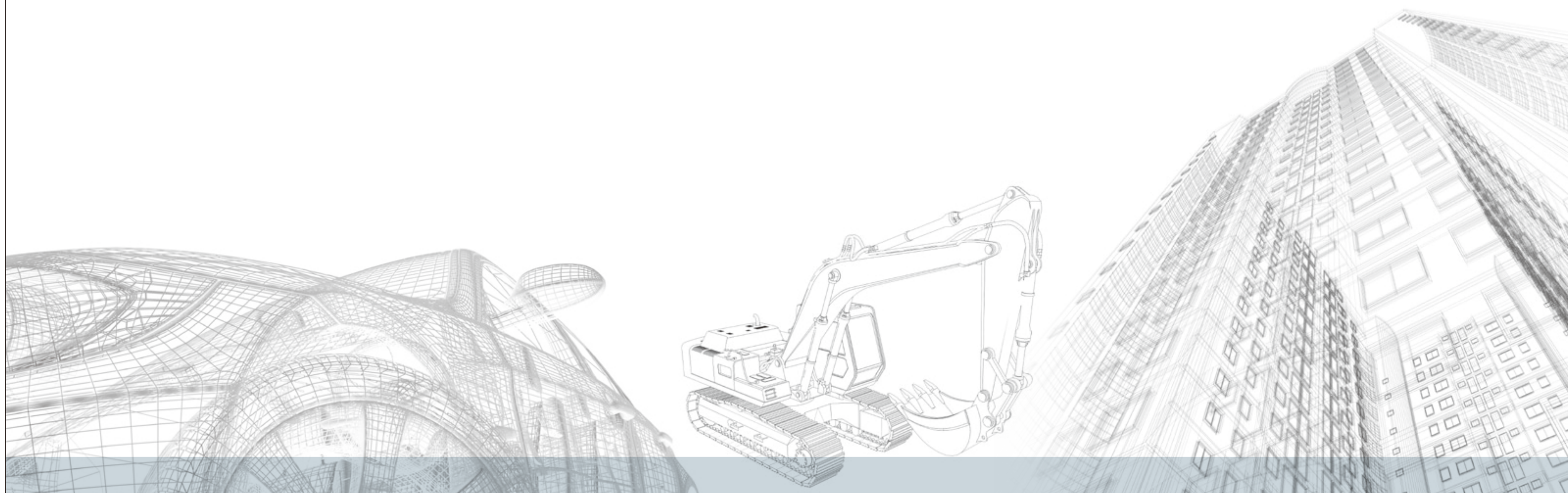
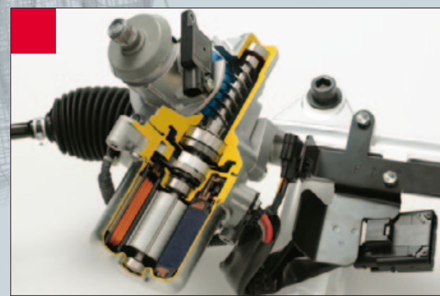
Our Precision, Your Advantage





Annual Report 2014

Year Ended March 31, 2014

PROGRESS TOWARD THE FUTURE

KYB Corporation

Contents

Forward-Looking Statements

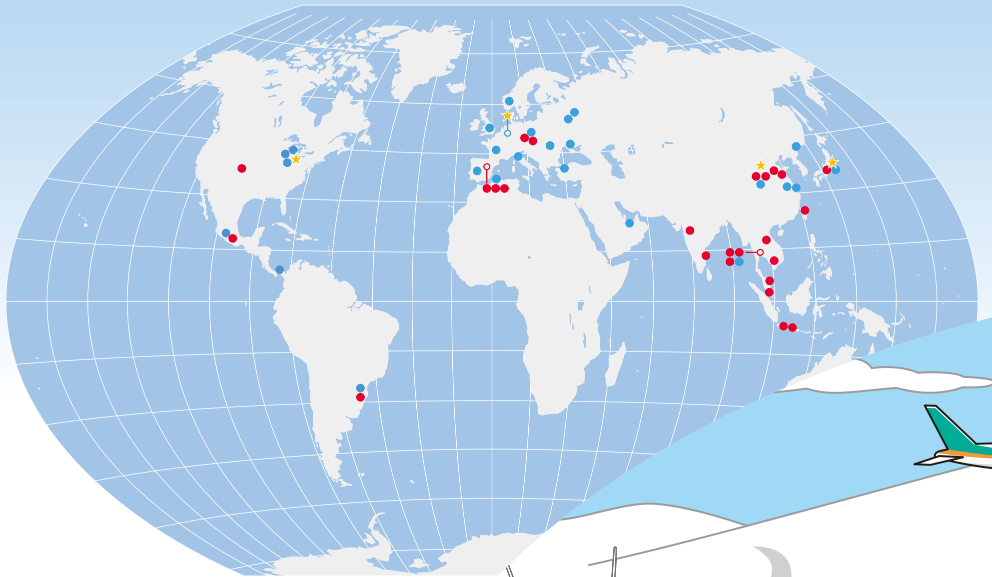
This annual report contains forward-looking statements, including KYB's plans and strategies, as well as statements that report historical results. Forward-looking statements involve such known and unknown risks and uncertainties as economic conditions; currency exchange rates; laws, regulations, and government policies; and political instability in principal markets.

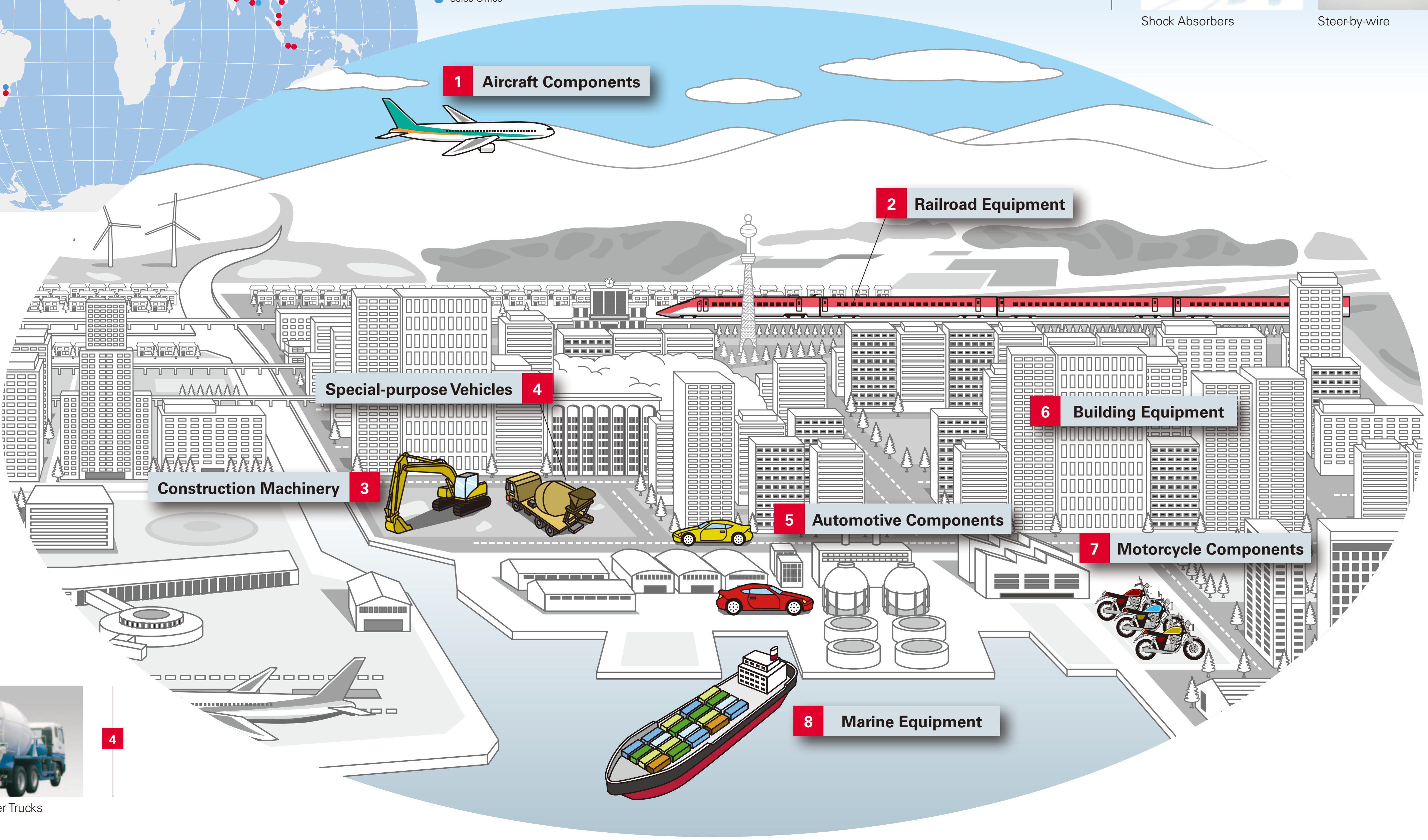
IN THE SKY, ON THE SEA, AND ON THE GROUND

KYB's advanced technologies deliver safety and comfort

In 2015, KYB will celebrate the 80th anniversary of its establishment. Over the years, we have used pioneering technologies involving hydraulics to meet a diverse array of customers' needs involving automobiles, motorcycles, construction machinery, railroad cars, aircraft, ships and other applications. We also manufacture many products that combine hydraulic technologies with electronics, control and other technologies. KYB will use these skills to achieve more progress in order to earn the trust and support of customers worldwide.

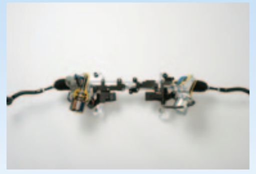
» www.kyb.co.jp/english/





5


Shock Absorbers


Steer-by-wire


Vane Pumps for CVT Hydraulic Systems

6


Vibration Control Devices


Vibration Control Dampers

7


DLC Coated Front Fork


Rear Cushion Units

8


Hejacules (Self Propelled Hydraulic Jack)

1

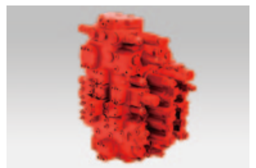

Actuators

2


Semi-active Suspension Systems for Bullet Train Cars

3


Hydraulic Cylinders


Hydraulic Valves

4


Concrete Mixer Trucks

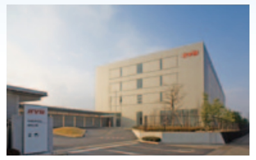
A HISTORY OF PROGRESS

The KYB Group is constantly evolving.

Since starting operations in 1935, KYB has always been evolving to reflect changes in markets and the world. During this process of constant evolution, KYB has grown from a purely Japanese company into a global corporate group. To continue evolving on a global scale, the KYB Group remains dedicated to working as a unified team to quickly meet customers' needs and to providing technologies and products that make people's lives safe and comfortable.

Japan

1935	Established Kayaba Manufacturing Co., Ltd.
1943	Established Gifu Works (presently Gifu South Plant)
1956	Established Kayaba Auto Service Co., Ltd. (presently KYB Engineering and Service Co., Ltd.)
1968	Established Gifu North Branch Plant (presently Gifu North Plant)
1971	Established Kumagaya Plant and Mie Plant
1975	Established Sagami Plant
2004	KYB Trondule Co., Ltd., became a subsidiary. Established Kayaba System Machinery Co., Ltd.
2005	Unofficial company name was changed to KYB, new corporate philosophy and vision were established.
2006	Takako Industries Inc., became a subsidiary.
2008	Established Gifu East Plant
2011	Yanagisawa Seiki MFG Co., Ltd., became a subsidiary and changed its name to KYB-YS Co., Ltd. Established KYB Developmental Experiment Center and Machine Tools Center
2012	Established Electronics Technology Center
2013	Established KYB Motorcycle Suspension Co., Ltd., for the manufacture and sale of motorcycle hydraulic shock absorbers (66.6% KYB ownership)


Gifu North Plant


■ Electronics Experiment Building


Gifu South Plant


■ KYB Kanayama Co., Ltd.


Gifu East Plant


■ Kayaba System Machinery Co., Ltd.


Kumagaya Plant


■ KYB Trondule Co., Ltd.


Sagami Plant


■ KYB-CADAC Co., Ltd.


■ Production Technology R&D Center / Machine Tools Center


■ KYB-YS Co., Ltd.

Notes: 1. KYB ownership is as of March 31, 2014. Companies with no ownership shown are wholly owned subsidiaries.
2. A ■ mark represents sites that have been newly established or have increased capacity.

Asia

1970	Invested in Yung Hwa Machinery Industrial Co., Ltd., of Taiwan (55.1% KYB ownership)
1976	Established shock absorber manufacturing company in Indonesia (30.0% KYB ownership)
1983	Established shock absorber manufacturing company in Malaysia (33.4% KYB ownership)
1996	Established shock absorber manufacturing company (67.0% KYB ownership) and automobile hydraulic components manufacturing company in Thailand
2002	Established motorcycle shock absorber manufacturing company in Vietnam and automobile shock absorber manufacturing company in China
2004	Established industrial-use hydraulic equipment manufacturing and sales companies in China
2005	Established sales company in Thailand
2008	Established railroad equipment and motorcycle shock absorber manufacturing and sales company in China
2010	Established Regional Headquarters in China
2012	Established motorcycle shock absorber manufacturing and sales company in India (66.6% KYB ownership)
2013	Acquired shares of concrete construction equipment maker in India and established a subsidiary (51.0% KYB ownership) Established hydraulic components manufacturing and sales company in Indonesia (75.0% KYB ownership)


KYB (China) Investment Co., Ltd.


■ KYB Motorcycle Suspension India Pvt. Ltd.


KYB Steering (Thailand) Co., Ltd.


■ PT. KYB Hydraulics Manufacturing Indonesia


■ KYB-Conmat Private Limited

Americas

1974	Established sales company in the United States
1986	Established shock absorber manufacturing company in the United States
2001	Automobile shock absorber manufacturing company in the United States became a wholly owned subsidiary.
2004	Established sales company in Mexico
2011	Established aftermarket hydraulic shock absorber sales company in Panama Established joint venture company in Brazil with Mando Corporation of Korea (50.0% KYB ownership) Merged U.S. subsidiary and its subsidiary, renamed KYB Americas Corporation
2012	Established hydraulic components manufacturing and sales company in Mexico
2013	Established aftermarket product sales company in Brazil


KYB Americas Corporation


■ KYB Mexico S.A. de C.V.


KYB-Mando do Brasil Fabricante de Autopeças S.A.


■ COMERCIAL DE AUTOPEÇAS KYB DO BRASIL LTDA.

Europe

1983	Acquired shock absorber manufacturing company in Spain
1989	Established sales company in Germany
1996	Established automobile hydraulic components manufacturing company in Spain
2003	Established automobile hydraulic shock absorber manufacturing company in the Czech Republic
2008	Established automobile shock absorber manufacturing and sales company in Spain (66.7% KYB owned)
2009	Established European Regional Headquarters in Germany
2012	Established Regional Headquarters in the Netherlands; established sales company in Russia
2013	Established aftermarket automobile suspension spring manufacturing and sales company in the Czech Republic (70.0% KYB ownership)


KYB EUROPE HEADQUARTERS GmbH


■ KYB CHITA Manufacturing Europe s.r.o.


KYB Manufacturing Czech s.r.o.


■ LLC KYB Eurasia

Ten-Years Summary

Kayaba Industry Co., Ltd. and its Consolidated Subsidiaries
Years ended March 31,

	Millions of yen										Thousands of U.S. dollars
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	**2014**
For the year:											
Net sales	**¥352,711**	¥305,752	¥337,159	¥320,083	¥252,021	¥329,262	¥387,080	¥356,083	¥290,456	¥270,329	**$3,424,379**
Cost and expenses	**334,541**	295,279	315,621	295,931	248,125	329,212	368,809	341,510	283,733	260,687	**3,247,971**
Operating income	**18,170**	10,473	21,538	24,152	3,896	50	18,271	14,573	6,723	9,642	**176,408**
Operating income margin [%]	**5.2**	3.4	6.4	7.5	1.5	0.0	4.7	4.1	2.3	3.6	**5.2**
Income (loss) before income taxes and minority interests	**21,032**	12,994	21,760	24,440	1,671	(4,300)	15,218	13,481	8,009	10,138	**204,194**
Net income (loss)	**12,761**	7,789	13,898	17,014	661	(5,230)	8,398	6,959	2,917	5,501	**123,893**
Comprehensive income	**20,310**	16,061	14,997	14,406	—	—	—	—	—	—	**197,184**
Return on equity (ROE)	**9.7**	7.3	14.8	21.1	0.9	—	9.9	8.7	4.0	8.0	**9.7**
Cash flows from operating activities	**28,788**	18,984	17,399	35,433	22,655	8,499	19,707	20,358	13,821	9,000	**279,495**
Cash flows from investing activities	**(36,078)**	(36,125)	(20,000)	(7,233)	(12,828)	(26,505)	(20,166)	(18,323)	(15,960)	(14,778)	**(350,272)**
Cash flows from financing activities	**5,709**	8,529	(3,455)	(16,968)	(6,646)	32,200	4,192	(3,157)	2,966	192	**55,427**
R&D expenses	**6,917**	5,468	4,035	3,218	2,817	3,268	3,367	3,707	3,705	3,533	**67,155**
Depreciation and amortization	**17,294**	14,554	13,508	13,427	15,318	16,552	14,973	12,289	10,407	9,997	**167,903**
Capital expenditure	**29,908**	39,215	27,173	8,916	10,082	24,968	23,564	19,735	15,678	14,070	**290,369**
At year-end:											
Working capital	**¥ 39,303**	¥ 22,179	¥ 42,006	¥ 46,023	¥ 48,701	¥ 43,513	¥ 29,120	¥ 23,758	¥ 21,392	¥ 26,492	**$ 381,583**
Total net assets	**153,997**	116,435	102,762	89,964	78,489	76,451	91,739	87,817	76,718	70,656	**1,495,117**
Total assets	**361,083**	327,912	301,349	285,134	269,361	269,655	289,739	285,146	247,966	222,224	**3,505,660**
Cash and cash equivalents at end of period	**38,132**	35,215	42,010	48,123	37,664	34,272	20,073	16,651	14,963	13,960	**370,214**
Equity ratio [%]	**41.2**	34.5	33.2	30.6	27.3	26.6	29.8	29.1	30.9	31.8	**41.2**
	Yen										U.S. dollars
Per share data:											
Net income (loss)	**¥ 55.26**	¥ 35.24	¥ 62.87	¥ 77.54	¥ 3.03	¥ (23.62)	¥ 37.72	¥ 31.33	¥ 12.63	¥ 24.15	**$0.54**
Net worth	**582.28**	512.18	453.00	395.18	336.55	327.97	387.45	372.60	343.99	316.64	**5.65**
Cash dividends applicable to the year	**9.00**	8.00	9.00	8.00	2.50	3.50	7.00	7.00	6.00	6.00	**0.09**
P/E ratio [Times]	**7.9**	13.1	8.0	8.6	113.9	—	10.2	20.8	35.2	15.2	**7.9**
Number of employees	**13,033**	12,306	11,975	11,440	10,977	11,370	11,546	10,596	8,387	8,186	

Note: U.S. dollar amounts were translated from Japanese yen, for convenience only, at ¥103=U.S.$1, the approximate exchange rate prevailing on March 31, 2014.

SPEEDING UP GROWTH TO ACHIEVE OUR VISION

Solidifying ties with customers rooted in mutual trust

Masao Usui

Fiscal 2013 Business Climate

In fiscal 2013, year ended March 31, 2014, economies in Japan, the United States and Europe began to show signs of a recovery. However, the economic outlook in China became increasingly uncertain as growth of capital expenditures slowed. Furthermore, the pace of economic recoveries slowed in some emerging countries due to weakening currencies and other reasons.

In Japan's automobile industry, which is one major source of demand for our products, sluggish sales were foreseen because of the end of the previous fiscal year's eco-car subsidy. However, fiscal 2013 new car shipments reached the highest level since fiscal 2006. Introductions of new models and a rush to buy before the April 2014 consumption tax hike were the main reasons.

In the construction machinery industry, which also accounts for a significant share of our sales, demand was strong in Japan mainly due to purchases prior to the consumption tax hike and upcoming tighter restrictions on emissions. In China, there was only a small upturn in construction machinery demand in part because the expected rebound in excavator demand did not happen as soon as anticipated.

Fiscal 2013 Investments

The KYB Group has been taking numerous actions to enlarge and upgrade manufacturing, sales and product development capabilities. All investments were aimed at meeting demands of customers worldwide with even more speed.

In Japan, we constructed plants for mini-excavator hydraulic cylinders, castings for mono-block valves and oil dampers for seismic isolation systems. Additionally, we used part of the motorcycle shock absorber business to form a jointly owned company with Yamaha Motor Co., Ltd.

Outside Japan, we constructed a continuously variable transmission (CVT) vane pump plant in Mexico and a hydraulic cylinder plant for mid-sized hydraulic excavators in Indonesia to serve customers in the ASEAN region. We established joint ventures in India, one for motorcycle shock absorbers and the other for concrete mixer trucks. In Brazil, we established a company that imports and sells aftermarket automotive shock absorbers.

To give the KYB Group a more powerful R&D infrastructure, we constructed a new building for our Production Technology R&D Center and Machine Tools Center at Gifu East Plant.

Fiscal 2013 Performance

The KYB Group's net sales increased ¥47.0 billion, or 15.4%, to ¥352.7 billion (US$3,424 million). Growth was attributable mainly to higher sales of automotive components outside Japan and to the weaker yen. Earnings benefited from structural reform initiatives throughout the Group, chiefly cost reduction programs. As a result, net income increased ¥5.0 billion, or 63.8%, to ¥12.8 billion (US$124 million).

Fiscal 2014 Outlook

In fiscal 2014, the year ending March 31, 2015, we will start a new medium-term business plan that will continue to March 2016. This plan is the second phase of our activities for achieving our vision for fiscal 2020 that we announced in fiscal 2011: Compete and Win on the Global Stage with the Power of the KYB Group. We have reached a critical period for speeding up growth to achieve our vision.

The economic outlook remains unclear. Economies in North America and Europe are likely to remain healthy in the fiscal year. On the other hand, there are concerns about a downturn in demand in emerging countries. In Japan, the economy is expected to continue improving, but the higher consumption tax may have a negative impact.

We forecast higher sales in the automotive components segment, including sales of aftermarket products, primarily due to growth in automotive shock absorber sales. We also anticipate higher sales in the hydraulic components segment, mainly for construction machinery components, because of the expected recovery in demand for construction machinery in China.

Earnings Distributions

Distributing a suitable amount of earnings to shareholders is one of our most important priorities. Our basic policy is to pay a dividend that is at least 2% of our consolidated shareholders' equity.

The dividend applicable to fiscal 2013 was ¥9 (US$0.09) per share, the sum of a ¥4 interim dividend and a ¥5 year-end dividend. Increasing retained earnings is also important in order to fund capital expenditures and R&D expenditures. Our goal is to maximize shareholder value through sustained growth.

In December 2013, we issued new shares by way of third-party allotment. Proceeds will be used to expand our consistent earnings base, fund investments to support sustained growth and improve financial soundness as the KYB Group continues to grow. Specifically, investments to enlarge and reinforce the Group's manufacturing infrastructure will be the primary use of these proceeds. These new facilities will give us an even sounder base for generating long-term earnings growth.

KYB will celebrate its 80th anniversary in March 2015. Our organization has had to overcome countless challenges in Japan and overseas during the past eight decades. The KYB Group of today is the result of the hydraulic technologies, *monozukuri* (manufacturing expertise) skills and global network that our predecessors created. Everyone at the KYB Group has a strong commitment to tackling more challenges and fulfilling our medium-term targets so that we can pass on an even stronger organization to the next generation. Our significant accomplishments in recent years put us in an excellent position for even more progress in order to meet the expectations of shareholders, investors and all other stakeholders.

July 2014

Masao Usui
Representative Director, President Executive Officer

PROGRESS TOWARD THE FUTURE

Earning Trust from Customers and Capturing Orders

The KYB Group started a new medium-term business plan in April 2014 (hereinafter the 2014 mid-term plan) that covers the three-year period ending March 31, 2017. KYB president Masao Usui talks about the new plan, which shifts the Group's focus to strategies for growth amid the current challenging operating environment.

Q. What is your assessment of KYB's performance during the 2011 mid-term plan which ended March 31, 2014?

A. This was a period of "planting seeds" and "building a stronger foundation." The KYB Group concentrated on building an infrastructure capable of meeting the demands of our customers around the world.

Our vision for fiscal 2020, ending March 31, 2021, is to be a highly reliable organization that supplies products to all of the world's major automobile and construction machinery manufacturers. The 2011 mid-term plan that just ended was a phase for us to plant seeds and build a foundation for taking the actions needed to make this vision a reality. The plan's slogan was "Compete and Win on the Global Stage with the Power of the KYB Group." Numerous actions were taken to set the stage for growth, including substantial up-front investments. Initially, we planned on capital expenditures of ¥77.7 billion during the plan's three years. But these expenditures totaled ¥96.3 billion as we moved swiftly to respond to shifts in market conditions.

The past three years were extremely difficult. The Great East Japan Earthquake, flooding in Thailand, slowing economic growth in China and the prolonged economic crisis in Europe were just a few of the events that created challenges for the KYB Group. Due to these challenges, net sales were ¥352.7 billion (US$ 3,424 million) compared with the medium-term plan target of ¥400.0 billion and the operating income margin was 5.2% compared with the 8.0% target. But we also made progress. As a result, I believe the 2011 mid-term plan gave us a base for adopting a more aggressive stance as we start our new medium-term business plan.

Q. What were the primary investments during the 2011 mid-term plan?

A. We added new manufacturing and sales bases in Japan and overseas. We also made investments to increase output at existing plants. Overall, these investments give us an infrastructure that can rapidly respond to customer demand.

Achieving sustained growth will require assembling a global network with our operations in the best possible locations. Then we must use our resources in each region of the world to create a steady stream of innovative products and systems.

In Japan, we expanded seismic isolation product development and production activities at Kayaba System Machinery and increased mini-excavator cylinder output at KYB-YS. Furthermore, we constructed new plants at KYB Trondule for high-performance electric power steering (EPS) electronic control units, at KYB Kanayama for EPS parts and a continuously variable transmission (CVT) hydraulic pumps, and at KYB-CADAC for control valve castings. Two more major projects were the construction of a test course and an Electronics Experiment Building. Outside Japan, we constructed a CVT hydraulic pump plant in Mexico (production to start in September 2014), and a motorcycle hydraulic shock

Major KYB Group Investments

Development and Manufacture of Shock Absorbers			
1	Developmental Experiment Center (new building)	KYB Corporation	Japan
2	Technical Center (new building)	KYB Americas Corporation	America
3	Plant expansion	KYB Manufacturing Czech s.r.o.	Czech Republic
4	Increase R&D personnel	KYB (China) Investment Co., Ltd.	China
5	Increase R&D personnel	KYB EUROPE HEADQUARTERS GmbH	Spain
Manufacture and Sales of Aftermarket Shock Absorbers			
6	Increase productivity	KYB Industrial Machinery (Zhenjiang) Ltd.	China
7	Increase productivity	KYB Americas Corporation	America
8	Increase productivity	KYB-Mando do Brasil Fabricante de Autopeças S.A.	Brazil
9	New sales company	COMERCIAL DE AUTOPEÇAS KYB DO BRASIL LTDA.	Brazil
10	New plant (spring)	KYB CHITA Manufacturing Europe s.r.o.	Czech Republic
11	New sales company	LLC KYB Eurasia	Russia
Manufacture of CVT Pumps			
12	New plant	KYB Steering (Thailand) Co., Ltd.	Thailand
13	New plant	KYB Industrial Machinery (Zhenjiang) Ltd.	China
14	New plant	KYB Mexico S.A.de. C.V.	Mexico
Electronics Technology and Product Development			
15	Electronics Technology Center (new building)	KYB Corporation	Japan
16	Machine Tools Center (new building)	KYB Corporation	Japan
17	New plant	KYB Trondule Co., Ltd.	Japan
Manufacture of Hydraulic Equipment for Excavators			
18	Increase productivity (cylinders for large-sized excavators)	KYB Corporation	Japan
19	New plant (cylinders for mid-sized excavators)	KYB Corporation	Japan
20	New plant (cylinders for mid-sized excavators)	PT. KYB Hydraulics Manufacturing Indonesia	Indonesia
21	New plant (cylinders for mid-sized excavators and motors for mini excavators)	KYB Hydraulics Industry (Zhenjiang) Ltd.	China
22	New plant (control valve casting for mid-sized excavators)	KYB-CADAC Co., Ltd.	Japan
23	New plant (cylinders for mini excavators)	KYB-YS Co., Ltd.	Japan
Manufacture and Sales of Motorcycle			
24	New company	KYB Motorcycle Suspension Co., Ltd.	Japan
25	New company	KYB Motorcycle Suspension India Pvt. Ltd.	India
Manufacture and Sales of Concrete Mixers			
26	New company	KYB-Conmat Pvt. Ltd.	India
Manufacture and Sales of Seismic Vibration Dampers			
27	New plant	Kayaba System Machinery Co., Ltd.	Japan


KYB Developmental Experiment Center (test course)

absorber plant (production to start in April 2015) and a special-purpose vehicle plant (joint venture with Conmat Systems Pvt. Ltd.) in India. There are several other new overseas plants: an aftermarket spring plant in the Czech Republic (production started in January 2014); a hydraulic cylinder plant in Indonesia (production to start in December 2014); an aftermarket shock absorber sales company (sales started in January 2013) in Russia; and a shock absorber plant and aftermarket shock absorber sales company (sales started in February 2014) in Brazil with Mando Corp. All of these investments give us a broad foundation for rapidly meeting the needs of customers in Japan and around the world.

Q. Please explain the strategic goals of the 2014 mid-term plan and the activities planned in each business of the KYB Group.

A. The plan has three central elements: become even more competitive, develop new technologies and products, and enter new markets and business fields. By focusing on these goals, we aim to earn the trust of customers worldwide and capture more orders.

In the 2014 mid-term plan, we are advancing from the phase of "planting seeds" and "building a stronger foundation" to the pursuit of a growth strategy. We are determined to achieve much more growth and progress during this three-year period.

We want to ensure that the investments we made during the previous medium-term business plan generate growth for the KYB Group. To achieve this growth, we will fully utilize our products, technologies, human resources, sales channels and production sites. Improving quality and raising manufacturing efficiency to become more cost competitive are two more goals. Additionally, every group company will focus on developing products quickly to prevent missing any opportunities, supplying distinctive products, extending sales to companies and regions we do not currently serve, and starting operations in new business fields and industries. Our ultimate objective is to earn the trust of customers worldwide and capture more orders.

The 2014 mid-term plan establishes the following goals for each business operations.

Automotive Components Operations

For CVT pumps, we have established a global supply network with facilities in Japan, China, Thailand and Mexico to meet the needs of our customers. Our CVT pump output was 3.36 million units in fiscal 2012 and I expect that this will increase to 5.16 million units in fiscal 2014.

We plan to increase shock absorber sales to U.S. and German automakers by offering high-performance shock absorbers and other innovative products. Non-Japanese automakers accounted for 18% of our shock absorber sales in the past fiscal year. Our goal is to raise this to 20% in the current fiscal year and to 34% by fiscal 2020.

For aftermarket shock absorbers, we raised sales from 14 million units in fiscal 2010 to 18.9 million units in fiscal 2013. We plan to raise these sales to 28 million units by fiscal 2020.

In 2013, we established KYB Motorcycle Suspension with Yamaha Motor Co., Ltd. I want this new company to use the advantages of its joint ownership to offer benefits to customers in Japan and other countries while tapping the know-how of Yamaha Motor. As one part of these activities, I want to see this company supply components for many new products, like Yamaha's TRICITY three-wheel scooter that is sold in Thailand.


TRICITY (2014 Thailand Model)

Hydraulic Components Operations

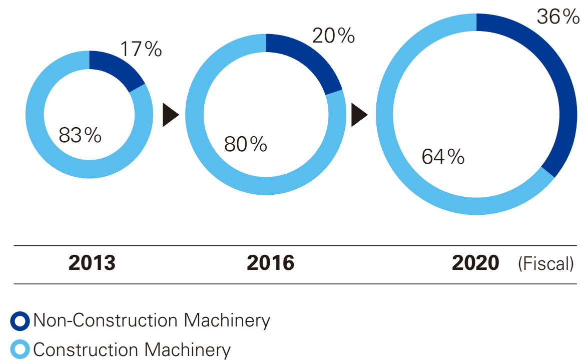
For components used in construction machinery, which accounts for the majority of sales in this business, we must become more cost competitive on a global scale and increase our market share.

For hydraulic cylinders, we must overcome fierce competition from companies in China, Korea and India. We are cutting costs wherever possible. For example, we are developing lower-cost cylinders, lowering the cost of materials purchased overseas, and performing more production processes internally. Our target is a cost reduction of 30% by fiscal 2016, the final year of the 2014 mid-term plan. We want to increase our market share for drive motors and other products as well. We plan to receive orders consistently and raise sales by promoting Group in-house production to cut the variable expense ratio and by increasing local procurement of parts and materials.

In China, we have sold hydraulic components mainly to Japanese companies. Now, our goal is to triple our sales to Chinese companies between now and fiscal 2016. We plan to accomplish this by increasing output capacity while continuing to train our workforce in China. Demand is growing for mini and small-sized excavators. In this category, the KYB Group will heighten its presence as a supplier of a comprehensive lineup of high-quality cylinders, valves, motors and pumps.

In fiscal 2013, parts for construction machinery accounted for 83% of our sales of hydraulic components. To maintain steady growth in this business, as well as from the standpoint of risk management, we need to increase sales of components used in other products like agricultural machinery, railway cars and aircraft.

Targets for Increasing Non-construction Machinery Sales



For agricultural machinery, we will target China and North America, where demand is growing. For railway cars, our plan is to target opportunities created by the resumption of China's production of high-speed trains. We want to start or increase sales to China's two major manufacturers and the big three rolling stock manufacturers of the world. For aircraft, we plan to extend sales of hydraulic components to manufacturers other than Boeing for commercial planes. For public-sector aircraft, we will establish a position as a Tier I (system supplier) company in Japan.

Special-purpose Vehicle Business, System Products and Electronics Components

For special-purpose vehicle business, we are increasing sales in Oceania and India, mainly for concrete mixer trucks. In Oceania, we are targeting new sources of demand following the launch of our energy-efficient e-Mixer truck. In India, we are manufacturing concrete mixer trucks at a company jointly owned with Conmat Systems. Our goal is a market share of 20% in fiscal 2016. In Japan, earthquake recovery activities and projects for the upcoming Tokyo Olympics are expected to support demand for concrete mixer trucks. We will build a production framework, including an automated welding line, capable of meeting the anticipated growth in demand.

For system products, we foresee demand associated with the Tokyo Olympics, mainly for seismic isolation products. All KYB Group companies will share information and create a variety of proposals to capture orders.

Q. What are the KYB Group's main goals other than for the three business units?

A. We will continue to concentrate on the themes of *monozukuri* and human resources development.

The central goal of the 2014 mid-term plan is earning trust and orders from customers around the world by unifying the KYB Group's functions. One objective is growth by speeding up the expansion of our operations on a global scale. Our activities will also recognize the vital importance of the people who work in *monozukuri* (manufacturing expertise) operations and people who support these operations.

The KYB Group is concentrating on *monozukuri* and human resources development in unison as it considers these issues to be priorities in order to resolve problems involving quality control, secure cost competitiveness and come up with new products in a timely manner to win the trust of customers.

Monozukuri

The KYB Group will continue the campaign to cut lead times in half. Until now, these activities were mostly executed in Japan. We are now extending this campaign to overseas group companies and suppliers. Shortening lead times will also improve the Group's productivity. Furthermore, we are working on reducing logistics expenses by upgrading our distribution activities in Japan and other countries.

Human Resources Development

To continue to grow, the KYB Group must have a workforce with a global perspective, and that is highly skilled. This is why we are reinforcing our training programs throughout the Group. We are also enabling our people to move among different jobs and companies. Developing management personnel who will handle overall Group management is another goal. In addition, the KYB Group will reform our personnel rating system. We will establish a single evaluation system for the entire Group, create rules for transferring people from one country to another, and enact other reforms.

Q. Capital expenditures were very high during the 2011 mid-term plan. What are your plans for the 2014 mid-term plan?

A. We will make investments for streamlining operations, performing more in-house production and improving productivity.

We plan to make capital expenditures of ¥83 billion during the 2014 mid-term plan. Developing new technologies and products and upgrading the production infrastructures will be the primary uses of these expenditures. There will also be investments for streamlining operations and performing more production processes internally. Aging equipment will be updated or replaced as well. All of these investments will contribute to improving productivity for the entire KYB Group.

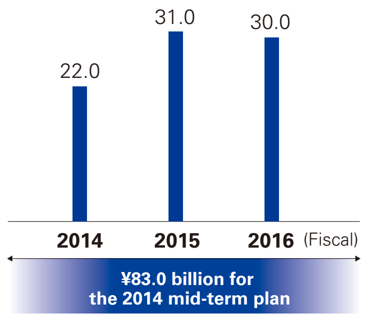
A vehicle undergoes testing in the radio wave darkroom

Q. What is the earnings target of the 2014 mid-term plan?

A. We established an earnings target that covers the shortfall of the previous plan and shifts our focus to growth.

Our goals for fiscal 2016 are net sales of ¥430 billion and an operating margin of 7%. We are starting to see encouraging developments in Europe and the United States. However, there is uncertainty about the effects of instability in the Ukraine, Thailand and the Middle East. KYB will take the actions needed to improve productivity and develop products in a timely manner regardless of changes in our operating environment. I am determined to cover the earnings shortfall of the 2011 mid-term plan and make progress during the new plan toward our goal—sales of ¥600 billion in fiscal 2020.

Forecast for Capital Expenditures
(Billions of yen)



Note: Capital expenditures from fiscal 2014 to fiscal 2016 is on a forecast basis.

Targets for the 2014 Mid-Term Plan
(Billions of yen)

Strengthen the global revenue base for fiscal 2020

	2013 (Actual)	2016 (Targets)	2020 (Targets)
Net Sales	¥352.7	¥430.0	¥600.0
Operating Income	¥18.2	¥30.0	¥48.0
Operating Income Margin	5.2%	7.0%	8.0%

Corporate Governance

Basic Policy for Corporate Governance

The KYB Group positions the upgrading of its corporate governance as one of its highest priorities in order to increase corporate value as the Group's activities become more global. In addition, we regard making contributions to society, including stakeholders, as our primary mission.

Management Principles

The KYB Group contributes to society by providing technologies and products that make life safe and comfortable.

1. Challenge higher objectives and construct a livelier corporate cultural climate.
2. Maintain grace and good faith, and pay attention to nature and the environment.
3. Always seek creative ideas and contribute to the progress of customers, shareholders, suppliers, and society.

Corporate Governance Systems

1. Overview of the corporate governance system

KYB uses the Board of Auditors system and has the following units for the purpose of ensuring the effectiveness of corporate governance. In addition, we are taking actions to strengthen the framework for overseeing group management activities.

Board of Directors

The Board of Directors has seven members and, in principle, meets once each month. Directors reach decisions about items prescribed by laws and regulations as well as policies and other important matters involving management. The directors also oversee the management of business operations.

Board of Managing Executive Officers/Board of Executive Officers

KYB uses the executive officer system for the purposes of separating the role of management supervision and the management of business operations, speeding up decision-making, and improving the efficiency of management.

Executive officers meet to hold discussions about important matters associated with management.

Group Company Management Committee

This council discusses important matters concerning the management of business operations at group companies in Japan.

Global Strategy Committee

This committee discusses important matters concerning the management of group companies in other countries.

Operation Review with the President

These meetings are held at each site, with KYB's president reviewing problems involving the quality of products and issues concerning management.

Board of Corporate Auditors

This board consists of four standing auditors, including two outside auditors (one of whom is an independent auditor). KYB believes that audits performed by these auditors provide for the effective oversight of management and create an effective framework for governance. There are no personal, financial, business, or other relationships involving financial or other interests between KYB and the outside auditors.

Audit Department

The Audit Department performs internal audits. This department performs audits of all business sites and group companies in accordance with the rules for internal audits. To ensure that audits are performed efficiently, there are periodic meetings with the Board of Corporate Auditors to share information about annual audit plans, discuss matters involving audits, exchange opinions about internal controls, and discuss other matters.

2. Internal controls

KYB positions internal controls as a vital base for the effective functioning of corporate governance. Internal controls contribute to heightening the transparency of business operations as well as to making these operations effective, efficient, and reliable.

Every year, the Board of Directors approves resolutions regarding the Basic Policy for Internal Controls, which covers systems for compliance, information management, and group management.

3. Risk management

Head office departments are responsible for the management of risk as well as for monitoring issues involving risk management and responding as needed to a natural disaster or other such event. KYB has established rules and guidelines for risks associated with compliance, the environment and safety, natural disasters and accidents, product quality, information security, export controls, and other items. KYB also supervises, evaluates, and provides guidance for the implementation of these rules and guidelines.

Risks associated with the businesses and investments of the KYB Group are managed by the Board of Directors, Board of Executive Officers and other units. When a major problem occurs, KYB establishes an Emergency Response Headquarters led by the company President. This headquarters collects and analyzes information about the event and oversees actions aimed at minimizing damage and other losses.

Compensation

1. Compensation for directors and corporate auditors and the number of applicable individuals

Category	Total compensation (millions of yen)	Compensation by category (millions of yen)				Number of applicable individuals
		Basic compensation	Stock options	Bonuses	Retirement payments	
Directors	346	265	—	81	—	7
Standing auditors (excludes outside auditors)	43	43	—	—	—	2
Outside auditors	41	41	—	—	—	2

2. Compensation paid to the independent auditor

Category	Millions of yen			
	2014		2013	
	Compensation for audit certification	Compensation for non-auditing services	Compensation for audit certification	Compensation for non-auditing services
KYB Corporation	57	22	62	21
Consolidated subsidiaries	20	—	8	—
Total	77	22	70	21

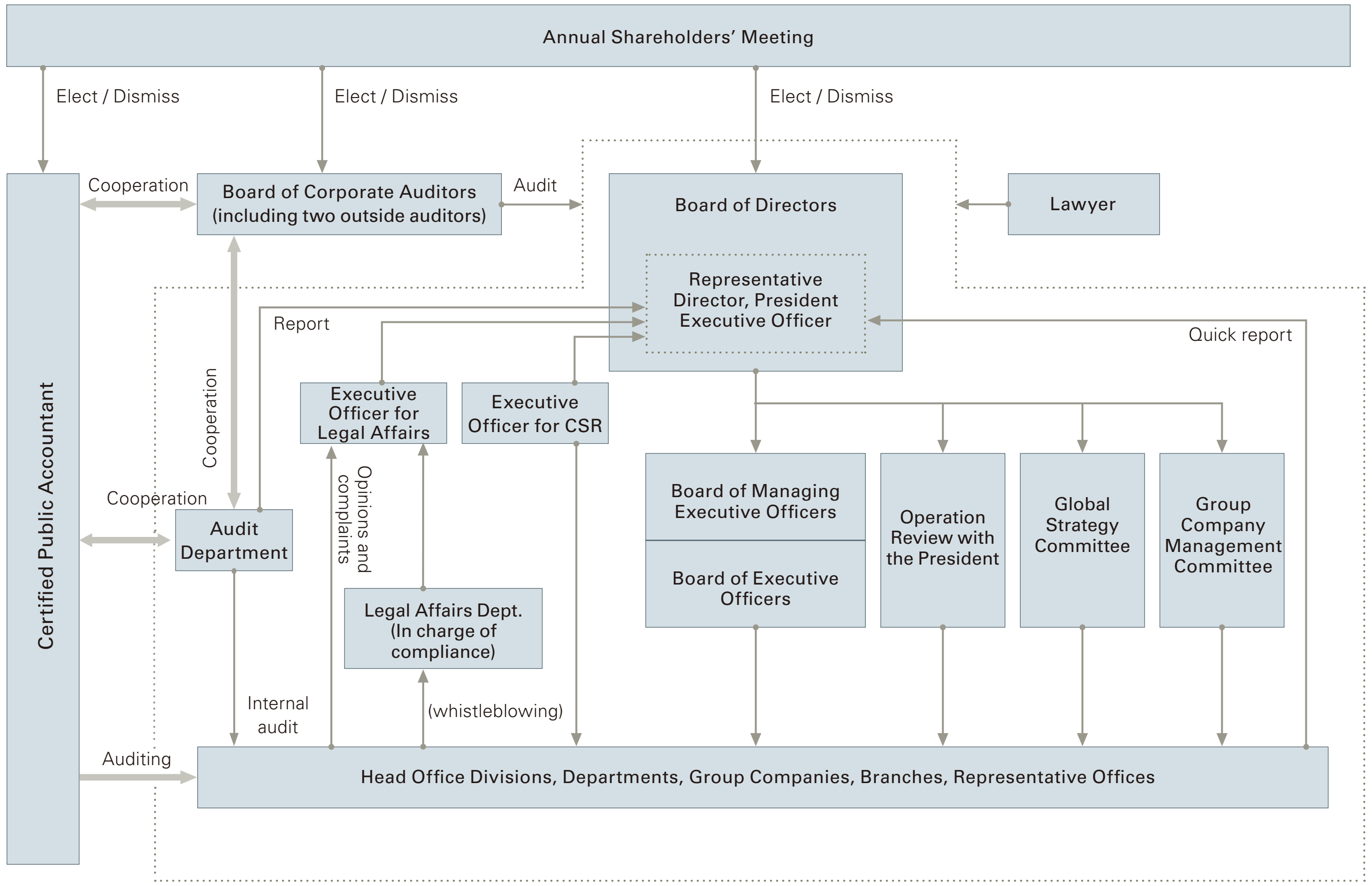
Category	Thousands of U.S. dollar (Note)	
	2014	
	Compensation for audit certification	Compensation for non-auditing services
KYB Corporation	553	214
Consolidated subsidiaries	194	—
Total	748	214

Note: U.S. dollar amounts were translated from Japanese yen, for convenience only, at ¥103=US$ 1, the approximate exchange rate prevailing on March 31, 2014.

3. Other Significant Compensation

Three consolidated subsidiaries, including KYB Americas Corporation, have paid ¥100 million to KPMG International, which belongs to the same network as the independent auditor used by the Company, for audit certification and other services for fiscal 2013.

Management Structure and Internal Controls



Management (As of June 25, 2014)

Representative Director, Chairman
Tadahiko Ozawa

Representative Director, President Executive Officer
Masao Usui

Representative Director, Executive Vice President Executive Officer
Kazuhisa Ikenoya

Member of the Board of Directors, Executive Vice President Executive Officer
Akiyoshi Tanaka

Members of the Board of Directors, Senior Managing Executive Officers
Yasusuke Nakajima
Keisuke Saito
Morio Komiya

Managing Executive Officers
Keiichi Handa
Takafumi Shoji
Kazuhiro Ogata
Eiji Hisada
Tadao Ogoshi
Takaaki Kato
Yasuo Ooe
Masao Ono

Executive Officers
Shigeo Kidokoro
Hitoshi Arakawa
Hiroshi Ogawa
Hideki Nonoyama
Kenji Yamanouchi
Kazuaki Shoji
Shizuka Sakai
Ikuo Inagaki
Sadaaki Hara
Toshihiko Hatakeyama
Osamu Kunihara

Standing Auditors
Haruki Ubukata
Tomoo Akai
Michio Tani *
Osamu Kawase *

* Outside

Risk Information

This section explains the major risk factors involving the KYB Group's results of operations and financial position that may have a significant effect on decisions by investors. Forward-looking statements in this section represent the judgments of the KYB Group as of the end of March 2014.

1. Risks Relating to the Economic Environment

1) Economic Climate

Consolidated net sales consist primarily of parts that are sold to makers of automobiles and motorcycles, construction machinery, and commercial vehicles. Manufacturers of these parts are expanding overseas operations even faster in response to the growing overseas manufacturing activities of their customers. The KYB Group supplies parts to customers outside Japan from plants in the Americas, Europe and Asia. These overseas plants are vulnerable to fluctuations in demand, and the resulting changes in customers' production volume, caused by changes in the economies in the regions where these plants are located. As a result, there may be a significant impact on the KYB Group's results of operations and financial condition.

2) Fluctuations in Exchange Rates and Interest Rates

Overseas sales are 52.0% of the KYB Group's total net sales. As a result, changes in foreign exchange rates may have a significant impact on the Group's exports from Japan as well as the performance of group companies in other countries.

An increase in interest rates in Japan or other countries may have a significant impact on the KYB Group's results of operations.

2. Risks Relating to Business Operations

1. Demand Trends

Sales of the KYB Group's automotive components and hydraulic components operations depend greatly on the global production volume of automobiles and construction machinery. The profitability of these two businesses fell sharply due to the decline in demand for these products during the global economic downturn caused by the financial crisis. Future changes in demand, including shifts associated with government economic stimulus measures, may have a significant impact on results of operations. In the special-purpose vehicles business, which involves primarily concrete mixer trucks, demand may be significantly influenced by changes in the volume of construction activity, which is closely linked to the economic outlook, as well as by changes in laws and regulations, such as restrictions on vehicle emissions.

2) Prices and Quality

The KYB Group's products are subject to intense price-based competition in Japan and other countries. Customers are always asking for cost cuts and lower prices. Quality is also critical. The Group supplies vital automotive parts, such as shock absorbers, which maintain a vehicle's stability, and power steering systems. For construction machinery and commercial vehicles, the Group supplies key functional components such as hydraulic cylinders and motors. Consequently, if the Group supplies a defective product, there may be substantial expenses due to customers' demands for the payment of damages and other events. Furthermore, sales volume and prices for aftermarket automotive shock absorbers will probably be influenced by changes in the health of regional economies and the actions of competitors.

3) Procurement of Materials and Parts

The KYB Group purchases materials and parts from a large number of suppliers. Prices of materials and other items are closely linked to prices on international commodity markets. If the Group is unable to fully reflect an increase in the cost of materials or parts in its selling prices, or if the Group is unable to reduce prices of materials and parts sufficiently to reflect a reduction in selling prices, there may be a significant impact on results of operations.

4) Fund procurement

The KYB Group uses loans from financial institutions in Japan and other countries to meet requirements involving capital expenditures and working capital. The Group takes out these loans while carefully monitoring financial markets. However, the Group may not be able to procure funds in a timely manner at favorable terms if there is broad decline in prices of the Group's products, an economic recession, a credit crunch, a decline in the Group's credit rating, or for other reasons. Any of these events may affect the Group's financial condition and results of operations.

5) Worsening Overseas Business Conditions

If there is a bankruptcy at a KYB Group overseas manufacturing base caused by a decline in orders, falling earnings or some other reason, there may be a significant impact on the Group's results of operations.

6) Counterparty Credit Risk

The KYB Group sells its products to automobile and construction machinery makers and many other customers. An unexpected problem involving credit risk of a customer may affect the Group's results of operations.

3. Risks Relating to Significant Litigation or Other Legal Action

If the KYB Group is the defendant in a law suit and the outcome is unfavorable, the resulting demands and requirements may have a significant impact on the Group's results of operations.

4. Risks Relating to Fires, Accidents and Natural Disasters

Many plants of the KYB Group produce hydraulic products that utilize the properties of oil. In addition, plants often have coating equipment that uses organic solvents and storage tanks for various oils, chemicals and other substances. If there is a fire or a leak of a hazardous substance, manufacturing activity may have to be suspended temporarily.

In Japan, many plants of the KYB Group and its suppliers are located in the Chubu area (central area of Japan's mainland). If there is a major earthquake in this region or other disaster that prevents these plants from operating, there may be a substantial decline in the Group's production capacity.

In addition, if an earthquake, fire, conflict, act of terrorism or other event outside Japan occurs where the KYB Group has a plant, there may be a substantial decline in the Group's production capacity.

Topics

The Future of Hydraulic Systems – Seismic Isolation Dampers

The government of Japan, a country with many earthquakes, has established the goal of raising the percentage of earthquake-resistant houses and buildings with many occupants to 90% by 2015. Following Tokyo's selection to host the 2020 Olympics, demand for earthquake-resistant structures is expected to become even higher. KYB has supplied seismic isolation dampers for many structures in Japan, including the Tokyo Skytree, the tallest tower in the world, and Tokyo Station. KYB seismic isolation dampers were chosen for another new Tokyo landmark, the Toranomon Hills Building that was completed in June 2014. A total of 516 of KYB's largest oil dampers were used in this building to absorb the energy of tremors covering a broad range of intensities. KYB will continue to utilize its hydraulic technologies to contribute to the safety of buildings and structures.

Toranomon Hills

Oil damper

The Future of Electronics –The New KYB Electronics Experiment Building

Meeting the needs of customers requires developing automotive and construction machinery components that use electronics as well as hydraulic technologies. This is why KYB constructed the Electronics Experiment Building, which brings together people and equipment for electronics and electrical testing. Completed in February 2014, the new facility is located at the KYB Developmental Experiment Center (test course). One feature is KYB's first large electromagnetic wave testing facility that has an anechoic chamber with the highest possible blocking of these waves. The new building is environmentally responsible with equipment that minimizes electricity consumption during tests. KYB will use this facility to develop electronics products that are even friendlier to the environment.

Electronics Experiment Building

In a laboratory

Consolidated Subsidiaries and Equity-Method Affiliates

As of March 31, 2014

Consolidated Subsidiaries

Japan

Name	Location	Principal business	Established	Ownership
Kayaba System Machinery Co., Ltd.	Tokyo, Japan	Manufacturing and sales of stage equipment and seismic base isolation and vibration control dampers	Jul. 2004	100.0%
KYB Trondule Co., Ltd.	Niigata, Japan	Manufacturing and sales of electronic equipment	Jun. 2004	100.0%
KYB-YS Co., Ltd.	Nagano, Japan	Manufacturing and sales of shock absorbers and hydraulic equipment	Apr. 1953	100.0%
KYB-CADAC Co., Ltd.	Nagano, Japan	Manufacturing and sales of casting and metal mold products	Mar. 1996	100.0%
KYB Kanayama Co., Ltd.	Gifu, Japan	Manufacturing of shock absorbers and hydraulic equipment	Jul. 1970	100.0%
KYB Motorcycle Suspension Co., Ltd.	Gifu, Japan	Manufacturing and sales of shock absorbers for motorcycles	Oct. 2013	66.6%
Takako Industries, Inc.	Kyoto, Japan	Manufacturing and sales of hydraulic pump components and electronic machine parts	Apr. 1973	100.0%
KYB Engineering and Service Co., Ltd.	Tokyo, Japan	Sales of shock absorbers and hydraulic equipment	Mar. 1956	100.0%
KYB Logistics Co., Ltd.	Gifu, Japan	Packaging and delivery of shock absorbers and hydraulic equipment	Jul. 1987	100.0%

The Americas

Name	Location	Principal business	Established	Ownership
KYB Americas Corporation	Indiana, U.S.A.	Headquarters of KYB's Americas base Manufacturing and sales of shock absorbers for automobiles	Oct. 2011	100.0%
TSW Products Co., Inc.*	Kansas, U.S.A.	Manufacturing and sales of hydraulic equipment	Mar. 1990	100.0%
KYB Mexico S.A. de C.V.	Guanajuato, Mexico	Manufacturing and sales of pumps for CVT	Oct. 2012	100.0%
KYB Latinoamerica, S.A. de C.V.	Mexico D.F., Mexico	Sales of shock absorbers	Dec. 2004	100.0%
KYB PANAMA, S.A.	Panama City, Panama	Sales of shock absorbers	Sep. 2010	100.0%
COMERCIAL DE AUTOPEÇAS KYB DO BRASIL LTDA.	Curitiba, Brazil	Sales of shock absorbers	Dec. 2013	100.0%

*Changed name to Takako America CO., INC. as of April 2014

Europe

Name	Location	Principal business	Established	Ownership
KYB EUROPE HEADQUARTERS GmbH	Krefeld, Germany	Headquarters of KYB's European base	Sep. 2009	100.0%
KYB Europe GmbH	Krefeld, Germany	Sales of shock absorbers	Jun. 1989	100.0%
KYB EUROPE HEADQUARTERS B.V.	Limburg, The Netherlands	Supervising European business	Apr. 2012	100.0%
KYB Suspensions Europe, S.A.	Navarra, Spain	Manufacturing and sales of shock absorbers for automobiles	Jul. 1975	100.0%
KYB Steering Spain, S.A.	Navarra, Spain	Manufacturing and sales of pumps for power steering	Jun. 1996	100.0%
KYB Advanced Manufacturing Spain, S.A.	Navarra, Spain	Manufacturing and sales of shock absorbers for automobiles	Oct. 2008	66.7%
KYB Manufacturing Czech s.r.o.	Pardubice, Czech Republic	Manufacturing and sales of shock absorbers for automobiles	Aug. 2003	100.0%
KYB CHITA Manufacturing Europe s.r.o.	Chrudim, Czech Republic	Manufacture of suspension springs for automobiles	Jan. 2013	70.0%
LLC KYB Eurasia	Moscow, Russia	Import and sales of shock absorbers	Jul. 2012	100.0%
KYB Suspansiyon Sistemleri Sanayi ve Ticaret, A.S.	Adapazari, Turkey	Import and sales of shock absorbers for automobiles	May 2000	100.0%
KYB Middle East FZE	Dubai, United Arab Emirates	Sales of shock absorbers	May 2005	100.0%

Asia

Name	Location	Principal business	Established	Ownership
KYB (China) Investment Co., Ltd.	Jiangsu, China	Headquarter of KYB's China base	Nov. 2010	100.0%
Wuxi KYB Top Absorber Co., Ltd.	Jiangsu, China	Manufacturing and sales of shock absorbers for motorcycles	Aug. 2008	100.0%
KYB Industrial Machinery (Zhenjiang) Ltd.	Jiangsu, China	Manufacturing and sales of shock absorbers for automobiles	Dec. 2002	100.0%
KYB Hydraulics Industry (Zhenjiang) Ltd.	Jiangsu, China	Manufacturing and sales of hydraulic equipment for industrial use	Feb. 2004	100.0%
KYB Trading (Shanghai) Co., Ltd.	Shanghai, China	Sales of shock absorbers and supplies components	Nov. 2004	100.0%
KYB Steering (Thailand) Co., Ltd.	Chonburi, Thailand	Manufacturing and sales of pumps for power steering	Oct. 1996	100.0%
KYB (Thailand) Co., Ltd.	Chonburi, Thailand	Manufacturing and sales of shock absorbers	Jan. 1996	67.0%
KYB Asia Co., Ltd.	Samutprakarn, Thailand	Sales of shock absorbers	Jan. 2005	100.0%
KYB Motorcycle Suspension India Pvt. Ltd.	Chennai, India	Manufacturing and sales of shock absorbers for motorcycles	Dec. 2012	66.6%
KYB-Conmat Pvt. Ltd.	Gujarat, India	Manufacturing and sales of concrete-related construction equipment	Feb. 2013	51.0%
PT. KYB Hydraulics Manufacturing Indonesia	Bekasi, Indonesia	Manufacturing and sales of hydraulic equipment for industrial use	Nov. 2013	75.0%
KYB Manufacturing Vietnam Co., Ltd.	Hanoi, Vietnam	Manufacturing and sales of shock absorbers for motorcycles	Oct. 2002	100.0%
TAKAKO VIETNAM CO., LTD	Binh Duong, Vietnam	Manufacturing of internal parts for hydraulic equipment	Feb. 2003	100.0%
KYB Manufacturing Taiwan Co., Ltd.	Taoyuan, Taiwan	Manufacturing and sales of shock absorbers	Jun. 1963	55.1%

Equity-Method Affiliates

Name	Location	Principal business	Established	Ownership
TOWA MANUFACTURING CO., LTD.	Gifu, Japan	Manufacturing of hydraulic jacks and cylinders	Oct. 1948	33.4%
P.T. Kayaba Indonesia	Jakarta, Indonesia	Manufacturing and sales of shock absorbers	Feb. 1976	30.0%
KYB-UMW Malaysia Sdn. Bhd.	Selangor, Malaysia	Manufacturing and sales of shock absorbers	Jun. 1983	33.4%
KYB-UMW Steering Malaysia Sdn. Bhd.	Selangor, Malaysia	Manufacturing and sales of pumps for power steering	Sep. 1995	33.4%
KYB-Mando do Brasil Fabricante de Autopeças, S.A.	Paraná, Brazil	Manufacturing and sales of shock absorbers for automobiles	Jun. 2011	50.0%

Corporate Information

As of March 31, 2014

Company Name:	Kayaba Industry Co., Ltd. (Use KYB Corporation as its popular name)
Head Office:	World Trade Center Bldg., 4-1, Hamamatsu-cho 2-chome, Minato-ku, Tokyo 105-6111, Japan Tel: 81-3-3435-3511 Fax: 81-3-3436-6759 URL: http://www.kyb.co.jp
Date of Establishment:	November 25, 1948
Fiscal Year:	April 1 to March 31
Paid-in Capital:	¥27,647.6 million
Number of Employees:	13,033 (Consolidated basis)
Securities Traded:	Tokyo Stock Exchange (First Section)
Plants:	Sagami, Kumagaya, Gifu North, Gifu South, Gifu East
R&D Centers:	Basic Technology R&D Center, Electronics Technology Center, Production Technology R&D Center, Machine Tools Center, KYB Developmental Experiment Center
Sales Branches:	Automotive Components Operations Sales Department No. 2, Nagoya, Osaka, Fukuoka, Hiroshima

Shareholder Information

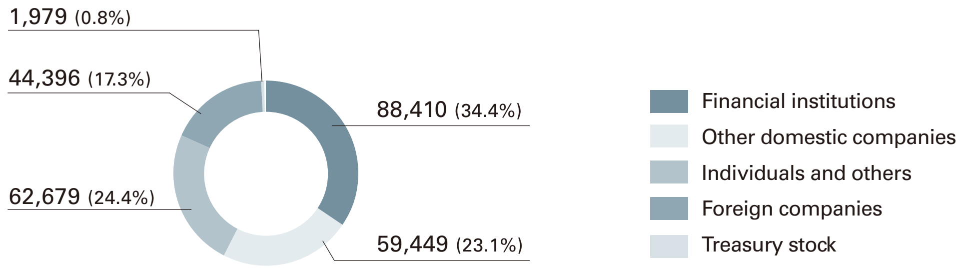
As of March 31, 2014

Common Stock Issued:	257,484,315 shares
Number of Shareholders:	18,018
Transfer Agent and Registrar:	Mizuho Trust & Banking Co., Ltd. 2-1, Yaesu 1-chome, Chuo-ku, Tokyo 103-8670, Japan

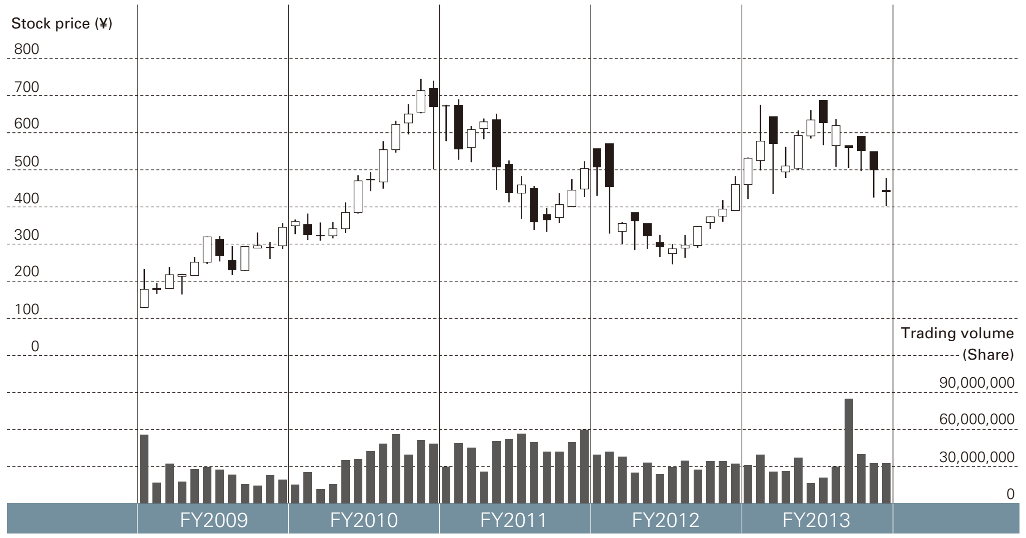
Major Shareholders:

Name	Shareholdings (Thousands)	Percent of Total Shares Issued
Toyota Motor Corporation	19,654	7.63
The Master Trust Bank of Japan, Ltd. (Trust Account)	13,256	5.15
NORTHERN TRUST CO. (AVFC) SUB A/C BRITISH CLIENTS (Standing Proxy: The Hong Kong and Shanghai Banking Corporation Limited, Tokyo Branch, Custody Business Department)	11,846	4.60
Meiji Yasuda Life Insurance Company	10,046	3.90
Hitachi Construction Machinery Co., Ltd.	8,920	3.46
Japan Trustee Services Bank, Ltd. (Trust Account)	7,542	2.93
Trust & Custody Services Bank, Ltd. as trustee for Mizuho Bank, Ltd. Retirement Benefit Trust Account re-entrusted by Mizuho Trust and Banking Co., Ltd.	6,115	2.37
KYB suppliers' stock ownership	6,011	2.33
Ogaki Kyoritsu Bank, Ltd.	5,914	2.30
Mizuho Bank, Ltd.	4,905	1.92
Total	94,210	36.59

Composition of Shareholders:
(Thousands)



Monthly Stock Price Range:
(Tokyo Stock Exchange)



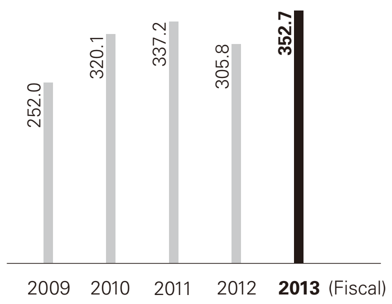
	FY2009	FY2010	FY2011	FY2012	FY2013
High (¥)	356	745	690	508	675
Low (¥)	127	309	333	245	402
At year-end (¥)	345	669	503	460	436

Financial Section

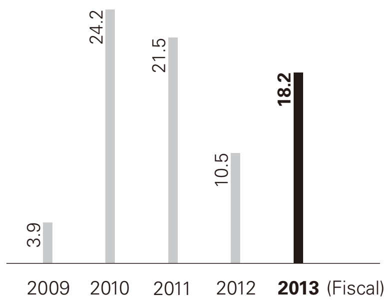
Contents

Financial Highlights

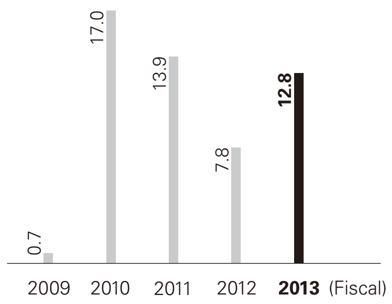
Net Sales
(Billions of yen)



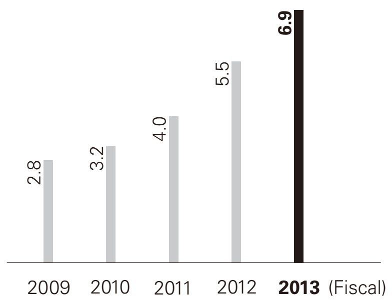
Operating Income
(Billions of yen)



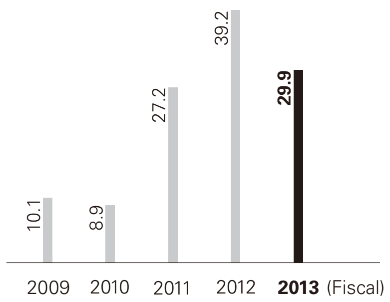
Net Income (Loss)
(Billions of yen)



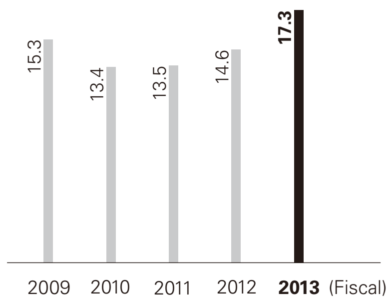
R&D Expenses
(Billions of yen)



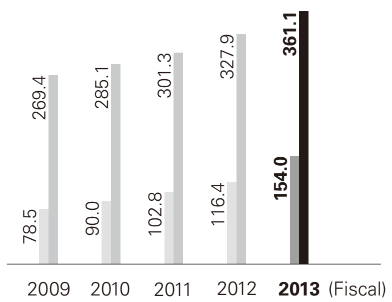
Capital Expenditure
(Billions of yen)



Depreciation and Amortization
(Billions of yen)

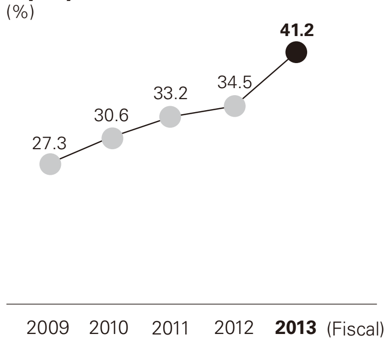


Total Net Assets and Total Assets
(Billions of yen)

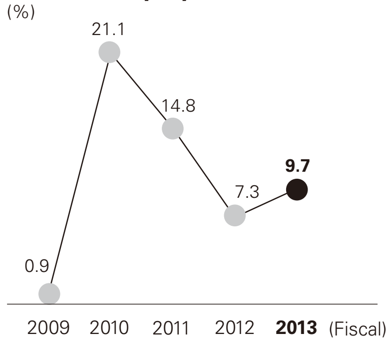


Total Net Assets
Total Assets

Equity Ratio
(%)



Return on Equity (ROE)*
(%)



* ROE = Net income/(Net assets – Minority interests in consolidated subsidiaries)

Financial Review

Summary

In the automotive components segment, sales increased 18.5% to ¥218,948 million (US$2,125,709 thousand). Sales of automotive shock absorbers were higher in Japan. Overseas, there was a recovery in shock absorbers in Europe, mainly in Germany and Scandinavia, and the volume of shipments was strong in the United States. Sales of aftermarket shock absorbers also increased. The result was an increase in total shock absorber sales. Sales of motorcycle shock absorbers were about the same as one year earlier. Sales of automotive hydraulic components, mainly for power steering, were also higher. There were new orders for electric power steering products and higher sales of CVT vane pumps.
In the hydraulic components segment, sales increased 9.9% to ¥115,485 million (US$1,121,214 thousand). Sales of industrial hydraulic components, mainly for construction machinery, increased in Japan as companies rushed to make purchases prior to the April 2014 consumption tax hike and before the enactment of tighter emissions restrictions. Overseas sales of industrial hydraulic components were also higher. This was mainly the result of higher construction machinery shipments in China and a small sales increase in the ASEAN region because of the negative effects of sluggish oil prices and weaker currencies. Sales of hydraulic equipment for aircraft increased because of an increase in orders for spare parts.

In the other segment, which consists of special-purpose vehicles, system products, electronic devices and other products, sales increased 15.1% to ¥18,276 million (US$177,437 thousand). This strong growth was backed by growth in sales of special-purpose vehicles, mainly concrete mixer trucks, due to the combined benefits of demand associated with earthquake reconstruction activities and replacement demand for older vehicles.

As a result, consolidated net sales increased 15.4% to ¥352,711 million (US$3,424,379 thousand).

Operating income increased 79.2% in the automotive components segment, 87.9% in the hydraulic components segment and 28.9% in the other segment. Total operating income was up ¥7,696 million, or 73.5%, to ¥18,170 million (US$176,408 thousand).

Non-operating income and expenses resulted in net non-operating income of ¥2,862 million (US$27,786 thousand). Foreign exchange gain, net, was down ¥1,481 million but there was a ¥216 million increase in dividends income, a ¥108 million decrease in interest expenses, and gain of ¥1,255 million (US$12,184 thousand) on sale of investment in affiliates.

Income before income taxes and minority interests was ¥21,032 million (US$204,194 thousand). After income taxes of ¥7,834 million (US$76,058 thousand) and minority interests, net income was ¥12,761 million (US$123,893 thousand).

Financial Condition

Current assets increased mainly because of an increase in notes and accounts receivable–trade, which were higher due to the growth in sales. The increase in noncurrent assets was primarily attributable to growth in property, plant and equipment that resulted from speedy capital expenditures to expand and upgrade manufacturing facilities. As a result, total assets increased ¥33,171 million to ¥361,083 million (US$3,505,660 thousand).

Total liabilities decreased ¥4,391 million to ¥207,086 million (US$2,010,544 thousand). The main changes were an increase in notes and accounts payable–trade because of sales growth and a decrease in loans payable.

Net assets increased ¥37,562 million to ¥153,997 million (US$1,495,117 thousand) mainly because of increases in common stock, capital surplus and retained earnings.

The increase in net assets raised the equity ratio 6.7 percentage points to 41.2% at the end of March 2014.

Cash Flows

Net cash used in operating and investing activities was ¥7,290 million (US$70,777 thousand). The main reason for the negative cash flow was expenses associated with up-front investments to expand and upgrade production facilities. Net cash provided by financing activities was ¥5,709 million (US$55,427 thousand). As a result, cash and cash equivalents at end of year increased ¥2,917 million to ¥38,132 million (US$370,214 thousand).

Net cash provided by operating activities increased 51.6% to ¥28,788 million (US$279,495 thousand). Cash was used by a ¥17,028 million increase in notes and accounts receivable–trade, but cash was provided by a ¥15,402 million increase in notes and accounts payable–trade, income before income taxes and minority interests of ¥8,038 million, depreciation and amortization of ¥2,740 million, and other items.

Net cash used in investing activities decreased 0.1% to ¥36,078 million (US$350,272 thousand). The main use was payment for acquisition of property, plant and equipment totaling ¥35,550 million (US$345,146 thousand).

Net cash provided by financing activities was ¥5,709 million (US$55,427 thousand). There were proceeds of ¥17,068 million (US$165,709 thousand) from issuance of common stock, a net decrease of ¥3,251 million (US$31,563 thousand) in short-term loans payable, and net repayments of ¥12,923 million (US$125,466 thousand) for long-term loans payable.

Consolidated Balance Sheets

Kayaba Industry Co., Ltd. and its Consolidated Subsidiaries
As of March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	2014	2013	2014
Current assets:			
Cash and time deposits (Notes 11 and 13)	¥ 39,505	¥ 33,531	$ 383,544
Notes and accounts receivable—trade (Notes 5 and 13)	86,444	77,834	839,262
Inventories (Note 4)	46,577	42,069	452,204
Deferred tax assets (Note 17)	4,816	4,195	46,757
Short-term loans receivable	46	3,051	447
Other	8,854	9,597	85,961
Less—allowance for doubtful accounts	(193)	(436)	(1,874)
Total current assets	186,049	169,841	1,806,301
Property, plant and equipment:			
Buildings and structures, net (Note 5)	47,362	39,417	459,825
Machinery, equipment and vehicles, net (Note 5)	54,847	47,198	532,495
Land (Note 5)	26,619	24,335	258,437
Leased assets, net	2,789	2,037	27,078
Construction in progress	13,013	15,687	126,340
Other, net (Note 5)	3,007	2,796	29,194
Total property, plant and equipment	147,637	131,470	1,433,369
Intangible assets:			
Goodwill	622	4	6,039
Software	157	114	1,524
Other	1,392	1,130	13,515
Total intangible assets	2,171	1,248	21,078
Investments and other assets:			
Investment securities (Notes 13 and 14)	20,713	21,104	201,097
Asset for retirement benefits (Note 16)	95	—	922
Deferred tax assets (Note 17)	1,935	2,452	18,786
Other	2,540	1,860	24,660
Less—allowance for doubtful accounts	(57)	(63)	(553)
Total investments and other assets	25,226	25,353	244,912
Total noncurrent assets	175,034	158,071	1,699,359
Total assets	¥361,083	¥327,912	$3,505,660

See accompanying notes.

	Millions of yen		Thousands of U.S. dollars (Note 1)
LIABILITIES AND NET ASSETS	2014	2013	2014
Current liabilities:			
Notes and accounts payable—trade (Note 13)	¥ 62,584	¥ 58,558	$ 607,612
Short-term loans payable (Notes 5 and 13)	44,207	47,200	429,194
Lease obligations	585	402	5,680
Accounts payable—other	11,702	11,637	113,612
Income taxes payable (Note 17)	5,501	1,466	53,408
Notes payable—equipment	2,966	9,453	28,796
Provision for product warranties	5,221	3,606	50,689
Allowance for directors' and corporate auditors' bonuses	174	148	1,689
Other	13,806	15,192	134,039
Total current liabilities	146,746	147,662	1,424,719
Noncurrent liabilities:			
Long-term loans payable (Notes 5 and 13)	41,395	45,719	401,893
Lease obligations	2,272	1,683	22,058
Deferred tax liabilities for land revaluation	3,965	3,965	38,495
Employees' severance and retirement benefits (Note 16)	—	10,404	—
Retirement benefits for directors and corporate auditors	74	70	718
Allowance for environmental measures	220	223	2,136
Liability for retirement benefits (Note 16)	9,949	—	96,592
Asset retirement obligations (Note 18)	386	391	3,748
Other	2,079	1,360	20,185
Total noncurrent liabilities	60,340	63,815	585,825
Total liabilities	207,086	211,477	2,010,544
Contingent liabilities (Note 8)**:**			
Net assets (Note 7)**:**			
Shareholders' equity			
Common stock:	27,648	19,114	268,427
Authorized—491,955,000 shares			
Issued— 257,484,315 shares in 2014			
222,984,315 shares in 2013			
Capital surplus	29,543	21,009	286,825
Retained earnings	78,323	67,217	760,417
Treasury stock, at cost	(565)	(549)	(5,485)
Total shareholders' equity	134,949	106,791	1,310,184
Accumulated other comprehensive income			
Net unrealized holding gains on securities, net of taxes	4,354	3,122	42,272
Revaluation reserve for land (Note 4)	5,317	5,317	51,621
Foreign currency translation adjustments	3,651	(2,021)	35,447
Accumulated adjustments for retirement benefit	506	—	4,912
Total accumulated other comprehensive income	13,828	6,418	134,252
Minority interests	5,220	3,226	50,680
Total net assets	153,997	116,435	1,495,116
Total liabilities and net assets	¥361,083	¥327,912	$3,505,660

Consolidated Statements of Income

Kayaba Industry Co., Ltd. and its Consolidated Subsidiaries
Years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	**2014**
Net sales	**¥352,711**	¥305,752	**$3,424,379**
Cost of sales (Note 10)	**282,466**	250,693	**2,742,389**
Gross profit	**70,245**	55,059	**681,990**
Selling, general and administrative expenses (Note 10)	**52,075**	44,585	**505,582**
Operating income	**18,170**	10,474	**176,408**
Other income (expenses):			
Interest income	**232**	132	**2,252**
Dividends income	**518**	302	**5,029**
Royalty income	**843**	785	**8,184**
Equity in earnings of affiliates	**276**	537	**2,680**
Interest expenses	**(1,577)**	(1,685)	**(15,311)**
Foreign exchange gain, net	**485**	1,966	**4,709**
Gain on sale of investment securities	**—**	1	**—**
Gain on sale of investment in affiliates	**1,255**	—	**12,184**
Loss on sale and disposal of fixed assets, net	**(164)**	(354)	**(1,592)**
Impairment loss on fixed assets (Note 9)	**(356)**	(56)	**(3,456)**
Loss on valuation of investment securities	**(13)**	(9)	**(126)**
Loss on sale of investment securities	**(21)**	—	**(204)**
Loss on change in equity	**(32)**	—	**(311)**
Special retirement expenses	**(26)**	(148)	**(252)**
Other, net	**1,442**	1,049	**14,000**
Income before income taxes and minority interests	**21,032**	12,994	**204,194**
Income taxes (Note 17):			
Current	**8,124**	4,054	**78,873**
Past	**—**	810	**—**
Deferred	**(291)**	(139)	**(2,825)**
Income before minority interests	**13,199**	8,269	**128,146**
Minority interests	**438**	480	**4,253**
Net income	**¥ 12,761**	¥ 7,789	**$ 123,893**

	Yen		U.S. dollars (Note 1)
Amounts per share of common stock:			
Net income	**¥55.26**	¥35.24	**$0.54**
Cash dividends applicable to the year	**9.00**	8.00	**0.09**

See accompanying notes.

Consolidated Statements of Comprehensive Income

Kayaba Industry Co., Ltd. and its Consolidated Subsidiaries
Years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	**2014**
Income before minority interests	**¥13,199**	¥ 8,269	**$128,146**
Other comprehensive income:			
Net unrealized holding gains on securities, net of taxes	**1,233**	1,014	**11,971**
Foreign currency translation adjustment	**5,763**	6,563	**55,951**
Share of other comprehensive income of affiliates accounted for using equity method	**115**	215	**1,116**
Total other comprehensive income (Note 6)	**7,111**	7,792	**69,038**
Comprehensive income	**¥20,310**	¥16,061	**$197,184**
Comprehensive income attribute to:			
Comprehensive income attributable to owners of the parent	**19,664**	15,069	**190,912**
Comprehensive income attributable to minority interests	**646**	992	**6,272**

See accompanying notes.

Consolidated Statements of Changes in Net Assets

Kayaba Industry Co., Ltd. and its Consolidated Subsidiaries
Years ended March 31, 2014 and 2013

	Thousands	Millions of yen											
		Shareholders' equity					Accumulated other comprehensive income						
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized holding gains on securities, net of taxes	Revaluation reserve for land	Foreign currency translation adjustment	Accumulated adjustments for retirement benefit	Total accumulated other comprehensive income	Minority interests	Total net assets
Balance at March 31, 2012	222,984	¥19,114	¥21,009	¥61,417	¥(544)	¥100,996	¥2,107	¥5,317	¥(8,284)	¥ —	¥ (860)	¥2,626	¥102,762
Cash dividends paid	—	—	—	(1,989)	—	(1,989)	—	—	—	—	—	—	(1,989)
Net income	—	—	—	7,789	—	7,789	—	—	—	—	—	—	7,789
Acquisition of treasury stock	—	—	—	—	(6)	(6)	—	—	—	—	—	—	(6)
Disposal of treasury stock	—	—	0	—	1	1	—	—	—	—	—	—	1
Net change of items other than shareholder's equity	—	—	—	—	—	—	1,015	—	6,263	—	7,278	600	7,878
Balance at April 1, 2013	222,984	19,114	21,009	67,217	(549)	106,791	3,122	5,317	(2,021)	—	6,418	3,226	116,435
Issue of new shares	**34,500**	**8,534**	**8,534**	**—**	**—**	**17,068**	**—**	**—**	**—**	**—**	**—**	**—**	**17,068**
Cash dividends paid	**—**	**—**	**—**	**(1,768)**	**—**	**(1,768)**	**—**	**—**	**—**	**—**	**—**	**—**	**(1,768)**
Net income	**—**	**—**	**—**	**12,761**	**—**	**12,761**	**—**	**—**	**—**	**—**	**—**	**—**	**12,761**
Increase resulting from change in scope of consolidation	**—**	**—**	**—**	**113**	**—**	**113**	**—**	**—**	**—**	**—**	**—**	**—**	**113**
Acquisition of treasury stock	**—**	**—**	**—**		**(16)**	**(16)**	**—**	**—**	**—**	**—**	**—**	**—**	**(16)**
Disposal of treasury stock	**—**	**—**	**0**	**—**	**0**	**0**	**—**	**—**	**—**	**—**	**—**	**—**	**0**
Net change of items other than shareholder's equity	**—**	**—**	**—**	**—**	**—**	**—**	**1,232**	**—**	**5,672**	**506**	**7,410**	**1,994**	**9,404**
Balance at March 31, 2014	**257,484**	**¥27,648**	**¥29,543**	**¥78,323**	**¥(565)**	**¥134,949**	**¥4,354**	**¥5,317**	**¥ 3,651**	**¥506**	**¥13,828**	**¥5,220**	**¥153,997**

	Thousands of U.S. dollars (Note 1)											
	Shareholders' equity					Accumulated other comprehensive income						
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized holding gains on securities, net of taxes	Revaluation reserve for land	Foreign currency translation adjustment	Accumulated adjustments for retirement benefit	Total accumulated other comprehensive income	Minority interests	Total net assets
Balance at April 1, 2013	$185,573	$203,971	$652,592	$(5,330)	$1,036,806	$30,311	$51,621	$(19,621)	$ —	$ 62,311	$31,320	$1,130,437
Issue of new shares	**82,854**	**82,854**	**—**	**—**	**165,708**	**—**	**—**	**—**	**—**	**—**	**—**	**165,708**
Cash dividends paid	**—**	**—**	**(17,165)**	**—**	**(17,165)**	**—**	**—**	**—**	**—**	**—**	**—**	**(17,165)**
Net income	**—**	**—**	**123,893**	**—**	**123,893**	**—**	**—**	**—**	**—**	**—**	**—**	**123,893**
Increase resulting from change in scope of consolidation	**—**	**—**	**1,097**	**—**	**1,097**	**—**	**—**	**—**	**—**	**—**	**—**	**1,097**
Acquisition of treasury stock	**—**	**—**	**0**	**(155)**	**(155)**	**—**	**—**	**—**	**—**	**—**	**—**	**(155)**
Disposal of treasury stock	**—**	**0**	**—**	**0**	**0**	**—**	**—**	**—**	**—**	**—**	**—**	**0**
Net change of items other than shareholder's equity	**—**	**—**	**—**	**—**	**—**	**11,961**	**—**	**55,068**	**4,912**	**71,941**	**19,360**	**91,301**
Balance at March 31, 2014	**$268,427**	**$286,825**	**$760,417**	**$(5,485)**	**$1,310,184**	**$42,272**	**$51,621**	**$ 35,447**	**$4,912**	**$134,252**	**$50,680**	**$1,495,116**

Consolidated Statements of Cash Flows

Kayaba Industry Co., Ltd. and its Consolidated Subsidiaries
Years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	**2014**
Cash flows from operating activities:			
Income before income taxes and minority interests	**¥21,032**	¥12,994	**$204,194**
Depreciation and amortization	**17,294**	14,554	**167,903**
Loss on sale and disposal of fixed assets, net	**164**	354	**1,592**
Loss (gain) on sale of investment securities	**21**	(1)	**204**
Loss on write down of investment securities	**13**	9	**126**
Gain on sale of investment in affiliates	**(1,255)**	—	**(12,184)**
Impairment loss on fixed assets	**356**	56	**3,456**
Amortization of goodwill	**156**	1	**1,515**
Amortization of negative goodwill	**(1)**	(2)	**(10)**
Decrease in allowance for doubtful accounts	**(349)**	(32)	**(3,388)**
Decrease in employees' severance and retirement benefits	**—**	(146)	**—**
Increase in liability for retirement benefit	**241**	—	**2,340**
Increase in provision for product warranties	**1,308**	43	**12,699**
Increase (decrease) in retirement benefits for directors and corporate auditors	**3**	(196)	**29**
Increase (decrease) in allowance for directors' and corporate auditors' bonuses	**26**	(12)	**252**
Decrease in allowance for environmental measures	**(3)**	—	**(29)**
Interest and dividends income	**(750)**	(433)	**(7,282)**
Interest expense	**1,577**	1,685	**15,311**
Equity in earnings of affiliates	**(276)**	(537)	**(2,680)**
Increase (decrease) in notes and accounts receivable—trade	**(3,936)**	13,092	**(38,214)**
Increase in inventories	**(1,747)**	(925)	**(16,961)**
Increase (decrease) in notes and accounts payable—trade	**520**	(14,882)	**5,049**
Increase (decrease) in accounts payable—other	**277**	(1,092)	**2,689**
Other, net	**(1,279)**	2,069	**(12,418)**
Subtotal	**33,392**	26,599	**324,194**
Interest and dividends received	**1,304**	906	**12,660**
Interest paid	**(1,719)**	(1,679)	**(16,689)**
Income taxes paid	**(4,189)**	(6,885)	**(40,670)**
Income taxes refunded	**—**	43	**—**
Net cash provided by operating activities	**28,788**	18,984	**279,495**
Cash flows from investing activities:			
Increase in time deposits	**(839)**	(616)	**(8,146)**
Decrease in time deposits	**871**	928	**8,456**
Payment for acquisition of property, plant and equipment	**(35,550)**	(31,683)	**(345,146)**
Proceeds from sale of property, plant and equipment	**859**	114	**8,340**
Payment for acquisition of investment securities	**(1,475)**	(606)	**(14,320)**
Payment for acquisition of investment in affiliates	**(474)**	(3,621)	**(4,602)**
Proceeds from sale of investment in affiliates	**1,794**	—	**17,417**
Payment for investments in capital of affiliates	**—**	(298)	**—**
Payment disbursement of loans receivable	**(252)**	(187)	**(2,447)**
Proceeds from collection of loans receivable	**279**	187	**2,709**
Other, net	**(1,291)**	(343)	**(12,533)**
Net cash used in investing activities	**(36,078)**	(36,125)	**(350,272)**
Cash flows from financing activities:			
Net decrease in short-term loans payable	**3,251**	7,018	**31,563**
Repayments of lease obligations	**(477)**	(427)	**(4,631)**
Proceeds from long-term loans payable	**12,265**	22,822	**119,078**
Repayment of long-term loans payable	**(25,188)**	(18,497)	**(244,544)**
Proceeds from issuance of common stock	**17,068**	—	**165,708**
Proceeds from stock issuance to minority shareholders	**1,015**	—	**9,854**
Purchase of treasury stock	**(17)**	(6)	**(165)**
Sale of treasury stock	**1**	1	**10**
Cash dividends paid	**(1,768)**	(1,989)	**(17,165)**
Cash dividends paid to minority shareholders	**(441)**	(392)	**(4,281)**
Net cash provided by financing activities	**5,709**	8,530	**55,427**
Effect of exchange rate changes on cash and cash equivalents	**1,837**	1,816	**17,835**
Net increase (decrease) in cash and cash equivalents	**256**	(6,795)	**2,485**
Cash and cash equivalents at beginning of year	**35,215**	42,010	**341,894**
Increase in cash and cash equivalents resulting from changes in scope of consolidation	**2,661**	—	**25,835**
Cash and cash equivalents at end of year (Note 11)	**¥38,132**	¥35,215	**$370,214**

See accompanying notes.

Notes to Consolidated Financial Statements

Kayaba Industry Co., Ltd. and its Consolidated Subsidiaries
Years ended March 31, 2014 and 2013

1 Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of Kayaba Industry Co., Ltd. ("the Company") and its consolidated subsidiaries (together "the Companies") have been prepared in accordance with the provisions set forth in the 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 ("IFRSs").

The accounts of consolidated overseas subsidiaries have been prepared in accordance with either IFRSs or U.S. generally accepted accounting principles ("U.S. GAAP"), with adjustments for the specified five items as applicable. Japanese GAAP requires that accounting policies and procedures applied by a parent company and its subsidiaries to similar transactions and events under similar circumstances should be unified for the preparation of the consolidated financial statements. Japanese GAAP, however, as a tentative measure, allows a parent company to prepare consolidated financial statements using foreign subsidiaries' financial statements prepared in accordance with either IFRSs or U.S. GAAP. In this case, adjustments for the following five items are required in the consolidation process so that their impacts on net income are accounted for in accordance with Japanese GAAP unless the impact is not material.

(a) Goodwill not subject to amortization
(b) Expensing actuarial gains and losses of defined-benefit retirement plans
(c) Capitalized expenditures for research and development activities
(d) Fair value measurement of investment properties and revaluation of property, plant and equipment and intangible assets
(e) Accounting for net income attributable to minority interests

The accompanying consolidated financial statements have been restructured and translated into English 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. Certain 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. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2014, which was ¥103 to U.S.$1. The convenience translation should not be construed as representation 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 Summary of Significant Accounting Policies

1. Consolidation

The consolidated financial statements of the Company include the accounts of the Company and its significant subsidiaries (40 in 2014 and 32 in 2013), which are controlled through substantial ownership of majority voting rights or the existence of certain conditions.

All significant intercompany balances and transactions have been eliminated in consolidation.

Financial statements of certain consolidated subsidiaries that have the fiscal year ending December 31 were consolidated with adjustments made for material transactions that took place in the three-month period between the balance sheet date of such subsidiaries and that of the Company.

2. Equity Method

Investments in 5 affiliated companies in 2014 and 2013 (20% to 50% owned and certain others less than 20% owned) are accounted for by the equity method and, accordingly, are stated at cost adjusted for equity in undistributed earnings and losses from the date of acquisition.

Investments in the other affiliated companies and unconsolidated subsidiaries are stated at cost or less.

3. Goodwill

The difference between the cost of investments and equity in their net assets at the date of acquisition is recognized as goodwill and is amortized using the straight-line method over their estimated useful lives (5 years).

4. Foreign Currency Translation

Receivables and payables denominated in foreign currencies are translated into Japanese yen at the year-end rates with the resulting gain or loss included in the current statements of income.

The balance sheets of consolidated overseas subsidiaries are translated into Japanese yen at the year-end rates except for shareholders' equity accounts, which are translated at the historical rates. The statements of income of consolidated overseas subsidiaries are translated at average rates.

The resulting foreign currency translation adjustments are presented in "Foreign currency translation adjustments" and "Minority interests in consolidated subsidiaries" in the consolidated balance sheets.

5. Cash and Cash Equivalents

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

6. Inventories

Inventories are stated at the lower of cost, determined mainly by the periodic-average method, or net realizable value.

7. Securities

The Companies examine the intent of holding each security and classify those securities as (a) equity securities issued by subsidiaries and affiliated companies and (b) available-for-sale securities. The companies do not have trading securities and held-to-maturity debt securities.

Equity securities issued by subsidiaries and affiliated companies that 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 losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Realized gains and losses on sales of such securities are computed using moving-average cost. Other securities with no available fair market value are stated at moving-average cost.

8. Derivative Transactions and Hedge Accounting

Derivative financial instruments are stated at fair value and gains or losses are recognized for changes in the fair value unless derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Companies defer recognition of gains or losses resulting from changes in the fair value of derivative financial instruments until the related losses or gains on the hedged items are recognized.

However, if a forward foreign exchange contract is executed to hedge a future transaction denominated in a foreign currency, the future transaction will be recorded using the contracted forward rate and no gains or losses on the forward foreign exchange contract are recognized.

Also, if interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

9. Property, Plant and Equipment

Property, plant and equipment are stated at cost except for certain land used for business operation, which has been revalued. Depreciation is computed by the declining-balance method at rates based on the estimated useful lives, except for buildings acquired on and after April 1, 1998, which are depreciated using the straight-line method. Consolidated overseas subsidiaries mainly use the straight-line method over the estimated useful lives.

10. Intangible Assets

Intangible assets are amortized using the straight-line method.

Software costs used internally are amortized using the straight-line method over the estimated useful lives mainly of 5 years.

11. Leased Assets

Finance leased assets that are not deemed to transfer ownership of the leased property to the lessee are depreciated using the straight-line method over the lease term with zero residual value.

Finance leases commenced prior to April 1, 2008, and have been accounting for as operating leases, continue to be accounted for as operating leases with disclosure of certain "as if capitalized" information.

12. Land Revaluation

Pursuant to the Law Concerning Revaluation of Land enacted on March 31, 1998, land owned by the Company for business operations was revalued at fair value as of March 31, 2002. Due to the revaluation, the related unrealized gain, net of applicable income taxes, was reported as "Revaluation reserve for land" in shareholders' equity. The revaluation reserve for land in net assets is not available for dividends under the law.

According to the revised law, the Company and a certain subsidiary are not permitted to revalue the land at any time, even if the fair value of the land declines. Such unrecorded revaluation loss amounted to ¥6,300 million (US$61,165 thousand) and ¥6,175 million as of March 31, 2014 and 2013.

13. Allowance for Doubtful Accounts

Allowance for doubtful accounts is provided in an amount sufficient to cover probable losses on collection. It consists of the estimated uncollectible amount with respect to certain identified doubtful receivables and an amount calculated using the actual historical rate of losses.

14. Provision for Product Warranties

Provision for product warranties is provided for the aggregate amount of the estimated cost of certain identified claims from customers and an amount calculated using the historical rate of sales to warranty.

15. Allowance for Directors' and Corporate Auditors' Bonuses

Allowance for directors' and corporate auditors' bonuses is provided bonuses for the estimated amounts which the Company is obligated to pay to directors and corporate auditors subject to the resolution of the shareholders' meeting.

16. Retirement Benefits for Directors and Corporate Auditors

The directors and corporate auditors of certain consolidated subsidiaries receive lump-sum payments upon termination of their services under unfunded termination plans. The full amount of such retirement benefits for directors and corporate auditors is accrued in accordance with the internal rules. The payments to directors and corporate auditors are subject to the resolution of the shareholders' meeting.

17. Allowance for Environmental Measures

Allowance for environmental measures is provided based on estimated costs for the disposal of "PCB (Polychlorinated Biphenyl)" as mandated by the Law Concerning Special Measures against PCB Waste.

18. Accounting Policy of Net Defined Benefit Liability

The Company and certain consolidated subsidiaries provide two types of employees' severance and retirement benefit plans, unfunded lump-sum payment plans and funded noncontributory pension plans, under which all eligible employees are entitled to benefits based on the level of wage and salary at the time of retirement or termination, length of service and certain other factors. Some subsidiaries have pension plans of their own.

The liabilities and expenses for employees' severance and retirement benefits are mainly determined based on the amounts obtained by actuarial calculations.

The Company and certain consolidated subsidiaries mainly recognize the liabilities for employees' severance and retirement benefits based on the amounts of projected benefit obligation and the fair value of the plan assets as of each balance sheet date.

In calculating the retirement benefit obligation, the method of attributing expected benefit to the accounting period is based on a straight-line basis.

Actuarial gains and losses are recognized in the consolidated statements of income in equal amounts over the average of the estimated remaining service lives (11 to 15 years), commencing with the succeeding period.

(Change in Accounting Policy)

Effective from the year ended March 31, 2014, the Company and its domestic subsidiaries have applied the Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, May 17, 2012 (hereinafter, the "Statement No. 26")) and Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, May 17, 2012 (hereinafter, the "Guidance No. 25")), except the article 35 of the Statement No.26 and the article 67 of the Guidance No. 25 and actuarial gains and losses and past service costs that are yet to be recognized have been recognized and the difference between retirement benefit obligations and plan assets has been recognized as a liability for retirement benefits.

In accordance with the article 37 of the Statement No. 26, the effect of the change in accounting policies arising from initial application has been recognized in accumulated adjustments for retirement benefit in accumulated other comprehensive income.

As a result of the application, an asset for retirement benefits in the amount of ¥94 million (US$913 thousand) and a liability for retirement benefits in the amount of ¥9,949 million (US$96,592 thousand) have been recognized and accumulated other comprehensive income has increased by ¥506 million (US$4,913 thousand), at the current fiscal year.

19. Research and Development

Expenses relating to research and development activities are charged to the statement of income as incurred.

20. Stock Issue Expense

Stock issue expense is charged to the statement of income as incurred.

21. Income Taxes

Income taxes comprise corporation, enterprise and inhabitants taxes.

The Companies recognize the tax effects of timing differences between the financial statement basis and the tax basis of assets and liabilities.

22. Amounts per Share

In computing net income per share of common stock, the average number of shares outstanding during each fiscal year has been used. Diluted net income per share is not presented since the Company had no securities with dilutive effect. Cash dividends per share represent cash dividends declared applicable to the respective years.

23. Change in Presentation

Consolidated Statement of Income

"Subsidies income" was presented as a separate account of "Other income (expenses)" for the previous fiscal year, but because its importance in monetary terms was decreased for the current fiscal year, it was changed to be included in "Other" account. In order to reflect this change in presentation method, the consolidated financial statements of the previous fiscal year have been reclassified. As a result, in the consolidated statements of income for the previous fiscal year, ¥422 million yen that was presented in "Subsidies income" of "Other income (expenses)" has been reclassified to be included in "Other".

3 Accounting Standards Issued But Not Yet Applied

– Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, May 17, 2012)
– Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, May 17, 2012)

(1) Summary

Accounting treatment for actuarial gains and losses and past service costs, determination of retirement benefit obligations and current service costs, and enhanced disclosures have been amended.

(2) Effective dates

Amendments related to determination of retirement benefit obligations and current service costs are effective from the beginning of fiscal year ending on March 31, 2015. However, no retrospective application of the accounting standard to consolidated financial statements in prior periods is required.

(3) Effect of application of the standard

The Company and its consolidated domestic subsidiaries are in the process of measuring the effect of applying the revised accounting standard on the consolidated financial statements.

4 Inventories

Inventories as of March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Finished goods	**¥24,643**	¥21,815	**$239,252**
Work in process	**13,566**	11,647	**131,709**
Raw materials and supplies	**8,368**	8,607	**81,243**
Total	**¥46,577**	¥42,069	**$452,204**

5 Short-Term Loans Payable and Long-Term Loans Payable

Short–term loans payable are generally represented by short-term notes and overdrafts from banks, and bearing average interest as of March 31, 2014 and 2013 at 2.0% and 1.7% per annum, respectively.

Short-term loans payable as of March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Secured	**¥ 133**	¥ 1,607	**$ 1,291**
Unsecured	**30,668**	24,768	**297,748**
Total	**30,801**	26,375	**299,039**
Current maturities of long-term loans payable	**13,406**	20,825	**130,155**
	¥44,207	¥47,200	**$429,194**

Long-term loans payable as of March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Loans from banks and others, due through 2026 with interest rates ranging from 0.39% to 13.90%:			
Secured	**¥ 133**	¥ 1,607	**$ 1,291**
Unsecured	**54,668**	64,937	**530,757**
Total	**54,801**	66,544	**532,048**
Less: Current maturities	**(13,406)**	(20,825)	**(130,155)**
	¥41,395	¥45,719	**$401,893**

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

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Notes receivable—trade	**¥244**	¥ —	**$2,369**
Property, plant and equipment:			
Buildings and structures	**220**	1,226	**2,136**
Machinery, equipment and vehicles	**227**	29	**2,204**
Land	**56**	709	**544**
Other	**13**	—	**126**
Total	**¥760**	¥1,964	**$7,379**

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

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2015	¥13,406	$130,155
2016	14,782	143,515
2017	15,424	149,748
2018	9,049	87,854
2019	1,900	18,447
Thereafter	240	2,329
	¥54,801	$532,048

6 Notes to Statements 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 tax effects for each component of other comprehensive income are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Net unrealized holding gains on securities, net of taxes:			
Amount arising during the year	**¥1,895**	¥1,543	**$18,398**
Reclassification adjustments	**0**	0	**0**
Before tax effect	**1,895**	1,543	**18,398**
Tax effect	**(662)**	(529)	**(6,427)**
Net unrealized holding gains on securities, net of taxes	**1,233**	1,014	**11,971**
Foreign currency translation adjustments:			**0**
Amount arising during the year	**5,730**	6,563	**55,631**
Reclassification adjustments	**33**	—	**320**
Before tax effect	**5,763**	6,563	**55,951**
Tax effect	**—**	—	**—**
Foreign currency translation adjustments	**5,763**	6,563	**55,951**
Share of other comprehensive income of affiliated accounted for using equity method:			
Amount arising during the year	**115**	215	**1,116**
Total other comprehensive income	**¥7,111**	¥7,792	**$69,038**

7 Net Assets

Net assets comprise three subsections, which are shareholders' equity, accumulated other comprehensive income, and minority interests.

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"), in cases where 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 could be used to eliminate or reduce a deficit, or could capitalize by a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Law, however, 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 non-consolidated financial statements of the Company in accordance with Japanese laws and regulations.

8 Contingent Liabilities

As of March 31, 2014, the Companies were contingently liable for trade notes receivable discounted amounting to ¥26 million (US$252 thousand) and trade notes receivable endorsed amounting to ¥554 million (US$5,379 thousand).

The Company was also contingently liable under guarantees of indebtedness of unconsolidated subsidiaries and affiliated companies amounting to ¥1,771 million (US$17,194 thousand) as of March 31, 2014.

9 Impairment Loss on Fixed Assets

For the years ended March 31, 2014 and 2013, the Companies recognized impairment loss on fixed assets on the following groups of assets:

For the year ended March 31, 2014

Location	Use	Category
Kani-shi, Gifu, Japan	Idle assets	Machinery
Higashi-Chikuma, Nagano, Japan	Idle assets	Building and structure, Land

For the year ended March 31, 2013

Location	Use	Category
Kani-shi, Gifu, Japan	Idle assets	Machinery
Zhenjiang, China	Business assets	Machinery
Zhenjiang, China	Business assets	Automobiles

The companies classified their fixed assets by each plant. Each of idle assets was treated as an individual asset.

The book value of idle assets, that are not used for business operation and are not expected to generate cash flow in the future, was written down to the recoverable amounts. As a result, loss on impairment of fixed assets were recognized ¥356 million (US$3,456 thousand) and ¥26 million for the years ended March 31, 2014 and 2013, respectively.

The book value of business assets was written down to the recoverable amounts, due to a significant decline in profitability. As a result, loss on impairment of fixed assets were recognized ¥30 million for the year ended March 31, 2013.

10 Research and Development Costs

Research and development costs charged to the cost of sales and selling, general and administrative expenses for the years ended March 31, 2014 and 2013 were ¥6,917 million (US$67,155 thousand) and ¥5,468 million, respectively.

11 Cash and Cash Equivalents

The reconciliation of cash and time deposits shown in the consolidated balance sheets and cash and cash equivalents shown in the consolidated statements of cash flows as of March 31, 2014 and 2013 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Cash and time deposits	**¥39,505**	¥33,531	**$383,544**
Deposits with maturities more than three months	**(1,373)**	(1,314)	**(13,330)**
Purchases of commercial paper under repurchase agreements (Short-term loans receivable)	**—**	2,998	**—**
Cash and cash equivalents	**¥38,132**	¥35,215	**$370,214**

12 Lease Transaction

As discussed in Note 2, finance leases commenced prior to April 1, 2008 which do not transfer ownership to lessees are accounted for as operating leases.

A summary of assumed amounts of acquisition cost, accumulated depreciation and net book value of buildings, machinery and equipment and other assets as of March 31, 2014 and 2013 was as follows:

	Millions of yen						Thousands of U.S. dollars		
	2014			2013			**2014**		
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
Buildings	**¥ 5**	**¥ 4**	**¥ 1**	¥ 5	¥ 3	¥ 2	**$ 48**	**$ 39**	**$ 9**
Machinery, equipment and vehicles	**415**	**367**	**48**	705	581	124	**4,029**	**3,563**	**466**
Other assets	**25**	**20**	**5**	59	48	11	**243**	**194**	**49**
Total	**¥445**	**¥391**	**¥54**	¥769	¥632	¥137	**$4,320**	**$3,796**	**$524**

Future minimum lease payments as of March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Due within one year	**¥54**	¥ 84	**$524**
Due after one year	**1**	53	**10**
Total	**¥55**	¥137	**$534**

Lease payments and the assumed depreciation charge for the years ended March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Lease payments	**¥84**	¥160	**$816**
Assumed depreciation charge	**84**	160	**816**

The assumed depreciation charge is computed using the straight-line method over lease terms assuming no residual value.

Since the portion of the future minimum lease payments is minor compared to the balance of property, plant and equipment as of March 31, 2014 and 2013, interest expense has been included in the assumed amount of acquisition costs and depreciation expense.

Future lease payments for operating leases that cannot be terminated for the years ended March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Due within one year	**¥ 578**	¥ 944	**$ 5,612**
Due after one year	**1,138**	1,572	**11,048**
Total	**¥1,716**	¥2,516	**$16,660**

13 Financial Instruments

1. Qualitative information on financial instruments

1) Policies for using financial instruments

The Companies raise necessary funds including their capital expenditure through cash flows from operating activities and loans from banks and others. Temporarily surplus funds are mainly invested in short-term deposits, eligible repurchase agreements and similar instruments. Derivative financial instruments are mainly used in order to hedge the risk of interest rate fluctuation risk and not used for speculative purposes.

2) Details of financial instruments and the related risks

Trade notes and accounts receivable are exposed to credit risk of customers. Furthermore, the Companies are vulnerable to foreign exchange rate volatility risk because of foreign currency-denominated receivables related to overseas operations.

Securities and investment securities are mainly long-term holdings of stock and the stock issued by business partner. These securities are exposed to market price volatility risk.

Almost all trade notes and accounts payable are due within one year. Foreign currency-denominated payables are vulnerable to foreign exchange rate volatility risk. However, the amount of exposure is within the balance of receivables in the same foreign currency. Loans are used primarily to raise funds for capital expenditure. Since certain loans carry floating interest rates, the Companies are exposed to interest rate volatility risk. Derivative financial instruments (interest rate swaps) are used to hedge this risk.

Derivative financial instruments used by the Companies are forward exchange contracts to hedge foreign exchange rate volatility risk and interest rate swap transaction to hedge interest rate volatility risk related to loans. For information about hedging methods, items hedged, hedging policies and the evaluation of hedging effectiveness, please refer to "Derivative transactions and hedge accounting" described in Note 2 "Summary of Significant Accounting Policies".

3) Risk Management systems relating to financial instruments

i) Management of credit risk (risk relating to non-performance of a contract obligation by a counterparty, etc.)
In accordance with the Company's internal administrative rules, the appropriate department of each business unit regularly monitors the status of all major customers, managing due dates and balances on an individual customer basis. In this manner, every effort is made to ensure early detection and the mitigation of concerns regarding collection due to deterioration in financial standing or other factors.

ii) Management of market risks (risks associated with fluctuations in foreign currency exchange as well as interest rates, etc.)
The Company utilizes forward exchange contracts to hedge foreign exchange rate volatility risk and interest rate swap transaction to hedge interest rate volatility risk related to loans.
With respect to investment securities, the Company regularly monitors fair values as well as taking into consideration its relationship with counterparties.

iii) Management of liquidity risks associated with the procurement of funds (the risk of being unable to make payments on due dates)
The Company manages liquidity risk by preparing and updating cash flow plans at departments responsible for these plans, using reports from other departments of the Company, and by maintaining an adequate level of liquidity and taking other actions.

4) Supplemental explanations for fair values, etc. of Financial Instruments

The fair values of financial instruments are determined by market prices. If no market price is available, the fair value contains variable factors, and the adoption of wide ranging and differing assumptions may cause values to change.

2. Fair Values of Financial Instruments

The following were book value, fair value, and difference between them as of March 31, 2014 and 2013. Certain financial instruments were excluded from the following table as the fair values were not available (see Note 2).

	Millions of yen					
	2014			2013		
	Book value	Fair values	Differences	Book value	Fair values	Differences
(1) Cash and time deposits	**¥ 39,505**	**¥ 39,505**	**¥ —**	¥ 33,531	¥ 33,531	¥ —
(2) Notes and accounts receivables—trade	**86,444**	**86,444**	**—**	77,834	77,834	—
(3) Investment securities	**15,903**	**15,903**	**—**	12,874	12,874	—
Assets	**141,852**	**141,852**	**—**	124,239	124,239	—
(4) Notes and accounts payables—trade	**62,584**	**62,584**	**—**	58,558	58,558	—
(5) Short-term loans payable	**30,801**	**30,801**	**—**	26,375	26,375	—
(6) Long-term loans payable (including current portion)	**54,801**	**55,000**	**199**	66,544	66,764	220
Liabilities	**¥148,186**	**¥148,385**	**¥199**	¥151,477	¥151,697	¥220

	Thousands of U.S. dollars		
	2014		
	Book value	Fair values	Differences
(1) Cash and time deposits	**$ 383,544**	**$ 383,544**	**$ —**
(2) Notes and accounts receivables—trade	**839,262**	**839,262**	**—**
(3) Investment securities	**154,398**	**154,398**	**—**
Assets	**1,377,204**	**1,377,204**	**—**
(4) Notes and accounts payables—trade	**607,612**	**607,612**	**—**
(5) Short-term loans payable	**299,039**	**299,039**	**—**
(6) Long-term loans payable (including current portion)	**532,048**	**533,980**	**1,932**
Liabilities	**$1,438,699**	**$1,440,631**	**$1,932**

Notes: 1. Method of calculation of fair value of financial instruments and information concerning securities and derivative transactions

Assets:

(1) Cash and time deposits, and (2) Notes and accounts receivables—trade

The fair value approximates the book value because of their short-term maturities. Therefore, the fair value is recognized using the book value.

(3) Investment securities

The fair value of these securities is based on their stock market price.

Liabilities:

(4) Notes and accounts payables—trade, and (5) Short-term loans

The fair value approximates the book value because of their short-term maturities. Therefore, the fair value is recognized using the book value.

(6) Long-term loans payable (including current portion)

The fair value of long-term loans payable is based on the present value by discounting expected repayments of principal and interest in the remaining period using an assumed interest rate on an equivalent new loan. The fair value of interest rate swaps for which the special treatment is applied is included in the fair value of long-term bank loans, as such swaps are treated as a single item incorporating the hedged long-term bank loans. The special treatment under Japanese GAAP may be applied for interest rate swap contracts that meet certain hedging criteria (see (7) below). In the special treatment, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on debts for which the swap contract is executed.

Derivatives:

(7) Derivative transactions

Interest rate swaps that use the special treatment are processed as a single unit with long-term loans payable that have been hedged. Consequently, the fair values of these swaps are included in the fair values of the applicable long-term loans payable (see (6) above).

2. Financial instruments for which obtaining an estimated fair value is deemed to be extremely difficult

	Millions of yen		Thousands of U.S. dollars
Category	**2014**	2013	**2014**
Unlisted equity securities	**¥ 57**	¥ 95	**$ 553**
Securities in unconsolidated subsidiaries and affiliates	**4,753**	8,135	**46,146**

The above stocks are not included in "(3) Investment Securities" due to the extreme difficulty of determining a fair value because there are no market prices.

3. The aggregate maturities subsequent to March 31, 2014 and 2013 for financial assets are as follows:

	Millions of yen							
	2014				2013			
	Due within one year	Due after one year and within five years	Due after five years and within ten years	Due over ten years	Due within one year	Due after one year and within five years	Due after five years and within ten years	Due over ten years
Cash and time deposits	**¥ 39,505**	**¥—**	**¥—**	**¥—**	¥ 33,531	¥ —	¥ —	¥ —
Notes and accounts receivables—trade	**86,444**	**—**	**—**	**—**	77,834	—	—	—
Total	**¥125,949**	**¥—**	**¥—**	**¥—**	¥111,365	¥ —	¥ —	¥ —

	Thousands of U.S. dollars			
	2014			
	Due within one year	Due after one year and within five years	Due after five years and within ten years	Due over ten years
Cash and time deposits	**$ 383,544**	**$—**	**$—**	**$—**
Notes and accounts receivables—trade	**839,262**	**—**	**—**	**—**
Total	**$1,222,806**	**$—**	**$—**	**$—**

14 Securities

The following tables summarize acquisition costs, book values and the fair value of securities with available fair values as of March 31, 2014 and 2013.

Available-for-sale securities: Securities with book values exceeding acquisition costs

	Millions of yen						Thousands of U.S. dollars		
	2014			2013			**2014**		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	**¥7,144**	**¥14,005**	**¥6,861**	¥6,344	¥11,248	¥4,904	**$69,359**	**$135,971**	**$66,612**

Available-for-sale securities: Securities with book values not exceeding acquisition costs

	Millions of yen						Thousands of U.S. dollars		
	2014			2013			**2014**		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	**¥2,084**	**¥1,897**	**¥(187)**	¥1,743	¥1,626	¥(117)	**$20,233**	**$18,417**	**$(1,816)**

Unlisted equity securities (consolidated balance sheet amount of ¥57 million (US$553 thousand) and ¥95 million for the years ended March 31, 2014 and 2013) are not included in the above table due to the extreme difficulty of determining a fair value because there are no market prices.

The following table summarizes the proceeds from sales of available-for-sale securities in the years ended March 31, 2014 and 2013.

	Millions of yen						Thousands of U.S. dollars		
	2014			2013			**2014**		
	Proceeds from sales	Gain on sales	Loss on sales	Proceeds from sales	Gain on sales	Loss on sales	Proceeds from sales	Gain on sales	Loss on sales
Equity securities	**¥13**	**¥—**	**¥21**	¥1	¥1	¥—	**$126**	**$—**	**$204**

Impairment loss on securities

There was an asset impairment loss of ¥13 million (US$126 thousand) and ¥9 million for equity securities included in other securities for the years ended March 31, 2014 and 2013, respectively.

15 Derivative Transactions

Derivative financial instruments used by the Companies are forward exchange contracts to hedge foreign exchange rate volatility risk and interest rate swap transaction to hedge interest rate volatility risk related to loans.

The following tables summarize the fair value information as of March 31, 2014 and 2013 of derivative transactions for which hedge accounting has been applied:

Interest rate related derivatives

			Millions of yen		
			2014		
Hedge accounting method	Type of derivatives	Major hedged items	Contract amount	Contract amount due over one year	Fair value
Specified treatment for interest rate swaps	Interest rate swaps Receive floating rate Pay fixed rate	Long-term debt	**¥1,040**	**¥ 800**	(Note)
Specified treatment for interest rate and currency swaps	Interest rate and currency swaps Receive floating rate and U.S. dollar Pay fixed rate and Thai Baht	Long-term debt	**2,627**	**2,074**	(Note)

			Millions of yen		
			2013		
Hedge accounting method	Type of derivatives	Major hedged items	Contract amount	Contract amount due over one year	Fair value
Specified treatment for interest rate swaps	Interest rate swaps Receive floating rate Pay fixed rate	Long-term debt	¥6,610	¥2,740	(Note)

			Thousands of U.S. dollars		
			2014		
Hedge accounting method	Type of derivatives	Major hedged items	Contract amount	Contract amount due over one year	Fair value
Specified treatment for interest rate swaps	Interest rate swaps Receive floating rate Pay fixed rate	Long-term debt	**$10,097**	**$ 7,767**	(Note)
Specified treatment for interest rate and currency swaps	Interest rate and currency swaps Receive floating rate and U.S. dollar Pay fixed rate and Thai Baht	Long-term debt	**25,505**	**20,136**	(Note)

Note: The interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not stated at fair value, but the amount paid or received under the swap agreements is recognized and included in interest expenses of the long-term loans payable as hedged items. Accordingly, the fair value of the interest rate swaps is considered to be included in the fair value of the long-term loans payable.

16 Retirement Benefits for Employees

The Company and its domestic consolidated subsidiaries have three types of defined benefits plans: Employees' Pension Fund, defined benefit corporate pension plan, and lump-sum payment plan. In addition, additional retirement payments are made in some cases when employees retire or resign.

The Company has established a retirement benefit payment trust.

At the year ended March 31, 2014, for the Company and its consolidated companies in Japan, six companies had lump-sum payment plans. In addition, for the Employees' Pension Fund, a company belonged to a comprehensive employees' pension fund and, for the defined benefit corporate pension plan, six companies outsourced asset management to a life insurance company, etc.

Some domestic consolidated subsidiaries and other countries have established a defined contribution pension system in addition to a defined benefit pension system.

Retirement benefit obligation and pension plan assets as of March 31, 2014 and 2013 consisted of the following:

Defined benefit plans

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Movement in retirement benefit obligations:		
Balance at April 1, 2013	**¥34,592**	**$335,845**
Service cost	**1,873**	**18,184**
Interest cost	**523**	**5,078**
Retirement benefit paid	**(2,179)**	**(21,155)**
Other	**1,243**	**12,067**
Balance at March 31, 2014	**¥36,052**	**$350,019**
Movement in plan assets:		
Balance at April 1, 2013	**¥22,331**	**$216,806**
Expected return on plan assets	**384**	**3,728**
Actuarial gain	**3,158**	**30,660**
Contributions paid by the employer	**997**	**9,680**
Benefit expenses	**(672)**	**(6,524)**
Balance at March 31, 2014	**¥26,198**	**$254,350**

Note: The amounts in this table include figures for pension plans that use simplified methods.

	Millions of yen
	2013
Projected benefit obligation	¥(34,592)
Plan assets at fair value	22,331
Projected benefit obligations in excess of plan assets	(12,261)
Unrecognized actuarial difference	1,885
Prepaid pension expenses	28
Employees' severance and retirement benefits	¥(10,404)

Notes: 1. Certain consolidated subsidiaries' retirement benefit obligations were estimated using a simplified method. In addition, pension plan assets at consolidated subsidiaries that use a comprehensive employees' pension fund, which were ¥3,100 million at the year ended March 31, 2013, are not included in the above plan assets.
2. In the year ended March 31, 2013, prepaid pension expenses were recorded.

Reconciliation from retirement benefit obligations and plan assets to liability for retirement benefits

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Funded retirement benefit obligations	¥32,101	$311,660
Plan assets	(26,197)	(254,340)
	5,904	57,320
Unfunded retirement benefit obligations	3,950	38,350
Total Net liability for retirement benefits at March 31, 2014	¥ 9,854	$ 95,670
Liability for retirement benefits	¥ 9,949	$ 96,592
Asset for retirement benefits	(95)	(922)
Total Net liability for retirement benefits at March 31, 2014	¥ 9,854	$ 95,670

Note: The amounts in this table include figures for pension plans that use simplified methods.

Retirement benefit costs included in the consolidated statements of income for the years ended March 31, 2014 and 2013 were as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Service cost	¥1,872	$18,175
Interest cost	523	5,078
Expected return on plan assets	(384)	(3,728)
Net actuarial loss amortization	280	2,718
Other	90	874
Total retirement benefit costs for the year ended March 31, 2014	¥2,381	$23,117

Note: The amounts of retirement benefit costs calculated based on simplified methods are included in service cost.

	Millions of yen
	2013
Service costs—benefits earned during the year	¥2,177
Interest cost on projected benefit obligation	635
Expected return on plan assets	(229)
Amortization of actuarial differences	422
Other	17
Severance and retirement benefit expenses	¥3,022

Note: The amounts of retirement benefit costs calculated based on simplified methods are included in service costs benefits earned during the year.

Item included in cumulative adjustment for retirement benefits (before tax effect deduction) as of March 31 is as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Unrecognized actuarial difference	¥(770)	$(7,476)

Plan assets as of March 31, 2014 are comprised as follows:

	2014
Bonds	18%
Equity securities	69
Cash and cash equivalents	7
Other	6
Total	100%

Note: The amounts in this table include figures for pension plans that use simplified methods

Long-term expected rate of return

Current and target asset allocations, historical and expected returns on various categories of plan assets have been considered in determining the long-term expected rate of return.

Actuarial assumptions

The principal actuarial assumptions at March 31, 2014 (expressed as weighted averages) are as follow:

	2014
Discount rate	1.5–4.2%
Long-term expected rate of return	1.5–2.0%

The discount rates used by the Company and certain consolidated subsidiaries were 2.0% for the year ended March 31, 2013. The rates of expected return on plan assets used by the Company and certain consolidated subsidiaries were 1.5% to 4.0% for the year ended March 31, 2013.

The required contribution of certain consolidated subsidiaries to defined-contribution pension plans for the year ended March 31, 2014 is ¥421 million (US$4,087 thousand).

17 Income Taxes

The Companies are subject to a number of taxes based on income. The aggregate statutory tax rate in Japan was approximately 37.2% for the year ended March 31, 2014.

The following table summarizes the significant differences between the statutory tax rate and the Companies' effective tax rate for financial statement purposes for the years ended March 31, 2014 and 2013.

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Deferred tax assets:			
Liability for retirement benefits	¥ 7,220	¥ —	$ 70,097
Employees' severance and retirement benefits	—	7,483	—
Tax loss carried forward	1,857	2,026	18,029
Accrued bonuses	1,596	1,599	15,495
Software	1,292	1,292	12,544
Tax effect of unrealized gains on inventories	1,041	1,065	10,107
Provision for product warranties	905	735	8,786
Tax effect of unrealized gains on fixed assets	519	413	5,039
Accrued enterprise tax	329	81	3,194
Valuation loss on inventories	326	328	3,165
Accrued expenses (social security payments for bonuses)	234	227	2,272
Retirement benefits for directors and corporate auditors	201	210	1,951
Deductible expenses for assets used in research and development	249	162	2,417
Impairment loss on fixed assets	178	131	1,728
Other	1,135	1,072	11,021
Subtotal	17,082	16,824	165,845
Less: Valuation allowance	(2,577)	(2,638)	(25,020)
Total deferred tax assets	14,505	14,186	140,825
Deferred tax liabilities:			
Securities contributed to employees' retirement benefit trust	(2,904)	(2,993)	(28,194)
Undistributed earnings of consolidated overseas subsidiaries	(3,085)	(2,598)	(29,951)
Unrealized holding gains on securities	(2,273)	(1,644)	(22,068)
Tax allowable reserves for deduction of fixed assets	(158)	(188)	(1,534)
Other	(267)	(390)	(2,593)
Total deferred tax liabilities	(8,687)	(7,813)	(84,340)
Net deferred tax assets	¥ 5,818	¥ 6,373	$ 56,485

Following the promulgation on March 31, 2014 of the "Act for Partial Revision of the Income Tax Act" (Act No. 10 of 2014), the special corporate tax for reconstruction from the Great East Japan Earthquake will no longer be imposed from the fiscal year beginning on or after April 1, 2014. In line with this revision, the Company's statutory tax rate used to calculate deferred tax assets and liabilities for temporary differences expected to be eliminated in the consolidated fiscal year commencing from April 1, 2014 will change from 37.2% to 34.8%. If the Company takes the above change into consideration and uses it as a basis for recalculating the temporary differences at the end of the current consolidated fiscal year, this change in the tax rate resulted in a ¥279 million (US$2,709 thousand) decrease in deferred tax assets (net of deferred tax liabilities) and an increase of the same amount in deferred income taxes.

18 Business Combinations

Transactions under Common Control

1. Summary of Transaction

(1) Business activities of the related company
Type of business
Operations involving shock absorbers and other devices for motorcycles (including ATVs, snowmobiles and similar motor vehicles) as well as associated equipment, parts and accessories (except sales and procurement)
a. Development, manufacture and sale of shock absorbers and other devices for motorcycles (including ATVs, snowmobiles and similar motor vehicles) as well as associated equipment, parts and accessories
b. Support to other companies involving the development and sale of shock absorbers and other devices for motorcycles (including ATVs, snowmobiles and similar motor vehicles) as well as associated equipment, parts and accessories
c. All activities associated with the above business activities

(2) Date of business combination
October 1, 2013

(3) Legal method of business combination
A new company was established through a divestiture with the Company the divesting company and KYB Motorcycle Suspension Co., Ltd. the company newly established by the divestiture.

(4) Name of the new company
KYB Motorcycle Suspension Co., Ltd.
(Consolidated Subsidiary of the Company)

(5) Other information concerning summary of transaction
The new company will utilize the resources and knowledge of the Company, which has specialized in the manufacture of shock absorbers, and Yamaha Motor Co., Ltd., which is a manufacturer of motorcycles. The goal is to establish a global infrastructure for the supply of motorcycle shock absorbers and other components as well as to supply at competitive cost products that are among the best in the world in terms of performance and quality.
On the divestiture date, the Company sold 33.4% of the stock of KYB Motorcycle Suspension to Yamaha Motor.

2. Summary of Accounting Treatment

The Company accounted for this business combination as transactions under common control in accordance with "Accounting Standard for Business Combinations (ASBJ Statement No. 21, announced December 26, 2008) and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Divestitures" (ASBJ Guidance No. 10, announced December 26, 2008).

19 Asset Retirement Obligations

1. Asset Retirement Obligations Recognized in the Consolidated Balance Sheet

The Company and its certain consolidated subsidiaries have posted asset retirement obligations based on a reasonable estimate of the cost of removing equipment that used chrome plating, asbestos and certain other materials. These estimates are based on the Waste Management and Public Cleaning Act, Ordinance on Prevention of Health Impairment due to Asbestos and other laws and regulations.

Asset retirement obligations calculated by using the estimated useful period since acquisition of the equipment, 4 to 31 years, and a discount rate of 2.0% for the years ended March 31, 2014 and 2013.

The asset retirement obligations as of March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Beginning of the year	**¥391**	¥364	**$3,796**
New obligations by acquisition of fixed assets	**0**	31	**0**
Changes in estimated obligations and accretion	**5**	5	**49**
Settlement payment	**(10)**	(9)	**(97)**
End of the year	**¥386**	¥391	**$3,748**

2. Asset Retirement Obligations Other Than Those Recognized in the Consolidated Balance Sheet

The Company and its certain consolidated subsidiaries have obligation for future restoration mainly relating to the offices, pursuant to the office rental agreements. However, these obligations were not recognized in the consolidated balance sheet because they could not specify the timing of its pursuance and estimate reasonably the amounts of these obligations for estimated period of use of the relevant tangible fixed assets was uncertain and no plan or expectation of relocation.

20 Segment Information

1. Segment Information

(a) General information about reportable Segments

Each reportable segment of the Companies is the business unit in the Companies, for which segment financial information is available. Reportable segments are reviewed periodically at the Board of Directors Meeting in order to determine allocation of management resources and evaluate business result on each reportable segment.

The Company has a business headquarters or department for individual products and services. Each headquarters or department determines comprehensive strategies in Japan and overseas for its products and services and conducts business operations. As a result, the Company has four business categories: "Automotive Components," "Hydraulic Components," "Special-purpose Vehicles" and "System Products and Electronic Equipment," which consists of activities that do not belong to the other three segments.

In consideration of the volume standard and other items concerning reportable segments, "Special-purpose Vehicles" and "System Products and Electronic Equipment" are combined into "Other" for disclosure purposes. Consequently, the Company has two reportable segments: "Automotive Components" and "Hydraulic Components."

(b) Basis of measurement on reported segment net sales, profit or loss, segment assets and other material items

The accounting methods for each reportable segment are almost the same as those set forth in the "Summary of Significant Accounting Policies". The amount of segment profit corresponds to that of operating income. Intersegment sales and transfers are based on the market prices.

(c) Information about reported segment net sales, profit or loss, segment assets and other material items

Segment information as of and for the years ended March 31, 2014 and 2013 was as follows:

	Millions of yen						
	2014						
	Reportable segment						
	Automotive Components	Hydraulic Components	Subtotal	Other	Total	Adjustment	Consolidated
Segment sales:							
Outside customers	**¥218,948**	**¥115,486**	**¥334,434**	**¥18,277**	**¥352,711**	**¥ —**	**¥352,711**
Intersegment	**2,501**	**2,783**	**5,284**	**2,530**	**7,814**	**(7,814)**	**—**
Total sales	**221,449**	**118,269**	**339,718**	**20,807**	**360,525**	**(7,814)**	**352,711**
Segment profits	**9,153**	**7,994**	**17,147**	**1,123**	**18,270**	**(100)**	**18,170**
Segment assets	**196,977**	**138,758**	**335,735**	**33,253**	**368,988**	**(7,905)**	**361,083**
Other items							
Depreciation	**8,687**	**7,431**	**16,118**	**1,176**	**17,294**	**—**	**17,294**
Impairment loss on fixed assets	**11**	**345**	**356**	**—**	**356**	**—**	**356**
Increase in property, plant and equipment and intangible assets	**18,391**	**9,493**	**27,884**	**2,063**	**29,947**	**(39)**	**29,908**
Amortization of goodwill and negative goodwill	**0**	**—**	**0**	**155**	**155**	**—**	**155**

	Millions of yen						
	2013						
	Reportable segment						
	Automotive Components	Hydraulic Components	Subtotal	Other	Total	Adjustment	Consolidated
Segment sales:							
Outside customers	¥184,802	¥105,068	¥289,870	¥15,882	¥305,752	¥ —	¥305,752
Intersegment	2,424	2,402	4,826	1,137	5,963	(5,963)	—
Total sales	187,226	107,470	294,696	17,019	311,715	(5,963)	305,752
Segment profits	5,106	4,255	9,361	871	10,232	242	10,474
Segment assets	177,682	131,610	309,292	22,128	331,420	(3,508)	327,912
Other items							
Depreciation	7,394	6,643	14,037	517	14,554	—	14,554
Impairment loss on fixed assets	47	9	56	—	56	—	56
Increase in property, plant and equipment and intangible assets	18,087	17,659	35,746	3,469	39,215	—	39,215
Amortization of goodwill and negative goodwill	(1)	—	(1)	—	(1)	—	(1)

	Thousands of U.S. dollars						
	2014						
	Reportable segment						
	Automotive Components	Hydraulic Components	Subtotal	Other	Total	Adjustment	Consolidated
Segment sales:							
Outside customers	**$2,125,709**	**$1,121,223**	**$3,246,932**	**$177,447**	**$3,424,379**	**$ —**	**$3,424,379**
Intersegment	**24,281**	**27,020**	**51,301**	**24,572**	**75,873**	**(75,873)**	**—**
Total sales	**2,149,990**	**1,148,243**	**3,298,233**	**202,019**	**3,500,252**	**(75,873)**	**3,424,379**
Segment profits	**88,864**	**77,612**	**166,476**	**10,903**	**177,379**	**(971)**	**176,408**
Segment assets	**1,912,398**	**1,347,165**	**3,259,563**	**322,845**	**3,582,408**	**(76,748)**	**3,505,660**
Other items							
Depreciation	**84,340**	**72,145**	**156,485**	**11,418**	**167,903**	**—**	**167,903**
Impairment loss on fixed assets	**107**	**3,349**	**3,456**	**—**	**3,456**	**—**	**3,456**
Increase in property, plant and equipment and intangible assets	**178,553**	**92,165**	**270,718**	**20,030**	**290,748**	**(379)**	**290,369**
Amortization of goodwill and negative goodwill	**0**	**—**	**0**	**1,505**	**1,505**	**—**	**1,505**

Notes: 1. "Other" includes "special-purpose vehicles" and "System Products and Electronic Equipment" that are not included in the two reportable segments.
2. All amounts of adjustment of segment profits are the elimination of intersegment transactions.
3. All amounts of adjustment of segment assets are the elimination of intersegment transactions.
4. Segment profits have been reconciled with operating income in the consolidated statement of income.
5. The increase in property, plant and equipment and intangible assets includes long-term prepaid expenses.

3. Related Information

(a) Information about products and services

The information about products and services for the years ended March 31, 2014 and 2013 was omitted since same information is disclose in "1. Segment information".

(b) Information about geographic region

The information about geographic region as of and for the years ended March 31, 2014 and 2013 was as follows:

	Millions of yen						
	2014						
	Japan	Europe	U.S.A.	China	South East Asia	Other areas	Total
Net sales	**¥169,249**	**¥60,711**	**¥37,802**	**¥25,676**	**¥24,966**	**¥34,307**	**¥352,711**
Property, plant and equipment	**90,527**	**12,049**	**6,222**	**19,292**	**14,291**	**5,256**	**147,637**

	Millions of yen						
	2013						
	Japan	Europe	U.S.A.	China	South East Asia	Other areas	Total
Net sales	¥162,262	¥43,646	¥30,598	¥17,872	¥25,590	¥25,784	¥305,752
Property, plant and equipment	86,945	9,261	4,848	18,494	11,429	493	131,470

	Thousands of U.S. dollars						
	2014						
	Japan	Europe	U.S.A.	China	South East Asia	Other areas	Total
Net sales	**$1,643,194**	**$589,427**	**$367,010**	**$249,282**	**$242,388**	**$333,078**	**$3,424,379**
Property, plant and equipment	**878,903**	**116,981**	**60,408**	**187,301**	**138,748**	**51,028**	**1,433,369**

Notes: 1. Net sales are based on the locations of customers and categorized by countries and areas.
2. Property, plant and equipment are based on the locations and categorized by countries and areas.
3. Regions are based on geographic proximity.

(c) Information about major customers

The information about major customers for the years ended March 31, 2014 and 2013 was not disclosed since net sale to any customer was less than 10% of the amount of net sales in consolidated statement of income.

(d) Information about impairment loss on fixed Assets by reportable segments

The information about impairment loss on fixed assets by reportable segment for the years ended March 31, 2014 and 2013 was omitted since same information is disclosed in the reportable segments.

3. Amortization of Goodwill and Unamortized Balance of Goodwill by Reportable Segments

Amortization of goodwill and unamortized balance of goodwill by reportable segments for the years ended March 31, 2014 and 2013 were as follows:

	Millions of yen				
	2014				
	Reportable segment				
	Automotive Components	Hydraulic Components	Subtotal	Other	Total
Goodwill					
Amortization	**¥1**	**¥—**	**¥1**	**¥155**	**¥156**
Unamortized balance	**3**	**—**	**3**	**620**	**623**
Negative goodwill					
Amortization	**¥1**	**¥—**	**¥1**	**¥ —**	**¥ 1**
Unamortized balance	**—**	**—**	**—**	**—**	**—**

	Millions of yen				
	2013				
	Reportable segment				
	Automotive Components	Hydraulic Components	Subtotal	Other	Total
Goodwill					
Amortization	¥1	¥—	¥1	¥—	¥1
Unamortized balance	4	—	4	—	4
Negative goodwill					
Amortization	¥2	¥—	¥2	¥—	¥2
Unamortized balance	1	—	1	—	1

	Thousands of U.S. dollars				
	2014				
	Reportable segment				
	Automotive Components	Hydraulic Components	Subtotal	Other	Total
Goodwill					
Amortization	**$10**	**$—**	**$10**	**$1,505**	**$1,515**
Unamortized balance	**29**	**—**	**29**	**6,020**	**6,049**
Negative goodwill					
Amortization	**$10**	**$—**	**$10**	**$ —**	**$ 10**
Unamortized balance	**—**	**—**	**—**	**—**	**—**

21 Subsequent Event

On June 25, 2014, the shareholders of the Company authorized the following appropriation of retained earnings as of March 31, 2014:

	Millions of yen	Thousands of U.S. dollars
	2014	**2014**
Cash dividends, ¥5.0 (US$0.05) per share	**¥1,278**	**$12,408**

KPMG

Independent Auditor's Report

To the Board of Directors of Kayaba Industry Co., Ltd.:

We have audited the accompanying consolidated financial statements of Kayaba Industry Co., Ltd. and its consolidated subsidiaries , which comprise the consolidated balance sheets as at March 31, 2014 and 2013, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Kayaba Industry Co., Ltd. and its consolidated subsidiaries as at March 31, 2014 and 2013, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2014 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

June 30, 2014
Tokyo, Japan

KPMG AZSA LLC, a limited liability audit corporation incorporated under the Japanese Certified Public Accountants Law and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.