Report of Earnings and Financial Statements for the Nine Months Ended December 31, 2013 (Consolidated)

(Prepared pursuant to Japanese GAAP)

January 30, 2014

Listed company's name: **Kawasaki Heavy Industries, Ltd.**
Listed on: 1st sections of the TSE and NSE
Stock code: 7012
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Scheduled dates:
Submission of quarterly securities filing: February 12, 2014
Commencement of dividend payments: -

Supplementary materials to quarterly earnings: Available
Quarterly earnings presentation: Conducted (for institutional investors and analysts)

1. Consolidated Financial Results for the Nine Months ended December 31, 2013 (April 1 – December 31, 2013)

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

(1) Operating Results

(Percentage figures represent changes versus the year-ago period)

	Net sales		Operating income		Recurring profit		Net income	
	million yen	%	million yen	%	million yen	%	million yen	%
Nine Months Ended December 31, 2013	920,852	3.9	46,079	101.0	38,729	23.1	23,292	20.4
Nine Months Ended December 31, 2012	885,896	(2.2)	22,920	(51.5)	31,446	(45.8)	19,343	(42.5)

Note: Comprehensive income December 31, 2013: 43,075 million yen 175.4%
December 31, 2012: 15,640 million yen (43.1%)

	Earnings per share	Earnings per share – diluted
	yen	yen
Nine Months Ended December 31, 2013	13.93	-
Nine Months Ended December 31, 2012	11.57	-

(2) Financial Condition

	Total assets	Net assets	Equity ratio
	million yen	million yen	%
December 31, 2013	1,673,392	352,243	20.2
March 31, 2013	1,466,290	349,881	23.0

Note: Shareholders' equity: December 31, 2013: 338,687 million yen
March 31, 2013: 338,240 million yen

2. Dividends

Record date or term	Dividend per share: End of first quarter	End of second quarter	End of third quarter	End of financial year	Full year
	yen	yen	yen	yen	yen
Year ended March 31, 2013	-	0.00	-	5.00	5.00
Year ending March 31, 2014	-	0.00	-		
Year ending March 31, 2014 (forecast)				5.00	5.00

Note: Revisions to the most recently announced dividend forecast: None

3. Forecast of Consolidated Earnings for the Year Ending March 31, 2014
(April 1, 2013 – March 31, 2014)

(Percentage figures represent changes versus the year-ago period)

	Net sales		Operating income		Recurring profit		Net income		Earnings per share
	million yen	%	million yen	%	million yen	%	million yen	%	yen
Full year	1,400,000	8.6	63,000	49.7	53,000	34.7	34,000	10.1	20.33

Note: Revision to the most recently announced earnings forecast: Yes

4. 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 affecting the status of material subsidiaries (scope of consolidation)” on page 9 in the Accompanying Materials.

2) Accounting procedures specific to preparation of quarterly consolidated financial statements: Yes

*For further details, see “Accounting procedures specific to preparation of quarterly consolidated financial statements” on page 9 in the Accompanying Materials.

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

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

(2) Changes in accounting policies other than (1): Yes

(3) Changes in accounting estimates: Yes

(4) Correction of errors: None

* The above changes correspond to Article 10-5 in the “Ordinance on Terminology, Forms and Preparation Methods of Quarterly Consolidated Financial Statements”. For further details, see “Changes in accounting policies, changes in accounting estimates, and correction of errors” on page 9 in the Accompanying Materials.

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

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

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

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

December 31, 2013: 136,450 shares
March 31, 2013: 100,116 shares

(3) Average number of shares during respective periods

Nine months ended December 31, 2013:	1,671,776,326 shares
Nine months ended December 31, 2012:	1,671,806,157 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 earnings outlook" on page 9 in the Accompanying Materials.

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

The Company plans to conduct a briefing for institutional investors and analysts by conference call on Thursday January 30, 2014, and to post the briefing material on quarterly 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

The global economy is expected to grow at a generally moderate pace, with growth in developed economies, primarily the U.S., expected to underpin stable growth in emerging market economies. While the U.S. is expected to grow steadily in the wake of energy demand growth driven by the shale gas revolution, the impact on emerging market economies of the tapering of the U.S. monetary easing policy continues to bear close monitoring, as does political risk in emerging market economies.

The Japanese economy has continued to grow moderately overall. Private capital investment has been picking up in response to economic stimulus policies, including increased public investment funded by fiscal mobilization, and expectations revolving around the 2020 Tokyo Olympics. Additionally, the upcoming increase of consumption tax is expected to induce a consumer demand surge beforehand. Japan's economic recovery is expected to continue, but the consumption tax increase and weakness in emerging market economies are risk factors.

Amid such an economic environment, the Group's orders received increased across all segments, most notably Aerospace and Rolling Stock, in the third-quarters of the fiscal year ending March 31, 2014. Overall sales likewise increased, as sales growth in segments such as Aerospace and Motorcycle & Engine offset sales declines in other segments, including Plant & Infrastructure and Ship & Offshore Structure. Operating income increased substantially in the wake of profit growth or renewed profitability in the Aerospace, Rolling Stock, Motorcycle & Engine, and other segments.

For the nine months ended December 31, 2013, the Group’s consolidated orders received increased by ¥151.3 billion year on year to ¥953.7 billion. Consolidated net sales totaled ¥920.8 billion, a ¥34.9 billion year-on-year increase, and consolidated operating income increased by ¥23.1 billion year on year to ¥46.0 billion. As a result of operating income growth, consolidated recurring profit increased by ¥7.2 billion year on year to ¥38.7 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 by ¥3.9 billion year on year to ¥23.2 billion.

Consolidated operating performance for the nine months ended December 31, 2013, is summarized by segment below.

Segment Information

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

Segment	Nine months ended December 31,				Orders received	
	2012		2013		Nine months ended December 31,	
	Net sales	Operating income	Net sales	Operating income	2012	2013
Ship & Offshore Structure	68.6	4.4	58.6	0.0	42.9	54.6
Rolling Stock	94.1	(0.5)	97.9	6.2	93.1	108.2
Aerospace	165.8	9.3	187.1	20.9	138.3	162.0
Gas Turbine & Machinery	144.6	4.6	125.3	6.8	131.6	140.9
Plant & Infrastructure	71.1	3.7	58.4	0.8	69.4	83.5
Motorcycle & Engine	158.8	(2.0)	213.0	4.0	158.8	213.0
Precision Machinery	93.8	4.8	84.9	7.1	78.4	92.4
Other	88.7	1.5	95.3	2.3	89.5	98.8
Adjustments	-	(2.9)	-	(2.5)	-	-
Total	885.8	22.9	920.8	46.0	802.4	953.7

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 nine months ended December 31, 2013, by ¥26.9 billion and ¥39.8 billion, respectively, relative to what they would have been in the absence of the change. The change had no effect on income.

Ship & Offshore Structure

Consolidated orders received increased by ¥11.7 billion year on year to ¥54.6 billion, including five newbuild orders, mostly for LNG and LPG carriers.

Consolidated net sales decreased by ¥9.9 billion year on year to ¥58.6 billion as the growth in construction of liquefied gas carriers was outweighed by a lower construction of bulk carriers.

Consolidated operating income decreased by ¥4.4 billion year on year to a breakeven level, largely as a result of a lower in ship repair and other revenues and accrual of a provision for losses on construction contracts.

Rolling Stock

Consolidated orders received grew ¥15.1 billion to ¥108.2 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 ¥3.7 billion year on year to ¥97.9 billion as overseas sales to customers in Singapore, North America and elsewhere offset a decline in domestic sales.

Consolidated operating income totaled ¥6.2 billion, a ¥6.8 billion year-on-year improvement stemming from growth in high-margin sales and yen depreciation.

Aerospace

Consolidated orders grew by ¥23.6 billion year on year to ¥162.0 billion. The increase was attributable to the growth in orders for components for Boeing 787.

Consolidated net sales increased by ¥21.2 billion year on year to ¥187.1 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 ¥11.5 billion increase year on year to ¥20.9 billion, largely by virtue of sales growth and yen depreciation.

Gas Turbine & Machinery

Consolidated orders received grew by ¥9.3 billion year on year to ¥140.9 billion despite a change in accounting treatment that detracted from order bookings. The growth was largely attributable to the increase of orders for gas engines and hydropower systems. Additionally, orders for aircraft engine components increased when adjusted to exclude the reduction in orders attributable to the change in accounting treatment.

Consolidated net sales decreased by ¥19.2 billion year on year to ¥125.3 billion, but when adjusted to factor out a ¥26.9 billion reduction in net sales attributable to the change in accounting treatment of aircraft engine components, consolidated net sales was up by ¥7.6 billion year on year. Major year-on-year changes in sales included a decline of sales for marine diesel engines and growth in sales of aircraft engine components and gas engines.

Consolidated operating income increased by ¥2.2 billion year on year to ¥6.8 billion, largely by virtue of the growth in sales adjusted to factor out the sales reduction attributable to the change in accounting treatment of aircraft engine components.

Plant & Infrastructure

Consolidated orders received increased by ¥14.0 billion year on year to ¥83.5 billion, bolstered by orders received on LNG tanks for CPC Corporation, Taiwan's Taichung LNG Terminal Expansion Project.

Consolidated net sales decreased by ¥12.6 billion year on year to ¥58.4 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 ¥2.8 billion year on year to ¥0.8 billion, largely due to the sales decline coupled with shrinkage in profit margins.

Motorcycle & Engine

Consolidated net sales rose by ¥54.1 billion year on year to ¥213.0 billion, boosted by motorcycle sales growth in the US and emerging-market economies, particularly Thailand and Indonesia.

Consolidated operating income totaled ¥4.0 billion, a ¥6.0 billion year-on-year improvement was largely attributable to sales growth and improved profitability.

Precision Machinery

Consolidated orders received increased by ¥13.9 billion year on year to ¥92.4 billion, largely by virtue of the growth in industrial robot orders from the automotive industry and orders for cleaning robots for semiconductor manufacturing equipment.

Consolidated net sales declined by ¥8.9 billion year on year to ¥84.9 billion, as growth in robot sales to the auto industry and sales of cleaning robots for semiconductor manufacturing equipment were insufficient to offset declines in sales of other products, particularly hydraulic equipment.

Consolidated operating income increased by ¥2.3 billion year on year to ¥7.1 billion, largely as a result of yen depreciation and growth in sales of industrial robots to the automotive industry and cleaning robots for semiconductor manufacturing equipment.

Other Operations

Consolidated net sales increased by ¥6.5 billion year on year to ¥95.3 billion.

Consolidated operating income increased by ¥0.8 billion year on year to ¥2.3 billion.

(2) Consolidated financial position

At December 31, 2013, consolidated assets totaled ¥1,673.3 billion, a ¥207.1 billion increase of from March 31, 2013. The increase was chiefly attributable to inventory growth stemming from progress toward completion of construction jobs and capital investments that added to property, plant and equipment. Consolidated liabilities at December 31, 2013, were ¥1,321.1 billion, a ¥204.7 billion increase from March 31, 2013. The increase was largely attributable to increases in commercial paper and other short-term borrowings and recognition of previously unrecognized retirement and severance benefit liabilities, partially offset by a reduction in notes and accounts payable-trade. Interest-bearing debt ended the third quarter at ¥650.8 billion, a ¥166.2 billion increase from March 31, 2013. Consolidated net assets at December 31, 2013, totaled ¥352.2 billion, a ¥2.3 billion increase from March 31, 2013. The increase was largely attributable to quarterly net income, partially offset by dividend payments and recognition of the previously unrecognized retirement and severance benefit liabilities.

(3) Consolidated earnings outlook

For the fiscal year ending March 31, 2014, the Company has raised its consolidated net sales forecast to ¥1,400 billion, ¥20 billion above its previous (October 29, 2013) forecast, in response to the yen weakening yen beyond previously assumed exchange rate levels. The Company has raised its consolidated operating income forecast by ¥3 billion to ¥63 billion in light of the likelihood of improvement in the Aerospace and Motorcycle & Engine segments' earnings and deterioration in Ship & Offshore Structure's earnings under the revised exchange rate assumptions. However, the Company has left its previously announced consolidated recurring profit and net income forecasts unchanged because the revised exchange rate outlook's impact on recurring profit and net income is limited by currency hedging and other factors.

The Company's earnings forecasts assume exchange rates of ¥100 to the US dollar and ¥135 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 Third quarter under review, and multiplying quarterly pretax net income by the 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 ¥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 first quarter of the fiscal year ending 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 first quarter of the fiscal year ending 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 nine months ended December 31, 2013, by ¥26,986 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 "(3) Matters related to reportable segment changes" on page 17.

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 for the first quarter of the fiscal year ending 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 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 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 first quarter of the fiscal year ending 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 the end of the third quarter of the fiscal year ending 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 the end of the third quarter of the fiscal year ending March 31, 2014 increased by ¥14,930 million, ¥988 million and ¥13,942 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 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 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 nine months ended December 31, 2013, were ¥9,723 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 "(3) Matters related to reportable segment changes" on page 17.

3. Consolidated Financial Statements

(1) Consolidated balance sheets

	Millions of yen	
	As of March 31, 2013	Nine months ended December 31, 2013
Assets		
Current assets		
Cash on hand and in banks	38,525	32,975
Trade receivables	432,649	475,491
Merchandise and finished products	61,446	71,870
Work in process	311,107	356,881
Raw materials and supplies	87,551	98,792
Other current assets	88,319	101,770
Allowance for doubtful receivables	(2,785)	(3,230)
Total current assets	1,016,813	1,134,551
Fixed assets		
Net property, plant and equipment	305,792	368,093
Intangible assets	19,446	17,983
Investments and other assets		
Other	125,172	153,447
Allowance for doubtful receivables	(936)	(682)
Total investments and other assets	124,236	152,764
Total fixed assets	449,476	538,841
Total assets	1,466,290	1,673,392
Liabilities		
Current liabilities		
Trade payables	281,062	269,644
Short-term debt	213,510	254,098
Income taxes payable	3,756	8,399
Accrued bonuses	20,060	9,750
Provision for losses on construction contracts	18,719	12,391
Other provisions	6,194	9,488
Advances from customers	108,213	132,555
Other	131,022	233,547
Total current liabilities	782,540	929,875
Long-term liabilities		
Bonds payable	70,000	110,000
Long-term debt	184,362	145,261
Employees’ retirement and severance benefits	62,300	-
Other provisions	5,082	4,195
Net defined benefit liability	-	101,992
Other	12,123	29,824
Total long-term liabilities	333,868	391,273
Total liabilities	1,116,409	1,321,149
Net assets		
Shareholders’ equity		
Common stock	104,484	104,484
Capital surplus	54,393	54,393
Retained earnings	198,528	202,200
Treasury stock	(27)	(41)
Total shareholders’ equity	357,379	361,038
Accumulated other comprehensive income		
Net unrealized gains on securities, net of tax	4,524	5,890

Deferred gains (losses) on hedges	(5,998)	(8,350)
Foreign currency translation adjustments	(17,665)	54
Remeasurements of defined benefit plans	-	(19,944)
Total accumulated other comprehensive income	(19,139)	(22,350)
Minority interests	11,641	13,556
Total net assets	349,881	352,243
Total liabilities and net assets	1,466,290	1,673,392

(2) Consolidated statements of income and comprehensive income

Consolidated statements of income

	Millions of yen	
	Nine months ended December 31, 2012	Nine months ended December 31, 2013
Net sales	885,896	920,852
Cost of sales	748,339	750,864
Gross profit	137,557	169,987
Selling, general and administrative expenses		
Salaries and benefits	31,333	33,910
R&D expenses	27,258	27,378
Provision for doubtful accounts	260	73
Other	55,784	62,546
Total selling, general and administrative expenses	114,637	123,908
Operating income	22,920	46,079
Non-operating income		
Interest income	1,335	688
Dividend income	592	387
Equity in income of non-consolidated subsidiaries and affiliates	7,082	4,039
Foreign exchange gain, net	1,724	-
Other	4,141	2,635
Total non-operating income	14,877	7,750
Non-operating expenses		
Interest expense	3,130	3,011
Foreign exchange loss, net	-	9,154
Other	3,220	2,934
Total non-operating expenses	6,351	15,100
Recurring profit	31,446	38,729
Extraordinary losses		
Provision for environmental measures	1,395	-
Loss on impairment of fixed assets	212	-
Total extraordinary losses	1,608	-
Income before income taxes and minority interests	29,837	38,729
Income taxes	8,694	13,657
Income before minority interests	21,143	25,072
Minority interests in net income of consolidated subsidiaries	1,800	1,779
Net income (loss)	19,343	23,292

Consolidated statements of comprehensive income

	Millions of yen	
	Nine months ended December 31, 2012	Nine months ended December 31, 2013
Income before minority interests	21,143	25,072
Other comprehensive income		
Net unrealized gains (losses) on securities	(585)	1,368
Deferred gains (losses) on hedges	(6,226)	(2,361)
Foreign currency translation adjustments	2,476	10,921
Remeasurements of defined benefit plans	-	449
Share of other comprehensive income of associates accounted for using equity method	(1,167)	7,625
Total other comprehensive income	(5,503)	18,003
Comprehensive Income attributable to:	15,640	43,075
Owners of the parent company	13,746	40,436
Minority interests	1,893	2,639

(3) 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. Nine months ended December 31, 2012 (April 1, 2012 – December 31, 2012)

(1) Sales and income (loss) by reportable segment

Millions of yen

	External sales	Intersegment sales	Total sales	Operating income (loss)
Ship & Offshore Structure	68,629	1,446	70,075	4,417
Rolling Stock	94,181	2,467	96,649	(585)
Aerospace	165,848	1,656	167,504	9,346
Gas Turbine & Machinery	144,667	12,227	156,894	4,655
Plant & Infrastructure	71,132	11,460	82,592	3,712
Motorcycle & Engine	158,855	512	159,368	(2,018)
Precision Machinery	93,830	9,381	103,212	4,851
Other	88,750	23,536	112,287	1,500
Reportable segment total	885,896	62,688	948,584	25,879
Adjustments*1	-	(62,688)	(62,688)	(2,959)
Consolidated total	885,896	-	885,896	22,920

Notes: 1. Breakdown of adjustments:

Millions of yen

Income	Amount
Intersegment transactions	809
Corporate expenses*	(3,768)
Total	(2,959)

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

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

(2) Impairment loss on fixed assets and goodwill by reportable segment

Not applicable

2. Nine months ended December 31, 2013 (April 1, 2013 – December 31, 2013)

(1) Sales and income (loss) by reportable segment

Millions of yen

	External sales	Intersegment sales	Total sales	Operating income (loss)
Ship & Offshore Structure	58,635	1,168	59,803	12
Rolling Stock	97,956	3,734	101,690	6,287
Aerospace	187,125	1,468	188,593	20,935
Gas Turbine & Machinery	125,368	12,112	137,481	6,892
Plant & Infrastructure	58,494	10,776	69,270	859
Motorcycle & Engine	213,030	499	213,530	4,038
Precision Machinery	84,906	8,717	93,623	7,190
Other	95,335	23,850	119,186	2,398
Reportable segment total	920,852	62,328	983,181	48,614
Adjustments*1	-	(62,328)	(62,328)	(2,535)
Consolidated total	920,852	-	920,852	46,079

Notes: 1. Breakdown of adjustments:

Millions of yen

Income	Amount
Intersegment transactions	(37)
Corporate expenses*	(2,498)
Total	(2,535)

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

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

(2) Impairment loss on fixed assets and goodwill by reportable segment

Not applicable

(3) Matters related to reportable segment changes

Treatment of FIA

As disclosed above under "2. (3) Changes in accounting policies, changes in accounting estimates, and correction of errors” on page 9, 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 first quarter of the fiscal year ending March 31, 2014.

This change reduced the Gas Turbine & machinery segment's sales for the nine months ended December 31, 2013, by ¥26,986 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 "2. (3) Changes in accounting policies, changes in accounting estimates, and correction of errors" on page 9, 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 first quarter of the fiscal year ending 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 first quarter of the fiscal year ending March 31, 2014.

As a result of these changes, segment income for the nine months ended December 31, 2013, increased by ¥458 million in the Ship & Offshore Structure segment, ¥455 million in the Rolling Stock segment, ¥2,655 million in the Aerospace segment, ¥1,361 million in the Gas Turbine & Machinery segment, ¥622 million in the Plant & Infrastructure segment, ¥1,273 million in the Motorcycle & Engine segment, ¥1,844 million in the Precision Machinery segment, and ¥1,051 million in the Other segment, all relative to what they would have been in the absence of the changes.

4. Supplementary information

(1) Consolidated cash flow statements (condensed)

	Millions of yen	
	Nine months ended December 31, 2012	Nine months ended December 31, 2013
Cash flow from operating activities	(104,274)	(82,941)
Cash flow from investing activities	(66,116)	(62,728)
Cash flow from financing activities	168,493	141,841
Cash and cash equivalents at end of period	29,587	31,126

(2) Orders and sales (consolidated)

As disclosed above under "2. (3) Changes in accounting policies, changes in accounting estimates, and correction of errors" on page 9 and "3. (3) *Segment information*" on page 16, the Company revised its accounting treatment of FIA effective from the first quarter of the fiscal year ending March 31, 2014. This change reduced the Gas Turbine & Machinery segment's orders received and sales for the nine months ended December 31, 2013, by ¥39,808 million and ¥26,986 million, respectively, relative to what they would have been in the absence of the change. Additionally, the Company reduced its order backlog as of the previous fiscal year-end by ¥258,306 million as an FIA adjustment.

Orders received

	Nine months ended December 31, 2012		Nine months ended December 31, 2013		Year ended March 31, 2013	
	million yen	% of total	million yen	% of total	million yen	% of total
Ship & Offshore Structure	42,982	5.3	54,683	5.7	105,733	7.7
Rolling Stock	93,149	11.6	108,259	11.3	124,441	9.0
Aerospace	138,359	17.2	162,052	16.9	283,485	20.6
Gas Turbine & Machinery	131,670	16.4	140,990	14.7	255,553	18.6
Plant & Infrastructure	69,481	8.6	83,573	8.7	113,600	8.2
Motorcycle & Engine	158,855	19.7	213,030	22.3	251,858	18.3
Precision Machinery	78,403	9.7	92,401	9.6	109,725	8.0
Other	89,530	11.1	98,807	10.3	125,188	9.1
Total	802,433	100.0	953,798	100.0	1,369,588	100.0

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

Net sales

	Nine months ended December 31, 2012		Nine months ended December 31, 2013		Year ended March 31, 2013	
	million yen	% of total	million yen	% of total	million yen	% of total
Ship & Offshore Structure	68,629	7.7	58,635	6.3	90,343	7.0
Rolling Stock	94,181	10.6	97,956	10.6	129,973	10.0
Aerospace	165,848	18.7	187,125	20.3	239,172	18.5
Gas Turbine & Machinery	144,667	16.3	125,368	13.6	207,008	16.0
Plant & Infrastructure	71,132	8.0	58,494	6.3	115,813	8.9
Motorcycle & Engine	158,855	17.9	213,030	23.1	251,858	19.5
Precision Machinery	93,830	10.5	84,906	9.2	130,455	10.1
Other	88,750	10.0	95,335	10.3	124,256	9.6
Total	885,896	100.0	920,852	100.0	1,288,881	100.0

Order backlog

	Year ended March 31, 2013		Nine months ended December 31, 2013		Nine months ended December 31, 2012	
	million yen	% of total	million yen	% of total	million yen	% of total
Ship & Offshore Structure	120,112	8.7	120,876	8.2	77,657	5.4
Rolling Stock	359,980	26.2	397,180	27.2	348,644	24.4
Aerospace	432,729	31.5	419,064	28.7	359,572	25.2
Gas Turbine & Machinery	237,410	17.3	266,664	18.2	411,817	28.9
Plant & Infrastructure	171,486	12.5	195,667	13.4	172,076	12.0
Motorcycle & Engine	-	-	-	-	-	-
Precision Machinery	21,571	1.5	29,295	2.0	26,873	1.8
Other	26,796	1.9	30,281	2.0	26,641	1.8
Total	1,370,086	100.0	1,459,029	100.0	1,423,283	100.0

(3) Net sales by geographic area (consolidated)

Nine months ended December 31, 2012 (April 1, 2012 – December 31, 2012)

Millions of yen

Japan	438,227	49.4%
United States	177,244	20.0%
Europe	61,025	6.8%
Asia	137,881	15.5%
Other areas	71,517	8.0%
Total	885,896	100.0%

Nine months ended December 31, 2013 (April 1, 2013 – December 31, 2013)

Millions of yen

Japan	405,697	44.0%
United States	209,367	22.7%
Europe	62,130	6.7%
Asia	162,530	17.6%
Other areas	81,125	8.8%
Total	920,852	100.0%

(4) 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 October 29, 2013 (B)	Change (A – B)	
Net sales	1,400.0	1,380.0	20.0	1,288.8
Operating income	63.0	60.0	3.0	42.0
Recurring profit	53.0	53.0	-	39.3
Net income	34.0	34.0	-	30.8
Orders received	1,450.0	1,450.0	-	1,369.5
Before-tax ROIC (%)	7.4%	7.4%	-	6.1%

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.

2) Outlook by reportable segment

(a) Net sales and operating income (loss)

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 October 29, 2013 (B)		Change (A – B)			
	Net sales	Operating income (loss)	Net sales	Operating income (loss)	Net sales	Operating income (loss)	Net sales	Operating income (loss)
Ship & Offshore Structure	70.0	(2.0)	70.0	0.0	-	(2.0)	90.3	4.1
Rolling Stock	155.0	6.0	155.0	6.0	-	-	129.9	2.2
Aerospace	300.0	25.0	300.0	23.0	-	2.0	239.1	14.8
Gas Turbine & Machinery	185.0	11.0	185.0	11.0	-	-	207.0	7.0
Plant & Infrastructure	115.0	7.0	115.0	7.0	-	-	115.8	9.7
Motorcycle & Engine	310.0	13.0	290.0	10.0	20.0	3.0	251.8	2.3
Precision Machinery	125.0	9.0	125.0	9.0	-	-	130.4	8.4
Other	140.0	4.0	140.0	4.0	-	-	124.2	1.2
Adjustments		(10.0)		(10.0)		-		(8.0)
Total	1,400.0	63.0	1,380.0	60.0	20.0	3.0	1,288.8	42.0

(b) Orders received

Billions of yen

	Outlook for the year ending March 31, 2014 (fiscal 2013)			Fiscal 2012 (ended March 31, 2013) (actual)
	Revised outlook (A)	Forecast issued October 29, 2013 (B)	Change (A – B)	
Ship & Offshore Structure	120.0	120.0	-	105.7
Rolling Stock	130.0	160.0	(30.0)	124.4
Aerospace	280.0	260.0	20.0	283.4
Gas Turbine & Machinery	220.0	220.0	-	255.5
Plant & Infrastructure	120.0	130.0	(10.0)	113.6
Motorcycle & Engine	310.0	290.0	20.0	251.8
Precision Machinery	140.0	140.0	-	109.7
Other	130.0	130.0	-	125.1
Total	1,450.0	1,450.0	-	1,369.5