Total			Depreciation/ amortization	Loss on impairment of fixed assets	Investment in equity-method affiliates	Increase in property, plant and equipment and intangibles
Ship & Offshore Structure	80,863	1,776	82,640	(2,006)	129,542	755	-	49,089	1,532
Rolling Stock	147,951	5,821	153,772	7,572	159,363	2,630	-	125	5,490
Aerospace	280,737	2,537	283,274	26,254	348,608	9,937	-	-	25,699
Gas Turbines & Machinery	189,241	16,922	206,164	10,486	279,356	3,155	-	1,424	8,300
Plant & Infrastructure	103,898	15,639	119,537	6,312	109,878	1,297	476	15,234	2,424
Motorcycle & Engine	322,248	794	323,042	16,100	252,933	10,241	-	1,099	17,250
Precision Machinery	123,276	13,567	136,844	10,415	124,989	4,435	-	6	7,734
Other Operations	137,264	33,016	170,280	4,481	120,529	2,078	-	2,717	4,236
Total	1,385,482	90,075	1,475,557	79,616	1,525,202	34,531	476	69,697	72,670
Adjustments	-	(90,075)	(90,075)	(7,264)	29,227	3,306	-	-	15,055
Consolidated total	1,385,482	-	1,385,482	72,351	1,554,430	37,838	476	69,697	87,726

(4) Reconciliation and main components of difference between total for reportable segments and amounts on the consolidated financial statements

Fiscal year ended March 31 (Millions of yen)

Sales	2013	2014
Total for reportable segments	1,378,234	1,475,557
Intersegment transactions	(89,352)	(90,075)
Net sales reported on the consolidated financial statements	1,288,881	1,385,482

Fiscal year ended March 31 (Millions of yen)

Income	2013	2014
Total for reportable segments	50,131	79,616
Intersegment transactions	564	(79)
Corporate expenses*	(8,633)	(7,185)
Operating income (loss) on consolidated financial statements	42,062	72,351

*Note: Corporate expenses mainly comprise general and administrative expenses not attributed to reportable segments.

Fiscal year ended March 31 (Millions of yen)

Assets	2013	2014
Total for reportable segments	1,485,535	1,525,202
Corporate assets shared by all segments*	122,759	129,822
Intersegment transactions etc.	(142,004)	(100,595)
Total assets on consolidated financial statements	1,466,290	1,554,430

*Note: Corporate assets shared by all segments mainly comprise fixed assets not attributed to reportable segments.

Fiscal year ended March 31 (Millions of yen)

Other items	Total for reportable segments		Adjustments*		Amounts reported on the consolidated financial statements	
	2013	2014	2013	2014	2013	2014
Depreciation/amortization	44,250	34,531	4,135	3,306	48,385	37,838
Increase in property, plant and equipment and intangibles	64,795	72,670	13,829	15,055	78,624	87,726

*Note: Adjustments are mainly due to fixed assets not attributed to reportable segments.

Related information

Fiscal year ended March 31, 2013 (April 1, 2012 – March 31, 2013)

1. Information by product and service

Information by product and service is omitted here as segmentation is equivalent to that used for reportable segments.

2. Information by geographic area

(a) Net sales

(Millions of yen)

Japan	USA	Europe	Asia	Other areas	Total
616,220	272,531	97,540	202,704	99,884	1,288,881

Note: Net sales are classified by country or region based on the location of customers.

(b) Property, plant and equipment

(Millions of yen)

Japan	North America	Europe	Asia	Other areas	Total
259,212	21,298	2,618	21,638	1,023	305,792

3. Information by major clients

(Millions of yen)

Clients	Net sales	Related segments
Ministry of Defense	193,685	Ship & Offshore Structure, Aerospace, Gas Turbines & Machinery

Fiscal year ended March 31, 2014 (April 1, 2013 – March 31, 2014)

1. Information by product and service

Information by product and service is omitted here as segmentation is equivalent to that used for reportable segments.

2. Information by geographic area

(a) Net sales

(Millions of yen)

Japan	USA	Europe	Asia	Other areas	Total
605,328	326,337	101,381	240,221	112,212	1,385,482

Note: Net sales are classified by country or region based on the location of customers.

(b) Property, plant and equipment

(Millions of yen)

Japan	North America	Europe	Asia	Other areas	Total
324,502	26,059	3,704	28,363	1,281	383,912

3. Information by major clients

(Millions of yen)

Clients	Net sales	Related segments
Ministry of Defense	197,640	Ship & Offshore Structure, Aerospace, Gas Turbines & Machinery

Impairment loss on fixed assets by reportable segment

Fiscal year ended March 31, 2013 (April 1, 2012 – March 31, 2013)

Information is omitted here as it is equivalent to that stated in "1. Segment information".

Fiscal year ended March 31, 2014 (April 1, 2013 – March 31, 2014)

Information is omitted here as it is equivalent to that stated in "1. Segment information".

Amortization amount for and unamortized balance of goodwill

Fiscal year ended March 31, 2013 (April 1, 2012 – March 31, 2013)

Information is omitted here as it is not of material importance.

Fiscal year ended March 31, 2014 (April 1, 2013 – March 31, 2014)

Not applicable.

Gain on negative goodwill by reportable segment

Fiscal year ended March 31, 2013 (April 1, 2012 – March 31, 2013)

Not applicable.

Fiscal year ended March 31, 2014 (April 1, 2013 – March 31, 2014)

Not applicable.

Per share data

Years ended March 31 (Yen)

2013		2014	
Net assets per share	202.32	Net assets per share	217.16
Earnings per share - basic	18.46	Earnings per share - basic	23.09

Notes:
1. Diluted net earnings per share is not stated because there are no potential shares.
2. Net assets per share were calculated based on the following:

March31 (Millions of yen)

	2013	2014
Total net assets	349,881	376,686
Amounts excluded from total net assets	11,641	13,645
Of which: minority interest	*(11,641)*	*(13,645)*
Net assets attributable to the common shares	338,240	363,041
Number of common shares used to compute net assets per share (Thousands of shares)	1,671,792	1,671,750

3. Net income/loss per share and net income per share (diluted) were calculated based on the following:

Years ended March 31 (Millions of yen)

	2013	2014
Earnings per share - basic		
Net income	30,864	38,601
Earnings not attributable to common shareholders	-	-
Net income allocated to the common shares	30,864	38,601
Average number of common shares outstanding (thousands of shares)	1,671,803	1,671,770

Material subsequent events

Not applicable

5. Others

(1) Corporate officer changes

Refer to the Company's press release on March 31, 2014, titled "New Directors and Corporate Auditor to be Nominated."

(2) Consolidated orders and sales

Orders received

Years ended March 31 (Millions of yen)

	2013（A）		2014（B）		Change（B-A）	
		% of total		% of total		%
Ship & Offshore Structure	105,733	7.7	117,872	8.0	12,138	11.4
Rolling Stock	124,441	9.0	133,049	9.1	8,607	6.9
Aerospace	283,485	20.6	286,383	19.6	2,897	1.0
Gas Turbine & Machinery	255,553	18.6	222,013	15.2	(33,539)	(13.1)
Plant & Infrastructure	113,600	8.2	103,912	7.1	(9,688)	(8.5)
Motorcycle & Engine	251,858	18.3	322,248	22.1	70,390	27.9
Precision Machinery	109,725	8.0	127,297	8.7	17,571	16.0
Other	125,188	9.1	142,684	9.8	17,495	13.9
Total	1,369,588	100.0	1,455,462	100.0	85,874	6.2

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

Net sales

Years ended March 31 (Millions of yen)

	2013（A）		2014（B）		Change（B-A）	
		% of total		% of total		%
Ship & Offshore Structure	90,343	7.0	80,863	5.8	(9,479)	(10.4)
Rolling Stock	129,973	10.0	147,951	10.6	17,978	13.8
Aerospace	239,172	18.5	280,737	20.2	41,564	17.3
Gas Turbine & Machinery	207,008	16.0	189,241	13.6	(17,767)	(8.5)
Plant & Infrastructure	115,813	8.9	103,898	7.4	(11,914)	(10.2)
Motorcycle & Engine	251,858	19.5	322,248	23.2	70,390	27.9
Precision Machinery	130,455	10.1	123,276	8.8	(7,178)	(5.5)
Other	124,256	9.6	137,264	9.9	13,007	10.4
Total	1,288,881	100.0	1,385,482	100.0	96,600	7.4

Order backlog

Years ended March 31 (Millions of yen)

	2013（A）		2014（B）		Change（B-A）	
		% of total		% of total		%
Ship & Offshore Structure	120,112	8.7	161,134	10.7	41,021	34.1
Rolling Stock	359,980	26.2	364,654	24.3	4,673	1.2
Aerospace	432,729	31.5	450,581	30.0	17,851	4.1
Gas Turbine & Machinery	237,410	17.3	295,100	19.6	57,689	24.2
Plant & Infrastructure	171,486	12.5	170,737	11.3	(748)	(0.4)
Motorcycle & Engine	-	-	-	-	-	-
Precision Machinery	21,571	1.5	25,821	1.7	4,249	19.7
Other	26,796	1.9	32,234	2.1	5,438	20.2
Total	1,370,086	100.0	1,500,264	100.0	130,177	9.5

(3) Supplementary information on earnings forecasts for the fiscal year ending March 31, 2015

1. Consolidated earnings outlook

(Billions of yen)

	Outlook for the fiscal year ending March 31, 2015 (A)	Fiscal year ended March 31, 2014(actual) (B)	Change (A – B)
Net sales	1,490.0	1,385.4	104.6
Operating income	73.0	72.3	0.7
Recurring profit	66.0	60.6	5.4
Net income	41.0	38.6	2.4

Orders received	1,580.0	1,455.4	124.6
Before-tax ROIC (%)	8.6%	8.1%	0.5%
R&D expenses	46.0	40.3	5.7
Capital expenditures	91.0	87.7	3.3
Depreciation/ amortization	47.0	37.8	9.2
Number of employees at end of period	35,100	34,620	480
*Number of employees outside of Japan included therein	*8,900	*9,089	*189

Notes: 1. Outlook's assumed foreign exchange rates: ¥100 = US$1, ¥135 = 1 euro
2. Before-tax ROIC = (income before income taxes + interest expense) / invested capital.
3. Capital expenditures represent the total of newly recorded property, plant and equipment and newly recorded intangible assets. Depreciation/amortization represents depreciation/amortization expenses for property, plant and equipment and intangible assets.

2. Outlook by reportable segment

(a) Net sales and operating income (loss)

(Billions of yen)

	Outlook for the fiscal year ending March 31, 2015 (A)		Fiscal year ended March 31, 2014 (actual) (B)		Change (A – B)	
	Net sales	Operating Income (loss)	Net sales	Operating Income (loss)	Net sales	Operating Income (loss)
Ship & Offshore Structure	85.0	0	80.8	(2.0)	4.2	2.0
Rolling Stock	135.0	6.0	147.9	7.5	(12.9)	(1.5)
Aerospace	320.0	27.0	280.7	26.2	39.3	0.8
Gas Turbine & Machinery	230.0	9.0	189.2	10.4	40.8	(1.4)
Plant & Infrastructure	120.0	6.0	103.8	6.3	16.2	(0.3)
Motorcycle & Engine	320.0	16.0	322.2	16.1	(2.2)	(0.1)
Precision Machinery	140.0	12.0	123.2	10.4	16.8	1.6
Other	140.0	4.0	137.2	4.4	2.8	(0.4)
Adjustments		(7.0)		(7.2)		0.2
Total	1,490.0	73.0	1,385.4	72.3	104.6	0.7

(b) Orders received

(Billions of yen)

	Outlook for the fiscal year ending March 31, 2015 (A)	Fiscal year ended March 31, 2014 (actual) (B)	Change (A – B)
Ship & Offshore Structure	150.0	117.8	32.2
Rolling Stock	180.0	133.0	47.0
Aerospace	290.0	286.3	3.7
Gas Turbine & Machinery	230.0	222.0	8.0
Plant & Infrastructure	130.0	103.9	26.1
Motorcycle & Engine	320.0	322.2	(2.2)
Precision Machinery	140.0	127.2	12.8
Other	140.0	142.6	(2.6)
Total	1,580.0	1,455.4	124.6

(c) Before-tax ROIC

(%)

	Outlook for the fiscal year ending March 31, 2015 (A)	Fiscal year ended March 31, 2014 (actual) (B)	Change (A – B)
Ship & Offshore Structure	0.2	3.4	(3.2)
Rolling Stock	7.9	10.2	(2.3)
Aerospace	17.7	19.6	(1.9)
Gas Turbine & Machinery	5.1	4.6	0.5
Plant & Infrastructure	13.5	14.9	(1.4)
Motorcycle & Engine	9.2	1.4	7.8
Precision Machinery	16.8	17.5	(0.7)
Total	8.6	8.1	0.5