Management Discussion & Analysis

OVERVIEW

In fiscal 2014 (the year ended March 31, 2014), the global economy recovered moderately, spearheaded by developed economies, in the wake of the United States 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 the United States, offsetting weakness in emerging market economies. However, a number of downside risks pose concern, including the impact of tapering of the United States 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 2014 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.

RESULTS OF OPERATIONS

Net Sales

As noted, consolidated net sales increased ¥96.6 billion from the previous fiscal year to ¥1,385.4 billion. Overseas sales totaled ¥780.1 billion. By region, sales in the United States were ¥326.3 billion, sales in Europe accounted for ¥101.3 billion, sales in Asia outside Japan contributed ¥240.2 billion, and sales in other areas added ¥112.2 billion. The ratio of overseas sales to consolidated net sales increased 4.2 percentage points, to 56.3%, compared to 52.1% in the previous fiscal year.

The following sections supply additional details on the consolidated performance of each business segment. Please note that operating income or loss includes intersegment transactions.

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 Boeing 777 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, enhanced productivity 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 United States 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 clean 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 clean 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 clean robots for semiconductor manufacturing equipment and industrial robots for the automotive industry and yen depreciation.

Other

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.

Cost, Expenses, and Earnings

Cost of sales increased ¥54.8 billion from the previous fiscal year, to ¥1,140.2 billion. As a result, gross profit increased ¥41.7 billion, to ¥245.1 billion, while the gross profit margin edged up 1.9 percentage point, to 17.6%, from 15.7% in the previous fiscal year.

Selling, general and administrative expenses grew ¥11.4 billion, to ¥172.8 billion, primarily because of higher salaries and benefits, and advertising expenses. Operating income increased ¥30.2 billion, to ¥72.3 billion. The large increase in operating income was due to increased profit in the Motorcycle & Engine, Aerospace and Rolling Stock segments. The ratio of operating income to net sales increased 2.0 percentage points, to 5.2%, from 3.2% in the previous fiscal year.

Other income (expenses) showed net expenses of ¥11.0 billion, compared with net income of ¥4.0 billion in the previous fiscal year. The principal reason for this was "other expenses, net," which leveled off at ¥15.3 billion, compared with ¥1.9 billion in the previous fiscal year. The main component of this change was due to foreign exchange losses.

As a result, after deduction of minority interests, net income increased ¥7.7 billion from the previous fiscal year, to ¥38.6 billion. The ratio of net income to net sales edged up 0.4 percentage point, to 2.7%, from 2.3% in the previous fiscal year. ROE (calculated using average total shareholders' equity) edged up 1.5 percentage points, to 11.0%, from 9.5% a year ago.

Capital expenditures in fiscal 2014 came to ¥87.7 billion, up from ¥78.6 billion in the previous fiscal year. R&D expenses were ¥40.3 billion, down from ¥41.7 billion a year ago.

FINANCIAL CONDITIONS

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.

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.

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.

The ratio of shareholders' equity to total assets expanded 0.3 percentage points, to 23.3%, from 23.0% at the end of the previous fiscal year. In addition, the net debt-to-equity ratio improved 22.6 percentage points, from 131.9% to 109.3%, as of March 31, 2014.

CASH FLOWS

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.

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.

Free cash flow, which is the net amount of cash from operating and investing activities, showed a net inflow of ¥74.1 billion in fiscal 2014, up from net outflow of ¥53.0 billion in fiscal 2013.

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.

Given these changes in cash flows, cash and cash equivalents at the end of the term settled at ¥45.4 billion, up ¥8.4 billion from the beginning of the year.

MANAGEMENT OF LIQUIDITY RISK

To manage our liquidity risk comprehensively, the Finance Department formulates and renews financial plans in a timely fashion, based on reports from each business segment. In addition, measures are taken to diversify sources of financing, adjust the balance of long and short term financing with consideration of financial conditions, and secure commitment lines (credit limitation of ¥54.0 billion, immediate activation possible) and commercial papers (issuance limit of ¥150.0 billion).

MANAGEMENT INDICATOR

In the ultimate aim of improving its enterprise 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 enterprise 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.
Calculated with this formula, ROIC increased 2.0 percentage points to 8.1%, from 6.1% in the previous fiscal year.

DIVIDENDS

As a basic policy, the Company aims to meet shareholders' expectations by endeavoring to enhance its enterprise 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 2014. 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).

Consolidated Balance Sheets

KAWASAKI HEAVY INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
At March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	**2014**
ASSETS			
Current assets:			
Cash on hand and in banks (Note 18)	**¥47,949**	¥38,525	**$465,886**
Receivables:			
Trade (Note 7)	**415,664**	432,649	**4,038,709**
Other	**14,115**	16,464	**137,145**
Allowance for doubtful receivables	**(3,104)**	(2,785)	**(30,159)**
	426,675	446,328	**4,145,695**
Inventories: (Note 8)			
Merchandise and finished products	**56,673**	61,446	**550,650**
Work in process	**302,513**	311,108	**2,939,304**
Raw materials and supplies	**98,848**	87,551	**960,435**
	458,034	460,105	**4,450,389**
Deferred tax assets (Note 17)	**33,046**	37,648	**321,084**
Other current assets	**40,049**	34,208	**389,137**
Total current assets	**1,005,754**	1,016,814	**9,772,191**
Property, plant and equipment (Note 7):			
Land	**62,866**	62,318	**610,823**
Buildings and structures	**368,582**	344,813	**3,581,247**
Machinery and equipment	**650,375**	576,753	**6,319,230**
Construction in progress	**29,330**	19,198	**284,978**
	1,111,153	1,003,082	**10,796,278**
Accumulated depreciation	**(727,241)**	(697,289)	**(7,066,080)**
Net property, plant and equipment	**383,912**	305,793	**3,730,198**
Investments and intangible and other assets:			
Investments in securities (Notes 5, 6 and 7)	**84,377**	75,143	**819,830**
Long-term loans	**424**	409	**4,119**
Deferred tax assets (Note 17)	**52,711**	36,428	**512,155**
Goodwill and other intangible assets	**17,262**	19,446	**167,722**
Allowance for doubtful receivables	**(710)**	(936)	**(6,898)**
Net defined benefit assets (Note 9)	**1,444**	-	**14,030**
Other (Note 7)	**9,256**	13,193	**89,937**
Total investments and intangible and other assets	**164,764**	143,683	**1,600,895**
Total assets	**¥1,554,430**	¥1,466,290	**$15,103,284**

The accompanying notes to the consolidated financial statements are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	**2014**
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term debt and current portion of long-term debt (Note 7)	**¥191,161**	¥229,857	**$1,857,374**
Trade payables (Note 7)	**252,107**	281,063	**2,449,543**
Electronically recorded obligations	**53,923**	-	**523,931**
Advances from customers	**137,598**	108,214	**1,336,941**
Income taxes payable (Note 17)	**10,100**	3,756	**98,134**
Accrued bonuses	**22,118**	20,060	**214,904**
Provision for product warranties	**10,535**	6,148	**102,361**
Provision for losses on construction contracts (Note 8)	**13,560**	18,719	**131,752**
Deferred tax liabilities (Note 17)	**442**	1,793	**4,294**
Asset retirement obligations	**49**	133	**476**
Other current liabilities	**103,822**	112,797	**1,008,768**
Total current liabilities	**795,415**	782,540	**7,728,478**
Long-term liabilities:			
Long-term debt, less current portion (Note 7)	**253,482**	254,796	**2,462,903**
Employees' retirement and severance benefits (Note 9)	**-**	62,300	**-**
Liability for retirement benefits (Note 9)	**97,048**	-	**942,945**
Deferred tax liabilities (Note 17)	**6,630**	5,511	**64,418**
Provision for losses on legal proceedings	**395**	569	**3,837**
Provision for environmental measures	**3,669**	4,512	**35,649**
Asset retirement obligations	**487**	551	**4,731**
Other	**20,618**	5,630	**200,335**
Total long-term liabilities	**382,329**	333,869	**3,714,818**
Contingent liabilities (Note 10)			
Net assets (Note 11):			
Sharehoders' equity:			
Common stock:			
Authorized - 3,360,000,000 shares			
Issued - 1,671,892,659 shares in 2014			
- 1,671,892,659 shares in 2013	**104,484**	104,484	**1,015,196**
Capital surplus	**54,394**	54,394	**528,507**
Retained earnings	**217,449**	198,528	**2,112,796**
Treasury stock - 141,710 shares in 2014			
- 100,116 shares in 2013	**(43)**	(27)	**(417)**
Total shareholders' equity	**376,284**	357,379	**3,656,082**
Accumulated other comprehensive income:			
Net unrealized gains on securities, net of tax	**2,653**	4,524	**25,777**
Deferred losses on hedges	**(3,803)**	(5,998)	**(36,951)**
Foreign currency translation adjustments	**6,416**	(17,665)	**62,339**
Accumulated adjustments for retirement benefits	**(18,509)**	-	**(179,837)**
Total accumulated other comprehensive income	**(13,243)**	(19,139)	**(128,672)**
Minority interests	**13,645**	11,641	**132,578**
Total net assets	**376,686**	349,881	**3,659,988**
Total liabilities and net assets	**¥1,554,430**	¥1,466,290	**$15,103,284**

Consolidated Statements of Income and Comprehensive Income

KAWASAKI HEAVY INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
At March 31, 2014 and 2013

Consolidated Statements of Income

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2014	2013	2012	**2014**
Net sales	**¥1,385,482**	¥1,288,881	¥1,303,778	**$13,461,737**
Cost of sales (Note 12)	**1,140,293**	1,085,469	1,088,918	**11,079,411**
Gross profit	**245,189**	203,412	214,860	**2,382,326**
Selling, general and administrative expenses (Note 13)	**172,838**	161,350	157,376	**1,679,344**
Operating income	**72,351**	42,062	57,484	**702,982**
Other income (expenses):				
Interest and dividend income	**1,317**	1,641	2,331	**12,796**
Equity in income of nonconsolidated subsidiaries and affiliates	**7,016**	8,530	8,567	**68,169**
Interest expense	**(3,991)**	(4,151)	(4,282)	**(38,777)**
Other expenses, net (Note 14)	**(15,383)**	(1,930)	(15,394)	**(149,465)**
Income before income taxes and minority interests	**61,310**	46,152	48,706	**595,705**
Income taxes (Note 17)				
Current	**(15,903)**	(10,591)	(9,932)	**(154,508)**
Deferred	**(4,409)**	(2,550)	(12,899)	**(42,849)**
Income before minority interests	**40,998**	33,011	25,875	**398,348**
Minority interests in net income of consolidated subsidiaries	**(2,397)**	(2,147)	(2,552)	**(23,290)**
Net income	**¥38,601**	¥30,864	¥23,323	**$375,058**

Consolidated Statements of Comprehensive Income

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2014	2013	2012	**2014**
Income before minority interests	**¥40,998**	¥33,011	¥25,875	**$398,348**
Other comprehensive income (loss):				
Net unrealized gains (losses) on securities	**(1,852)**	541	106	**(17,994)**
Deferred gains (losses) on hedges	**2,314**	(6,381)	1,281	**22,483**
Foreign currency translation adjustments	**11,996**	11,713	(2,924)	**116,556**
Remeasurements of defined benefit plans	**1,870**	-	-	**18,169**
Share of other comprehensive income of associates accounted for using equity method	**13,379**	5,155	231	**129,995**
Total other comprehensive income (loss)	**27,707**	11,028	(1,306)	**269,209**
Comprehensive income	**68,705**	44,039	24,569	**667,557**
Comprehensive income attributable to:				
Owners of the parent company	**64,908**	40,940	22,228	**630,664**
Minority interests	**3,797**	3,099	2,341	**36,893**
	Yen			U.S. dollars (Note 1)
Per share amounts (Note 19)				
Net income per share - basic	**¥23.0**	¥18.4	¥13.9	**$0.22**
Net income per share - diluted	**-**	-	13.8	**-**
Cash dividends	**6.0**	5.0	5.0	**0.05**

The accompanying notes to the consolidated financial statements are an integral part of these statements.

Consolidated Statements of Changes In Net Assets

KAWASAKI HEAVY INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
For the years ended March 31, 2014, 2013, and 2012

	Thousands	Millions of yen											
		Shareholders' equity					Accumulated other comprehensive income						
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains (losses) on securities, net of tax	Deferred gains (losses) on hedges	Foreign currency translation adjustments	Accumulated adjustments for retirement benefit	Total accumulated other comprehensive income	Minority interests	Total net assets
Balance at March 31, 2011	¥1,670,646	¥104,340	¥54,251	¥158,615	¥(30)	¥317,176	¥3,876	¥(990)	¥(31,006)	¥-	¥(28,120)	¥8,377	¥297,433
Net income for the year	-	-	-	23,323	-	23,323	-	-	-	-	-	-	23,323
Adjustments from translation of foreign currency financial statements	-	-	-	-	-	-	-	-	(2,445)	-	(2,445)	-	(2,445)
Increase in net unrealized gains on securities, net of tax	-	-	-	-	-	-	113	-	-	-	113	-	113
Treasury stock purchased, net	-	-	-	-	(6)	(6)	-	-	-	-	-	-	(6)
Cash dividends	-	-	-	(5,011)	-	(5,011)	-	-	-	-	-	-	(5,011)
Loss on sales of treasury stock	-	-	(0)	(3)	1	(2)	-	-	-	-	-	-	(2)
Conversion of convertible bonds	1,246	144	143	-	13	300	-	-	-	-	-	-	300
Increase (decrease) due to changes in fiscal period of consolidated subsidiaries	-	-	-	(510)	-	(510)	-	-	-	-	-	-	(510)
Decrease resulting from increase in equity method affiliate	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	1,236	-	-	1,236	1,491	2,727
Balance at March 31, 2012	¥1,671,892	¥104,484	¥54,394	¥176,414	¥(22)	¥335,270	¥3,989	¥246	¥(33,451)	¥-	¥(29,216)	¥9,868	¥315,922
Net income for the year	-	-	-	30,864	-	30,864	-	-	-	-	-	-	30,864
Adjustments from translation of foreign currency financial statements	-	-	-	-	-	-	-	-	15,786	-	15,786	-	15,786
Increase in net unrealized gains on securities, net of tax	-	-	-	-	-	-	535	-	-	-	535	-	535
Treasury stock purchased, net	-	-	-	-	(5)	(5)	-	-	-	-	-	-	(5)
Cash dividends	-	-	-	(8,359)	-	(8,359)	-	-	-	-	-	-	(8,359)
Loss on sales of treasury stock	-	-	-	(1)	0	(1)	-	-	-	-	-	-	(1)
Conversion of convertible bonds	-	-	-	-	-	-	-	-	-	-	-	-	-
Increase (decrease) due to changes in fiscal period of a consolidated subsidiary	-	-	-	(205)	-	(205)	-	-	-	-	-	-	(205)
Decrease resulting from increase in equity method affiliate	-	-	-	(185)	-	(185)	-	-	-	-	-	-	(185)
Other	-	-	-	-	-	-	-	(6,244)	-	-	(6,244)	1,773	(4,471)
Balance at March 31, 2013	¥1,671,892	¥104,484	¥54,394	¥198,528	¥(27)	¥357,379	¥4,524	¥(5,998)	¥(17,665)	¥-	¥(19,139)	¥11,641	¥349,881
Cumulative effect of changes in accounting policies	-	-	-	(11,523)	-	(11,523)	-	-	-	(20,410)	(20,410)	-	(31,933)
Restated Balance	-	104,484	54,394	187,005	(27)	345,856	4,524	(5,998)	(17,665)	(20,410)	(39,549)	11,641	317,948
Net income for the year	-	-	-	38,601	-	38,601	-	-	-	-	-	-	38,601
Adjustments from translation of foreign currency financial statements	-	-	-	-	-	-	-	-	24,081	-	24,081	-	24,081
Increase in net unrealized gains on securities, net of tax	-	-	-	-	-	-	(1,871)	-	-	-	(1,871)	-	(1,871)
Treasury stock purchased, net	-	-	-	-	(16)	(16)	-	-	-	-	-	-	(16)
Cash dividends	-	-	-	(8,358)	-	(8,358)	-	-	-	-	-	-	(8,358)
Loss on sales of treasury stock	-	-	0	-	0	0	-	-	-	-	-	-	0
Conversion of convertible bonds	-	-	-	-	-	-	-	-	-	-	-	-	-
Increase (decrease) due to changes in fiscal period of a consolidated subsidiary	-	-	-	201	-	201	-	-	-	-	-	-	201
Decrease resulting from increase in equity method affiliate	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	2,195	-	1,901	4,096	2,004	6,100
Balance at March 31, 2014	¥1,671,892	¥104,484	¥54,394	¥217,449	¥(43)	¥376,284	¥2,653	¥(3,803)	¥6,416	¥(18,509)	¥(13,243)	¥13,645	¥376,688
Balance at March 31, 2013		$1,015,196	$528,507	$1,928,954	$(262)	$3,472,395	$43,956	$(58,278)	$(171,638)	$(198,309)	$(185,960)	$113,107	$3,399,542
Cumulative effect of changes in accounting policies		-	-	(111,960)	-	(111,960)	-	-	-	(198,309)	(198,309)	-	(310,269)
Restated Balance		1,015,196	528,507	1,816,994	(262)	3,360,435	43,956	(58,278)	(171,638)	(198,309)	(384,269)	113,107	3,089,273
Net income for the year		-	-	375,058	-	375,058	-	-	-	-	-	-	375,058
Adjustments from translation of foreign currency financial statements		-	-	-	-	-	-	-	233,977	-	233,977	-	233,977
Increase in net unrealized gains on securities, net of tax		-	-	-	-	-	(18,179)	-	-	-	(18,179)	-	(18,179)
Treasury stock purchased, net		-	-	-	(155)	(155)	-	-	-	-	-	-	(155)
Cash dividends		-	-	(81,208)	-	(81,208)	-	-	-	-	-	-	(81,208)
Loss on sales of treasury stock		-	0	-	0	0	-	-	-	-	-	-	0
Conversion of convertible bonds		-	-	-	-	-	-	-	-	-	-	-	-
Increase (decrease) due to changes in fiscal period of consolidated subsidiaries		-	-	1,952	-	1,952	-	-	-	-	-	-	1,952
Decrease resulting from increase in equity method affiliate		-	-	-	-	-	-	-	-	-	-	-	-
Other		-	-	-	-	-	-	21,327	-	18,472	39,799	19,471	59,270
Balance at March 31, 2014		$1,015,196	$528,507	$2,112,796	$(417)	$3,656,082	$25,777	$(36,951)	$62,339	$(179,837)	$(128,672)	$132,578	$3,659,988

The accompanying notes to the consolidated financial statements are an integral part of these statements.

Consolidated Statements of Cash Flows

KAWASAKI HEAVY INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
For the years ended March 31, 2014, 2013 and 2012

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2014	2013	2012	**2014**
Cash flows from operating activities:				
Income before income taxes and minority interests	**¥61,310**	¥46,152	¥48,706	**$595,705**
Adjustments to reconcile net income before income taxes and minority interests to net cash provided by (used for) operating activities:				
Depreciation and amortization	**37,838**	48,385	48,901	**367,644**
Loss on impairment of fixed assets	**476**	363	14,921	**4,621**
Increase (decrease) in employees' retirement and severance benefits	**-**	(10,970)	(5,257)	**-**
Increase (decrease) in liability for retirement benefits	**(2,830)**	-	-	**(27,497)**
Increase (decrease) in accrued bonuses	**1,839**	(521)	4,885	**17,868**
Increase (decrease) in allowance for doubtful receivables	**(129)**	(653)	449	**(1,253)**
Increase (decrease) in provision for product warranties	**4,117**	(1,195)	(750)	**40,001**
Increase (decrease) in provision for losses on construction contracts	**(5,345)**	(12,617)	(2,016)	**(51,933)**
Increase (decrease) in provision for restructuring charges	**-**	-	(1,077)	**-**
Increase (decrease) in provision for losses on damages suit	**(102)**	(340)	(4,957)	**(991)**
Increase (decrease) in provision for environmental measures	**(915)**	1,261	(545)	**(8,890)**
Loss (gain) on disposal of inventories	**1,339**	1,711	(70)	**13,010**
Gain on sales of marketable securities and investments in securities	**(1,187)**	(1,424)	(591)	**(11,533)**
Loss on valuation of securities	**619**	55	918	**6,014**
Loss on sales of property, plant, and equipment	**1,043**	1,032	1,177	**10,134**
Equity in income of nonconsolidated subsidiaries and affiliates	**(7,016)**	(8,530)	(8,567)	**(68,169)**
Interest and dividend income	**(1,317)**	(1,641)	(2,331)	**(12,796)**
Interest expense	**3,991**	4,151	4,282	**38,777**
Changes in assets and liabilities:				
Decrease (increase) in:				
Trade receivables	**17,750**	10,601	(942)	**172,464**
Inventories	**(1,295)**	(10,711)	(18,705)	**(12,582)**
Other current assets	**1,349**	8,073	(2,139)	**13,107**
Increase (decrease) in:				
Trade payables	**20,059**	(41,150)	(7,332)	**194,898**
Advances from customers	**25,978**	5,670	18,973	**252,409**
Other current liabilities	**7,713**	4,015	8,708	**74,941**
Other, net	**2,973**	(2,333)	4,134	**28,893**
Subtotal	**168,258**	39,384	100,775	**1,634,842**
Cash received for interest and dividends	**6,018**	8,668	6,656	**58,472**
Cash paid for interest	**(4,210)**	(4,194)	(4,455)	**(40,905)**
Cash paid for income taxes	**(18,345)**	(15,757)	(18,239)	**(178,245)**
Net cash provided by (used for) operating activities	**¥151,721**	¥28,101	¥84,737	**$1,474,164**

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2014	2013	2012	**2014**
Cash flows from investing activities:				
Decrease (increase) in time deposits with maturities over three months	**(584)**	(310)	1,446	**(5,674)**
Acquisition of property, plant and equipment	**(77,396)**	(65,517)	(61,126)	**(752,001)**
Proceeds from sales of property, plant and equipment	**2,212**	348	535	**21,492**
Acquisition of intangible assets	**(2,778)**	(4,898)	(4,921)	**(26,991)**
Proceeds from sales of intangible assets	**595**	33	16	**5,781**
Acquisition of investments in securities	**(610)**	(571)	(47)	**(5,926)**
Proceeds from sales of investments in securities	**2,695**	2,899	663	**26,185**
Acquisition of investments in subsidiaries and affiliates	**(2,063)**	(12,339)	(1,761)	**(20,044)**
Decrease (increase) in short-term loans	**196**	(11)	(11)	**1,904**
Additions to long-term loans	**(64)**	(44)	(70)	**(621)**
Proceeds from collection of long-term loans	**84**	101	89	**816**
Payments in lease and guarantee deposits	**-**	(1,152)	-	**-**
Other	**154**	301	(772)	**1,494**
Net cash provided by (used for) investing activities	**(77,559)**	(81,160)	(65,959)	**(753,585)**
Cash flows from financing activities:				
Increase (decrease) in short-term debt	**(64,139)**	42,129	(569)	**(623,192)**
Proceeds from long-term debt	**80,430**	64,327	39,963	**781,480**
Repayment of long-term debt	**(68,749)**	(38,837)	(59,887)	**(667,984)**
Acquisition of treasury stock	**(17)**	(4)	(8)	**(165)**
Proceeds from stock issuance to minority shareholders	**-**	217	-	**-**
Cash dividends paid	**(8,363)**	(8,351)	(5,014)	**(81,257)**
Cash dividends paid to minority shareholders	**(1,532)**	(1,326)	(1,070)	**(14,885)**
Other	**(135)**	(484)	(246)	**(1,313)**
Net cash provided by (used for) financing activities	**(62,505)**	57,671	(26,831)	**(607,316)**
Effect of exchange rate changes	**(4,001)**	(886)	(1,823)	**(38,874)**
Net increase (decrease) in cash and cash equivalents	**7,656**	3,726	(9,876)	**74,389**
Cash and cash equivalents at beginning of year	**36,971**	33,245	44,629	**359,220**
Increase (decrease) in cash and cash equivalents due to changes in fiscal period of consolidated subsidiaries	**804**	-	(1,508)	**7,811**
Cash and cash equivalents at end of year	**¥45,431**	¥36,971	¥33,245	**$441,420**
Supplemental information on cash flows:				
Cash and cash equivalents:				
Cash on hand and in banks in the balance sheets	**¥47,949**	¥38,525	¥34,316	**$465,886**
Time deposits with maturities over three months	**(2,518)**	(1,554)	(1,071)	**(24,466)**
Total (Note 18)	**¥45,431**	¥36,971	¥33,245	**$441,420**

The accompanying notes to the consolidated financial statements are an integral part of these statements.

Notes to the Consolidated Financial Statements

KAWASAKI HEAVY INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES

1. Basis of presenting consolidated financial statements

Kawasaki Heavy Industries, Ltd. (the "Company") and its consolidated domestic subsidiaries maintain their official accounting and disclosure records in Japanese yen. The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law and its related accounting regulations and in conformity with accounting principles generally accepted in Japan (Japanese GAAP), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English with some expanded descriptions and the inclusion of consolidated statements of changes in net assets from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translations of the Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2014, which was ¥102.92 to U.S. $1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. Significant accounting policies

(a) Principles of consolidation
The accompanying consolidated financial statements include the accounts of the Company and significant companies over which the Company has power of control through majority voting rights or the existence of certain other conditions evidencing control (together, the "Companies"). The consolidated financial statements include the accounts of the Company and 96 subsidiaries (95 in the year ended March 31, 2013 and 97 in 2012). The aggregate amount of total assets, net sales, net income and retained earnings of the excluded subsidiaries would not have had a material effect on the consolidated financial statements if they had been included in the consolidation.

(b) Application of the equity method of accounting
Investments in nonconsolidated subsidiaries and affiliates over which the Company has the ability to exercise significant influence over operating and financial policies are accounted for by the equity method. For the year ended March 31, 2014, 18 affiliates (17 in 2013 and 14 in 2012) were accounted for by the equity method. For the year ended March 31, 2014, investments in 13 affiliates (13 in 2013 and 14 in 2012) were stated at cost without applying the equity method of accounting. If the equity method had been applied for these investments, the net income and retained earnings of these excluded subsidiaries and affiliates would not have had a material effect on the consolidated financial statements.

(c) Consolidated subsidiaries' fiscal year-end
The fiscal year-end of 28 consolidated subsidiaries (30 in 2013 and 30 in 2012) is December 31. These subsidiaries are consolidated as of December 31, and significant transactions for the period between December 31 and March 31, the Company's fiscal year-end, are adjusted for on consolidation. One consolidated subsidiary has a fiscal year-end of June 30. For the purpose of preparing the consolidated financial statements, that subsidiary conducts a provisional settlement of accounts on March 31. Three consolidated subsidiaries, KHITKAN Co., Ltd., Kawasaki Motors (Phils.) Corporation, and Kawasaki Motors Enterprise (Thailand) Co., Ltd., which previously had their fiscal year-end on December 31, have changed their fiscal year-end to March 31 to coincide with the consolidated fiscal year-end of the Company.

(d) Elimination of intercompany transactions and accounts
All significant intercompany transactions and accounts and unrealized intercompany profits are eliminated on consolidation, and the portion attributable to minority interests is credited to minority interests. In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiary.

(e) Foreign currency translation
Receivables and payables denominated in foreign currencies are translated into Japanese yen at year-end rates. The balance sheets of the consolidated overseas subsidiaries are translated into Japanese yen at year-end rates, except for shareholders' equity accounts, which are translated at historical rates. The income statements of the consolidated overseas subsidiaries are translated at average rates. The Company and its domestic subsidiaries report foreign currency translation adjustments in net assets.

(f) Revenue recognition
<Sales of products and construction contracts>
The percentage-of-completion method is applied to construction contracts if the outcome of the construction activity is deemed certain during the course of the activity. Otherwise, the completed-contract method is applied.

<Service revenues>
Service revenues are recognized when the services are rendered. Services include supervisory and installation services for products such as rail cars, machinery and plants. When the prices of such services are individually determined by the contract and the collectability of the revenue is reasonably assured, the service revenue is recognized on an accrual basis. Otherwise, the service revenue is recognized on a completion basis.

Sales and cost of sales in finance lease transactions are recognized mainly when the Company receives the lease payments.

(g) Cash and cash equivalents
Cash on hand, readily available deposits and short-term highly liquid and low risk investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents in preparing the consolidated statements of cash flows.

(h) Allowance for doubtful receivables
An allowance for possible losses from notes and accounts receivable, loans and other receivables is provided based on past experience and the Companies' estimates of losses on collection.

(i) Assets and liabilities arising from derivative transactions
Assets and liabilities arising from derivative transactions are stated at fair value.

(j) Inventories
Inventories are stated mainly at the historical cost computed using the specific identification cost method, the moving-average cost method or the first-in, first-out method. The ending balance of inventories is measured at the lower of cost or market.

(k) Investments in securities
The Company and its consolidated subsidiaries classify securities as (a) debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities"), (b) equity securities issued by subsidiaries and affiliated companies and (c) all other securities (hereafter, "available-for-sale securities"). There were no trading securities at March 31, 2014, 2013 or 2012. Held-to-maturity debt securities are stated mainly at amortized cost. Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for using the equity method are stated at moving average cost. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Realized gains and losses on the sale of such securities are computed using moving average cost. Other securities with no available market value are stated at moving average cost.

If the market value of held-to-maturity debt securities, equity securities issued by nonconsolidated subsidiaries or affiliated companies or available-for-sale securities declines significantly, such securities are stated at market value, and the difference between the market value and the carrying amount is recognized as loss in the period of the decline. If the market value of equity securities issued by a nonconsolidated subsidiary or affiliated company not subject to the equity method is not readily available, the securities should be written down to net asset value with a corresponding charge in the statements of income in the event net asset value declines significantly. In these cases, the market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

(l) Property, plant and equipment
Property, plant and equipment are stated at cost. Depreciation is computed mainly by the straight-line method over the estimated useful life of the asset.

(m) Intangible assets
Amortization of intangible assets, including software for the Company's own use, is computed by the straight-line method over the estimated useful life of the asset.

An equivalent amount of goodwill is amortized by the straight-line method over the period the Company benefits from its use. If the amount is not significant, it is expensed when incurred.

(n) Accrued bonuses
Accrued bonuses for employees are provided for based on the estimated amount of payment.

(o) Provision for product warranties
The provision for product warranties is based on past experience or provided separately when it can be reasonably estimated.

(p) Provision for losses on construction contracts
A provision for losses on construction contracts at the fiscal year-end is made when substantial losses are anticipated for the next fiscal year and beyond and such losses can be reasonably estimated.

(q) Provision for losses on legal proceedings
The Provision for losses on legal proceedings in which the Company is a defendant in the suit is provided based on estimates of expected compensation and other associated expenses.

(r) Provision for environmental measures
The Company reserved an estimated amount to cover expenditures for environmental measures such as the disposal of PCB waste required under the "Law Concerning Special Measures for Promotion of Appropriate Disposal of PCB (polychlorinated biphenyl) Waste" and soil improvement.

(s) Income taxes
The asset-liability approach is used to recognize deferred tax assets and liabilities for loss carryforwards and the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

(t) Liability for retirement benefits
Employees who terminate their services with the Company or some consolidated domestic subsidiaries are generally entitled to lump-sum payments, the amounts of which are determined by reference to basic rates of pay at the time of termination and length of service.

The liabilities and expenses for retirement and severance benefits are determined based on amounts actuarially calculated using certain assumptions. The Company and its consolidated domestic subsidiaries provide the allowance for employees' retirement and severance benefits based on the estimated amounts of projected benefit obligation and the fair value of plan assets (including the retirement benefit trust).

Actuarial gains and losses and prior service costs are charged to income on a straight-line basis primarily over 10 years commencing with the following period and the current period, respectively. With regard to previously unrecognized actuarial gains and losses and unrecognized prior services costs, after adjusting for tax effects, the Company records accumulated adjustment for retirement benefits as part of accumulated other comprehensive income within net assets.

In calculating retirement benefit obligations, the method of attributing expected benefits to periods employs a benefit formula basis.

Employees of the Company's overseas consolidated subsidiaries are generally covered by various pension plans accounted for in accordance with generally accepted accounting principles in the respective country of domicile.

(u) Hedge accounting
The Company and its consolidated subsidiaries employ deferred hedge accounting. If derivative financial instruments are used as hedges and meet certain hedging criteria, the Company and its consolidated subsidiaries defer recognition of gain or loss resulting from a change in the fair value of the derivative financial instrument until the related loss or gain on the hedged item is recognized.

(v) Finance leases
Leased assets under finance leases that transfer ownership of the lease assets to the lessee are amortized by the same method as that used for property, plant and equipment and intangible assets. Lease assets under finance leases that do not transfer ownership to the lessee are amortized by the straight-line-method over the lease term with zero residual value.

(w) Net income per share
The computations of net income per share shown in the consolidated statements of income are based upon net income available to common stockholders and the weighted average number of shares outstanding during each period. Diluted net income per share is computed based on the assumption that all dilutive convertible bonds were converted at the beginning of the year.

(x) Accounting for consumption taxes
National and local consumption taxes are accounted for based on the net amount.

(y) Application of consolidated tax reporting
Effective from the year ended March 31, 2012, the Company and its wholly owned consolidated domestic subsidiaries have elected to file a consolidated tax return.

3. Changes in accounting policies

(a) Adoption of new accounting standard for retirement benefits

Effective from the beginning of the fiscal year ended March 31, 2014, the Company has 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 now recognizes the excess of retirement benefit obligations over plan assets as a liability for retirement benefits. Previously, the excess was booked as unrecognized actuarial losses and unrecognized prior service costs as retirement and a liability for retirement benefits. 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 liability for retirement benefits in the amount of the excess of retirement benefit obligations over plan assets as of the start of the fiscal year ended March 31, 2014, the Company debited accumulated other comprehensive income's accumulated adjustment for retirement benefit to reflect recognition of the liability in accordance 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 the beginning of the first quarter of the fiscal year ended March 31, 2014, to reflect the effect of the change in its method for calculating retirement benefit obligations and service costs.

These debits reduced accumulated other comprehensive income and capital surplus as of the beginning of the fiscal year ended March 31, 2014, by ¥20,410 million ($198,309 thousand) and ¥11,125 million ($108,093 thousand), respectively. The effect on the financial statements was minimal. The impact of the change on earnings per share is disclosed below under "27. Other matters".

(b) 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 beginning of the fiscal year ended March 31, 2014, the Company has switched to reporting FIA charges as a deduction from net 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 net sales in the beginning of the fiscal year ended March 31, 2014, and because the impact of this accounting policy change on the consolidated financial statements as a whole was 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 ($364,350 thousand) relative to what they would have been in the absence of the change, but it had no effect on operating income, ordinary income 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".

(c) 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 inventories (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 was minimal, the reclassification was not applied retrospectively.

The reclassification reduced work in process as of the beginning of the fiscal year ended March 31, 2014 by ¥26,781 million ($260,211 thousand) and increased property, plant and equipment and intangible assets by ¥26,555 million ($258,015 thousand) and ¥226 million ($2,195 thousand), respectively, relative to what they would have been in the absence of the reclassification.

Previously, the book value of the specialized jigs and tools 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. After the reclassification, the jigs and tools is depreciated as property, plant and equipment, and the depreciation allocated between cost of sales and work in process. The impact of this change on earnings and earnings per share has been minimal.

(d) 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 legal form of the subsidy transactions by recognizing the subsidies as revenue received in consideration for development deliverables, charging the 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 economic substance of the subsidy transactions and has revised its accounting treatment accordingly. Specifically, the Company no longer recognizes the subsidies as revenue and, on its balance sheet, recognizes projected future obligations as liabilities and capitalizes development expenses as inventories. 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 inventories and recognized a liability as described above. Since the impact of these changes on the consolidated financial statements as a whole has been minimal, the Company did not apply the changes retrospectively. The impact of the changes on earnings also has been 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 ($140,001 thousand), ¥1,160 million ($11,270 thousand) and ¥13,249 million ($128,731 thousand), respectively. The impact of the changes on earnings and earnings per share was minimal.

(e) Changes in accounting policies based on other justified reasons than revision of accounting standards or amendment of respective law or regulation that are not distinguishable from change in accounting estimates.

-Changes in depreciation method and depreciable lives

The Company and its domestic consolidated subsidiaries had 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, the straight-line method is used for all property, plant and equipment.
In accordance 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.
The change in depreciation method in conjunction with the change in capital investment environment is expected to stabilize the Group production facilities. 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 the depreciable lives of their machinery and tools effective from the fiscal year ended March 31, 2014. They did so based on a comprehensive reassessment of the physical and economic lives of the machinery and tools, 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, ordinary income, and income before income taxes and minority interests for the fiscal year ended March 31, 2014 were each ¥13,602 million ($132,160 thousand) 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".

4. Accounting standards issued but not yet adopted

- Accounting Standard for Business Combinations (ASBJ Statement No. 21, September 13, 2013)
- Accounting Standard for Consolidated Financial Statements (ASBJ Statement No. 22, September 13, 2013)
- Accounting Standard for Business Divestitures (ASBJ Statement No. 7, September 13, 2013)
- Accounting Standard for Earnings Per Share (ASBJ Statement No. 2, September 13, 2013)
- Guidance on Accounting Standard for Business Combinations and Business Divestitures (ASBJ Guidance No. 10, September 13, 2013)
- Guidance on Accounting Standard for Earnings Per Share (ASBJ Guidance No. 4, September 13, 2013) (Please also refer to the ASBJ homepage, which has a summary in English of the accounting standard.)

(1) Summary

Under the revised accounting statements, the followings have been predominantly amended.

1. Accounting treatment for changes in equity of parent company to its subsidiary in case where parent company still controls its subsidiary in case of additional purchase of investment in subsidiary.
2. Accounting treatment of acquisition related costs
3. Presentation of net income and change from minority interests to non-controlling shareholders' interests
4. Provisional accounting treatment

(2) Effective dates

Effective for the beginning of annual periods ending on or after March 31, 2016. Provisional accounting treatment is effective from the beginning of annual periods ending on or after March 31, 2016.

(3) Effect of application of the standard

The Company and its consolidated domestic subsidiaries are currently in the process of determining the effects of these new standards on the consolidated financial statements.

5. Securities

(a) Book values and market values of held-to-maturity securities with available market values as of March 31, 2014 and 2013 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2014			
	Book value	Market value	Unrealized losses	
Market values not exceeding book values:				
Bonds	**¥132**	**¥128**	**¥(4)**	**$(38)**

	Millions of yen		
	2013		
	Book value	Market value	Unrealized losses
Market values not exceeding book values:			
Bonds	¥133	¥125	¥(8)

(b) Acquisition costs and book values (market values) of available-for-sale securities with available market values as of March 31, 2014 and 2013 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2014			
	Book value	Acquisition cost	Unrealized gains (losses)	
Securities with book values exceeding acquisition costs:				
Equity securities	**¥7,499**	**¥3,223**	**¥4,276**	**$41,546**
Other securities:				
Equity securities	**168**	**187**	**(19)**	**(184)**
Total	**¥7,667**	**¥3,410**	**¥4,257**	**$(41,362)**

	Millions of yen		
	2013		
	Book value	Acquisition cost	Unrealized gains (losses)
Securities with book values exceeding acquisition costs:			
Equity securities	¥14,082	¥6,843	¥7,239
Other securities:			
Equity securities	659	717	(58)
Total	¥14,741	¥7,560	¥7,181

(c) Sales amounts of available-for-sale securities and related realized gains and losses for the years ended March 31, 2014, 2013 and 2012 were as follows:

	Millions of yen			Thousands of U.S. dollars		
	2014					
	Sales amounts	Gains	Losses	Sales amounts	Gains	Losses
Equity securities:	**¥2,828**	**¥1,187**	**¥-**	**$27,477**	**$11,533**	**$-**

	Millions of yen		
	2013		
	Sales amounts	Gains	Losses
Equity securities:	¥2,892	¥1,428	¥(3)

	Millions of yen		
	2012		
	Sales amounts	Gains	Losses
Equity securities:	¥611	¥593	¥(1)

(d) Investments in securities subject to impairment

Impairment loss on investments in securities is recognized when there has been a significant decline in the market value.

Investments in securities for which the market value as of the end of the fiscal year has fallen to below 50% of the acquisition costs are deemed to have no recovery potential and to be fully impaired. Investments in securities for which the market value has fallen to between 30% and 50% of the acquisition costs are deemed to be partially impaired by an amount that takes into consideration the likelihood of recovery and other factors. In the years ended March 31, 2014 and 2012, the Company recognized an impairment loss on investments in securities in the amount of ¥619 million ($6,014 thousand) and ¥918 million, respectively. For the year ended March 31, 2013, the amount of impairment loss on investments was not disclosed because it was immaterial.

6. Investments in nonconsolidated subsidiaries and affiliates

Investments in nonconsolidated subsidiaries and affiliates as of March 31, 2014 and 2013 were ¥70,208 million ($682,160 thousand) and ¥52,412 million, respectively.

7. Short-term debt and long-term debt

Short-term debt and long-term debt as of March 31, 2014 and 2013 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Short-term debt:			
Short-term debt, principally bank loans, bearing an average interest rates of 0.81 percent and 0.74 percent as of March 31, 2014 and 2013, respectively	**¥105,004**	¥160,767	**$1,020,249**
Current portion of long-term debt, bearing average interest rates of 0.75 percent as of March 31, 2014 and 2013.	**85,753**	68,743	**833,200**
Lease obligations, current	**404**	347	**3,925**
Total short-term debt	**¥191,161**	¥229,857	**$1,857,374**

Long-term debt:			
Loans from banks and other financial institutions, partly secured by mortgage or other collateral, due from 2014 to 2037, bearing average interest rates of 0.74 percent and 0.78 percent as of March 31, 2014 and 2013, respectively	**¥227,096**	¥243,105	**$2,206,535**
Notes and bonds issued by the Company:			
1.84 percent notes due in 2013	**-**	10,000	**-**
0.72~1.22 percent notes due in 2015	**20,000**	20,000	**194,325**
0.58 percent notes due in 2016	**10,000**	10,000	**97,162**
1.06 percent notes due in 2017	**10,000**	10,000	**97,162**
0.33~0.57 percent notes due in 2018	**20,000**	-	**194,325**
0.68 percent notes due in 2019	**10,000**	10,000	**97,162**
0.98~0.99 percent notes due in 2020	**20,000**	-	**194,325**
1.41 percent notes due in 2021	**10,000**	10,000	**97,162**
1.10 percent notes due in 2022	**10,000**	10,000	**97,162**
Long-term lease obligations	**2,543**	780	**24,708**
	339,639	323,885	**3,300,028**
Less portion due within one year	**(86,157)**	(69,089)	**(837,125)**
Total long-term debt	**¥253,482**	¥254,796	**$2,462,903**

As of March 31, 2014 and 2013, the following assets were pledged as collateral for short-term debt and long-term debt:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Receivables: Trade	**¥-**	¥49,911	**$-**
Buildings and structures	**82**	82	**796**
Investments in securities	**14**	14	**136**
Other	**854**	13	**8,298**
Total	**¥950**	¥50,020	**$9,230**

In addition to the items shown above, the Company had pledged (on a long-term basis) shares of an affiliate company eliminated from the scope of consolidation in the amount of ¥30 million ($291 thousand).

As the affiliated company for ENSEADA INDUSTRIA NAVAL S.A. had long-term debt from financial institutions, the Company had pledged (on a long-term basis) their shares. The corresponding long-term debt in end of the consolidated year was ¥31,842 million ($309,385 thousand).

As of March 31, 2014 and 2013, debt secured by the above pledged assets were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Trade payables	**¥4**	¥3	**$38**
Short-term and long-term debt	**140**	30,888	**1,361**
Total	**¥144**	¥30,891	**$1,399**

The aggregate annual maturities of long-term debt as of March 31, 2014 were as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31		
2015	**¥106,157**	**$1,031,452**
2016	**35,491**	**344,841**
2017	**27,286**	**265,119**
2018	**64,250**	**624,271**
2019 and thereafter	**106,455**	**1,034,345**
Total	**¥339,639**	**$3,300,028**

8. Provision for losses on construction contracts

Inventories for construction contracts with substantial anticipated losses and the provision for losses on construction contracts were not offset. As of March 31, 2014 and 2013, the inventories for the construction contracts for which the provision for losses on construction contracts were provided were ¥2,754 million ($26,758 thousand) and ¥8,900 million, respectively. These amounts were all included in work in process.

9. Employees' retirement and severance benefits

1. The Company and its domestic consolidated subsidiaries have a system of retirement and severance lump-sum payments for employees. The Company and certain consolidated subsidiaries also have a defined contribution pension plan and a cash balance plan (pension plan linked to market interest rates), and a portion of the existing retirement and severance benefits are funded. Certain consolidated subsidiaries have a retirement pension plan. The Company has an employees' retirement benefit trust. The Company and certain consolidated subsidiaries made changes to their system of retirement and severance lump-sum payments for employees. As a result, the Company incurred prior service cost (increase in obligation).
   Gain on contribution of securities to employees' retirement benefit trust was attributable to the contribution of holdings of investments in securities to the employees' retirement benefit trust.

2. Defined benefit plans (including plans that apply a simplified method)

(1) Reconciliation of beginning- and end-of-period balance of retirement benefit obligation

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Balance of retirement benefit obligations at beginning of period	¥166,867	$1,621,327
Effect of change to benefit formula at beginning of period	19,016	184,764
Service cost	9,700	94,247
Interest cost	3,252	31,597
Actuarial gains and losses	2,251	21,871
Retirement benefits paid	(13,281)	(129,041)
Prior service cost	958	9,308
Other (foreign currency translation difference, etc.)	2,980	28,956
Balance of retirement benefit obligations at end of period	¥191,743	$1,863,029

(2) Reconciliation of beginning- and end-of-period balance of plan assets

Balance of plan assets at beginning of period	¥77,992	$757,792
Expected return on plan assets	2,031	19,733
Actuarial gains and losses	5,213	50,650
Contributions paid by the employer	10,542	102,429
Retirement benefits paid	(4,423)	(42,975)
Other (foreign currency translation difference, etc.)	4,784	46,484
Balance of plan assets at end of period	¥96,139	$934,113

(3) Reconciliation of end-of-period balance of retirement benefit obligations and plan assets to liabilities and assets for retirement benefits presented on the consolidated balance sheets

Funded retirement benefit obligations	¥179,057	$1,739,768
Plan assets	(96,139)	(934,113)
	82,918	805,655
Unfunded plan retirement benefit obligations	12,686	123,260
Net amount of liabilities and assets presented on the consolidated balance sheets	¥95,604	$928,915
Liability for retirement benefits	¥97,048	$942,945
Asset for retirement benefits	(1,444)	(14,030)
Net amount of liabilities and assets presented on the consolidated balance sheets	¥95,604	$928,915

(4) Breakdown of retirement benefit expense

Service cost	**¥9,700**	**$94,247**
Interest cost	**3,252**	**31,597**
Expected return on plan assets	**(2,031)**	**(19,733)**
Amortization period for actuarial gains and losses	**2,079**	**20,200**
Amortization period for prior service costs	**(1,093)**	**(10,619)**
Retirement benefit expense related to defined benefit plan	**¥11,907**	**$115,692**

(5) Adjustments for retirement benefit
Adjustments for retirement benefit (before tax effects) comprised the following.

	Millions of yen	Thousands of U.S. dollars
Prior service cost	**¥(1,864)**	**$(18,111)**
Actuarial gains and losses	**4,874**	**47,357**
Total	**¥3,010**	**$29,246**

(6) Accumulated adjustments for retirement benefit
Accumulated adjustments for retirement benefit (before tax effects) comprised the following.

	Millions of yen	Thousands of U.S. dollars
Unrecognized prior service cost	**¥(2,980)**	**$(28,954)**
Unrecognized actuarial gains and losses	**(25,959)**	**(252,225)**
Total	**¥(28,939)**	**$(281,179)**

(7) Plan assets
① Breakdown of main plan assets
The breakdown of main asset categories as a percentage of total plan assets is as follows

Bonds	**14%**
Equities	**69%**
Cash and deposits	**5%**
Others	**12%**
Total	**100%**

Note: Within total plan assets, 59% of assets are included in the employees' retirement benefit trust established as part of the retirement benefit plan.

② Method for setting long-term expected rate of return
To set the expected rate of return on plan assets, the Company takes into account the current and expected allocation of plan assets, and the expected present and future long-term rate of return on the diverse range of assets that makes up the plan assets.

(8) Underlying actuarial assumptions

Main underlying actuarial assumptions as of March 31, 2014 (presented as the compound average)

Discount rate	**1.36 ~ 4.55%**
Long-term expected rate of return on plan assets	**3.00 ~ 7.25%**

3. Defined contribution plan

The required contribution by the Company and its consolidated subsidiaries to the defined contribution plan was ¥1,080 million.

The liability for employees' retirement and severance benefits included in the long-term liability section of the consolidated balance sheets as of March 31, 2013 consisted of the following:

	Millions of yen
	2013
Projected benefit obligation	¥(166,866)
Fair value of plan assets	77,992
Unrecognized prior service costs	722
Unrecognized actuarial gains and losses	30,347
Prepaid pension cost	(4,495)
Liability for retirement and severance benefits	¥(62,300)

Retirement and severance benefit expenses in the consolidated statements of income for the years ended March 31, 2013 and 2012 comprised the following:

	Millions of yen	
	2013	2012
Service costs - benefits earned during the year	¥8,900	¥8,882
Interest cost on projected benefit obligation	3,566	3,675
Expected return on plan assets	(1,172)	(1,061)
Amortization of prior service costs	(1,603)	(2,409)
Amortization of actuarial gains and losses	3,852	4,715
Contribution to the defined contribution pension plans	726	712
Retirement and severance benefit expenses	14,269	14,514
Gain on transfer of benefit obligation relating to employees' pension fund	(8,624)	-
Total	¥5,645	¥14,514

Basic assumptions and information used to calculate retirement and severance benefits were as follows:

	2013
Discount rate	mainly 2.0%
Expected rate of return on plan assets	
(For the Company and consolidated domestic subsidiaries)	3.0 to 3.5%
(For consolidated overseas subsidiaries)	5.04 to 7.25%
Amortization period for prior service costs	mainly 10 years
Amortization period for actuarial gains and losses	mainly 10 years

10. Contingent liabilities

Contingent liabilities as of March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
As guarantor of indebtedness of employees, nonconsolidated subsidiaries, affiliates and others	**¥25,630**	¥30,396	**$249,028**

11. Net assets

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one half of the price of the new shares as additional paid-in capital, which is included in capital surplus. Under the Japanese Corporate Law ("the Law"), if a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets. Under the Law, legal earnings reserve and additional paid-in capital can be used to eliminate or reduce a deficit or capitalized by a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Law, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the nonconsolidated financial statements of the Company in accordance with Japanese laws and regulations.

12. Cost of sales

The ending balance of inventories was measured at the lower of cost or market. Loss on the valuation of inventories included in the cost of sales for the year ended March 31, 2014 and 2012 was ¥459 ($4,459 thousand) million and ¥1,246 million, respectively. Gain on the valuation of inventories included in the cost of sales for the year ended March 31, 2013 was ¥361 million.

Provision for losses on construction contracts included in the cost of sales for the years ended March 31, 2014, 2013 and 2012 was ¥6,332 million ($61,523 thousand), ¥5,929 million and ¥14,980 million, respectively.

13. Research and development expenses

Research and development expenses included in selling, general and administrative expenses and product costs were as follows:

	Millions of yen			Thousands of U.S. dollars
	2014	2013	2012	**2014**
Research and development expenses	**¥40,398**	¥41,709	¥39,940	**$392,518**

14. Other expenses, net

"Other expenses, net" in "Other income (expenses)" in the consolidated statements of income for the years ended March 31, 2014, 2013 and 2012 comprised the following:

	Millions of yen			Thousands of U.S. dollars
	2014	2013	2012	**2014**
Foreign exchange gain (loss), net	**¥(14,785)**	¥(9,919)	¥206	**$(143,655)**
Gain on transfer of benefit obligation relating to employees' pension fund	**-**	8,624	-	**-**
Loss on environmental measures	**-**	(1,437)	-	**-**
Gain on sales of marketable securities and investments in securities	**1,187**	1,424	591	**11,533**
Loss on impairment of fixed assets (a)	**(476)**	(363)	(14,921)	**(4,624)**
Loss on valuation of securities	**(619)**	(55)	(918)	**(6,014)**
Gain on contribution of securities to retirement benefit trust (b)	**3,323**	-	-	**32,287**
Loss on disaster (c)	**(2,142)**	-	-	**(20,812)**
Other, net	**(1,871)**	(204)	(352)	**(18,180)**
Total	**¥(15,383)**	¥(1,930)	¥(15,394)	**$(149,465)**

(a) Loss on impairment of fixed assets
Owing to a decline in the profitability or the market prices of certain asset groups, the Company and its consolidated subsidiaries reduced the book value of certain assets to the recoverable amount. Assets are grouped mainly by units of business. However, significant assets for rent or those that are idle are treated separately. Recoverable amounts were determined by the higher of the net salable value or value in use, and net salable value was estimated by appraisal or property tax assessment.

Asset groups for which the Company and its consolidated subsidiaries recognized impairment loss for the year ended March 31, 2014 were as follows:

Function or status	Location	Type of assets
Operating property	Kitakyushu City, Fukuoka	Land, buildings and structures, etc.

Impairment loss for the year ended March 31, 2014 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
Land	**¥381**	**$3,701**
Buildings and structures	**63**	**612**
Other	**32**	**311**
Total	**¥476**	**$4,624**

Asset groups for which the Company and its consolidated subsidiaries recognized impairment loss for the year ended March 31, 2013 were as follows:

Function or status	Location	Type of assets
Idle property	Funabashi City, Chiba	Buildings and structures, etc.
Idle property	Kobe City, Hyogo	Buildings and structures, land, etc.

Impairment loss for the year ended March 31, 2013 consisted of the following:

	Millions of yen
Buildings and structures	¥247
Land, etc.	116
Total	¥363

Asset groups for which the Company and its consolidated subsidiaries recognized impairment loss for the year ended March 31, 2012 were as follows:

Function or status	Location	Type of assets
Operating property	Sakaide City, Kagawa	Buildings and structures, machinery and equipment, etc.
Operating property	Minato-ku and Koto-ku, Tokyo	Buildings
Idle property	Kakamigahara City, Gifu	Buildings and structures, etc.
Idle property	Akashi City, Hyogo	Buildings and structures, etc.
Idle property	Takeda City, Oita	Land, etc.

Impairment loss for the year ended March 31, 2012 consisted of the following:

	Millions of yen
Buildings and structures	¥7,091
Machinery and equipment	4,315
Land	2,587
Other	928
Total	¥14,921

(b) Gain on contribution of securities to retirement benefit trust
Gain on contribution of securities to retirement benefit trust was attributable to the contribution of holdings of investments in securities to the employees' retirement benefit trust.

(c) Loss on disaster
Loss on disaster was recognized as a result of a major snowstorm on February 15, 2014, which caused the collapse of an aircraft hangar's roof at a consolidated subsidiary's NIPPI Corporation's Atsugi Plant. The loss was largely attributable to the destruction of fixed assets and inventory and the expenses associated with tearing down the building.

(Additional information)

Japan Self-Defense Force and U.S. Navy aircraft that were in the hangar at the time for regular maintenance suffered damage as a result of the roof collapse. The Company and NIPPI Corporation are currently in discussions with the Japan Ministry of Defense and the U.S. Navy regarding how this matter should be handled. Depending on the outcome of these discussions, the operating performance of the KHI Group may be affected.

15. Consolidated statement of comprehensive income

Amounts reclassified to net income (loss) in the current period that were recognized in other comprehensive income in the current or previous periods and the tax effects for each component of other comprehensive income were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Unrealized gains (losses) on securities			
Increase (decrease) during the year	**¥1,514**	¥3,466	**$14,710**
Reclassification adjustments	**(4,429)**	(2,506)	**(43,032)**
Subtotal, before tax	**(2,915)**	960	**(28,322)**
Tax (expense) or benefit	**1,063**	(419)	**10,328**
Subtotal, net of tax	**¥(1,852)**	¥541	**(17,994)**
Deferred gains (losses) on hedges			
Increase (decrease) during the year	**¥(10,331)**	¥(20,351)	**(100,378)**
Reclassification adjustments	**14,089**	10,371	**136,891**
Asset acquisition cost adjustments	**-**	(35)	**-**
Subtotal, before tax	**3,758**	(10,015)	**36,513**
Tax (expense) or benefit	**(1,444)**	3,634	**(14,030)**
Subtotal, net of tax	**¥2,314**	¥(6,381)	**22,483**
Foreign currency translation adjustments			
Increase (decrease) during the year	**¥11,996**	¥11,713	**116,556**
Remeasurements of defined benefit plan			
Increase (decrease) during the year	**¥2,010**	-	**19,529**
Reclassification adjustments	**1,000**	-	**9,716**
Subtotal, before tax	**3,010**	-	**29,245**
Tax (expense) or benefit	**(1,140)**	-	**(11,076)**
Subtotal, net of tax	**1,870**	-	**18,169**
Share of other comprehensive income of associates accounted for using equity method			
Increase (decrease) during the year	**¥13,379**	¥5,155	**129,995**
Total other comprehensive income	**¥27,707**	¥11,028	**269,209**

16. Dividends

(a) Dividends paid

Year ended March 31, 2014

Resolution	Kind of shares	Total amount of dividends paid	Dividends per share	Date of record	Effective date
June 26, 2013 General Meeting of Shareholders	**Common stock**	**¥8,358 million ($81,208 thousand)**	**¥5.0 ($0.05)**	**March 31, 2013**	**June 27, 2013**

Year ended March 31, 2013

Resolution	Kind of shares	Total amount of dividends paid	Dividends per share	Date of record	Effective date
June 27, 2012 General Meeting of Shareholders	Common stock	¥8,359 million	¥5.0	March 31, 2012	June 28, 2012

(b) Dividend payments for which the record date is the subject fiscal year but have an effective date in the succeeding consolidated fiscal year

Year ended March 31, 2014

Resolution	Kind of shares	Source of dividends	Total amount of dividends paid	Dividends per share	Date of record	Effective date
June 26, 2014 General Meeting of Shareholders	**Common stock**	**Retained earnings**	**¥10,030 million ($97,454 thousand)**	**¥6.0 ($0.05)**	**March 31, 2014**	**June 27, 2014**

Year ended March 31, 2013

Resolution	Kind of shares	Source of dividends	Total amount of dividends paid	Dividends per share	Date of record	Effective date
June 26, 2013 General Meeting of Shareholders	Common stock	Retained earnings	¥8,358 million	¥5.0	March 31, 2013	June 27, 2013

17. Income taxes

Income taxes in Japan applicable to the Company and its consolidated domestic subsidiaries consist of corporation tax (national tax) and enterprise and inhabitants taxes (local taxes), which, in the aggregate, resulted in a statutory tax rate of approximately 37.8 percent and 37.8 percent for the years ended March 31, 2014 and 2013, respectively.

The significant differences between the statutory and effective tax rates for the years ended March 31, 2014 and 2013 were as follows:

	2014	2013
Statutory tax rate	**37.8%**	37.8%
Valuation allowance	**(6.3)**	(4.6)
Equity in income of nonconsolidated subsidiaries and affiliates	**(4.2)**	(7.0)
Dividend from overseas consolidated subsidiaries	**2.0**	2.2
Changing tax rate	**3.0**	-
Other	**0.8**	0.0
Effective tax rate	**33.1%**	28.4%

Significant components of deferred tax assets and liabilities as of March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Deferred tax assets:			
Accrued bonuses	**¥8,772**	¥8,524	**$85,231**
Retirement benefits	**-**	32,012	**-**
Liability for retirement benefits	**45,326**	-	**440,400**
Allowance for doubtful receivables	**666**	653	**6,471**
Inventories – elimination of intercompany profits	**1,560**	137	**15,157**
Fixed assets – elimination of intercompany profits	**435**	436	**4,226**
Depreciation	**11,100**	8,431	**107,850**
Net operating losses carryforwards	**3,893**	7,819	**37,825**
Unrealized loss on marketable securities, investments in securities and other	**2,044**	3,262	**19,860**
Provision for losses on construction contracts	**4,477**	6,197	**43,499**
Other	**26,592**	29,471	**258,379**
Gross deferred tax assets	**104,865**	96,942	**1,018,898**
Less valuation allowance	**(8,926)**	(12,281)	**(86,729)**
Total deferred tax assets	**95,939**	84,661	**932,169**
Deferred tax liabilities:			
Deferral of gain on sales of fixed assets	**4,596**	4,733	**44,656**
Net unrealized gain on securities	**1,292**	2,359	**12,553**
Other	**11,366**	10,797	**110,435**
Total deferred tax liabilities	**17,254**	17,889	**167,644**
Net deferred tax assets	**¥78,685**	¥66,772	**$764,525**

Following the promulgation on March 31, 2014 of the Act for Partial Amendment of the Income Tax Act, etc. (Act No. 10, 2014), the Company is no longer subject to Special Reconstruction Corporation Tax for consolidated fiscal years commencing on or after April 1, 2014. Accompanying this change, the effective statutory tax rate used to calculate deferred tax assets and deferred tax liabilities was changed from 37.8% to 35.4% for the temporary differences expected to be eliminated in the fiscal year beginning on April 1, 2014.

As a result of this change in the statutory tax rate, net deferred tax assets decreased by ¥2,040 million, deferred income taxes recorded for fiscal 2014 increased by ¥1,896 million, and deferred hedge losses increased by ¥143 million.

18. Cash and cash equivalents

Cash and cash equivalents reconciled to the accounts reported in the consolidated balance sheets in the years ended March 31, 2014, 2013 and 2012 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2014	2013	2012	**2014**
Cash on hand and in banks:	**¥47,949**	¥38,525	¥34,316	**$465,886**
Time deposits with maturities over three months:	**(2,518)**	(1,554)	(1,071)	**(24,466)**
Total	**¥45,431**	¥36,971	¥33,245	**$441,420**

19. Net income per share

Per share amounts for the years ended March 31, 2014, 2013 and 2012 are set forth in the table below. Diluted net income per share for the year ended March 31, 2014 was not disclosed since there were no residual securities.

	Millions of yen			Thousands of U.S. dollars
	2014	2013	2012	**2014**
Basic net income per share:				
Net income	**¥38,601**	¥30,864	¥23,323	**$375,058**
Net income allocated to common stock	**38,601**	30,864	23,323	**375,058**
	(Number of shares in millions)			
Weighted average number of shares of common stock	**1,671**	1,671	1,671	

	Millions of yen			Thousands of U.S. dollars
	2014	2013	2012	**2014**
Diluted net income per share				
Net income adjustment	**¥-**	¥-	¥22	**$-**
(Interest expenses, etc.)	**(-)**	(-)	(22)	**(-)**
	(Number of shares in millions)			
Increase in shares of common stocks	**-**	-	13	-
(Convertible bonds)	**(-)**	(-)	(5)	**(-)**
(Zero coupon convertible bonds)	**(-)**	(-)	(8)	**(-)**

20. Derivative transactions

(a) Outstanding positions and recognized gains and losses at March 31, 2014 were as follows:

(Derivative transactions to which the Company did not apply hedge accounting)

	Millions of yen				Thousands of U.S. dollars
	Contract amount	Contract amount over 1 year	Fair value	Gain (loss)	Gain (loss)
Currency related contracts:					
Foreign exchange contracts:					
To sell	**¥29,227**	**¥1,426**	**¥(972)**	**¥(972)**	**$(9,444)**
To purchase	**7,680**	**-**	**28**	**28**	**272**
Option contracts:					
To sell	-	-	-	-	-
To purchase	-	-	-	-	-
Interest rate and currency swaps					
U.S. dollars floating-rate receipt/ fixed-rate payment	**6,993**	**6,993**	**2,222**	**2,222**	**21,589**
Total	**¥43,900**	**¥8,419**	**¥1,278**	**¥1,278**	**$12,417**

Fair value is based on prices provided by financial institutions.

(Derivative transactions to which the Company applied hedge accounting)

		Millions of yen		
	Subject of hedge	Contract amount	Contract amount over 1 year	Fair value
Deferral hedge accounting:				
Foreign exchange contracts				
To sell	Trade receivables	**¥73,958**	**¥8,842**	**¥(6,987)**
To purchase	Trade payables	**13,324**	**2,228**	**1,119**
Option contracts				
To sell	Trade receivables	-	-	-
To purchase	Trade payables	-	-	-
Alternative method (*)				
Foreign exchange contracts				
To sell	Trade receivables	-	-	-
To purchase	Trade payables	-	-	-
Option contracts				
To sell	Trade receivables	-	-	-
To purchase	Trade payables	-	-	-
Total		**¥87,282**	**¥11,070**	**¥(5,868)**

Fair value is based on prices provided by financial institutions.

(*) For certain trade accounts receivable and payable denominated in foreign currencies for which foreign exchange forward contracts are used to hedge the risk of foreign currency fluctuation, the fair value of the derivative financial instrument is included in the fair value of "Trade receivables" and "Trade payables" as hedge items.

	Subject of hedge	Thousands of U.S. dollars		
		Contract amount	Contract amount over 1 year	Fair value
Deferral hedge accounting:				
Foreign exchange contracts				
To sell	Trade receivables	**$718,596**	**$85,912**	**$(67,887)**
To purchase	Trade payables	**129,459**	**21,647**	**10,872**
Option contracts				
To sell	Trade receivables	-	-	-
To purchase	Trade payables	-	-	-
Alternative method				
Foreign exchange contracts				
To sell	Trade receivables	-	-	-
To purchase	Trade Payables	-	-	-
Option contracts				
To sell	Trade receivables	-	-	-
To purchase	Trade payables	-	-	-
Total		**$848,055**	**$107,559**	**$(57,015)**

	Subject of hedge	Millions of yen		
		Contract amount	Contract amount over 1 year	Fair value
Interest related contracts:				
Deferral hedge accounting Interest swap				
Floating-rate receipt/fixed-rate payment	Short-term debt	**¥12,000**	**¥2,000**	**¥(61)**
Interest rate and currency swaps				
U.S. dollars floating-rate receipt/ fixed-rate payment	Long-term debt	**6,993**	**6,993**	**91**
		¥18,993	**¥8,993**	**¥30**

Fair value is based on prices provided by financial institutions.

	Subject of hedge	Thousands of U.S. dollars		
		Contract amount	Contract amount over 1 year	Fair value
Interest related contracts:				
Deferral hedge accounting Interest swap				
Floating-rate receipt/fixed-rate payment	Short-term debt	**$116,596**	**$19,432**	**$(592)**
Interest rate and currency swaps				
U.S. dollars floating-rate receipt/ fixed-rate payment	Long-term debt	**67,945**	**67,946**	**884**
		$184,541	**$87,378**	**$292**

(b) Outstanding positions and recognized gains and losses at March 31, 2013 were as follows:

(Derivative transactions to which the Company did not apply hedge accounting)

	Millions of yen			
	Contract amount	Contract amount over 1 year	Fair value	Gain (loss)
Currency related contracts:				
Foreign exchange contracts:				
To sell	¥148,250	-	¥(22,437)	¥(22,437)
To purchase	408	-	8	8
Option contracts:				
To sell	-	-	-	-
To purchase	-	-	-	-
Total	¥148,658	-	¥(22,429)	¥(22,429)

Fair value is based on prices provided by financial institutions.

(Derivative transactions to which the Company applied hedge accounting)

		Millions of yen		
	Subject of hedge	Contract amount	Contract amount over 1 year	Fair value
Deferral hedge accounting:				
Foreign exchange contracts				
To sell	Trade receivables	¥77,504	¥15,694	¥(9,783)
To purchase	Trade payables	5,272	1,544	834
Option contracts				
To sell	Trade receivables	7,224	-	(259)
To purchase	Trade payables	6,800	-	(79)
Alternative method (*)				
Foreign exchange contracts				
To sell	Trade receivables	3,677	-	(52)
To purchase	Trade payables	22	-	3
Option contracts				
To sell	Trade receivables	1,809	-	(27)
To purchase	Trade payables	1,660	-	(9)
Total		¥103,968	¥17,238	¥(9,372)

Fair value is based on prices provided by financial institutions.

(*) For certain trade accounts receivable and payable denominated in foreign currencies for which foreign exchange forward contracts are used to hedge the risk of foreign currency fluctuation, the fair value of the derivative financial instrument is included in the fair value of "Trade receivables" and "Trade payables" as hedge items.

		Millions of yen		
	Subject of hedge	Contract amount	Contract amount over 1 year	Fair value
Interest related contracts:				
Interest swap Deferral hedge accounting				
Floating-rate receipt/fixed-rate payment	Short-term debt	¥15,000	¥-	¥(81)
Special treatment (*)				
Floating-rate receipt/fixed-rate payment	Long-term debt	12,000	12,000	-
Interest rate and currency swaps treated as single item (special treatment, hedge accounting treatment as an alternative method)	Long-term debt	6,993	6,993	-
		¥33,993	¥18,993	¥(81)

Fair value is based on prices provided by financial institutions.

(*) As interest rate swaps subject to special treatment for interest rate swaps are accounted for as a single item with the long-term debt, which comprises the hedged items, the fair value is included in that of the long-term debt.

21. Financial Instruments

Information related to financial instruments as of March 31, 2014 and 2013 was as follows.

(1) Matters related to the status of financial instruments

(a) Policies on the use of financial instruments

The Company meets its long-term operating capital and capital expenditure requirements through bank loans and the issuance of bonds and meets its short-term operating capital requirements through bank loans and the issuance of short-term bonds (electronic commercial paper). Temporary surplus funds are managed in the form of financial assets that have a high level of safety. The Company utilizes derivative financial instruments to hedge the risks described below and does not engage in speculative transactions as a matter of policy.

(b) Details of financial instruments and risks associated with those instruments

Trade receivables are exposed to the credit risk of customers. The Company operates internationally and has significant exposure to the risk of fluctuation in foreign exchange rates. However, this risk is hedged using forward exchange contracts, etc., against the net position of foreign currency exposure. Investments in securities mainly comprise equity securities of companies with which the Company conducts business and are held to maintain relationships with these business partners. With such securities, listed stocks are exposed to market fluctuation risk.

Almost all trade payables are due within one year. A portion of trade payables are denominated in foreign currency—specifically those related to payment for imported materials, etc.—and are exposed to the risk of foreign currency fluctuation. However, this risk is mitigated principally by the position of trade payables denominated in foreign currency being less than the position of receivables in the same currency. Loans payable, bonds payable and lease obligations under finance leases are mainly used to raise operating capital and carry out capital expenditure and are due in a maximum of nine years from March 31, 2014 (nine years from March 31, 2013). A portion of these instruments is exposed to the risk of interest rate fluctuation. However, such risk is hedged using derivatives (interest swaps and currency swaps) as necessary.

In sum, derivatives comprise forward exchange and currency option contracts used to hedge foreign currency fluctuation risk on receivables and payables in foreign currencies and interest swap contracts to hedge interest rate fluctuation risk on debt. With regard to hedge accounting, see Note 2, "Significant accounting policies- (v) Hedge accounting."

(c) Risk management system for financial instruments

(i) Management of credit risk, including customer default risk

The Company's sales management functions and those of its consolidated subsidiaries regularly evaluate the financial circumstances of customers and monitor the due dates and balances by customer to identify and limit doubtful accounts.

With regard to derivative transactions, the Company enters into contracts with highly rated financial institutions to reduce counterparty risk. The amount presented in the balance sheet is the maximum credit risk at the fiscal year end of the financial instruments that are exposed to credit risk.

(ii) Management of market risk (related to foreign currency exchange rates, interest rates, etc.)

The Company and certain of its consolidated subsidiaries hedge foreign currency fluctuation risk on receivables and payables in foreign currencies using forward exchange contracts, which are categorized by the type of currency and the monthly due date. In principle, the net position of receivables less payables in foreign currency is hedged with forward exchange contracts. The Company and certain of its consolidated subsidiaries hedge interest rate risk on debt using interest swap contracts.

With regard to investments in securities, the Company reviews its holding policies through periodic analysis of market prices and the financial condition of the issuers, taking into consideration relationships with business partners.

With regard to derivatives, in accordance with rules for the provision of transaction authorization, the Company's finance functions and those of its consolidated subsidiaries manage transactions in accordance with an established set of fundamental policies, such as those covering limitations on transaction amounts, under the authority of the director in charge of finance. Transactions are reported to the director in charge of finance on a monthly basis. Consolidated subsidiaries manage derivatives in accordance with the same rules as those of the Company.

(iii) Management of liquidity risk (risk of the Company being unable to meet its payment obligations by their due dates)
The Company manages liquidity risk through its finance department, maintaining and updating its finance plans based on reports from each business division. Liquidity risk is managed through the diversification of financing methods, taking into consideration the financing environment and balancing long- and short-term financing requirements, securing commitment lines, etc.

(d) Supplemental information on the fair value of financial instruments
The fair value of financial instruments includes values based on market price and reasonably estimated values when market price is not available. However, as variables are inherent in these value calculations, the resulting values may differ if different assumptions are used. With regard to the contract amounts, etc., of the derivatives described below in "(2) Fair values of financial instruments," these amounts do not represent the market risk associated with the corresponding derivative transactions themselves.

(2) Fair values of financial instruments

The book values, the fair values and the differences between these values as of March 31, 2014 were as follows (Financial instruments for which the fair value was extremely difficult to determine were not included, as described in remark (ii)):

	Millions of yen			Thousands of U.S. dollars
	Book value	Fair value	Unrealized gains (losses)	Unrealized gains (losses)
Cash on hand and in banks	**¥47,949**	**¥47,949**	**¥-**	**$-**
Trade receivables	**415,664**	**415,546**	**(118)**	**(1,147)**
Investments in securities	**7,800**	**7,795**	**(5)**	**(48)**
Total assets	**¥471,413**	**¥471,290**	**¥(123)**	**$(1,195)**
Trade payables	**252,107**	**252,107**	**-**	**-**
Electronically recorded obligations	**53,923**	**53,923**	**-**	**-**
Short-term debt and current portion of long-term debt (excluding lease obligations)	**190,757**	**190,757**	**-**	**-**
Long-term debt, less current portion (excluding lease obligations)	**251,345**	**252,518**	**(1,173)**	**(11,397)**
Total liabilities	**¥748,132**	**¥749,305**	**¥(1,173)**	**$(11,397)**
Derivative transactions (*)	**¥(4,558)**	**¥(4,558)**	**¥-**	**$-**

(*) Derivative financial instruments are presented as net amounts. Negative amounts stated with parentheses ( ) indicate that the net amount is a liability.

The book values, fair values and the differences between these values as of March 31, 2013 were as follows (Financial instruments for which the fair value was extremely difficult to determine were not included, as described in remark (ii)):

	Millions of yen		
	Book value	Fair value	Unrealized gains (losses)
Cash on hand and in banks	¥38,525	¥38,525	¥-
Trade receivables	432,649	432,619	(30)
Investments in securities	14,876	14,868	(8)
Total assets	¥486,050	¥486,012	¥(38)
Trade payables	281,063	281,063	-
Short-term debt and current portion of long-term debt (excluding lease obligations)	229,510	229,510	-
Long-term debt, less current portion (excluding lease obligations)	254,362	255,269	907
Total liabilities	¥764,935	¥765,842	¥907
Derivative transactions (*)	¥(31,883)	¥(31,883)	¥-

(*) Derivative financial instruments are presented as net amounts. Negative amounts stated with parentheses ( ) indicates that the net amount is a liability.

(i) Methods used to calculate the fair value of financial instruments and details of securities and derivative instruments

<Assets>
-Cash on hand and in banks
The fair value of cash on hand and in banks is stated at the relevant book value since the settlement periods are short and the fair values are substantially the same as the book values.
-Receivables
The fair value of receivables is stated at present value computed by applying a discount rate reflecting the settlement period and the credit risk.
-Investments in securities
Equity securities are stated at the fair value, and bonds are stated at market price or the asking price of financial institutions. See Note 2(k), “Investments in securities,” for the detailed information by classification.

<Liabilities>
-Trade payables, electronically recorded obligations, short-term debt and current portion of long-term debt
Since the settlement periods of these items are short and their fair values are substantially the same as their book values, the relevant book values are used.
-Long-term debt, less current portion
The fair value of bonds payable is calculated based on trading reference data. The fair value of long-term debt is calculated by applying a discount rate to the total principal and interest. That discount rate is based on the interest rates of similar new loans.

<Derivatives>
See Note 20, “Derivative Transactions.”

(ii) Financial instruments for which the fair value is extremely difficult to determine

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Unlisted equity securities and investments in partnerships	**¥6,368**	¥7,855	**$61,873**
Stocks of nonconsolidated subsidiaries and affiliates	**10,078**	7,620	**97,920**
Investments in affiliates	**60,130**	44,792	**584,241**
Total	**¥76,576**	¥60,267	**$744,034**

Since no market values are available for these items and since it is extremely difficult to determine their fair values, the items listed in the table above are not included in investments in securities.

(iii) Planned redemption amounts after the balance sheet date for monetary receivables and investments in securities with maturity dates as of March 31, 2014 and 2013 were as follows:

	Millions of yen			
	2014			
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Cash on hand and in banks	**¥47,949**	**¥-**	**¥-**	**¥-**
Trade receivables	**389,410**	**26,255**	**-**	**-**
Investments in securities				
-Bonds	**-**	**132**	**-**	**-**
Total	**¥437,359**	**¥26,387**	**¥-**	**¥-**

	Thousands of U.S. dollars			
	2014			
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Cash on hand and in banks	**$465,886**	**$-**	**$-**	**$-**
Trade receivables	**3,783,618**	**255,101**	**-**	**-**
Investments in securities				
-Bonds		**1,282**	**-**	**-**
Total	**$4,249,504**	**$256,383**	**$-**	**$-**

	Millions of yen			
	2013			
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Cash on hand and in banks	¥38,525	¥-	¥-	¥-
Trade receivables	426,027	6,622	-	-
Investments in securities				
-Bonds	-	133	-	-
Total	¥464,552	¥6,755	¥-	¥-

(iv) Planned repayment amounts after the balance sheet date for bonds payable and long-term debt

See Note 7, "Short-Term debt and Long-term debt."

22. Finance leases

As discussed in Note 2(w), finance leases commenced prior to April 1, 2008 which do not transfer ownership of the leased assets to the lessee are accounted for as operating leases. Information regarding such leases, as required to be disclosed in Japan, was as follows:

(a) Lessee

The original costs of leased assets under non-capitalized finance leases and the related accumulated depreciation and amortization, assuming it was calculated by the straight-line method over the term of the respective lease, as of March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Property, plant and equipment	**¥19,376**	¥24,064	**$188,262**
Accumulated depreciation	**¥(13,198)**	(15,528)	**(128,235)**
	6,178	8,536	**60,027**
Intangible assets	**22**	82	**213**
Accumulated amortization	**(3)**	(77)	**(29)**
	¥19	¥5	**$184**

The present values of future minimum lease payments under non-capitalized finance leases as of March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Current portion	**¥1,859**	¥2,264	**$18,062**
Noncurrent portion	**4,383**	6,111	**42,587**
Total	**¥6,242**	¥8,375	**$60,649**

Lease payments, "as if capitalized" depreciation and amortization and interest expense for non-capitalized finance leases for the years ended March 31, 2014, 2013 and 2012 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2014	2013	2012	**2014**
Lease payments	**¥2,713**	¥3,702	¥4,911	**$26,360**
Depreciation and amortization	**2,428**	3,402	4,531	**23,591**
Interest	**¥195**	¥270	¥388	**$1,894**

(b) Lessor

The original costs of leased assets under finance leases and the related accumulated depreciation and amortization as of March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Property, plant and equipment	**¥850**	¥956	**$8,258**
Accumulated depreciation	**(805)**	(803)	**(7,821)**
	45	153	**437**
Intangible assets	**-**	12	**-**
Accumulated amortization	**-**	(12)	**-**
	¥-	¥-	**$-**

The present values of future minimum lease payments to be received under finance leases as of March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Current portion	**¥54**	¥122	**$524**
Noncurrent portion	**-**	54	**-**
Total	**¥54**	¥176	**$524**

Lease payments received, depreciation and amortization and interest on finance leases for the years ended March 31, 2014, 2013 and 2012 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2014	2013	2012	**2014**
Lease payments received	**¥128**	¥193	¥241	**$1,243**
Depreciation and amortization	**107**	165	213	**1,039**
Interest	**¥6**	¥13	¥24	**$58**

23. Operating leases

There were no operating lease transactions for the years ended March 31, 2014 and 2013.

24. Segment information

(a) Overview of reportable segments

The Company's reportable segments are components of the Company for which separate financial information is available. These segments are subject to periodic review by the Company's Board of Directors to determine the allocation of 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 whether they conduct businesses in Japan or 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.

The main businesses in the Company's reportable segments are set forth in the table below.

Business 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, personal watercraft, all-terrain vehicles (ATV), utility vehicles, 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.

(b) Calculation methods for sales, income (loss), assets, liabilities and other items by reportable segment
Accounting methods applied for the calculation of sales, income (loss), assets, liabilities and other items by business segment largely correspond to information presented under Note 2, "Significant accounting policies." Segment income is based on operating income. Intersegment sales and transfers are based on market prices. The Company deducted FIA charges from sales in the beginning 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 fiscal year ended March 31, 2014, by ¥37,499 million ($364,350 thousand), 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 through each segment results.

The Company and its domestic consolidated subsidiaries had previously used the declining balance method to depreciate property, plant and equipment (except for buildings (excluding fixtures) acquired on or after April 1, 1998, which had been depreciated by the straight-line method). Effective from the fiscal year ended March 31, 2014, the straight-line method is used for all property, plant and equipment.

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 the depreciable lives of machinery and tools effective from the fiscal year ended March 31, 2014. As a result of these changes, improvements in each segment profits were as follows:
Ship & Offshore Structure 626 million ($6,082 thousand), Rolling Stock 628 million ($6,101 thousand), Aerospace 3,626 million ($35,231 thousand), Gas Turbines & Machinery 1,966 million ($19,102 thousand), Plant & Infrastructure 847 million ($8,229 thousand), Motorcycle & Engine 1,851 million ($17,984 thousand), Precision Machinery 2,607 million ($25,330 thousand) and Other 1,446 million ($14,049 thousand).

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

	Year ended March 31, 2014								
	Millions of yen								
	Sales					Other items			
	External sales	Intersegment sales and transfers	Total	Segment income (loss)	Segment assets	Depreciation/ amortization	Impairment loss	Investment in equity-method affiliates	Increase in property, plant and equipment and intangibles
Ship & Offshore Structure	¥80,863	¥1,777	¥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	16,923	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	13,568	136,844	10,415	124,989	4,435	-	6	7,734
Other	137,268	33,016	170,284	4,483	120,533	2,081	-	2,720	4,241
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)	(7,265)	29,228	3,307	-	-	15,056
Consolidated total	¥1,385,482	¥-	¥1,385,482	¥72,351	¥1,554,430	¥37,838	¥476	¥69,697	¥87,726

	Year ended March 31, 2013								
	Millions of yen								
	Sales					Other items			
	External sales	Intersegment sales and transfers	Total	Segment income (loss)	Segment assets	Depreciation/ amortization	Impairment loss	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	¥1,364	¥-	¥35,434	¥1,781
Rolling Stock	129,973	2,888	132,861	2,215	163,528	3,536	-	99	2,808
Aerospace	239,172	2,289	241,461	14,827	311,659	10,769	-	-	17,171
Gas Turbines & Machinery	207,008	19,404	226,412	7,033	251,808	6,100	-	1,086	9,324
Plant & Infrastructure	115,813	15,115	130,928	9,772	115,470	1,861	-	11,768	4,376
Motorcycle & Engine	251,858	757	252,615	2,397	271,548	10,480	-	994	14,866
Precision Machinery	130,455	14,027	144,482	8,452	114,699	7,713	-	-	12,320
Other	124,259	32,873	157,132	1,273	144,211	2,427	363	2,521	2,149
Total	¥1,288,881	¥89,352	¥1,378,233	¥50,131	¥1,485,535	¥44,250	¥363	¥51,902	¥64,795
Adjustments	-	(89,352)	(89,352)	(8,069)	(19,245)	4,135	-	-	13,829
Consolidated total	¥1,288,881	¥-	¥1,288,881	¥42,062	¥1,466,290	¥48,385	¥363	¥51,902	¥78,624

	Year ended March 31, 2012								
	Millions of yen								
	Sales					Other items			
	External sales	Intersegment sales and transfers	Total	Segment income (loss)	Segment assets	Depreciation/ amortization	Impairment loss	Investment in equity-method affiliates	Increase in property, plant and equipment and intangibles
Ship & Offshore Structure	¥113,532	¥1,636	¥115,168	¥3,964	¥102,102	¥3,819	¥13,554	¥15,278	¥2,297
Rolling Stock	132,684	2,105	134,789	5,154	157,487	3,693	-	92	2,266
Aerospace	206,580	1,846	208,426	7,815	295,668	9,633	33	-	10,208
Gas Turbines & Machinery	194,655	20,438	215,093	7,775	223,649	6,680	-	576	7,310
Plant & Infrastructure	122,800	13,150	135,950	14,118	109,395	1,703	64	10,171	3,277
Motorcycle & Engine	235,243	1,033	236,276	(2,959)	222,515	11,151	-	967	11,770
Precision Machinery	175,077	14,245	189,322	26,622	110,578	6,647	-	-	16,221
Other	123,207	35,281	158,488	3,838	183,396	2,539	1,270	2,412	3,384
Total	¥1,303,778	¥89,734	¥1,393,512	¥66,327	¥1,404,790	¥45,865	¥14,921	¥29,496	¥56,733
Adjustments	-	(89,734)	(89,734)	(8,843)	(42,651)	3,036	-	-	7,186
Consolidated total	¥1,303,778	¥-	¥1,303,778	¥57,484	¥1,362,139	¥48,901	¥14,921	¥29,496	¥63,919

	Year ended March 31, 2014								
	Thousands of U.S. dollars								
	Sales					Other items			
	External sales	Intersegment sales and transfers	Total	Segment income (loss)	Segment assets	Depreciation/ amortization	Impairment loss	Investment in equity-method affiliates	Increase in property, plant and equipment and intangibles
Ship & Offshore Structure	**$785,688**	**$17,256**	**$802,954**	**$(19,491)**	**$1,258,677**	**$7,345**	**$-**	**$476,962**	**$14,885**
Rolling Stock	**1,437,534**	**56,588**	**1,494,092**	**73,571**	**1,548,416**	**25,554**	**-**	**1,214**	**51,838**
Aerospace	**2,727,721**	**24,650**	**2,752,371**	**255,092**	**3,387,175**	**96,551**	**-**	**-**	**249,698**
Gas Turbines & Machinery	**1,838,719**	**164,442**	**2,003,148**	**101,885**	**2,714,302**	**30,655**	**-**	**13,836**	**80,645**
Plant & Infrastructure	**1,009,502**	**151,953**	**1,161,455**	**61,329**	**1,067,606**	**12,602**	**4,624**	**148,018**	**23,552**
Motorcycle & Engine	**3,131,053**	**7,715**	**3,138,768**	**156,432**	**2,457,569**	**99,514**	**-**	**10,678**	**167,606**
Precision Machinery	**1,197,785**	**131,830**	**1,329,615**	**101,195**	**1,214,428**	**43,091**	**-**	**58**	**75,146**
Other	**1,333,735**	**320,760**	**1,654,528**	**43,558**	**1,171,123**	**20,201**	**-**	**26,419**	**42,712**
Total	**$13,461,737**	**$ 875,194**	**$14,336,931**	**$773,571**	**$14,819,296**	**$335,513**	**$4,624**	**$677,185**	**$706,082**
Adjustments	**-**	**(875,194)**	**(875,194)**	**(70,579)**	**283,978**	**32,131**	**-**	**-**	**146,288**
Consolidated total	**$13,461,737**	**$-**	**$13,461,737**	**$702,982**	**$15,103,274**	**$367,644**	**$4,624**	**$677,185**	**$852,370**

(d) Reconciliation and the main components of differences between the total for reportable segments and amounts on the consolidated financial statement for the years ended March 31, 2014, 2013 and 2012

	Millions of yen			Thousands of U.S. dollars
	2014	2013	2012	**2014**
Net sales				
Total for reportable segments	**¥1,475,557**	¥1,378,233	¥1,393,512	**$14,336,931**
Intersegment transactions	**(90,075)**	(89,352)	(89,734)	**(875,194)**
Net sales reported on the consolidated financial statements	**¥1,385,482**	¥1,288,881	¥1,303,778	**$13,461,737**

	Millions of yen			Thousands of U.S. dollars
	2014	2013	2012	**2014**
Income				
Total for reportable segments	**¥79,616**	¥50,131	¥66,327	**$773,571**
Intersegment transactions	**(79)**	564	(131)	**(767)**
Corporate expenses (*)	**(7,186)**	(8,633)	(8,712)	**(69,822)**
Operating income (loss) on the consolidated financial statements	**¥72,351**	¥42,062	¥57,484	**$702,982**

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

	Millions of yen			Thousands of U.S. dollars
	2014	2013	2012	**2014**
Assets				
Total for reportable segments	**¥1,525,202**	¥1,485,535	¥1,404,790	**$14,819,296**
Corporate assets shared by all segments (*)	**129,822**	122,759	112,985	**1,261,387**
Intersegment transactions	**(100,594)**	(142,004)	(155,636)	**(977,399)**
Total assets on the consolidated financial statements	**¥1,554,430**	¥1,466,290	¥1,362,139	**$15,103,284**

(*) Corporate assets shared by all segments mainly comprise fixed assets not attributed to reportable segments.

	Millions of yen								
	Year ended March 31,			Year ended March 31,			Year ended March 31,		
	2014	2013	2012	**2014**	2013	2012	**2014**	2013	2012
Other items	Total for reportable segments			Adjustments(*)			Amounts reported on the consolidated financial statements		
Depreciation/amortization	**¥34,531**	¥44,250	¥45,865	**¥3,306**	¥4,135	¥3,036	**¥37,838**	¥48,385	¥48,901
Increase in property, plant and equipment and intangibles	**72,670**	64,795	56,733	**15,055**	13,829	7,186	**87,726**	78,624	63,919

(*) Adjustment is mainly due to fixed assets not attributed to reportable segment.

	Thousands of U.S. dollars		
	Year ended March 31, **2014**	Year ended March 31, **2014**	Year ended March 31, **2014**
Other items	Total for reportable segments	Adjustments	Amounts reported on the consolidated financial statements
Depreciation/amortization	**$335,513**	**$32,131**	**$367,644**
Increase in property, plant and equipment and intangibles	**706,082**	**146,288**	**852,370**

(e) Related information

(i) Sales by geographic region

Net sales for the years ended March 31, 2014, 2013 and 2012 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2014	2013	2012	**2014**
Japan	**¥605,328**	¥616,220	¥567,044	**$5,881,539**
United States	**326,337**	272,531	237,941	**3,170,783**
Europe	**101,381**	97,540	123,317	**985,046**
Asia	**240,221**	202,704	239,627	**2,334,055**
Other areas	**112,215**	99,886	135,849	**1,090,314**
Total	**¥1,385,482**	¥1,288,881	¥1,303,778	**$13,461,737**

Net sales are based on the clients' location and classified according to nation or geographical region.

Property, plant and equipment

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Japan	**¥324,502**	¥259,212	**$3,152,953**
North America	**26,059**	21,298	**253,196**
Europe	**3,704**	2,618	**35,989**
Asia	**28,363**	21,638	**275,582**
Other areas	**1,284**	1,026	**12,478**
Total	**¥383,912**	¥305,792	**$3,730,198**

(ii) Information by major clients

	Net sales		
Clients	**2014**	2013	Related segments
Ministry of Defense	**197,640 million yen ($1,920,326 thousand)**	193,685 million yen	Ship & Offshore Structure, Aerospace, Gas Turbines & Machinery, etc.

25. Related party transactions

(a) Related party transactions for the years ended March 31, 2014 and 2013 were as follows:

	Year ended March 31, 2014
	Nonconsolidated subsidiaries and affiliates of the Company
Type	Affiliate of the Company
Name	Commercial Airplane Co., Ltd.
Location	Chiyoda-ku, Tokyo
Capital or investment	¥10 million ($97 thousand)
Business or position	Sales of transportation machinery
Rate of ownership (%)	Directly 40%
Description of relationship	Order of Company products and board members
Details of transactions	Sales of Company products
Amount of transactions	¥108,684 million ($1,056,004 thousand)
Account	Trade receivables
Ending balance	¥16,209 million ($157,491 thousand)

	Year ended March 31, 2013
	Nonconsolidated subsidiaries and affiliates of the Company
Type	Affiliate of the Company
Name	Commercial Airplane Co., Ltd.
Location	Chiyoda-ku, Tokyo
Capital or investment	¥10 million
Business or position	Sales of transportation machinery
Rate of ownership (%)	Directly 40%
Description of relationship	Order of Company products
Details of transactions	Sales of Company products
Amount of transactions	¥85,325 million
Account	Trade receivables
Ending balance	¥25,957 million

(b) A summary of the total financial information of all affiliates (18 companies) (17 in 2013) which was the basis for calculating the equity in income of nonconsolidated affiliates, including that of Nantong COSCO KHI Ship Engineering Co., Ltd., which is a significant affiliate, for the years ended March 31, 2014 and 2013 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Current assets	**¥226,484**	¥156,902	**$2,200,582**
Fixed assets	**245,565**	153,656	**2,385,979**
Current liabilities	**247,603**	154,814	**2,405,781**
Long-term liabilities	**63,734**	25,407	**619,257**
Net assets	**160,712**	130,337	**1,561,523**
Net sales	**274,666**	197,764	**2,668,732**
Income before income taxes and minority interests	**19,338**	20,339	**187,893**
Total net income	**14,721**	17,305	**143,033**

26. Subsequent events

On June 26, 2014, the following appropriation of nonconsolidated retained earnings was approved at the ordinary meeting of shareholders of the Company:

	Millions of yen
Cash dividends (¥6.0 per share)	¥10,030

27. Other matters

(Quarterly financial information)

	Millions of yen			
Year ended March 31, 2014	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Net sales	¥282,509	¥595,077	¥920,852	¥1,385,482
Income before income taxes and minority interests	9,400	22,788	38,729	61,310
Net income	4,496	13,001	23,292	38,601
	Yen			
Net income per share - basic	¥2.6	¥7.7	¥13.9	¥23.0

	Thousands of U.S. dollars			
Year ended March 31, 2014	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Net sales	$2,744,937	$5,781,937	$8,947,260	$13,461,737
Income before income taxes and minority interests	91,333	221,414	376,301	595,705
Net income	43,684	126,321	226,311	375,058
	U.S. dollars			
Net income per share - basic	$0.02	$0.07	$0.13	$0.22

As stated under changes in accounting policies, the Company has adopted the Accounting Standard for Retirement Benefits and is applying transitional accounting in accordance with Paragraph 37 of the Accounting Standard for Retirement Benefits. As a result, net assets per share in the fiscal year ended March 31, 2014 decreased by ¥17.93 compared to the amounts that would have been reported without the change. The impact on net income per share was minimal.