Our Precision, Your Advantage

ANNUAL REPORT 2016

Year Ended March 31, 2016

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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.

What is KYB?

» KYB in Everyday Living

As a pioneer in hydraulic technology, KYB is active in a wide range of fields, including automotive, motorcycle, construction machinery, railroad cars, aircraft, special-purpose vehicle, seismic isolation system, vibration control damper, and marine equipment.

By developing advanced products that combine hydraulics with electronic control and other technologies, KYB has earned the trust of customers around the world. We aim to continue earning customer and stakeholder support with our relentless drive toward the technologies and products of tomorrow.

Vibration Control Technology

Automotive

Motorcycles

Railroad Equipment

Aircraft Components

Power Control Technology

Construction Machinery

Industrial Vehicles

Special-purpose Vehicles

Vibration Control Dampers

Agricultural Machinery

Industrial Machinery

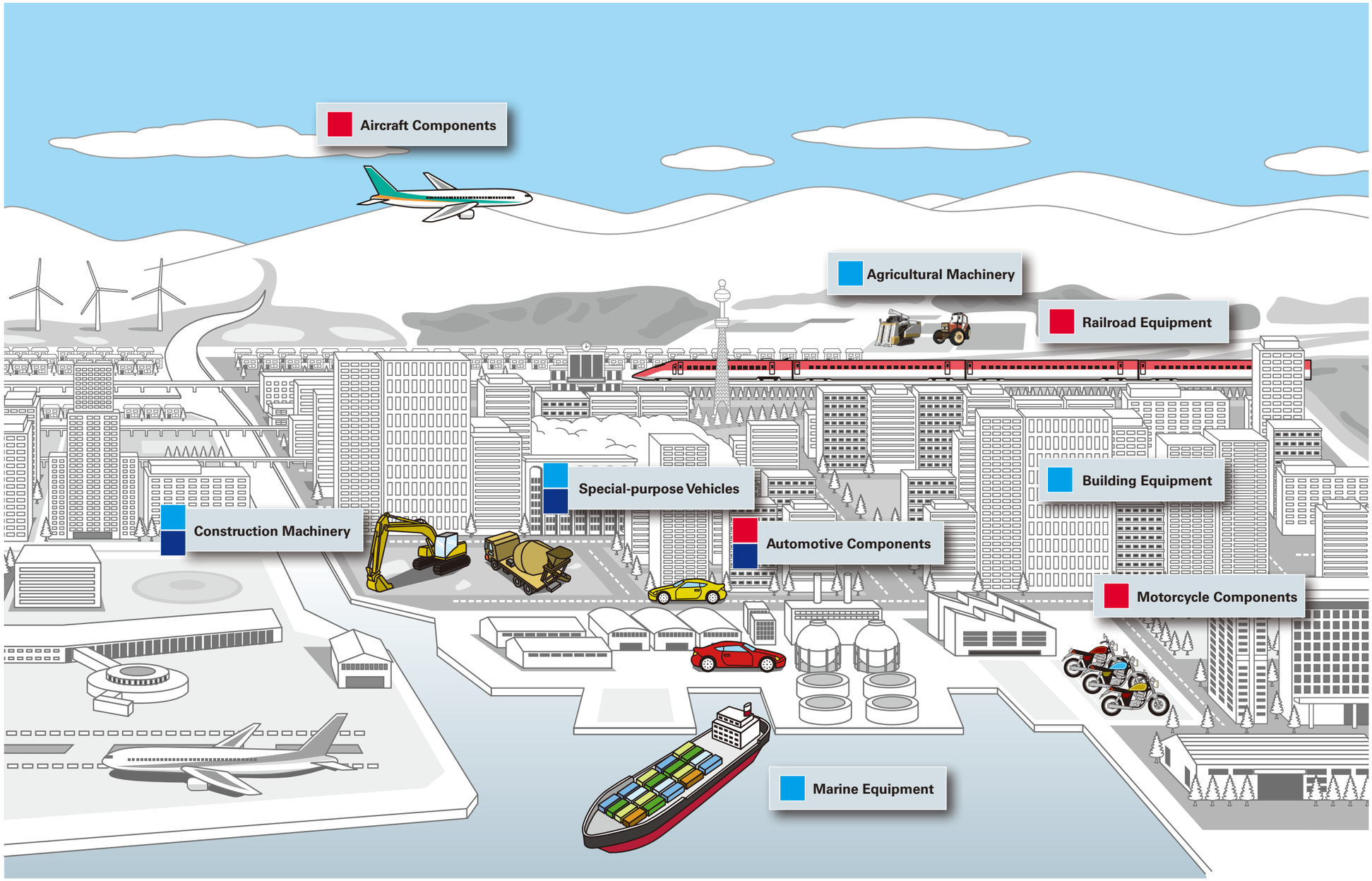
Building and Stage Equipment

Marine Components

Electronic Control Technology

Mobile Communication Device

High-Performance EPS



» Global Production and Sales Network

The KYB Group, which has plants and companies in 23 countries and areas around the world, 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

1919	Founded Kayaba Research Center
1935	Established Kayaba Manufacturing Co., Ltd.
1943	Established Gifu works (presently Gifu South Plant)
1948	Established Kayaba Industry Co., Ltd. (based on the Corporate Reconstruction and Reorganization Act)
1956	Established Kayaba Auto Service Co., Ltd. (presently KYB Engineering and Service Co., Ltd.)
1968	Established Gifu North Branch Plant (presently Gifu North Plant)
1970	Established Kanayama Kayaba Co., Ltd. (presently KYB Kanayama Co., Ltd.)
1971	Established Kumagaya and Mie Plant
1975	Established Sagami Plant Established Japan Analyst Co., Ltd., a joint venture
1985	Changed the Company name "KYB" from kanji (Chinese characters) to katakana (Japanese Characters)
2004	Acquired shares of Trondule Co., Ltd. (presently KYB Trondule Co., Ltd.) and became a subsidiary Established Kayaba System Machinery Co., Ltd., which split the Systems Products Division from the Company
2005	Change alias name to KYB Corporation Established new corporate philosophy and vison
2006	Acquired shares of Takako Industries Inc. and became a subsidiary
2008	Established Gifu East Plant
2011	Yanagisawa Seiki MFG Co., Ltd. (presently KYB-YS Co., Ltd.), became a wholly owned subsidiary. Established Developmental Experiment Center, a test course for automobiles and motorcycles, and Machine Tools Center
2012	Established Electronic Technology Center
2013	Established KYB Motorcycle Suspension Co., Ltd., a joint venture (66.6% KYB ownership)
2015	Changed the trade name to KYB Corporation
2016	Established Aircraft Components Division, independent from HC Operations Merged KYB-CADAC Co., Ltd. into KYB-YS Co., Ltd.

Gifu North Plant

Developmental Experiment Center

Gifu South Plant

KYB Kanayama Co., Ltd.

Gifu East Plant

Kayaba System Machinery Co., Ltd.

Kumagaya Plant

KYB Trondule Co., Ltd.

Sagami Plant

KYB-YS Co., Ltd.

Production Technology R&D Center / Machine Tools Center

Asia

1970	Invested in Yung Hwa Machinery Industrial Co., Ltd. (presently KYB Manufacturing Taiwan Co., Ltd.) of Taiwan (55.1% KYB ownership)
1976	Established PT. Kayaba Indonesia, a joint venture, in Indonesia. (30.0% KYB ownership)
1983	Established Kayaba (Malaysia) Sdn. Bhd. (presently KYB-UMW Malaysia Sdn. Bhd.), a joint venture, in Malaysia (33.4% KYB ownership)
1996	Established Siam Kayaba Co., Ltd. (presently KYB (Thailand) Co., Ltd.), a joint venture, in Thailand (67.0% KYB ownership)
2002	Established Kayaba Vietnam Co,. Ltd. (presently KYB Manufacturing Vietnam Co,. Ltd.) in Vietnam Established KYB Industrial Machinery (Zhenjiang) Ltd. in China
2004	Established KYB Hydraulics Industry (Zhenjiang) Ltd. in China Established KYB Trading (Shanghai) Co., Ltd. in China
2005	Established KYB Asia Co., Ltd. in Thailand
2008	Established Wuxi KYB Top Absorber Co., Ltd., a joint venture, in China
2010	Established KYB (China) Investment Co., Ltd. in China
2012	Established KYB Motorcycle Suspension India Private Limited, a joint venture, in India (66.6% KYB ownership)
2013	Established PT. KYB Hydraulics Manufacturing Indonesia, a joint venture, in Indonesia (75.0% KYB ownership)
2014	Established Chennai Sales Office in India
2016	Merged KYB Hydraulics Industry (Zhenjiang) Ltd. into KYB Industrial Machinery (Zhenjiang) Ltd. Merged KK Hydraulics Sales (Shanghai) Ltd. into KYB Trading (Shanghai) Co., Ltd.

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 KYB Corp. of America (presently KYB Americas Corporation) in the United States
2000	Established Arvin-Kayaba Do Brasil LTDA. (presently KYB-Mando do Brasil Fabricante de Autopecas S.A.), a joint venture, in Brazil (50.0% KYB ownership)
2004	Established KYB Latinoamerica S.A de C.V. in Mexico
2012	Established KYB Mexico S.A. de C.V. in Mexico
2013	Established Comercial de Autopeças KYB do Brasil Ltda. 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	Jointly acquired AP Amortiguadores S.A. (presently KYB Suspensions Europe, S. A. U.) in Spain
1989	Established Kayaba Europe GmbH (presently KYB Europe GmbH) in Germany
1996	Established Kayaba Spain, S.A. (presently KYB Steering Spain, S.A.U.), a joint venture, in Spain
2003	Established KYB Manufacturing Czech s.r.o., a joint venture, in the Czech Republic
2008	Established KYB Advanced Manufacturing Spain, S.A.U., a joint venture, in Spain
2009	Established KYB Europe Headquarters GmbH in Germany
2012	Established KYB Europe Headquarters B.V. in the Netherlands, and LLC KYB Eurasia in Russia
2013	Established KYB CHITA Manufacturing Europe s.r.o., a joint venture, in the Czech Republic (70.0% KYB ownership)
2015	KYB Advanced Manufacturing Spain, S.A.U. became a wholly owned subsidiary.

KYB EUROPE HEADQUARTERS GmbH

KYB CHITA Manufacturing Europe s.r.o.

KYB Manufacturing Czech s.r.o.

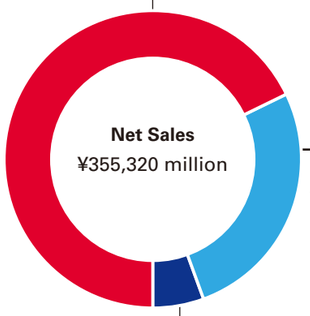
LLC KYB Eurasia

Note: KYB ownership is as of March 31, 2016. Companies with no ownership shown are wholly owned subsidiaries.

» At a Glance

KYB's organizational structure is comprised of business operations and divisions based on products and services offered. Business segments are Automotive Components (AC) Operations, Hydraulic Components (HC) Operations, and Others, which includes the Special-purpose Vehicles and the System Products and Electronics Components Business.

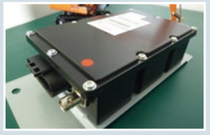
Sales Breakdown by Segment



AC Operations
¥240,903 million
67.8%

HC Operations
¥95,025 million
26.7%

Special-purpose Vehicles Business, System Components and Electronic Components
¥19,392 million
5.5%

Segment		Major Products
Automotive Components (AC) Operations	■ Shock absorber for automobiles Shock absorbers (OE, aftermarket) ■ Shock absorber for motorcycles Front folk, Rear cushion units ■ Hydraulic equipment for automobiles Vane pumps, Power steering systems, Vane Pumps for CVT, EPS ■ Others Stay damper	Shock Absorbers Steer-by-wire Vane Pumps for CVT Hydraulic Systems DLC Coated Front Fork Rear Cushion Units Shock Absorbers for Snowmobiles
Hydraulic Components (HC) Operations:	■ Hydraulic equipment for industrial use Cylinders, Valves, Pumps, Motors, MMP, HST ■ Hydraulic equipment for aircraft Actuators, Valves, Wheels, Brakes ■ Others Dampers for railroad cars, Brake for railroad cars, Seals	Hydraulic Cylinders Actuators Hydraulic Valves Semi-active Suspension Systems for Bullet Train Cars Wheel Brakes Caliper Brakes
Special-purpose Vehicles and System Products and Electronics Components Business:	■ Special-purpose vehicles Concrete Mixer Trucks ■ System products and electronic components, etc. Vibration control dampers, Auditorium and stage control systems, ECU, Mobile Communication Device	Concrete Mixer Trucks Vibration Control Dampers Vibration Control Devices Movable Floors with Variable Seating  Mobile Communication Device Hejacules (Self Propelled Hydraulic Jack)

Ten-Years Summary

KYB Corporation and its Consolidated Subsidiaries
Years ended March 31,

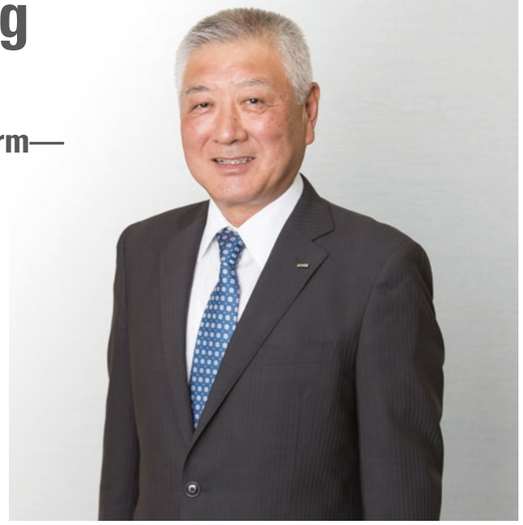
	Millions of yen										
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
	IFRS	IFRS	JGAAP	JGAAP	JGAAP	JGAAP	JGAAP	JGAAP	JGAAP	JGAAP
Net sales	**¥355,320**	¥370,327	¥352,711	¥305,752	¥337,159	¥320,083	¥252,021	¥329,262	¥387,080	¥356,083
Cost and expenses	**337,732**	354,821	334,541	295,279	315,621	295,931	248,125	329,212	368,809	341,510
Operating profit	**4,327**	14,461	18,170	10,473	21,538	24,152	3,896	50	18,271	14,573
Operating profit margin [%]	**1.2**	3.9	5.2	3.4	6.4	7.5	1.5	0.0	4.7	4.1
Profit before tax / Income (loss) before income taxes and minority interests	**2,825**	14,892	21,032	12,994	21,760	24,440	1,671	(4,300)	15,218	13,481
Profit (loss) attributable to owners of the parent / Net income (loss)	**(3,161)**	8,036	12,761	7,789	13,898	17,014	661	(5,230)	8,398	6,959
Comprehensive income	**(17,832)**	25,203	20,310	16,061	14,997	14,406	—	—	—	—
Return on equity (ROE)	**—**	4.4	9.7	7.3	14.8	21.1	0.9	—	9.9	8.7
Cash flows from operating activities	**19,958**	22,335	28,788	18,984	17,399	35,433	22,655	8,499	19,707	20,358
Cash flows from investing activities	**(20,320)**	(30,658)	(36,078)	(36,125)	(20,000)	(7,233)	(12,828)	(26,505)	(20,166)	(18,323)
Cash flows from financing activities	**(3,395)**	(555)	5,709	8,529	(3,455)	(16,968)	(6,646)	32,200	4,192	(3,157)
R&D expenses	**7,760**	8,910*	6,917	5,468	4,035	3,218	2,817	3,268	3,367	3,707
Depreciation and amortization	**17,075**	15,191	17,294	14,554	13,508	13,427	15,318	16,552	14,973	12,289
Capital expenditure	**21,300**	30,087	29,908	39,215	27,173	8,916	10,082	24,968	23,564	19,735
Working capital	**23,511**	29,405	39,303	22,179	42,006	46,023	48,701	43,513	29,120	23,758
Total equity attributable to owners of the parent	**148,278**	169,307	—	—	—	—	—	—	—	—
Total equity / Total net assets	**153,381**	175,256	153,997	116,435	102,762	89,964	78,489	76,451	91,739	87,817
Total assets	**359,002**	387,877	361,083	327,912	301,349	285,134	269,361	269,655	289,739	285,146
Cash and cash equivalents at end of period	**25,296**	30,510	38,132	35,215	42,010	48,123	37,664	34,272	20,073	16,651
Ratio of equity attributable to owners of the parent / Equity ratio [%]	**41.3**	43.6	41.2	34.5	33.2	30.6	27.3	26.6	29.8	29.1
				Yen						
Per share data:										
Basic earnings per share / Net income (loss)	**¥ (12.37)**	¥ 31.45	¥ 55.25	¥ 35.24	¥ 62.87	¥ 77.54	¥ 3.03	¥(23.62)	¥ 37.72	¥ 31.33
Equity attributable to owners of parent per share / Net worth	**580.40**	662.67	582.28	512.18	453.00	395.18	336.55	327.97	387.45	372.60
Cash dividends applicable to the year	**11.00**	12.00	9.00	8.00	9.00	8.00	2.50	3.50	7.00	7.00
P/E ratio [Times]	**—**	14.0	7.9	13.1	8.0	8.6	113.9	—	10.2	20.8
Number of employees	**13,796**	13,732	13,033	12,306	11,975	11,440	10,977	11,370	11,546	10,596

Note: This document has been translated from the original Japanese, the Annual Securities Report. All amounts are rounded down to the nearest million yen, unless otherwise noted.
*JGAAP

To Our Shareholders and Investors

Earning trust and orders from customers around the world by uniting the KYB Group's functions.

—Making progress towards the next medium term—



Yasusuke Nakajima
President

Review of Fiscal 2015

Sales and profits decline under harsh business environment

In the global economy in fiscal 2015, the year ended March 31, 2016, we have seen an economic recovery in the U.S. and a gradual rally in Europe. However, economic growth has slowed in China, and resource markets in all countries are facing an economic slump caused by the depreciation in crude oil prices. These factors, along with the slowdown in emerging economies, have caused uncertainty regarding the future of global markets. In Japan, consumer spending has been slow to recover, and the yen is on an inclining trend, causing stagnation to continue.

Amidst this challenging management environment, we have been striving in fiscal 2015 to close the gap in achieving our 2014 medium-term business plan (the 2014 mid-term plan). Under the slogan "Narrow down important business tasks, complete them thoroughly," we have focused on the following efforts:

1. Expanded our global manufacturing, supply and sales system.
   1) Established a manufacturing system shock absorbers for automobiles in Mexico (Started manufacturing operations in May 2016).
   2) Started manufacturing operations at a new plant in India that manufactures shock absorbers for motorcycles under our jointly owned business with Yamaha Motor Co., Ltd. (May 2015).

2. Enhanced our global quality assurance system.
   1) Prevented quality issues by increasing the number of inspectors.
   2) Strengthened guidance and education from mother plants, which support production at overseas plants.

3. Created a global compliance system.
   1) Newly established the Compliance Promotion Office, created compliance organization system.
   2) Introduced internal leniency system.
   3) Thoroughly strengthened compliance education.

4. Carried out structural reform of HC Operations.
   1) Integrated and reorganized manufacturing and sales companies in China as well as manufacturing companies in Japan.
   2) Streamlined production lines in accordance with revisions in demand forecasts.

5. Developed new products.
   1) Developed shock absorbers for new Toyota Prius line.
   2) Adopted spoiler actuator for business jets.
   3) Developed lightweight electronically controlled concrete mixer truck.
   4) Developed vibration control damper for large earthquakes as well as connecting equipment for installation.

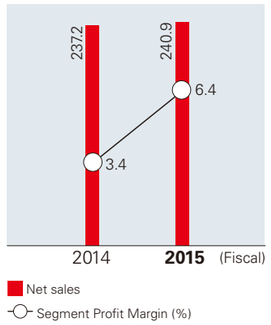
Although we have made progress with these activities, we must unfortunately report that the KYB Group faced a decline in net sales in fiscal 2015 to ¥355.3 billion, a decrease of ¥15.0 billion from the previous fiscal year. While automobile product sales were firm, the slump in the construction machinery market, particularly in China, was the main cause of the decrease. Segment profit increased ¥2.1 billion from the previous fiscal year, to ¥17.6 billion. Loss attributable to owners of the parent was ¥3.2 billion, due to a US$62 million (approx. ¥7.4 billion) loss associated with a violation of the U.S. Anti-Monopoly Act and an impairment loss of ¥3.5 billion accompanying the decline in profitability of our subsidiary in China.

Increase in AC Operations, large decrease in HC Operations

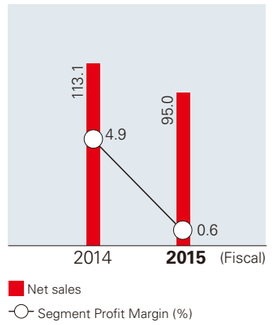
Sales in AC (Automotive Components) Operations were ¥240.9 billion, a ¥3.7 billion increase from the previous fiscal year, on the strength of favorable sales of OEM in the U.S. and afftermarket sales in the Middle East market. On the other hand, HC (Hydraulic Components) Operations saw sales of ¥95.0 billion, a large decrease of ¥18.1 billion from the previous fiscal year, caused by a slowdown in China's construction machinery market and low demand in emerging economies. In the Special-purpose Vehicles Division, System Products and Electronics Components Division, net sales were ¥19.4 billion, a decrease of ¥600 million, with sales increasing in the Special-purpose Vehicles Division mainly from concrete mixer trucks, while the System Products and Electronics Components Division faced less favorable conditions.

Net Sales by Segment (Billions of yen)

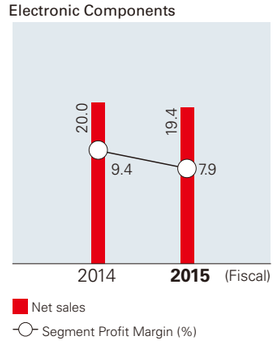
AC Operations



HC Operations



Special-purpose Vehicles Business, System Components and Electronic Components



KYB's Position in Fiscal 2016

Focus on resolving remaining issues to improve profitability

Fiscal 2016 is the final year of our 2014 mid-term plan. In order to close the gap between our current situation and our goals, we must thoroughly upgrade our organization to position ourselves for the next medium-term.

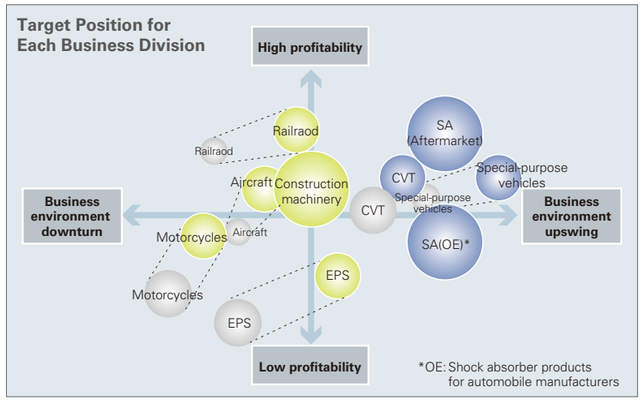
First, in light of the effect of the decline in sales and profits, we have determined our target for consolidated net sales at ¥342.0 billion, and for the operating profit margin at 3.8%.
While monitoring the business environment, we will set "Complete unfinished issues from fiscal 2015" as a key policy, and each business division shall make the following efforts:

AC Operations

This division's key efforts for fiscal 2016 will be to develop value-added products, innovative monozukuri (manufacturing expertise), and boost profits with sales promotions for aftermarket products.

In value-added products, the trend is toward electronically controlled suspension and lower weight. European manufacturers are leading in this field, but KYB will speed up the development of these products, making use of the strengths we have built in the noise and vibration control fields in addition

to our advantage of having transactions with various industries as an independent company. Furthermore, we plan to improve quality and productivity. We will do this with small lot production and an innovative compact automated line. We plan to start in Japan and roll out these changes to all plants in sequence.



Regarding sales promotions for aftermarket products, we will make our high coverage rate of automobiles in Europe, North America, and Japan the basis as we conduct sales promotions in growing markets such as India and Africa. Also, we will increase profitability in our business for shock absorbers for finished car manufacturers, and build a supply and sales system that can operate on a global level.

The motorcycle business is facing a worsening business environment. In response, we are streamlining and reorganizing our overseas companies, developing reduced cost models for the ASEAN region, and quickly developing electronically controlled suspension, which is in high demand. We are planning to improve the profitability of EPS by designing reduced cost models. Also, we are putting emphasis on sales promotions for new markets including all-terrain vehicles, multi-purpose buggies, construction machinery and agricultural machinery.

HC Operations

With no impending market recovery forecast, this division's key efforts are carrying out structural reforms and increasing the ratio of non-excavator business.

We have reorganized domestic and overseas companies, starting with the merger of two manufacturers and two sales companies in China, as well as two domestic manufacturers. Also, with the current challenging outlook for excavator demand, we streamlined our cylinder production lines. In addition, we are working on organizational reforms that involve reorganizing and reassigning other personnel and fixed cost reductions, and reorganization that goes beyond the framework of HC Operations.

Increasing the ratio of non-excavator business has become a key issue. We are advancing railway and agricultural machinery sales promotions overseas, and developing a new type of cylinder that fuses suspension technology and cylinder technology to target the mining dump market. In addition, we are exploring demand for other types of construction machinery.

Special-purpose Vehicles Division, System Products and Electronics Components

The Special-purpose Vehicles Division reached a temporary peak with the sudden rise of construction costs in Japan. However, with the remarkable annual growth rate of 30-40% in the Indian market, we will strengthen cooperation with mother plants in Japan and speed up the development of the current production system. We are aiming to increase our current market share of 4.5% to 15%.

In vibration control equipment, where we enjoy 50% of the marketplace, we are developing countermeasures against the pressing issue of long period earthquakes.

In the aviation industry, which is experiencing long-term growth, we have established the Aircraft Components Div. as a separate division from HC Operations in order to improve maneuverability. In this new division, we plan to quickly resolve the issue of disorganized manufacturing with the aim of making this division a KYB mainstay in the future, and strengthening and expanding the management base.

Solidifying the Management Base to Reach a Path to Growth

In fiscal 2016, we must shift to a growth path for the next fiscal year and beyond. For that reason, another key issue will be to develop several innovative policies focused on the next medium term.

We will continue to tackle issues from the point of view of human resources, technology and product development, monozukuri, and management to achieve innovative monozukuri and management aimed at the ideal KYB in 10 years. For human resources and monozukuri in particular, we will focus on the following points:

Human Resources

We will conduct human resource training on a global level. Based on our action plan, we provide support for skill development, workplace environment creation, childcare leave, and different working arrangements. Through these policies, we will create workplaces for our diverse staff, particularly female workers, where the right person at the right time can work effectively.

Monozukuri

Critical to any monozukuri-driven enterprise is ensuring cost competitiveness through improving quality and productivity. We will continue working thoroughly on the LT50 (lead time 50% reduction) activity and reductions to logistics costs. In addition to the previously mentioned innovative compact automated line, we are planning to control fixed costs.

To Our Shareholders and Investors

Making Improvements for Innovative *Monozukuri*

KYB has reached a critical moment in time where we must change our manufacturing workplaces. We must adopt innovative ideas that go beyond the limits of conventional improvement activities in order to continue meeting customer needs. In fiscal 2016, we will aim for zero workplace injuries and complaints, and to increase productivity in our workplaces. Strengthening our proactive approach to sharing information, development, design, purchasing, manufacturing, and sales departments will work together to make our workplaces more powerful, and enact sweeping improvement activities globally.

Furthermore, to prevent another incident that may harm stakeholder trust, we are further strengthening our internal controls and compliance promotion system to ensure thorough compliance with laws and regulations.

In line with our basic policy of paying a dividend equivalent to a Dividend on Equity (DOE)* ratio of at least 2% (annual rate), our annual dividend for fiscal 2015 is ¥11 per share. We have given full consideration to the use of internal reserves for capital investments in equipment and R&D, and we plan to maximize shareholder value through continuous growth.

Moving ahead, we will continue to put emphasis on product development that will satisfy our customers around the world, and to contribute to an abundant society where people can live in comfort, safety, and happiness. We thank all our shareholders and investors, and ask for their continued support of the KYB Group.

July 2016

Yasusuke Nakajima
Representative Director, President Executive Officer

*DOE= Dividends / (Net assets−Minority interests in consolidated subsidiaries−evaluation and translation differences)

Corporate Governance

Basic Policy for Corporate Governance

KYB seeks to meet stakeholders' expectations with continuous growth and the improvement of corporate value, and to contribute to society through fulfilling our corporate social responsibility. The Company has set up a swift, efficient management system centering on the Board of Directors, and established a highly fair and impartial management supervisory function. The following Management Principles and Basic Policies are the foundation of our approach to strengthening governance and our efforts for further enhancement.

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.

Basic Policies

1. We shall respect the rights of shareholders, and ensure the equal and fair treatment of all shareholders.
2. We shall take the benefits of stakeholders into consideration and endeavor to appropriately cooperate with those stakeholders.
3. We shall disclose not only the information in compliance with the relevant laws and regulations, but also actively provide the important and/or useful information to stakeholders for their well-informed decision making.
4. The Board of Directors shall be cognizant of its fiduciary responsibility and accountability to shareholders, and shall appropriately fulfill its roles and responsibilities in order to promote sustainable and stable corporate growth and increase corporate value, profitability, and capital efficiency.
5. We shall engage in constructive dialogue with shareholders, and make efforts to obtain shareholders' support regarding the Company's Business Policies and also reflect shareholders' opinions and concerns in the improvement of management.

Corporate Governance Systems

1. Overview of the corporate governance system

KYB uses a Board of Auditors as part of its corporate governance system, as based on the corporate laws.

Board of Directors

The Board of Directors has seven members, including two outside directors, in principle, meets once each month. In accordance with laws and regulations, the articles of incorporation, and other internal rules, directors reach decisions about items prescribed by policies and other important matters involving management as well as Directors' performance of executive duties.

Board of Executive Officers

The Board of Executive Officers' function is to deliberate beforehand on matters to be introduced to the Board of Directors. It deliberates on important matters related to management from a Company-wide perspective.

Other Management Committees

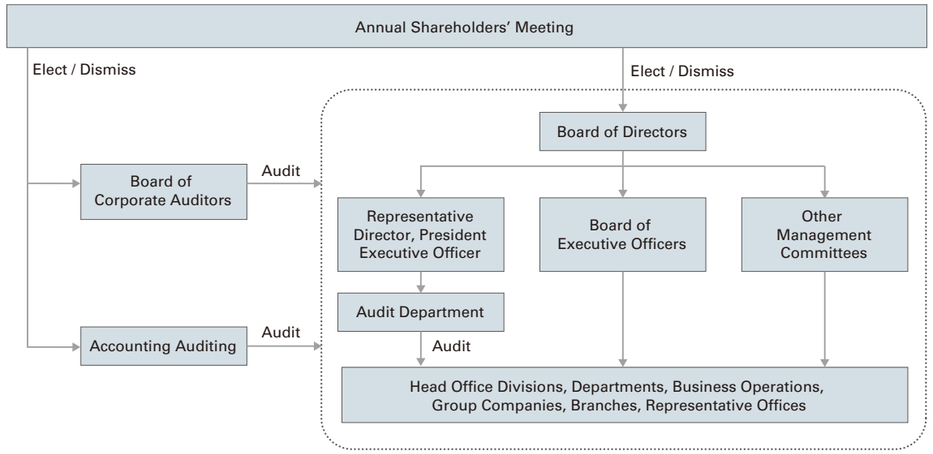
KYB has established management committees which include the Global Strategy Committee and Group Company Management Committee, which supervise the situation regarding execution of management duties at domestic and overseas affiliated companies, and the Operation Review with the President, wherein the President voluntarily visits plant workplaces, and follows up on important *monozukuri* issues. These functions serve to strengthen the Group management monitoring system.

Board of Corporate Auditors

This board consists of four standing auditors, including two outside auditors. KYB believes that audits performed by these auditors provide for the effective oversight of management and create an effective framework for governance.

One of the outside auditors appointed is an independent director.

Management Structure



2. Internal controls

To guarantee proper conduct in business affairs, the following "Basic Policy for Internal Control System" resolution was passed by the Board of Directors.

1. System necessary to ensure that the execution of duties by Directors and employees complies with laws, regulations, and articles of incorporation
   i) The Corporate Guiding Principles have been established in order to ensure that the Directors and employees of the corporate group comprising the KYB Corporation and its subsidiaries (the KYB Group, hereinafter) shall comply with laws, regulations, and articles of incorporation, and that corporate activities shall be conducted impartially and in good faith on the basis of high moral ethics.
   ii) The Compliance Promotion Office has been established under the Legal Affairs Dept. for the purpose of overseeing and promoting compliance. In order to promote awareness of compliance, the Legal Affairs Dept. and Compliance Promotion Office shall provide education and training for the Directors and employees of the KYB Group, and maintain the KYB Group's compliance system.
   iii) The Audit Dept. shall conduct internal audits of the KYB Group, evaluate the maintenance and operations of internal controls, and report the results of its audits to the Board of Directors.
   iv) An appropriate whistle-blowing system shall be maintained inside and outside the Company in order to ensure that employees are able to report information or serious doubts regarding illegal or improper conduct without fear of negative consequences. The Legal Affairs Dept. and Compliance Office shall present information regarding internal reports to the Board of Directors at fixed intervals.

2. System for preserving and managing information on Directors' performance of their duties
   (1) Information regarding Directors' performance of duties shall be properly preserved on the basis of laws, regulations, rules for important document management and the criteria of document organizing and storage.

3. System related to the management of the risk of loss and relevant regulations
   i) Risk management rules that determine systematic risk management shall be established, and construction of the KYB Group's risk management system shall be promoted.
   ii) The Risk Management Committee shall be established, and it shall identify and assess anticipated risks for the KYB Group as well as determine the risks on which to focus preventive efforts. Head offices shall establish regulations and guidelines regarding such risks on which to focus preventive efforts, and evaluate adherence to these rules and guidelines. The Risk Management Committee shall receive reports from the Head Offices on the content of their activities, and report about the situation regarding the Group-wide risk management system to the Board of Directors at fixed intervals.
   iii) The Audit Dept. shall audit the KYB Group's risk management situation though audits of the Head Offices' risk management situations, and shall report to the Board of Directors at fixed intervals.
   iv) If the impending occurrence of a serious issue for the KYB Group is detected, the person in charge of the report will immediately inform the President, as based on the early warning rules determined by the KYB Group. The President will give directions to the relevant parties in accordance with the impending issue, and take measures to limit damages to as little as possible.

4. System to ensure the efficient execution of duties by Directors
   i) The Company shall adopt the executive officer governance system to plan for swift decision making and efficient business operations. Directors shall ensure the efficient performance of duties based on the division of business affairs as determined by the Board of Directors and by administrative authority regulations.
   ii) The Company will formulate the KYB Group's mid-term and fiscal year management plan, share management objectives, and report on progress with business execution to the Board of Executive Officers and other meeting committees at fixed intervals.
   iii) The Company will perform adequate beforehand deliberation regarding important matters in the Board of Executive Officers and Other Management Committees, and adjust and optimize decisions made by the Board of Directors.

5. System to ensure the fair business operations of the KYB Group consisting of the Company and its subsidiaries
   i) Systems related to the reporting of information to the Company regarding the execution of business duties by the Directors and other managers of subsidiaries
      1) To maintain the soundness of group companies, Group Company Management Rules shall be determined to promote the optimization of consolidated management, and, in addition to reporting the status of management in written documentation, group subsidiaries shall report on the status of management at the Company's management meetings at fixed intervals.
   ii) System related to the management of the risk of loss in subsidiaries and relevant regulations
      1) Head offices shall establish regulations and guidelines regarding risks on which to focus preventive efforts as determined by the Risk Management Committee, and these regulations and guidelines shall also be observed by subsidiaries. Subsidiaries shall maintain regulations, guidelines, and management systems regarding risks on which to focus preventive efforts, and shall report to Head Offices on the status thereof.
   iii) System to ensure the efficient execution of duties by Directors and other managers of subsidiaries
      1) Subsidiaries shall observe the KYB Group's mid-term and fiscal year management plans, and shall conduct business activities based on the mid-term and fiscal year management plans.
      2) The Company shall determine global administrative authority regulations, and, based on those regulations, each subsidiary shall establish their own administrative authority regulations, ensuring the efficient execution of duties by the Directors of subsidiaries.
   iv) System necessary to ensure that the execution of duties by Directors, other managers and employees of subsidiaries complies with laws, regulations, and articles of incorporation
      1) Directors and employees of the KYB Group shall conduct themselves in a manner based on the Corporate Guiding Principles determined by the Company.
      2) The Legal Affairs Dept. and Compliance Promotion Office, in order to raise compliance awareness, shall maintain the KYB Group's compliance system in addition to providing education and training for the Directors and employees of the KYB Group. Each subsidiary shall, under the guidance of the Legal Affairs Dept. and Compliance Promotion Office, formulate their own compliance system.
      3) The Audit Dept. shall perform internal audits for the KYB Group, evaluate the maintenance and operations of internal controls, and report the results of its audits as well as proposals for improvements to the Board of Directors.
      4) The Company shall maintain an internal reporting system for each group company under the guidance of the Legal Affairs Dept. and Compliance Promotion Office. The Legal Affairs Dept. and Compliance Promotion Office shall report on the status of the KYB Group's internal reporting at fixed intervals.

6. Matters regarding employees when an Auditor requests assistance in the Auditor's duties and matters regarding such employees' independence from Directors and effectiveness of instruction to the employee
   (1) If a Corporate Auditor should request the assistance of an employee, it falls upon the Company's Directors and Board of Directors to arrange the provision of such employee.

7. Preceding matters regarding such employees' independence from Directors and effectiveness of instruction to the employee
   (1) Corporate Auditors shall make clear the following requirements in order to ensure the independence of the assisting employee.
      1) Jurisdiction of assisting employee
      2) Organizations to which the assisting employee is affiliated
      3) Orders and instructions to assisting employee
      4) Right to consent for approval of the assisting employee's personnel change, human resources evaluation, disciplinary measures, and other relevant factors.

8. Systems related to Directors and employees of the Company and its subsidiaries for reporting to corporate auditors
   i) When there is concern that an incident causing substantial damage may occur, Directors and employees of the KYB Group shall immediately report to a Corporate Auditor.
   ii) The Company's Directors and Executive Officers shall make progress reports on the execution of the duties for which they are responsible to Auditors through the Board of Directors and the Board of Executive Officers.
   iii) Corporate Auditors and Directors shall deliberate and reach decisions on the items that are reported and the persons who have made reports to the Auditors or Board of Auditors at fixed intervals or in extraordinary circumstances.
   iv) Corporate Auditors shall call for the Directors or the Board of Directors to maintain a cooperation system with the Audit Dept., in order to efficiently develop and make practical use of this system.

9. System to ensure that persons who have made reports to Auditors will not receive any adverse treatment for having made such reports
   (1) The KYB Group shall not conduct any adverse treatment for the reason that a person made a report to a Corporate Auditor.

10. Matters concerning procedures for advance payment or the reimbursement of expenses incurred in relation to the execution of duties by Corporate Auditors and any other policy for processing of costs and obligations incurred in relation to the execution of duties
(1) The Company shall bear costs necessary for Corporate Auditors to execute their duties, and shall quickly comply with procedures for advance payment or reimbursement.

11. Other systems to ensure effective audits by Corporate Auditors
i) Corporate Auditors shall hold meetings with Representative Directors at fixed intervals, and exchange opinions on important issues determined by audits involving management policies, issues that the Company should address, the risks surrounding the Company and other issues, assurance of assisting employees and the reporting system to Auditors, and environmental maintenance for other Auditor inspections.
ii) The Company's Board of Corporate Auditors will discuss exchanging information with Outside Auditors as well as issues on which to cooperate, ensuring the effectiveness of audits.
iii) Corporate Auditors shall hold meetings at fixed intervals to exchange opinions with outside accounting auditors, auditors from affiliates, and the Audit Dept., individually, and share information.
iv) Upon conducting auditing duties, Corporate Auditors shall receive the cooperation of the Audit Dept.

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 (excludes outside directors)	304	224	—	81	—	8
Standing auditors (excludes outside auditors)	44	44	—	—	—	3
Outside officer	50	50	—	—	—	3

2. Compensation paid to the independent auditor

Category	Millions of yen			
	FY2014		**FY2015**	
	Compensation for audit certification	**Compensation for non-auditing services**	Compensation for audit certification	Compensation for non-auditing services
KYB Corporation	**56**	**37**	**85**	**15**
Consolidated subsidiaries	**20**	—	**25**	**—**
Total	**77**	**37**	**110**	**15**

3. Other Significant Compensation

Five consolidated subsidiaries, including KYB Americas Corporation, have paid ¥124 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 2015.

Management

(As of June 24, 2016)

Representative Director, Chairman

Masao Usui

Representative Director,
President Executive Officer

Yasusuke Nakajima

Members of the Board of Directors,
Executive Vice President Executive Officer

Morio Komiya

Members of the Board of Directors,
Senior Managing Executive Officers

Keisuke Saito

Takaaki Kato

Member of the Board of Directors
(Outside)

Rokuro Tsuruta

Shuhei Shiozawa

Senior Managing Executive Officers

Takafumi Shoji
Masao Ono

Managing Executive Officers

Keiichi Handa
Kazuhiro Ogata
Eiji Hisada
Tadao Ogoshi
Yasuo Ooe
Kenji Yamanouchi
Hiroshi Ogawa
Hideki Nonoyama

Executive Officers

Shigeo Kidokoro
Shizuka Sakai
Ikuo Inagaki
Toshihiko Hatakeyama
Osamu Kunihara
Masaru Tsuboi
Hitoshi Nitta
Tomoyuki Nagata
Koji Yamamoto
Masayoshi Sakemi
Shigeru Ooshita
Hiroshi Kurotaki

Standing Auditors

Tomoo Akai
Michio Tani *
Osamu Kawase *
Motoo Yamamoto

* 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 2016.

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

As a large portion of the KYB Group's total net sales are overseas sales, 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.

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.

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.

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.

Consolidated Subsidiaries and Equity-Method Affiliates

As of March 31, 2016

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%
Takako America 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%
COMERCIAL DE AUTOPEÇAS KYB DO BRASIL LTDA.	Curitiba, Brazil	Sales of shock absorbers	Dec. 2013	100.0%

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.U.	Navarra, Spain	Manufacturing and sales of shock absorbers for automobiles	Jul. 1975	100.0%
KYB Steering Spain, S.A.U.	Navarra, Spain	Manufacturing and sales of pumps for power steering	Jun. 1996	100.0%
KYB Advanced Manufacturing Spain, S.A.U.	Navarra, Spain	Manufacturing and sales of shock absorbers for automobiles	Oct. 2008	100.0%
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, 2016

Company Name: KYB Corporation

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: March 10, 1935

Fiscal Year: April 1 to March 31

Paid-in Capital: ¥27,647.6 million

Number of Employees: 13,796 (Consolidated basis)

Securities Traded: Tokyo Stock Exchange (First Section)

Plants: Kumagaya, Sagami, Aikawa, 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, Developmental Experiment Center

Sales Branches: Automotive Components Operations Sales Department No. 2, Nagoya, Osaka, Fukuoka, Hiroshima

Shareholder Information

As of March 31, 2016

Common Stock Issued: 257,484,315 shares

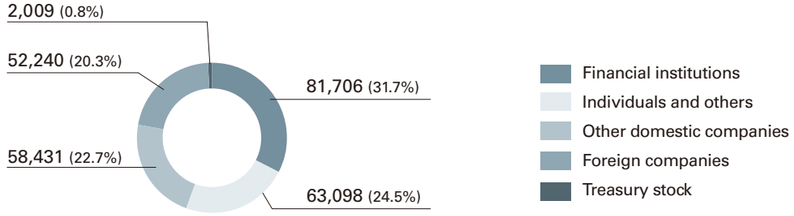
Number of Shareholders: 16,482

Transfer Agent and Registrar: Mizuho Trust & Banking Co., Ltd.
2-1, Yaesu 1-chome, Chuo-ku, Tokyo 103-8670, Japan

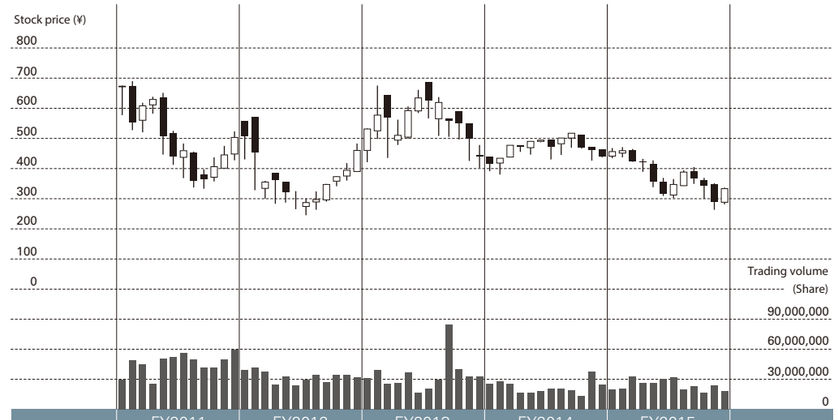
Major Shareholders:

Name	Shareholdings (Thousands)	Percent of Total Shares Issued
Toyota Motor Corporation	19,654	7.63
The Master Trust Bank of Japan, Ltd. (Trust Account)	10,893	4.23
Meiji Yasuda Life Insurance Company	10,046	3.90
Hitachi Construction Machinery Co., Ltd.	8,920	3.46
KYB suppliers' stock ownership	6,745	2.62
Japan Trustee Services Bank, Ltd. (Trust Account)	6,521	2.53
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
Ogaki Kyoritsu Bank, Ltd.	5,914	2.30
Mizuho Bank, Ltd.	4,905	1.91
NORTHERN TRUST CO.(AVFC) RE NVI01 (Standing Proxy: The Hongkong and Shanghai Banking Corporation Limited Tokyo branch Custody Department)	4,163	1.62
Total	83,877	32.58

Composition of Shareholders:
(Thousands)



Monthly Stock Price Range:
(Tokyo Stock Exchange)



	FY2011	FY2012	FY2013	FY2014	FY2015
High (¥)	690	508	675	523	471
Low (¥)	333	245	402	380	263
At year-end (¥)	503	460	436	440	333

Financial Section

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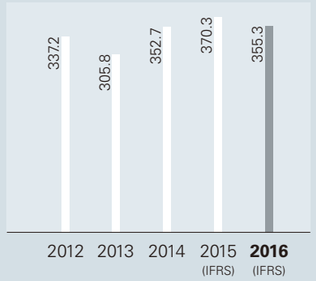
Financial Highlights

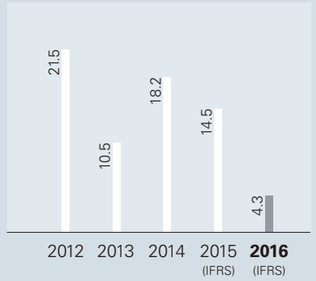
Net Sales

(Billions of yen)



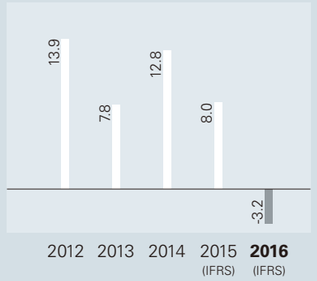
Operating Profit

(Billions of yen)



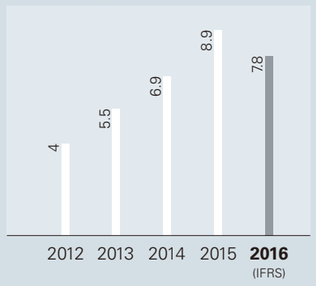
Profit (Loss) Attributable to Owners of the Parent / Net Income

(Billions of yen)



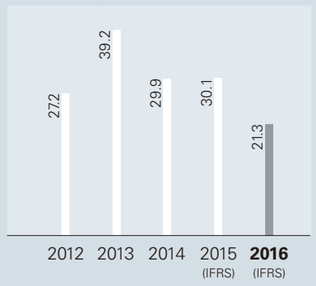
R&D Expenses

(Billions of yen)



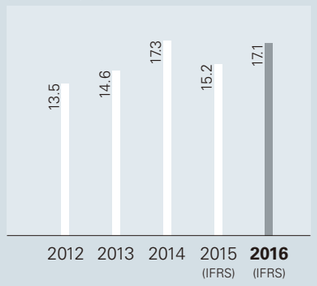
Capital Expenditure

(Billions of yen)



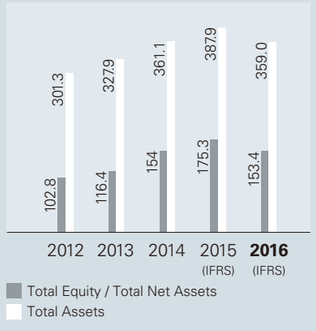
Depreciation and Amortization

(Billions of yen)



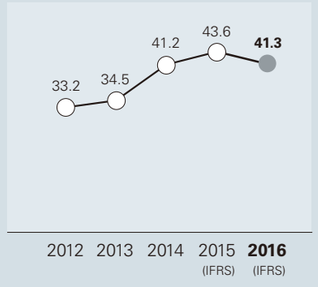
Total Equity and Total Assets / Total Net Assets and Total Assets

(Billions of yen)



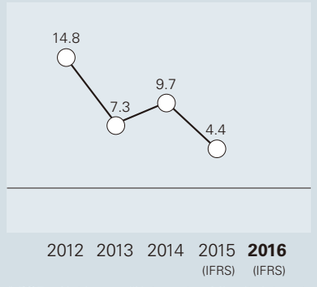
Ratio of Equity Attributable to Owners of the Parent / Equity Ratio

(%)



Return on Equity (ROE)*

(%)



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

Financial Review

Summary

In the automotive components segment, sales increased to ¥240.9 billion. Despite decreases in sales in Japan and elsewhere in Asia, sales of shock absorbers for automobiles were ¥162.6 billion, supported by favorable sales in the European and U.S. markets. Sales of motorcycle shock absorbers decreased 1.4%, with a large decline in the mainstay market of Asia. There was also a decrease in hydraulic pumps. However, strong demand for electric power steering products and CVT vane pumps resulted a 0.9% increase in sales of hydraulic equipment for automobiles, mainly for power steering. Sales of other products, mainly for ATV (All-Terrain Vehicle) equipment, were ¥5.7 billion.

In the hydraulic components segment, sales decreased to ¥95.0 billion. Sales of industrial hydraulic components, mainly for construction machinery, decreased 18.3% to ¥79.8 billion. In Japan, despite firm sales of mini excavator products, there was an overall decline caused by the repercussions of last year's rush of demand before new exhaust emissions regulations. The slow recovery in the Chinese market and sluggishness in the ASEAN market also contributed to the decrease in sales.

Sales of hydraulic equipment for aircraft decreased 2.0% to ¥7.0 billion. Sales of other components, mainly for semi-active systems and shock absorbers for railways, were down 1.2% to ¥8.2 billion.

In the special-purpose vehicles, system products, and electronic components segment, which is listed as "other" in reportable segments, sales increased to ¥19.4 billion. This was due to an increase in sales of special-purpose vehicles, mainly concrete mixer trucks, up 9.7% to ¥9.1 billion. However, sales of system products and electronic components decreased 12.3% to ¥10.3 billion.

As a result, consolidated net sales decreased ¥15.0 billion to ¥355.3 billion.

Segment profit was ¥15.5 billion in the automotive components segment, ¥0.5 billion in the hydraulic components segment, and ¥1.5 billion in the special-purpose vehicles, system products, and electronic components segment.

Operating profit was ¥4.3 billion. This was mainly due to a US$62 million (approx. ¥7.4 billion) loss associated with a violation of the U.S. Anti-Monopoly Act.

As a result, after subtracting income tax expenses of ¥5.4 billion from profit before tax of ¥2.8 billion, loss attributable to owners of the parent was ¥3.2 billion.

Financial Condition

Current assets decreased mainly because of a decrease in cash and cash equivalent and a decrease in trade and other receivable due to a decrease in net sales. Non-current assets also decreased due to a decline in property, plant and equipment that resulted from the completion of capital expenditures for manufacturing facilities, and due to decreases in other financial assets. As a result, total assets declined ¥28.9 billion to ¥359.0 billion.

Total liabilities decreased ¥7.0 billion to ¥205.6 billion. The changes were due mainly to an decrease in trade and other payables because of the decline in net sales and a decrease in other financial liabilities.

Total equity was ¥153.4 billion, mainly because of decreases in other components of equity, including foreign currency translation adjustments and remeasurements of defined benefit plans.

The ratio of equity attributable to owners of the parent declined 2.3 percentage points compared to the previous year, to 41.3% at the end of March 2016 due to a decrease in net assets.

Cash Flows

Net cash used in operating and investing activities was ¥0.4 billion, and net cash used in financing activities was ¥3.4 billion. There was also an effect of changes in the foreign exchange rate of ¥1.5 billion. As a result, cash and cash equivalents at end of period decreased ¥5.2 billion to ¥25.3 billion.

Net cash provided by operating activities decreased 10.6% to ¥20.1 billion. There were increases in cash inflow in profit before tax to ¥2.8 billion and in depreciation and amortization to ¥17.1 billion, while cash outflow in income taxes paid decreased to ¥4.5 billion.

Net cash used in investing activities decreased 33.7% to ¥20.4 billion. This was mainly due to a decrease in purchase of property, plant and equipment to ¥21.5 billion, and an increase in proceeds from sale of other financial assets to ¥2.9 billion.

Net cash used in financing activities was ¥3.4 billion. This was mainly due to cash dividends paid of ¥3.1 billion.

Financial Statements

Consolidated Statements of Financial Position

KYB Corporation and its Consolidated Subsidiaries
March 31, 2015 and 2016

		Millions of yen		
ASSETS	Note	Date of Transition (April 1, 2014)	2015	**2016**
Current assets:				
Cash and cash equivalents	8, 19	¥ 38,133	¥ 30,510	**¥ 25,296**
Trade and other receivables	9, 16, 19	91,093	97,270	**87,999**
Inventories	10	46,920	46,912	**48,291**
Other current financial assets	19	1,419	1,358	**954**
Other current assets		4,183	3,906	**3,793**
Total current assets		181,748	179,957	**166,333**
Non-current assets:				
Property, plant and equipment	11, 16	147,742	165,813	**158,609**
Goodwill	12	622	318	**318**
Intangible assets	12	2,900	3,865	**4,424**
Investments accounted for using the equity method	32	4,448	4,308	**3,833**
Other non-current financial assets	19	18,301	25,688	**18,999**
Other non-current assets		775	2,258	**622**
Deferred tax assets	25	7,530	5,670	**5,865**
Total non-current assets		182,319	207,920	**192,669**
Total assets		¥364,067	¥387,877	**¥359,002**
LIABILITIES				
Current liabilities:				
Trade and other payables	15, 19	¥ 68,852	¥ 72,193	**¥ 66,211**
Borrowings	16, 19	44,269	46,890	**50,492**
Income tax payables		5,501	1,614	**1,413**
Other current financial liabilities	19	22,658	21,742	**18,416**
Provisions	17	5,457	7,088	**5,313**
Other current liabilities		967	1,024	**978**
Total current liabilities		147,705	150,552	**142,822**
Non-current liabilities:				
Borrowings	16, 19	41,541	42,755	**38,348**
Liability for retirement benefits	18	12,524	6,012	**13,893**
Other non-current financial liabilities	19	3,137	2,832	**2,592**
Provisions	17	1,970	1,989	**1,994**
Other non-current liabilities		178	128	**777**
Deferred tax liabilities	25	4,294	8,353	**5,194**
Total non-current liabilities		63,643	62,069	**62,799**
Total liabilities		¥211,348	¥212,621	**¥205,621**
EQUITY				
Equity attributable to owners of the parent:				
Share capital	20	¥ 27,648	¥ 27,648	**¥ 27,648**
Capital surplus	20	29,543	29,544	**29,414**
Retained earnings	20	87,210	97,931	**86,393**
Treasury shares	20	(565)	(573)	**(579)**
Other components of equity	20	3,685	14,757	**5,402**
Total equity attributable to owners of the parent		147,521	169,307	**148,278**
Non-controlling interests		5,198	5,949	**5,103**
Total equity		152,719	175,256	**153,381**
Total liabilities and equity		¥364,067	¥387,877	**¥359,002**

Consolidated Statements of Income

KYB Corporation and its Consolidated Subsidiaries
Years ended March 31, 2015 and 2016

		Millions of yen	
	Note	2015	**2016**
Net sales	24	¥370,327	**¥355,320**
Cost of sales	22	298,285	**283,247**
Gross profit		72,042	**72,073**
Selling, general and administrative expenses	22	56,536	**54,485**
Equity in losses of affiliates	32	15	**1,292**
Other income	24	2,184	**2,671**
Other expenses	24	3,213	**14,640**
Operating profit		14,461	**4,327**
Finance income	23	1,949	**561**
Finance costs	23	1,518	**2,062**
Profit before tax		14,892	**2,825**
Income tax expense	25	6,538	**5,447**
Profit (loss) for the year		¥ 8,354	**¥ (2,622)**
Profit attributable to:			
Owners of the parent		¥ 8,036	**¥ (3,161)**
Non-controlling interests		317	**539**
Profit (loss) for the year		¥ 8,354	**¥ (2,622)**
		Yen	
Earnings per share			
Basic earnings per share (in yen)	27	¥ 31.45	**¥ (12.37)**

Consolidated Statements of Comprehensive Income

KYB Corporation and its Consolidated Subsidiaries
Years ended March 31, 2015 and 2016

		Millions of yen	
	Note	2015	**2016**
Profit (loss) for the year		¥ 8,354	**¥ (2,622)**
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Net change in financial assets measured at fair value through other comprehensive income	26	5,106	**(2,415)**
Remeasurements of defined benefit plans	26	5,238	**(6,660)**
Share of other comprehensive income of investments accounted for using the equity method	26	362	**(465)**
Total		10,707	**(9,540)**
Items that may be reclassified to profit or loss:			
Exchange differences on translation of foreign operations	26	6,129	**(5,729)**
Effective portion of the change in the fair value of cash flow hedges	26	14	**58**
Total		6,142	**(5,670)**
Total other comprehensive income		16,849	**(15,210)**
Comprehensive income for the year		¥25,203	**¥(17,832)**
Comprehensive income for the year attributable to:			
Owners of the parent		¥24,349	**¥(17,828)**
Non-controlling interests		854	**(4)**
Comprehensive income for the year		¥25,203	**¥(17,832)**

Consolidated Statements of Changes in Equity

KYB Corporation and its Consolidated Subsidiaries
Years ended March 31, 2015 and 2016

	Note	Millions of yen											
						Other components of equity							
		Share capital	Capital surplus	Retained earnings	Treasury shares	Net change in financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plans	Exchange differences on translation of foreign operations	Effective portion of the change in the fair value of cash flow hedges	Total other components of equity	Comprehensive income for the year attributable to owners of the parent	Non-controlling interests	Total equity
Balance at April 1, 2014		¥27,648	¥29,543	¥87,210	¥(565)	¥3,594	¥ —	¥ —	¥ 91	¥ 3,685	¥147,521	¥5,198	¥152,719
Comprehensive income for the year:													
Profit for the year		—	—	8,036	—	—	—	—	—	—	8,036	317	8,354
Other comprehensive income	26	—	—	—	—	5,106	5,237	5,963	6	16,313	16,313	536	16,849
Total comprehensive income for the year		—	—	8,036	—	5,106	5,237	5,963	6	16,313	24,349	854	25,203
Transactions with owners:													
Contributions by and distributions to owners in their capacity as owners:													
Acquisition of treasury shares		—	—	—	(9)	—	—	—	—	—	(9)	—	(9)
Disposal of treasury shares		—	0	—	1	—	—	—	—	—	1	—	1
Dividends of surplus	21	—	—	(2,555)	—	—	—	—	—	—	(2,555)	—	(2,555)
Transfer to retained earnings		—	—	5,240	—	(3)	(5,237)	—	—	(5,240)	—	—	—
Total contributions by and distributions to owners in their capacity as owners		—	0	2,685	(8)	(3)	(5,237)	—	—	(5,240)	(2,563)	—	(2,563)
Changes in equity interest of subsidiaries:													
Acquisition of non-controlling interests		—	—	—	—	—	—	—	—	—	—	206	206
Dividends of surplus		—	—	—	—	—	—	—	—	—	—	(309)	(309)
Total changes in equity interest of subsidiaries		—	—	—	—	—	—	—	—	—	—	(103)	(103)
Total transactions with owners		—	0	10,722	(8)	5,103	—	5,963	6	11,072	21,786	751	22,537
Balance at March 31, 2015		27,648	29,544	97,931	(573)	8,697	—	5,963	97	14,757	169,307	5,949	175,256
Comprehensive income for the year:													
Loss for the year		**—**	**—**	**(3,161)**	**—**	**—**	**—**	**—**	**—**	**—**	**(3,161)**	**539**	**(2,622)**
Other comprehensive income	26	**—**	**—**	**—**	**—**	**(2,415)**	**(6,627)**	**(5,688)**	**63**	**(14,667)**	**(14,667)**	**(543)**	**(15,210)**
Total comprehensive income for the year		**—**	**—**	**(3,161)**	**—**	**(2,415)**	**(6,627)**	**(5,688)**	**63**	**(14,667)**	**(17,828)**	**(4)**	**(17,832)**
Transactions with owners:													
Contributions by and distributions to owners in their capacity as owners:													
Acquisition of treasury shares		**—**	**—**	**—**	**(6)**	**—**	**—**	**—**	**—**	**—**	**(6)**	**—**	**(6)**
Disposal of treasury shares		**—**	**0**	**—**	**0**	**—**	**—**	**—**	**—**	**—**	**0**	**—**	**0**
Dividends of surplus	21	**—**	**—**	**(3,066)**	**—**	**—**	**—**	**—**	**—**	**—**	**(3,066)**	**—**	**(3,066)**
Transfer to retained earnings		**—**	**—**	**(5,311)**	**—**	**(1,315)**	**6,627**	**—**	**—**	**5,311**	**—**	**—**	**—**
Total contributions by and distributions to owners in their capacity as owners		**—**	**0**	**(8,377)**	**(6)**	**(1,315)**	**6,627**	**—**	**—**	**5,311**	**(3,072)**	**—**	**(3,072)**
Changes in equity interest of subsidiaries:													
Acquisition of non-controlling interests		**—**	**(130)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(130)**	**(573)**	**(703)**
Dividends of surplus		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(269)**	**(269)**
Total changes in equity interest of subsidiaries		**—**	**(130)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(130)**	**(842)**	**(971)**
Total transactions with owners		**—**	**(129)**	**(11,539)**	**(6)**	**(3,730)**	**—**	**(5,688)**	**63**	**(9,355)**	**(21,029)**	**(846)**	**(21,875)**
Balance at March 31, 2016		**¥27,648**	**¥29,414**	**¥86,393**	**¥(579)**	**¥4,967**	**¥ —**	**¥ 275**	**¥160**	**¥ 5,402**	**¥148,278**	**¥5,103**	**¥153,381**

Consolidated Statements of Cash Flows

KYB Corporation and its Consolidated Subsidiaries
Years ended March 31, 2015 and 2016

	Note	Millions of yen 2015	2016
Cash flows from operating activities:			
Profit before tax		¥14,892	**¥ 2,825**
Depreciation and amortization		15,191	**17,075**
Impairment loss		2,172	**4,049**
Increase (decrease) in assets and liabilities for retirement benefits		(718)	**(70)**
Increase (decrease) in provision for product warranties		1,715	**(1,772)**
Finance income		(867)	**(561)**
Finance costs		1,518	**1,215**
Equity in losses of affiliates		15	**1,292**
(Increase) decrease in trade and other receivables		(5,223)	**6,010**
(Increase) decrease in inventories		75	**(3,574)**
Increase (decrease) in trade and other payables		2,897	**(3,645)**
Loss associated with the Anti-Monopoly Act		—	**8,152**
Reversal of foreign currency translation adjustment		—	**(64)**
Other		106	**1,928**
Subtotal		31,773	**32,860**
Interest received		245	**109**
Dividends received		1,082	**782**
Interest paid		(1,536)	**(1,283)**
Income taxes paid		(9,279)	**(4,450)**
Refund of income taxes		50	**34**
Payments of loss associated with the Anti-Monopoly Act		—	**(8,095)**
Net cash from operating activities		22,335	**19,958**
Cash flows from investing activities:			
Payment into time deposits		(1,287)	**(332)**
Proceeds from withdrawal of time deposits		1,566	**665**
Payment for purchases of property, plant and equipment		(29,427)	**(21,967)**
Proceeds from sale of property, plant and equipment		157	**350**
Payment for purchases of other financial assets		(539)	**(702)**
Proceeds from sale of other financial assets		3	**2,942**
Other		(1,132)	**(1,275)**
Net cash flows from investing activities		(30,658)	**(20,320)**
Cash flows from financing activities:			
Net increase (decrease) in short-term borrowings		585	**2,839**
Repayments of lease obligations		(624)	**(615)**
Proceeds from long-term borrowings		16,393	**14,548**
Repayment of long-term borrowings		(14,243)	**(16,164)**
Proceeds from sales of interest in a subsidiary to non-controlling interests		206	**—**
Payments for purchase of treasury shares		(9)	**(6)**
Proceeds from sales of treasury shares		1	**0**
Dividends paid		(2,555)	**(3,066)**
Dividends paid to non-controlling interests		(309)	**(269)**
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation		—	**(663)**
Net cash flows from financing activities		(555)	**(3,395)**
Effects of changes in foreign exchange rates		1,230	**(1,458)**
Net increase (decrease) in cash and cash equivalents		(7,649)	**(5,215)**
Cash and cash equivalents at beginning of period		38,133	**30,510**
Increase (decrease) in cash and cash equivalents resulting from merger with unconsolidated subsidiaries		27	**—**
Cash and cash equivalents at end of period	8	¥30,510	**¥25,296**

Notes to the Consolidated Financial Statements

Kayaba Industry Co., Ltd. and its Consolidated Subsidiaries
Years ended March 31, 2015 and 2016

1 Reporting Company

KYB Corporation (hereinafter, the "Company") is a company incorporated and located in Japan. The principal businesses of the Company and its subsidiaries (hereinafter, the "KYB Group") are the manufacture and sale of shock absorbers and hydraulic equipments and the provision of services related to the above businesses.

On June 24, 2016, the Board of Directors approved the consolidated financial statements of the KYB Group for the fiscal year ended March 31, 2016.

2 Basis of Preparation

(1) Compliance with IFRS and matters related to first-time adoption

As the KYB Group's consolidated financial statements satisfy the requirement of the specified company provided in Article 1-2 of the Ordinance on Terminology, Forms, and Preparation Methods of Financial Statements, these statements have been prepared in accordance with International Financial Reporting Standards (hereinafter, "IFRS") as provided in Article 93 of the same ordinance.

These consolidated financial statements are the first prepared by the KYB Group in accordance with IFRS, and the Group's transition date is April 1, 2014. In its transition to IFRS, the KYB Group is in compliance with IFRS 1, "First-time Adoption of International Financial Reporting Standards" (hereinafter, "IFRS 1"). The impacts of transitioning to IFRS on the KYB Group's financial condition, business performance and cash flow status are described in Note 34, "First-time adoption."

(2) Basis of measurement

The consolidated financial statements are prepared on the basis of measurement at historical cost, except for financial instruments, etc., as described in Note 3, "Significant Accounting Policies."

(3) Presentation currency and units

The consolidated financial statements are presented in Japanese yen, which is the functional currency of the Company. Yen amounts have been rounded to the nearest million.

(4) Early adoption of new standards

The KYB Group has early adopted IFRS 9 "Financial Instruments" (announced July 2014) and IFRS 7 "Financial Instruments: Disclosures" (announced September 2014) for the preparation of the consolidated financial statements.

3 Significant Accounting Policies

(1) Basis of consolidation

1) Subsidiaries

Subsidiaries are entities whose financial and operating policies are directly or indirectly controlled by the KYB Group in order for the Group to benefit from those entities' activities. The Company prepares the consolidated financial statements based on the financial statements of subsidiaries that are entities controlled by the KYB Group as of March 31 of each consolidated fiscal year. Control is the power of a parent company to determine the financial and operating policies of an investee company in order to benefit from that company's activities. Factors taken into account when deciding if entities are subsidiaries include whether the KYB Group has the potential to exercise or transfer voting rights and their impact, as well as whether the Group controls other companies. The financial statements of subsidiaries are included in the consolidated financial statements of the KYB Group from the date that the control commences until the date that the control ceases.

When preparing the consolidated financial statements, amounts of internal transactions between consolidated companies and amounts of claims and obligations are offset and eliminated. All balances and transactions between Group companies are eliminated, including unrealized income generated through transactions within the KYB Group.

2) Affiliates

Affiliates are those entities in which the KYB Group has significant influence over financial and operating policies. Investments in affiliates are accounted for using the equity method from the day that significant influence commences until the date that significant influence ceases.

3) Joint ventures

Joint ventures are entities in which joint control by the KYB Group and another entity is established by contractual agreement with regard to an economic activity. In the KYB Group, a joint venture recognizes its interest as an investment and conducts economic activity thorough a joint ventures. As with affiliates, the KYB Group's interest in this joint control is accounted for using the equity method.

(2) Business combinations

The KYB Group accounts for business combinations using the acquisition method. Identifiable assets acquired and liabilities and contingent liabilities assumed through business combinations are initially measured at fair value on the acquisition date. Expenses generated in relation to acquisitions are recognized in expenses as incurred. Non-controlling interests are recognized separately from the Group's interests. Decisions on how to measure non-controlling interests in acquired companies are determined separately for each business combination transaction. Non-controlling interests are measured either at fair value or in terms of the ratio between the net amount of identifiable assets and assets of the acquired company and the non-controlling interest.

In the event the total amount of the fair value of consideration transferred, the recognized amount of non-controlling interest and the fair value of the pre-existing interest in the acquire exceeds the net recognized amount of the identifiable assets acquired and liabilities assumed, this excess is recognized as goodwill.

Goodwill is measured as the amount by which the total of consideration for business combinations transferred, the amount of non-controlling interests in acquired companies, and the fair value of the equity interest in the acquired company previously held by the acquiring company exceeds the net recognized amount of identifiable assets acquired and liabilities assumed at the time of acquisition.

When that amount is less than the fair value of net assets of acquired subsidiaries, a bargain purchase gain is recognized immediately in profit or loss.

(3) Foreign currency translation

1) Foreign currency transactions

The non-consolidated financial statements of individual Group companies are prepared in the currency of the primary economic environment in which the entity operates. The consolidated financial statements are presented in Japanese yen, which is the functional currency of the Company.

Foreign currency transactions are translated to individual Group companies' functional currencies at the exchange rate on the transaction date. Monetary assets and liabilities denominated in foreign currencies as of the fiscal year-end date are retranslated into the functional currency at the exchange rate on the fiscal year-end date. Non-monetary assets and liabilities denominated in foreign currencies and measured at fair value are translated to the functional currency at the exchange rate on the date that fair value was determined. Translation gains or losses arising from the settlement of such transactions are recognized in profit or loss. However, translation differences resulting from financial assets measured through other comprehensive income and cash flow hedges are recognized in other comprehensive income.

2) Foreign operations

The assets and liabilities of foreign operations are translated to Japanese yen using the exchange rate on the fiscal year-end date, while income and expenses are translated to Japanese yen at the average exchange rates during the consolidated fiscal period unless exchange rates have varied substantially during that period.

Translation gains and losses arising from the conversion of the financial statements of foreign operations are recognized in other comprehensive income. These differences are included in other components of equity, in exchange differences on translation of foreign operations. In the event all interests in a foreign operation are disposed or a portion of the interest is disposed such that the control or significant influence is lost, that portion of the cumulative amount in the other components of equity is reclassified from accumulated other comprehensive income to profit or loss.

(4) Cash and cash equivalents

Cash and cash equivalents comprises cash on hand, deposits that can be withdrawn as needed, and short-term investments—generally those with a maturity date within three months of the transaction date—that are easily converted into cash with little risk from a change in value.

(5) Financial instruments

1) Non-derivative financial assets

i) Classifications

Financial assets are classified as either financial assets measured at fair value through profit or loss or through other comprehensive income or financial assets measured at amortized cost. The KYB Group decides the category of financial assets at their initial recognition.

Financial assets are classified as financial assets measured at amortized cost if either of the following conditions is satisfied. Other financial assets are classified as financial assets measured at fair value.

- If the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows
- If the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on a specified date on the principal and principal amount outstanding.

ii) Measurement at the time of initial recognition

The normal purchase and sale of financial assets is recognized on the transaction date. The transaction date indicates the date on which the KYB Group makes a firm commitment to purchase or sell an asset. At the time of initial recognition of financial assets, except for equity instruments held for sale that must be measured at fair value through profit or loss, for financial assets measured at fair value each equity instrument is designated either for measurement at fair value through profit or loss or for measurement at fair value through other comprehensive income, and that designation is applied persistently. The KYB Group held no equity instruments for trading purposes on the IFRS transition date of April 1, 2014 or on March 31, 2015 or March 31, 2016.

All financial assets, except those classified as measured at fair value through profit or loss, are measured at fair value plus any directly attributable transaction costs.

iii) Subsequent measurement

After being measured at initial recognition, financial assets are measured as described below, according to their classification.

(a) Financial assets measured at amortized cost

Financial assets measured at amortized cost are measured at amortized cost using the effective interest method.

(b) Other financial assets

Financial assets other than those measured at amortized cost are measured at fair value.

Changes in the fair value of financial assets measured at fair value are recognized in profit or loss. Dividends on these financial assets are recognized in profit or loss for the period at the point when the right of the KYB Group to receive payments is determined. However, for equity instruments designated for measurement at fair value through other comprehensive income, changes in fair value are recognized in other comprehensive income. If these instruments are derecognized or if fair value declines significantly, amounts recognized in other comprehensive income are transferred to retained earnings.

iv) Derecognition

Financial assets are derecognized if the right to receive benefits ceases, if the assets are transferred, or if the effective risks and rewards of ownership are transferred.

v) Impairment

The KYB Group has an allowance for valuation losses for expected credit losses associated with financial assets measured at amortized cost and debt financial assets measured at fair value through other comprehensive income. However, the valuation loss allowance for debt financial assets measured at fair value through other comprehensive income is included in other comprehensive income.

At the end of every reporting period, the KYB Group determines if credit risk associated with financial assets has increased significantly in relation to the initial outlook. When this assessment is performed, the risk of a financial asset default as of the reporting date and as of the initial outlook is compared. Information that is reasonable and reliable, as well as that can be used without any significant cost or use of labor, is also considered.

If the KYB Group decides that credit risk associated with financial assets is low as of the reporting date, the KYB Group concludes that there has been no significant increase in this credit risk since the initial outlook.

If there has been a significant increase in credit risk associated with financial assets since the initial outlook, there is a valuation loss allowance for the corresponding financial assets that is equal to the expected credit losses for the entire fiscal period. If there has been no significant increase in this credit risk, this allowance is equal to the expected credit losses for 12 months.

Irrespective of the preceding paragraph, for trade receivables that have no significant financing components, the valuation loss allowance is always equal to expected credit losses for the entire period.

The KYB Group estimates expected credit losses for financial assets by using a method that incorporates the following items.

- A probability-weighted amount with no prejudice that is calculated by evaluating results obtained over a specific range
- The time value of money
- Information about past events, the current situation and the economic outlook that is reasonable and reliable, as well as that can be used without any significant cost or use of labor

Expected credit losses are probability-weighted estimates of credit losses over the entire expected life of the associated financial assets. Credit losses are the present values of the differences between the contractual cash flows the KYB Group is to receive and the actual cash flows that the KYB Group expects to receive.

To estimate expected credit losses for trade receivables, the Group uses an expected credit loss allowance matrix for performing this process with greater ease. This matrix is consistent with the estimation method for financial assets explained earlier in this section.

Expected credit losses for financial assets are included in profit or loss as an impairment loss. If an event occurs after recognition of an impairment loss that results in a reduction in this loss, this reduction is returned to profit or loss.

2) Non-derivative financial liabilities

i) Measurement at the time of initial recognition

All financial liabilities are initially measured at fair value less any directly attributable transaction costs.

ii) Subsequent measurement

After initial recognition, financial liabilities are measured at amortized cost using the effective interest method. In the event of amortization and derecognition using the effective interest method, any gain or loss is recognized in profit or loss.

iii) Derecognition

Financial liabilities are derecognized when their obligation is fulfilled, exempted or lapses.

3) Derivative financial instruments and hedge accounting

At the start of a transaction, the KYB Group documents the relationship between the hedging instrument and the hedged item, and the various objectives and strategies of risk management for undertaking the various hedges. At the inception of the hedge and on an ongoing basis thereafter, derivatives used as hedges are assessed as to whether they are highly effective in offsetting changes in the fair value or cash flows of the hedged item, and these assessments are documented.

Derivatives are initially recognized at fair value on the date of the derivative contract. Fair value is subsequently remeasured, and any changes are accounted for as follows:

i) Fair value hedges
Changes in the fair value of derivatives designated as fair value hedges that fulfil the requirements for such derivatives are recorded as changes in the fair value of the hedged asset or liability and recorded in profit or loss.

ii) Cash flow hedges
Changes in the fair value of derivatives designed as cash flow hedges that fulfil the requirements for such derivatives are recognized in equity through the consolidated statements of comprehensive income. Gains or losses on the ineffective portion is recognized immediately in profit or loss.

Cumulative amounts in equity are reclassified to profit or loss for the period in which the hedged item affects profit or loss; provided however, that if the hedging of a scheduled transaction subsequently results in the recognition of a non-financial asset or liability, the amount recognized in equity is then accounted for as a revision to the carrying amount of such non-financial asset or liability.

If the hedging instrument no longer meets the criteria for hedge accounting, cumulative gains or losses recorded in equity are transferred to profit or loss.

iii) Derivatives that do not satisfy the conditions for hedge accounting
Some derivatives do not satisfy the conditions for hedge accounting. The changes in the fair value of such derivatives are recognized immediately in profit or loss.

(6) Inventories

The historical cost of inventories includes purchase costs, processing costs and all other costs incurred to bring inventories to their present location and condition.

Inventories are measured at the lower of historical cost or net realizable value. Net realizable value represents the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale. Historical cost is mainly calculated using the weighted-average method.

(7) Property, plant and equipment

The KYB Group applies the cost model for the measurement of property, plant and equipment. Under this model, property, plant and equipment are measured at historical cost less any accumulated depreciation and accumulated impairment losses.

Historical cost of property, plant and equipment includes any costs directly attributable to the acquisition of the asset and dismantlement, removal and restoration costs, as well as borrowing costs that satisfy the conditions for capitalization. Finance leases recorded as assets are included in property, plant and equipment. Additional costs that arise after the acquisition of an asset are added to the carrying amount of the acquired asset or recognized as a separate asset only when the KYB Group is highly likely to accrue a future economic benefit from these costs and when the amount of such cost can be reliability measured. All other costs associated with repair and maintenance are recognized in profit or loss as incurred.

For property, plant and equipment other than land, the historical cost less residual value of each structural component of property, plant and equipment is depreciated on a straight-line basis over its estimated useful life.

The estimated useful lives of major property, plant and equipment are as follows:

- Buildings and structures: 2–65 years
- Machinery, equipment and vehicles: 2–25 years
- Tools and equipment: 2–20 years

Depreciation methods, estimated useful lives and residual values for property, plant and equipment are reviewed on the final day of each fiscal year.

(8) Intangible assets

After initial recognition, the KYB Group applies the cost model for the recognition of intangible assets, which are measured at historical cost less any accumulated depreciation and accumulated impairment losses.

Intangible assets acquired separately are measured at historical cost at the initial recognition, and the historical costs of intangible assets acquired through business combinations are measured at fair value at the acquisition date. Expenses on internally generated intangible assets are recognized as expenses in the period when incurred, except for development expenses that satisfy the criteria for recognition as assets.

Intangible assets are amortized on a straight-line basis over their estimated useful life at historical cost less residual value. The estimated useful life of major intangible assets is as follows:

- Software: 5 years
- Development expenses: 5 years

Amortization methods, estimated useful lives and residual values for intangible assets are reviewed on the final day of each fiscal year.

Goodwill is the amount by which the acquisition price of the non-controlling interest in a subsidiary or business at the time of the purchase exceeds the net amount of identifiable assets and liabilities acquired. The method for measuring goodwill when initially recognized is explained in Note 3, "(2) Business combinations."

(9) Leases

The KYB Group classifies leases as finance leases when lease agreements transfer substantially all the risks and rewards of ownership to the lessee. All other lease agreements are classified as operating leases.

For finance lease transactions, lease assets and lease liabilities are recorded in the consolidated statements of financial position at the lower of the fair value of the leased property or the present value of the minimum lease payments, each determined at the inception of the lease. Lease payments are apportioned between the reduction of the lease obligation and the finance costs based on the interest method. Finance costs are recognized in profit or loss. Assets used in leases are depreciated on a straight-line basis over their estimated useful lives or lease terms, whichever is shorter.

In operating lease transactions, lease payments are recognized as an expense using the straight-line method over the lease terms.

(10) Impairment of non-financial assets

The KYB Group assesses each fiscal year whether there is any indication that a non-financial asset may be impaired. If any such indication exists or if an annual impairment test is required, an impairment test is performed.

In an impairment test, the recoverable amount is estimated, and the carrying amount and recoverable amount are compared. The recoverable value of an asset or cash-generating unit is determined at the higher of its fair value less costs of disposal or its value in use. In determining fair value less costs of disposal, the KYB Group employs appropriate assessment models backed by usable fair value indicators. In determining the value in use, estimated future cash flows are discounted to the present value, using pre-tax discount rates that reflect current market assessments of the time value of money and the risks specific to the asset.

If the carrying amount of an asset or cash-generating unit exceeds the recoverable amount, an impairment loss is recognized for that asset, and its carrying amount is reduced to the recoverable amount.

Assets other than goodwill are evaluated for any indication that an impairment loss recognized in previous periods may be reduced or eliminated. If such an indication exists, the recoverable amount of the asset or cash-generating unit is estimated. If the recoverable amount exceeds the carrying amount of the asset or cash-generating unit, the impairment loss is reversed. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

For goodwill, an impairment test is performed each year and whenever there is any indication of impairment. For goodwill, the carrying amount is presented as the historical cost less accumulated impairment losses. For companies accounted for under the equity method, the carrying amount of goodwill is included in the investment carrying amount. Impairment losses on goodwill are recognized in profit or loss and are not reversed.

For the purposes of impairment testing, goodwill is allocated each of the Group's cash-generating units or groups of cash-generating units that is expected to benefit from the business combination.

(11) Employee benefits

Retirement benefits

Companies in the KYB Group employ various pension plans. These pension plans are typically accumulation-type plans, under which funds paid are managed by insurance companies or trust companies. Reserve amounts are calculated regularly using actuarial formulas. The KYB Group employs defined benefit plans and defined contribution plans.

Obligations under defined benefit pension plans recognized in the consolidated statements of financial position are calculated as the present value of defined benefit obligations at the ending date of the reporting period less fair value of assets for the fiscal period. Defined benefit obligations are calculated each year using the projected unit credit method.

For a discount rate, a discount period is determined based on the period until the expected date of benefit payment in each fiscal year, and the discount rate is determined by reference to market yields for the period corresponding to the discount period at the end of the fiscal year on high-quality corporate bonds.

Adjustments due to performance and actuarial differences resulting from changes in actuarial consumptions are recorded in other comprehensive income in the period when they are incurred. Past service cost is recognized in profit or loss for the period in which it is incurred.

The cost for defined contribution retirement benefits is recognized as an expense at the time of contribution.

(12) Provisions and contingent liabilities

Provisions are recognized when the KYB Group has a present legal or constructive obligation as a result of a past event, it is probable that the KYB Group will be required to settle the obligation by outflow of resources embodying economic

benefits, and a reliable estimate can be made of the amount of the obligation.

Where the time value of money is material to the provisions, the amount of provisions is measured at the present value of the estimated future cash flows discounted to present value using the pre-tax discount rate reflecting current market assessments of the time value of money and the risks specific to the liability. Interest cost associated with the passage of time is added to the provision.

Provisions for product warranties are in place to provide for the payment of product warranty costs. An estimated amount corresponding to a percentage of sales for the fiscal year under review is based on historical results and added to expected warranties, taking into consideration the status of warranty costs generated in the past. The future period for the expected outflow of economic benefits is set to be within one year from the end of each consolidated fiscal year.

These provisions represent obligations with the potential to occur as of the fiscal year-end date. Obligations whose probability as of the fiscal year-end date cannot be recognized and provisions that do not satisfy the recognition standards for provisions are noted as contingent liabilities.

(13) Treasury shares

When treasury shares are acquired, the consideration paid net of taxes, including directly related costs, is recognized as an equity deduction item. When treasury shares are sold, the consideration received is recognized as an addition to equity.

(14) Revenue recognition

1) Sale of goods

Revenue from the sale of goods in the course of ordinary business activities is measured at the fair value of the consideration received or receivable, less intragroup sales, value-added taxes, discounts and rebates.

Revenue from the sale of goods is recognized when goods have been delivered to a customer, the customer confirms completion of the distribution method and the price related to the sale of goods, and all the KYB Group's obligations that might affect the customer's acceptance of goods are confirmed as having been met. Delivery occurs only when goods have been delivered to a specified location, risks of obsolescence or loss have been transferred to the customer, and objective evidence is received that all conditions for acceptance have been satisfied.

2) Provision of services

Revenue from the provision of services in the course of ordinary business activities is measured at the fair value of the consideration received or receivable. In the event the results of transactions related to the provision of services can be reliably measured, the KYB Group recognizes the revenue from those transactions based on the stage of completion of transactions at the fiscal year-end.

3) Dividend income

Income from dividends is recognized at the fair value of consideration received or receivable when the KYB Group's right to receive the payment of dividends has been established.

(15) Government grants

Government grants are recognized at fair value when there is reasonable assurance that the KYB Group will comply with the conditions attached to them and that the grants will be received. Government grants associated with an expense are regularly recognized as revenue in the same accounting period when the expense is incurred. Government grants associated with assets are subtracted from the historical cost of the associated asset.

(16) Borrowing costs

For assets requiring a substantial amount of time until their intended use or sale can be realized, a portion of the borrowing costs related directly to the acquisition or manufacture of those assets may be recorded as the historical cost of those assets up to the point of their substantial use or sale. Other borrowing costs are recognized as expenses in the fiscal period in which they are incurred.

(17) Income taxes

Income tax expense is composed of current income taxes and deferred income taxes. These income taxes are recognized in profit or loss, except for items recognized in other comprehensive income or directly in equity.

Current income taxes are measured at the amount that is expected to be paid to or refunded from the taxation authorities. For the calculation of the tax amount, the KYB Group uses the tax rates and tax laws that have been enacted or substantively enacted by the end of the fiscal year.

Deferred income taxes are calculated based on the temporary differences between the amounts used for tax purposes and the carrying amount for assets and liabilities at the fiscal year end. Deferred tax assets are recognized for deductible temporary differences, unused tax credits and unused tax losses to the extent that it is probable that future taxable profit will be available against which they can be utilized. Deferred tax liabilities are recognized for taxable temporary differences. Deferred tax assets and deferred tax liabilities are not recognized for the following temporary differences:

- taxable temporary differences on initially recognized goodwill
- temporary differences arising from the initial recognition of assets or liabilities in transactions that are not business combinations and at the time of transaction affect neither accounting profit nor taxable profit or tax loss
- taxable temporary differences on investments in subsidiaries and affiliates to the extent that the timing of the reversal of the temporary difference is controlled and that it is probable the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same tax authority on the same taxable entity or on a different taxable entity intended for settlement on a net basis.

4 Significant Accounting Estimates and Determining Estimates

The consolidated financial statements for the KYB Group incorporate management's estimates and assumptions. The estimates and underlying assumptions are based on historical experience and management's best judgments of other factors that are considered to be relevant as of the fiscal year-end. However, actual results may differ from accounting estimates and the assumptions forming their basis.

The KYB Group considers the following estimates and assumptions to have the potential to significantly affect its consolidated financial statements.

(1) Impairment of non-financial assets

The KYB Group conducts impairment tests on property, plant and equipment; goodwill; and intangible assets in accordance with the accounting policy described in Note 3, "(10) Impairment of non-financial assets." Calculations of recoverable amounts used in impairment tests require the establishment of assumptions, including of future cash flows and discount rates. These assumptions are based on management's best estimates and judgments but may be affected by future changes in uncertain economic conditions. Revisions to these assumptions could significantly affect the consolidated financial statements.

(2) Income taxes

The KYB Group is affected by income taxes in multiple tax zones. Significant judgments are necessary when determining estimated income taxes in various regions around the world. Transactional and calculation methods include numerous uncertainties that ultimately affect tax amounts. The KYB Group recognizes its potential liability to expected tax audit issues based on estimates that could involve additional assessments. If the ultimate tax amount differs from the KYB Group's initially recognized amount as a result of this issue, the consolidated financial statements could be significantly affected.

Deferred tax assets are recognized within the scope considered highly likely to be employable as deductible temporary differences against taxable profits. In recognizing deferred tax assets, decisions on whether taxable profits are likely to be generated is based on rational estimates of taxable profit forecasts, timings and amounts.

The timing and amount of taxable profits generated is susceptible changing future economic conditions, which are uncertain. If actual timing and amounts differ from the KYB Group's estimates, amounts recognized in future consolidated financial statements could be significantly affected.

(3) Employee benefits

The KYB Group has in place a variety of retirement benefit plans, including defined benefit plans. The present value of defined benefit obligations and related service costs for these systems are calculated based on actuarial assumptions, such as discount rates and mortality rates. These actuarial assumptions are determined based on management's best estimates and judgments. However, these assumptions are subject to changes in uncertain future economic conditions. If it becomes necessary to revise these assumptions, the consolidated financial statements could be significantly affected.

(4) Provisions and contingent liabilities

The KYB Group records various provisions, including provisions for product liabilities, in its consolidated statements of financial position. These provisions take into consideration risks and uncertainties regarding the KYB Group's obligations as of the fiscal year-end and are based on its best estimates of payments required to satisfy its obligations.

Although these calculations take into overall account the amount of payments required to satisfy these obligations in the future, unexpected circumstances and changes in conditions could mean that actual payment amounts differ from those estimated. In such an event, amounts recognized in future consolidated financial statements could be significantly affected.

Contingent liabilities take into consideration all available evidence as of the fiscal year-end, and are presented based on their potential generation and amount of impact.

5 Published Standards and Interpretations Not Applied

As of the date of approval of the consolidated financial statements, announcements had been made regarding the new enactment or revision to the following major Standards and Interpretations. However, as their application to fiscal years before March 31, 2016 is not obligatory, the KYB Group has not opted for early adoption. The KYB Group is currently considering the impact that their adoption may have on its consolidated financial statements, but cannot estimate this impact at present.

IFRS		Enforcement period (from the year beginning)	Adoption period for the KYB Group	Details of new enactment and revision
IFRS 15	Revenue from contracts with customers	January 1, 2018	FY2018 (April 1, 2018–March 31, 2019)	Accounting and disclosure requirements related to recognition of revenue
IFRS 16	Lease	January 1, 2019	FY2019 (April 1, 2019–March 31, 2020)	Accounting and disclosure requirements related to lease transactions

6 Segment Information

(1) General information about reportable segments

Each reportable segment of the KYB Group is the business unit in the KYB Group, 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."

Automotive Components involves the manufacture of automotive hydraulic devices and other products. Major products are shock absorbers for automobiles and motorcycles and power steering products. Hydraulic Components involves the manufacture of primarily industrial hydraulic components used in construction machinery.

Segment		Major Products
Reportable segment	Automotive Components	Shock absorbers, suspension system, power steering, vane pumps, front folk, oil cushion units, stay dampers, free rock, and other automotive products
	Hydraulic Components	Cylinders, valves, oil damper for railway vehicles, collision shock absorbers, pumps, motors, equipment for landing systems, flight control systems, and emergency devices for aircraft
Other	Special-purpose Vehicles, System Products and Electronic Equipment	Concrete mixer trucks, granule carriers, special-function vehicles, motion simulators, hydraulic systems, auditorium and stage control systems, naval ships equipment, tunnel borers, environment-friendly equipment, seismic isolation systems and vibration control dampers, electronic application

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

The accounting methods for each reportable segment are almost the same as those set forth in Note 3, "Significant Accounting Policies." The amount of segment profit corresponds to that of operating profit. Intersegment and transfers are based on the market prices.

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

FY2014 (April 1, 2014–March 31, 2015)

(Millions of yen)

	Reportable segment						
	Automotive components	Hydraulic components	Subtotal	Other (Note 1)	Total	Adjustment (Note 2)	Consolidated
Net sales:							
Outside customer	¥237,203	¥113,100	¥350,302	¥20,024	¥370,327	¥ —	¥370,327
Intersegment and transfers	2,468	2,765	5,233	2,625	7,858	(7,858)	—
Total	239,671	115,864	355,536	22,649	378,185	(7,858)	370,327
Segment profits (Note 3)	8,002	5,550	13,551	1,872	15,424	82	15,506
Equity in earnings (losses) of affiliates	(39)	24	(15)	—	(15)	—	(15)
Other income and expenses (net) (Note 4)	415	(8)	407	(1,437)	(1,029)	—	(1,029)
Operating profit	8,378	5,566	13,943	436	14,379	82	14,461
Finance income and costs (net)							431
Profit before tax							14,892
Depreciation and amortization	8,602	5,773	14,375	820	15,196	(5)	15,191
Impairment loss	84	—	84	2,088	2,172	—	2,172
Increase in property, plant and equipment and intangible assets (Note 5)	19,281	8,960	28,241	1,865	30,105	(19)	30,087

Notes: 1. "Other" includes "Special-purpose Vehicles" and "System Products and Electronic Equipment" that are not included in the two of reportable segment.
2. ¥82 million of adjustment of segment profits are the elimination of intersegment transactions.
3. Segment profits are net sales less cost of sales and selling, general and administrative expenses.
4. Other income and expenses are described in Note 24, "Income and Costs (Except Finance Income and Finance Costs)."
5. Non-current assets do not include investments accounted for using the equity method, other financial assets, deferred tax assets and other items.

FY2015 (April 1, 2015–March 31, 2016)

(Millions of yen)

	Reportable segment						
	Automotive components	Hydraulic components	Subtotal	Other (Note 1)	Total	Adjustment (Note 2)	Consolidated
Net sales:							
Outside customer	**¥240,903**	**¥95,025**	**¥335,928**	**¥19,392**	**¥355,320**	**¥ —**	**¥355,320**
Intersegment and transfers	**136**	**2,938**	**3,073**	**1,824**	**4,897**	**(4,897)**	**—**
Total	**241,039**	**97,962**	**339,001**	**21,217**	**360,218**	**(4,897)**	**355,320**
Segment profits (Note 3)	**15,484**	**544**	**16,028**	**1,534**	**17,562**	**27**	**17,588**
Equity in earnings (losses) of affiliates	**(1,320)**	**28**	**(1,292)**	**—**	**(1,292)**	**—**	**(1,292)**
Other income and expenses (net) (Note 4)	**(8,944)**	**(3,206)**	**(12,150)**	**180**	**(11,969)**	**—**	**(11,969)**
Operating profit	**5,220**	**(2,633)**	**2,586**	**1,714**	**4,300**	**27**	**4,327**
Finance income and costs (net)							**(1,502)**
Profit before tax							**2,825**
Depreciation and amortization	**10,224**	**6,099**	**16,323**	**758**	**17,081**	**(5)**	**17,075**
Impairment loss	**463**	**3,478**	**3,941**	**108**	**4,050**	**(1)**	**4,049**
Increase in property, plant and equipment and intangible assets (Note 5)	**15,070**	**4,798**	**19,867**	**1,432**	**21,300**	**—**	**21,300**

Notes: 1. "Other" includes "Special-purpose Vehicles" and "System Products and Electronic Equipment" that are not included in the two of reportable segment.
2. ¥27 million of adjustment of segment profits are the elimination of intersegment transactions.
3. Segment profits are net sales less cost of sales and selling, general and administrative expenses.
4. Other income and expenses are described in Note 24, "Income and Costs (Except Finance Income and Finance Costs)."
5. Non-current assets do not include investments accounted for using the equity method, other financial assets, deferred tax assets and other items.

[Related Information]

FY2014 (April 1, 2014–March 31, 2015)

1. Information for Products and Services

Omitted because categories of products and services are the same as for reportable segments.

2. Information for Geographic Regions

(1) Net sales

(Millions of yen)

Japan	Europe	U.S.A.	China	South East Asia	Other areas	Total
¥178,161	¥59,607	¥42,480	¥25,966	¥25,902	¥38,211	¥370,327

Notes: 1. Net sales are based on the locations of customers and categorized by countries or areas.
2. Regions are based on geographic proximity.
3. Major countries and areas in each region:
(1) Japan ..... Japan
(2) Europe ..... Germany, Great Britain, Spain, Italy, France, Czech Republic, Russia, Poland
(3) U.S.A. ..... U.S.A.
(4) China ..... China
(5) South East Asia ..... Indonesia, Malaysia, Thailand, Vietnam
(6) Other areas ..... Taiwan, Korea, United Arab Emirates, Mexico, Brazil, Panama, Canada, Turkey, India

(2) Non-current assets

(Millions of yen)

Japan	Europe	U.S.A.	China	South East Asia	Other areas	Total
¥96,238	¥13,234	¥9,590	¥22,175	¥17,335	¥11,421	¥169,996

Notes: 1. Non-current assets are based on the locations of customers and categorized by countries or areas.
2. Non-current assets do not include investments accounted for using the equity method, other financial assets, deferred tax assets and other items.
3. Regions are based on geographic proximity.
4. Major countries and areas in each region:
(1) Japan ..... Japan
(2) Europe ..... Germany, Great Britain, Spain, Italy, France, Czech Republic, Russia, The Netherlands
(3) U.S.A. ..... U.S.A.
(4) China ..... China
(5) South East Asia ..... Indonesia, Malaysia, Thailand, Vietnam
(6) Other areas ..... Taiwan, United Arab Emirates, Mexico, Brazil, Panama, Turkey, India

3. Information by Major Customer

Of sales to outside customers, the Company's sales to its largest customer group, Automotive Components, account for 9.34% or ¥34,601 million of revenue on the consolidated statements of income.

FY2015 (April 1, 2015–March 31, 2016)

1. Information for Products and Services

Omitted because categories of products and services are the same as for reportable segments.

2. Information for Geographic Regions

(1) Net sales

(Millions of yen)

Japan	Europe	U.S.A.	China	South East Asia	Other areas	Total
¥160,369	**¥57,505**	**¥43,381**	**¥21,224**	**¥24,712**	**¥48,129**	**¥355,320**

Notes: 1. Net sales are based on the locations of customers and categorized by countries or areas.
2. Regions are based on geographic proximity.
3. Major countries and areas in each region:
(1) Japan ..... Japan
(2) Europe ..... Germany, Great Britain, Spain, Italy, France, Czech Republic, Russia, Poland
(3) U.S.A. ..... U.S.A.
(4) China ..... China
(5) South East Asia ..... Indonesia, Malaysia, Thailand, Vietnam
(6) Other areas ..... Taiwan, Korea, United Arab Emirates, Mexico, Brazil, Canada, Turkey, India

(2) Non-current assets

(Millions of yen)

Japan	Europe	U.S.A.	China	South East Asia	Other areas	Total
¥98,236	**¥14,783**	**¥8,998**	**¥14,006**	**¥14,329**	**¥12,997**	**¥163,351**

Notes: 1. Non-current assets are based on the locations of customers and categorized by countries or areas.
2. Non-current assets do not include investments accounted for using the equity method, other financial assets, deferred tax assets and other items.
3. Regions are based on geographic proximity.
4. Major countries and areas in each region:
(1) Japan ..... Japan
(2) Europe ..... Germany, Great Britain, Spain, Italy, France, Czech Republic, Russia, The Netherlands
(3) U.S.A. ..... U.S.A.
(4) China ..... China
(5) South East Asia ..... Indonesia, Thailand, Vietnam
(6) Other areas ..... Taiwan, United Arab Emirates, Mexico, Brazil, Turkey, India

3. Information by Major Customer

Of sales to outside customers, the Company's sales to its largest customer group, Automotive Components, account for 10.85% or ¥38,541 million of revenue on the consolidated statements of income.

7 Business Combinations

Not applicable

8 Cash and Cash Equivalents

The breakdown of cash and cash equivalents is as follows:

(Millions of yen)

	Date of Transition (April 1, 2014)	FY2014 (March 31, 2015)	**FY2015 (March 31, 2016)**
Cash and time deposits	¥34,059	¥28,678	**¥22,970**
Deposits with maturities less than three months	4,074	1,833	**2,326**
Total	¥38,133	¥30,510	**¥25,296**

9 Trade and Other Receivables

The breakdown of trade and other receivables is as follows:

(Millions of yen)

	Date of Transition (April 1, 2014)	FY2014 (March 31, 2015)	**FY2015 (March 31, 2016)**
Trade notes and accounts receivables	¥83,913	¥86,971	**¥76,689**
Electronically recorded monetary claims	1,820	3,494	**5,369**
Other accounts receivables	5,553	7,113	**6,515**
Allowance for doubtful accounts	(193)	(307)	**(574)**
Total	¥91,093	¥97,270	**¥87,999**

Amounts presented in the consolidated statements of financial position are after allowing for doubtful accounts.

Trade and other receivables are classified as financial assets measured at amortized cost.

10 Inventories

The breakdown of inventories is as follows:

(Millions of yen)

	Date of Transition (April 1, 2014)	FY2014 (March 31, 2015)	**FY2015 (March 31, 2016)**
Finished goods	¥25,287	¥25,772	**¥26,139**
Work in process	14,040	13,119	**13,768**
Raw materials and supplies	7,594	8,021	**8,383**
Total	¥46,920	¥46,912	**¥48,291**

Inventory write-downs recorded in cost of sales for the years ended March 31, 2015 and 2016 were ¥1,163 million and ¥1,260 million, respectively.

11 Property, Plant and Equipment

Changes in the historical cost of property, plant and equipment, accumulated depreciation and accumulated impairment losses are as follows:

Historical costs

(Millions of yen)

	Buildings and structures	Machinery, equipment and vehicles	Tools and equipment	Land	Construction in progress	Total
Balance at April 1, 2014	¥ 90,020	¥208,538	¥44,929	¥27,026	¥13,013	¥383,526
Acquisitions	1,237	3,347	2,435	204	22,668	29,891
Disposals	(1,431)	(5,608)	(1,666)	(0)	—	(8,706)
Transfer from construction in progress	6,016	13,880	526	—	(20,423)	—
Exchange differences on translation	2,159	6,065	79	408	737	9,447
Other	17	127	(46)	4	(1,475)	(1,373)
Balance at March 31, 2015	98,018	226,348	46,257	27,642	14,520	412,785
Acquisitions	849	2,256	1,928	238	14,088	19,359
Disposals	(393)	(5,632)	(2,091)	—	(8)	(8,125)
Transfer from construction in progress	5,541	11,835	396	—	(17,772)	—
Exchange differences on translation	(2,357)	(6,818)	(438)	(327)	(438)	(10,378)
Other	13	(401)	107	6	(342)	(616)
Balance at March 31, 2016	¥101,672	¥227,587	¥46,159	¥27,559	¥10,047	¥413,024

Accumulated depreciation and accumulated impairment losses

(Millions of yen)

	Buildings and structures	Machinery, equipment and vehicles	Tools and equipment	Land	Construction in progress	Total
Balance at April 1, 2014	¥42,150	¥152,551	¥40,898	¥184	¥ —	¥235,783
Depreciation and amortization	3,438	9,280	1,890	—	—	14,607
Impairment losses	1,111	726	30	—	—	1,867
Disposals	(1,194)	(5,214)	(1,635)	—	—	(8,043)
Exchange differences on translation	355	2,326	25	—	—	2,706
Other	9	57	(16)	—	—	50
Balance at March 31, 2015	45,868	159,727	41,193	184	—	246,971
Depreciation and amortization	3,737	10,150	2,275	—	—	16,162
Impairment losses	1,138	2,768	42	100	—	4,049
Disposals	(325)	(5,340)	(2,027)	—	—	(7,692)
Exchange differences on translation	(725)	(3,988)	(340)	—	—	(5,053)
Other	8	(6)	7	(32)	—	(23)
Balance at March 31, 2016	¥49,701	¥163,311	¥41,150	¥253	¥ —	¥254,415

Carrying amount

(Millions of yen)

	Buildings and structures	Machinery, equipment and vehicles	Tools and equipment	Land	Construction in progress	Total
Balance at April 1, 2014	¥47,870	¥55,987	¥4,030	¥26,843	¥13,013	¥147,742
Balance at March 31, 2015	52,150	66,621	5,064	27,458	14,520	165,813
Balance at March 31, 2016	51,971	64,276	5,009	27,306	10,047	158,609

For information on impairment losses, please refer to Note 14, "Impairment Losses."
Property, plant and equipment under construction is presented above within construction in progress.

12 Intangible Assets

Changes in the historical cost of intangible assets and changes in accumulated depreciation and accumulated impairment losses are as follows:

Historical costs

(Millions of yen)

	Goodwill	Development expenses	Other	Total
Balance at April 1, 2014	¥622	¥1,418	¥2,122	¥4,163
Acquisitions	—	—	123	123
Internally expenses	—	992	—	992
Disposals	—	—	(16)	(16)
Exchange differences on translation	—	62	176	238
Other	—	—	(47)	(47)
Balance at March 31, 2015	622	2,472	2,358	5,453
Acquisitions	—	—	100	100
Internally expenses	—	1,261	—	1,261
Disposals	—	(7)	(1)	(8)
Exchange differences on translation	—	(52)	(148)	(201)
Other	—	(127)	(6)	(133)
Balance at March 31, 2016	¥622	¥3,547	¥2,303	¥6,472

Accumulated depreciation and accumulated impairment losses

(Millions of yen)

	Goodwill	Development expenses	Other	Total
Balance at April 1, 2014	¥ —	¥ 66	¥574	¥ 640
Amortization	—	195	96	291
Impairment losses	304	—	—	304
Disposals	—	—	(14)	(14)
Exchange differences on translation	—	5	42	48
Balance at March 31, 2015	304	266	699	1,269
Amortization	—	401	118	519
Disposals	—	—	(0)	(0)
Exchange differences on translation	—	(10)	(48)	(57)
Balance at March 31, 2016	¥304	¥657	¥769	¥1,731

Note: Amortization of intangible assets is included in "cost of sales" and "selling, general and administrative expenses" in the consolidated statements of income.
For information on impairment losses, please refer to Note 14, "Impairment Losses."

Carrying amount

(Millions of yen)

	Goodwill	Development expenses	Other	Total
Balance at April 1, 2014	¥622	¥1,352	¥1,548	¥3,522
Balance at March 31, 2015	318	2,206	1,659	4,183
Balance at March 31, 2016	318	2,890	1,534	4,742

Research and development expenditures recognized in the fiscal years ended March 31, 2015 and 2016 were ¥8,333 million and ¥7,760 million, respectively, and are included in selling, general and administrative expenses in the consolidated statements of income.

13 Leases

The KYB Group leases fixed assets that are categorized as finance leases. The carrying amounts of lease assets for which finance leases are used are as follows:

(Millions of yen)

	Date of Transition (April 1, 2014)	FY2014 (March 31, 2015)	**FY2015 (March 31, 2016)**
Buildings and structures	¥ 888	¥ 742	**¥ 661**
Machinery, equipment and vehicles	934	1,154	**1,148**
Land	223	205	**201**
Other	747	653	**554**
Total	¥2,792	¥2,754	**¥2,563**

The breakdown of finance lease obligations is as follows:

(Millions of yen)

	Date of Transition (April 1, 2014)	FY2014 (March 31, 2015)	**FY2015 (March 31, 2016)**
Minimum lease payments:			
Due within one year	¥ 594	¥ 589	**¥ 571**
Due after one year and with in five years	2,342	2,030	**1,763**
Due over five years	8	235	**269**
Future finance cost	88	175	**135**
Present value of finance lease obligations	¥2,857	¥2,679	**¥2,467**

The breakdown of the present value of finance lease obligations is as follows:

(Millions of yen)

	Date of Transition (April 1, 2014)	FY2014 (March 31, 2015)	**FY2015 (March 31, 2016)**
Due within one year	¥ 585	¥ 574	**¥ 555**
Due after one year and with in five years	2,263	1,957	**1,724**
Due over five years	8	148	**189**
Total	¥2,857	¥2,679	**¥2,467**

The breakdown of the KYB Group's future minimum lease payments under non-cancellable operating leases by payment date is as follows:

(Millions of yen)

	Date of Transition (April 1, 2014)	FY2014 (March 31, 2015)	**FY2015 (March 31, 2016)**
Minimum lease payments:			
Due within one year	¥ 502	¥ 575	**¥ 482**
Due after one year and with in five years	748	694	**1,261**
Due over five years	2	2	**2**
Total	¥1,252	¥1,270	**¥1,745**

Lease payments recognized through profit or loss in the year ended March 31, 2016 were ¥512 million.

14 Impairment Losses

The KYB Group employs groupings by company and by business of minimum cash flow generating units.

Due to the worsening business climate, the KYB Group declared impairment losses on assets in the years ended March 31, 2015 and 2016. These impairment losses are included in "other expenses" in the consolidated statements of income.

The breakdown of impairment losses by reportable segment is as follows:

FY2014 (April 1, 2014–March 31, 2015)

(Millions of yen)

Segment	Area	Use	Category	Amount
Automotive Components	Japan	Idle assets	Machinery	¥ 14
	China	Idle assets	Machinery	69
Other	Japan	Business assets	Buildings and structures, Machinery and other	1,784
	—	Other	Goodwill	304
Total				¥2,172

For idle assets, each asset is treated as a cash-generating unit. Then each asset is written down to the amount that can be recovered because the idle asset is no longer expected to be useful for business purposes. The amount that can be recovered is the value of the asset's use, which is zero.

For assets used for business operations, the book value of assets for which no future cash flows are foreseen because of a significant drop in profitability is written down to the amount that can be recovered. The amount that can be recovered is determined by using the fair value after deducting disposal expenses. The fair price hierarchy level is 2.

The KYB Group conducts impairment tests of goodwill at each fiscal year-end date. Impairment tests were conducted by comparing the carrying amount of each cash-generating unit (including the amount of goodwill allocated to that cash-generating unit) against the value in use of that cash-generating unit. Value in use was determined by discounting the future cash flows of each cash-generating use to present value using a discount rate. Estimated future cash flows are based on the KYB Group's budgets and plans, which are approved by the Board of Directors. Future cash flows beyond the next year is calculated using a fixed-rate estimate. This is considered the maximum period during which management can reliably estimate future cash flows.

The discount rate is calculated based on such factors as the pretax weighted average cost of capital and using external and internal information to appropriately reflect business risks, which is 10.6%.

FY2015 (April 1, 2015–March 31, 2016)

(Millions of yen)

Segment	Area	Use	Category	Amount
Automotive Components	Japan	Idle assets	Buildings and structures, Machinery and other	¥ 63
	Spain	Idle assets	Machinery	28
	China	Idle assets	Machinery	372
Hydraulic Components	China	Business assets	Buildings and structures, Machinery and other	3,479
Other	Japan	Business assets	Other	108
Total				¥4,049

For idle assets, each asset is treated as a cash-generating unit. Then each asset is written down to the amount that can be recovered because the idle asset is no longer expected to be useful for business purposes. The amount that can be recovered is the value of the asset's use, which is zero.

For assets used for business operations, the book value of assets for which no future cash flows are foreseen because of a significant drop in profitability is written down to the amount that can be recovered. In China, the utilization value is used to measure the fair value of assets used for business operations and this value is discounted at a rate of 10.3%. In Japan, the fair value is measured after a deduction the disposal expenses. The fair price hierarchy level is 2.

The KYB Group conducts impairment tests of goodwill at each fiscal year-end date. There were no goodwill impairment charges during the year ended March 31, 2016.

15 Trade and Other Payables

The breakdown of trade and other payables is as follows:

(Millions of yen)

	Date of Transition (April 1, 2014)	FY2014 (March 31, 2015)	**FY2015 (March 31, 2016)**
Notes and accounts payables	¥62,587	¥63,546	**¥58,788**
Electronically recorded monetary claims	—	1,446	**1,379**
Accounts payables other	6,266	7,202	**6,044**
Total	¥68,852	¥72,193	**¥66,211**

Trade and other payables are categorized as financial liabilities that are measured at amortized cost.

16 Borrowings

The breakdown of borrowings is as follows:

(Millions of yen)

	Date of Transition (April 1, 2014)	FY2014 (March 31, 2015)	**FY2015 (March 31, 2016)**
Current liabilities			
Current borrowings	¥30,826	¥30,665	**¥32,557**
Current portion of non-current borrowings	13,443	16,226	**17,935**
Total	44,269	46,890	**50,492**
Non-current liabilities			
Non-current borrowings	41,541	42,755	**38,348**
Total	¥41,541	¥42,755	**¥38,348**

Assets pledged as collateral and collateralized debt are as follows:

(Millions of yen)

	Date of Transition (April 1, 2014)	FY2014 (March 31, 2015)	**FY2015 (March 31, 2016)**
Pledged assets			
Notes receivebles	¥244	¥241	**¥273**
Buildings and structures	220	177	**178**
Machinery and equipments	227	246	**232**
Land	56	96	**85**
Other property, plant and equipment	14	15	**14**
Total	760	773	**781**
Collateralized debt			
Current borrowings	133	102	**114**
Current portion of non-current borrowings	113	14	**2**
Non-current borrowings	20	8	**5**
Total	¥266	¥125	**¥121**

Other than the above items, there are no items with restrictions on ownership or a mortgage as collateral for a debt.

17 Provisions

The breakdown of provisions is as follows:

(Millions of yen)

	Date of Transition (April 1, 2014)	FY2014 (March 31, 2015)	**FY2015 (March 31, 2016)**
Provisions for product warranties	¥5,221	¥6,783	**¥4,958**
Other	2,206	2,294	**2,349**
Total	7,427	9,077	**7,307**
Current	5,457	7,088	**5,313**
Non-current	1,970	1,989	**1,994**

Changes in provisions are as follows:

(Millions of yen)

	Provisions for product warranties	Other	Total
Balance at April 1, 2014	¥5,221	¥2,206	¥7,427
Provisions	3,712	226	3,938
Provisions used	(1,536)	(141)	(1,677)
Provisions reversed	(460)	—	(460)
Other	(154)	3	(151)
Balance at March 31, 2015	6,783	2,294	9,077
Current	6,783	305	7,088
Non-current	—	1,989	1,989
Balance at March 31, 2015	6,783	2,294	9,077
Provisions	2,050	314	2,363
Provisions used	(1,708)	(251)	(1,959)
Provisions reversed	(2,114)	(5)	(2,119)
Other	(53)	(3)	(56)
Balance at March 31, 2016	4,958	2,349	7,307
Current	4,958	355	5,313
Non-current	—	1,994	1,994
Balance at March 31, 2016	¥4,958	¥2,349	¥7,307

Explanations of various provisions are provided in Note 3, "Significant Accounting Policies, (12) Provisions and contingent liabilities."

Major other provisions are provisions for environmental measures, asset retirement obligations, directors' bonuses and employee benefits.

18 Employee Benefits

The Company and certain domestic consolidated subsidiaries have funded and unfunded defined benefit plans for retirement benefit payments to employees. The amount of these payments is determined by using the number of years of employment, skills, job responsibilities and titles, and other evaluation parameters. In addition, some employees receive extra retirement benefits when they resign or leave for some other reason.

Funded defined benefit pension plans are managed by a pension fund that is legally separate from the consolidated companies. The directors of a pension fund and companies to which pension fund management is outsourced are legally obligated to make the interests of the pension plan participants the highest priority. They have a responsibility to manage plan assets in accordance with the designated policies. In addition, the Company has an obligation to make contributions to the fund. The rules state that this contribution shall be recalculated every five years to enable the Company to maintain the proper financial balance in the future.

Please see Note 3, "Significant Accounting Policies, (11) Employee benefits" for information about the accounting policy for defined benefit plans.

Certain consolidated subsidiaries have a defined contribution pension plan in addition to a defined benefit plan.

(1) Defined benefit plans

1) Risks related to defined benefit plans

A variety of risks are inherent in the KYB Group's defined benefit plans. The primary risks are outlined below. The KYB Group's plan assets are not subject to the risk of significant concentration.

Fluctuations in plan assets	Investments in equity instruments are exposed to fluctuation risk.
Fluctuations in bond interest rates	Decreases in market bond yields cause defined benefit liabilities (net) to increase.

2) Amounts recognized in the consolidated statements of financial position

The present value of defined benefit obligations, the fair value of plan assets and defined benefit assets and liabilities in the consolidated statements of financial position are as follows:

(Millions of yen)

	Date of Transition (April 1, 2014)	FY2014 (March 31, 2015)	**FY2015 (March 31, 2016)**
Present value of defined benefit obligations in funded defined benefit plans	¥34,331	¥33,717	**¥38,004**
Fair value of plan assets	(26,198)	(33,804)	**(29,293)**
Net defined benefit assets and liabilities (funded)	8,133	(88)	**8,711**
Present value of defined benefit obligations in unfunded defined benefit plans	4,296	4,399	**5,171**
Net defined benefit assets and liabilities	12,429	4,312	**13,882**
Assets related to retirement benefits in the consolidated statements of financial position	(95)	(1,700)	**(11)**
Liabilities related to retirement benefits in the consolidated statements of financial position	12,524	6,012	**13,893**
Net defined benefit assets and liabilities	¥12,429	¥4,312	**¥13,882**

3) Net defined benefit liabilities (assets)

Below is an adjustment table of the present value of net defined benefit liabilities (assets).

FY2014 (April 1, 2014–March 31, 2015)

(Millions of yen)

	Present value of defined benefit liabilities	Fair value of plan assets	Total
Balance at April 1, 2014	¥38,627	¥(26,198)	¥12,429
Service cost	2,129	—	2,129
Net interest expenses	382	—	382
	2,511	—	2,511
Remeasurement:			
Gains or losses on plan assets	—	(586)	(586)
Actuarial gains and losses arising from changes in demographic assumptions	(615)	—	(615)
Actuarial gains and losses arising from changes in financial assumptions	—	(7,000)	(7,000)
	(615)	(7,586)	(8,201)
Contributions:			
Company contribution to plans	—	(1,022)	(1,022)
Benefits paid	(2,543)	1,040	(1,503)
Other	136	(39)	98
Balance at March 31, 2015	¥38,116	¥(33,804)	¥ 4,312

FY2015 (April 1, 2015–March 31, 2016)

(Millions of yen)

	Present value of defined benefit liabilities	Fair value of plan assets	Total
Balance at April 1, 2015	**¥38,116**	**¥(33,804)**	**¥ 4,312**
Service cost	**2,827**	**—**	**2,827**
Net interest expenses	**399**	**—**	**399**
	3,226	**—**	**3,226**
Remeasurement:			
Gains or losses on plan assets	**—**	**(547)**	**(547)**
Actuarial gains and losses arising from changes in demographic assumptions	**682**	**—**	**682**
Actuarial gains and losses arising from changes in financial assumptions	**3,281**	**5,540**	**8,821**
	3,963	**4,993**	**8,956**
Contributions:			
Company contribution to plans	**—**	**(1,405)**	**(1,405)**
Benefits paid	**(2,040)**	**898**	**(1,142)**
Other	**(90)**	**25**	**(64)**
Balance at March 31, 2016	**¥43,175**	**¥(29,293)**	**¥13,882**

4) Breakdown of plan assets

The breakdown of plan assets is as follows:

Date of Transition (April 1, 2014)

(Millions of yen)

	Assets with quoted market prices in an active market	Assets without quoted market prices in an active market	Total
Domestic stocks	¥16,713	¥ —	¥16,713
Foreign stocks	1,451	—	1,451
Domestic bonds	3,849	—	3,849
Foreign bonds	750	—	750
Life insurance general account	—	1,072	1,072
Cash and time deposits	1,919	—	1,919
Other	—	445	445
Total	¥24,681	¥1,517	¥26,198

Domestic stocks include ¥14,547 million of stock held by the retirement benefit trust established for the lump-sum retirement benefit plan.

FY2014 (March 31, 2015)

(Millions of yen)

	Assets with quoted market prices in an active market	Assets without quoted market prices in an active market	Total
Domestic stocks	¥21,278	¥ —	¥21,278
Foreign stocks	677	—	677
Domestic bonds	2,727	—	2,727
Foreign bonds	1,797	—	1,797
Life insurance general account	—	5,849	5,849
Cash and time deposits	1,179	—	1,179
Other	—	296	296
Total	¥27,658	¥6,146	¥33,804

Domestic stocks include ¥20,629 million of stock held by the retirement benefit trust established for the lump-sum retirement benefit plan.

FY2015 (March 31, 2016)

(Millions of yen)

	Assets with quoted market prices in an active market	Assets without quoted market prices in an active market	Total
Domestic stocks	**¥16,815**	**¥ —**	**¥16,815**
Foreign stocks	**336**	**—**	**336**
Domestic bonds	**4,900**	**—**	**4,900**
Foreign bonds	**1,400**	**—**	**1,400**
Life insurance general account	**—**	**4,539**	**4,539**
Cash and time deposits	**449**	**—**	**449**
Other	**—**	**855**	**855**
Total	**¥23,899**	**¥5,394**	**¥29,293**

Domestic stocks include ¥16,449 million of stock held by the retirement benefit trust established for the lump-sum retirement benefit plan.

5) Actuarial assumptions

The principal assumptions used in actuarial calculations are as follows:

(Millions of yen)

	Date of Transition (April 1, 2014)	FY2014 (March 31, 2015)	**FY2015 (March 31, 2016)**
Discount rate	1.0%	1.0%	**0.3%**

6) Sensitivity analysis

The impact on defined benefit liabilities of changes in assumptions used in actuarial calculations are as follows: This analysis assumes that all other variables are fixed. Also, this analysis is based on the band of fluctuation of variables considered reasonable as of the closing date of the reporting period.

	Fluctuatuions	Impact on defined benefit liabilities
Discount rate	Up 0.5%	Decrease ¥2,409 million
	Down 0.5%	Increase ¥2,667 million

7) Information related to future cash flows

In the year ended March 31, 2016, expected contributions to defined benefit plans in the next fiscal year are ¥1,030 million. The weighted average duration of defined benefit liabilities was 12.18 years and 12.25 years at the years ended March 31, 2015 and 2016, respectively.

8) Information on correspondence of assets and liabilities

For plans with reserves, the KYB Group engages in long-term investment to ensure correspondence of assets and liabilities with pension scheme obligations. The KYB Group proactively monitors investment durations and expected yields to ensure correspondence with future cash outflows arising from pension obligations. This risk management process is unchanged from the year ended March 31, 2015.

(2) Defined contribution plans

Retirement benefit expenses related to defined contribution plans are recognized as expenses during the period in which employees provide services, and unpaid contributions are recognized as obligations.

Retirement benefit expenses related to defined contribution plans are as follows:

(Millions of yen)

	FY2014 (April 1, 2014–March 31, 2015)	**FY2015 (April 1, 2015–March 31, 2016)**
Retirement benefit expenses related to defined contribution plans	¥456	**¥553**

19 Financial Instruments

(1) Capital management

The KYB Group manages capital for the purposes of providing shareholders with a return on their investments, providing benefits to other stakeholders and lowering the cost of capital. The KYB Group must preserve the capabilities required to remain a going concern in order to maintain the best capital structure for accomplishing these goals.

There are several ways to maintain or adjust the composition of capital. Primary examples are revisions to dividends to shareholders, the return of capital to shareholders, the issuance of stock and debt reductions funded by asset sales.

The KYB Group monitors its capital by using the debt/equity ratio, which is net debt divided by capital. Net debt is all borrowings less cash and cash equivalents. Capital is the total equity as shown on the consolidated statements of financial position plus net debt.

Each time the KYB Group prepares or revises a medium-term business plan, management examines and confirms profit and investment plans as well as these financial indicators. The KYB Group is not subject to any significant restrictions on capital (except the general restrictions of the Companies Act and other laws and regulations).

(2) Categories of financial instruments

(Millions of yen)

	Date of Transition (April 1, 2014)	FY2014 (March 31, 2015)	**FY2015 (March 31, 2016)**
Financial assets			
Financial assets with fair value based on other comprehensive income:			
Stock	¥ 16,059	¥ 23,700	**¥ 16,998**
Derivatives	120	139	**207**
Other	936	888	**906**
Financial assets valued at amortized cost:			
Cash and cash equivalents	38,133	30,510	**25,296**
Trade and other receivables	91,093	97,270	**87,999**
Other	2,606	2,319	**1,843**
Total	148,946	154,827	**133,248**
Financial liabilities			
Financial liabilities with fair value based on other comprehensive income:			
Borrowings	85,810	89,645	**88,840**
Derivatives	8	4	**1**
Financial liabilities valued at amortized cost:			
Trade and other payables	68,852	72,193	**66,211**
Lease obligations	2,857	2,679	**2,467**
Other	22,931	21,891	**18,538**
Total	¥180,457	¥186,413	**¥176,058**

Financial assets with a fair value based on other comprehensive income are included in "other financial assets" on the consolidated financial position.

Lease obligations are included in "other financial liabilities" on the consolidated statements of financial position.

There are no financial assets and financial liabilities with a fair value based on profit or loss.

Financial assets with a fair value based on other comprehensive income

The KYB Group has long-term holdings of stock in companies for the purpose of enlarging its profit structure by preserving and strengthening business relationships with these companies. These stock investments are designated financial assets with a fair value based on other comprehensive income.

At the date of transition and in the fiscal years ended March 31, 2015 and 2016, the fair value and dividends received for financial assets with a fair value based on other comprehensive income and that are included in "other financial assets" were as follows:

(Millions of yen)

	Date of Transition (April 1, 2014)	FY2014 (March 31, 2015)	FY2014 (April 1, 2014–March 31, 2015)	**FY2015 (March 31, 2016)**	**FY2015 (April 1, 2015–March 31, 2016)**
	Fair value	Fair value	Dividends received	Fair value	Dividends received
Listed shares	¥15,866	¥23,508	¥339	**¥16,802**	**¥398**
Unlisted shares	193	192	1	**197**	**1**
Derivatives	120	139	—	**207**	**—**
Other	936	888	274	**906**	**49**
Total	¥17,114	¥24,727	¥616	**¥18,110**	**¥448**

Sales during the fiscal year of financial assets with a fair value based on other comprehensive income were as follows:

(Millions of yen)

	FY2014 (April 1, 2014–March 31, 2015)			**FY2015 (April 1, 2015–March 31, 2016)**		
	Fair value on day of sale	Cummulative gain/loss	Dividend income	Fair value on day of sale	Cummulative gain/loss	Dividend income
	¥4	¥3	¥0	**¥2,851**	**¥1,315**	**¥57**

Most sales were the result of reviews of business relationships. In the fiscal years ended March 31, 2015 and 2016, the cumulative amounts (after taxes) transferred from components of other capital to retained earnings were ¥3 million and ¥1,315 million, respectively.

(3) Financial risk management

The KYB Group is vulnerable to credit risk, liquidity risk, market risk (changes in foreign exchange rates, interest rates and stock prices) and other risk factors. To hedge exposure to market risk, the KYB Group uses forward currency exchange contracts, interest rate swaps and other derivatives. Derivative transactions are conducted and managed in accordance with internal rules concerning the authority for these transactions. The KYB Group has a policy of never using derivatives for speculation.

The KYB Group procures funds as needed based on a plan for capital expenditures. Surplus funds are invested in highly secure financial assets and bank loans are used for short-term working capital requirements. To manage liquidity risk associated with fund procurement activities, all group companies prepare cash flow plans every month and other methods are used.

(4) Credit risk management

The KYB Group is vulnerable to the risk that companies and other parties associated with the KYB Group's financial assets may not be able to fulfill their obligations. To manage credit risk, maturity and balance management is performed for each counterparty in accordance with the KYB Group's credit management rules. In addition, the financial soundness of major counterparties is examined on a regular basis. As needed, group companies receive collateral, use factoring and take other steps to ensure that amounts due will be received.

The KYB Group uses financial institutions and other sources for derivatives that reduce risk involving foreign exchange rate movements. To limit the effect of these derivatives on credit risk, the KYB Group's basic policy is to use only counterparties with high credit ratings for these derivatives.

There is no significant credit risk exposure to any particular counterparty and there is no excessive concentration of credit risk that requires special management.

For financial assets, the KYB Group's maximum credit risk exposure is the book value after impairment as shown on the consolidated statements of financial position.

The KYB Group holds no properties as collateral and has no other credit enhancements with regard to this credit risk exposure.

1) Financial assets overdue but not impaired

Trade and other receivables that were overdue as of the date of transition and March 31, 2015 and 2016, but not impaired, when divided into categories based on the length of time they were overdue, were as follows:

Date of Transition (April 1, 2014)

(Millions of yen)

	Amount past due			
	Less than 90 days	More than 90 days less than 180 days	More than 180 days	Total
Trade and other receivables	¥238	¥56	¥—	¥294

FY2014 (March 31, 2015)

(Millions of yen)

	Amount past due			
	Less than 90 days	More than 90 days less than 180 days	More than 180 days	Total
Trade and other receivables	¥793	¥130	¥91	¥1,014

FY2015 (March 31, 2016)

(Millions of yen)

	Amount past due			
	Less than 90 days	More than 90 days less than 180 days	More than 180 days	Total
Trade and other receivables	**¥969**	**¥137**	**¥108**	**¥1,214**

2) Change in allowance for doubtful accounts

The KYB Group makes additions to the allowance for doubtful accounts in accordance with estimates, which are based on the financial soundness of counterparties, of the likelihood that trade receivables and other obligations will be paid. Components of changes in this allowance were as follows:

(Millions of yen)

	FY2014 (April 1, 2014–March 31, 2015)	**FY2015 (April 1, 2015–March 31, 2016)**
Balance at beginning of the year	¥228	**¥ 341**
Allowance, during the period	161	**411**
Allowance used, during the period	(23)	**(100)**
Allowance reverded, during the period	(32)	**(26)**
Other	6	**(41)**
Balance at end of the year	¥341	**¥ 587**

3) Transfers of financial assets

The KYB Group uses banks to discount some notes receivable before the maturity dates. Even after a note is discounted, the KYB Group is still responsible for reimbursing the bank or other company that discounted the note in the event that the issuer defaults. Consequently, discounted notes receivable remain on the balance sheet until maturity as trade and other receivables. Funds received from discounted notes are on the consolidated statements of financial position as bonds and loans.

Notes discounted as of the date of transition and March 31, 2015 and 2016 were as follows:

(Millions of yen)

	Date of Transition (April 1, 2014)	FY2014 (March 31, 2015)	**FY2015 (March 31, 2016)**
Discounted notes receivable	¥26	¥51	**¥154**

(5) Liquidity risk management

The KYB Group uses loans from financial institutions and issues bonds to procure funds for working capital and capital expenditures. Liquidity risk is the risk of becoming unable to repay this debt. Group companies use loans and bonds in order to maintain the smallest amount of cash and cash equivalents required for business activities. There are also credit facilities that can be used in the event of a sudden need for funds, a big decline in market liquidity or some other emergency.

The Company prepares a monthly funding plan based on the requirements for funds at each group company and then compares the demand for funds with daily cash flows. This monitoring method is another aspect of the management of liquidity risk.

The KYB Group's non-derivative financial liabilities and derivative financial liabilities categorized by the remaining contractual period to maturity are as follows:

Date of Transition (April 1, 2014)

(Millions of yen)

	Book balance	Due within one year	Due after one year and within two years	Due after two years and within three years	Due after three years and within four years	Due after four years and within five years	Due over five years
Non-derivative financial liabilities:							
Trade and other payables	¥ 68,852	¥ 68,852	¥ —	¥ —	¥ —	¥ —	¥ —
Short-term borrowings	30,826	30,826	—	—	—	—	—
Current portion of non-current borrowings	13,443	13,443	—	—	—	—	—
Long-term borrowings	41,541	—	14,928	15,424	9,049	1,900	241
Short-term lease obligations	585	585	—	—	—	—	—
Long-term lease obligations	2,272	—	500	399	1,208	157	8
Total	157,519	113,707	15,427	15,822	10,257	2,057	249
Derivative financial liabilities:							
Interest swap	8	2	3	3	—	—	—
Total	¥ 8	¥ 2	¥ 3	¥ 3	¥ —	¥ —	¥ —

FY2014 (March 31, 2015)

(Millions of yen)

	Book balance	Due within one year	Due after one year and within two years	Due after two years and within three years	Due after three years and within four years	Due after four years and within five years	Due over five years
Non-derivative financial liabilities:							
Trade and other payables	¥ 72,193	¥ 72,193	¥ —	¥ —	¥ —	¥ —	¥ —
Short-term borrowings	30,665	30,665	—	—	—	—	—
Current portion of non-current borrowings	16,226	16,226	—	—	—	—	—
Long-term borrowings	42,755	—	17,716	11,509	8,534	3,972	1,024
Short-term lease obligations	574	574	—	—	—	—	—
Long-term lease obligations	2,105	—	494	1,208	224	31	148
Total	164,518	119,658	18,210	12,717	8,758	4,003	1,172
Derivative financial liabilities:							
Interest swap	4	2	2	—	—	—	—
Total	¥ 4	¥ 2	¥ 2	¥ —	¥ —	¥ —	¥ —

FY2015 (March 31, 2016)

(Millions of yen)

	Book balance	Due within one year	Due after one year and within two years	Due after two years and within three years	Due after three years and within four years	Due after four years and within five years	Due over five years
Non-derivative financial liabilities:							
Trade and other payables	**¥ 66,211**	**¥ 66,211**	**¥ —**	**¥ —**	**¥ —**	**¥ —**	**¥ —**
Short-term borrowings	**32,557**	**32,557**	**—**	**—**	**—**	**—**	**—**
Current portion of non-current borrowings	**17,935**	**17,935**	**—**	**—**	**—**	**—**	**—**
Long-term borrowings	**38,348**	**—**	**12,736**	**12,022**	**7,521**	**4,560**	**1,509**
Short-term lease obligations	**555**	**555**	**—**	**—**	**—**	**—**	**—**
Long-term lease obligations	**1,912**	**—**	**1,269**	**292**	**100**	**62**	**189**
Total	**157,518**	**117,258**	**14,004**	**12,315**	**7,621**	**4,622**	**1,698**
Derivative financial liabilities:							
Interest swap	**1**	**1**	**—**	**—**	**—**	**—**	**—**
Total	**¥ 1**	**¥ 1**	**¥ —**	**¥ —**	**¥ —**	**¥ —**	**¥ —**

(6) Market risk management

1) Foreign exchange risk

Due to the global scale of its operations, the KYB Group purchases some raw materials and sells some products in foreign currencies. This results in exposure to foreign exchange risk regarding foreign currency receivables and payables. Changes in the value of the US dollar account for the majority of the KYB Group's foreign exchange risk.

Analysis of foreign exchange sensitivity

The following table provides information about sensitivity with respect to the KYB Group's net foreign exchange risk exposure.

(Millions of yen)

	FY2014 (April 1, 2014–March 31, 2015)	**FY2015 (April 1, 2015–March 31, 2016)**
Impact on profit or loss and capital:		
US dollars	¥150	**¥156**
Euro	40	**49**

In the fiscal years ended March 31, 2015 and 2016, the appreciation of the yen by one yen in relation to the US dollar and euro would have the above effect on the KYB Group's operating profit. For this analysis, all other variables are assumed to remain the same.

2) Interest rate risk

The KYB Group pays interest on funds that are procured for working capital, capital expenditures and other requirements in order to conduct business operations. If there are floating-rate loans, changes in market interest rates will affect interest payments. This exposes the KYB Group to interest rate risk due to possible changes in future interest payments. For long-term loans, which are used mainly for capital expenditures, that have floating rates, the KYB Group uses interest rate swaps with financial institutions in order to limit the increase in interest payments when market interest rates increase. With these swaps, the KYB Group receives payments using a floating rate and makes payments using a fixed rate and receives the difference. By effectively converting the interest rate on long-term loans to a fixed rate, interest rate risk is hedged because future interest payments are stabilized.

Analysis of interest rate sensitivity

The following table provides information about sensitivity with respect to the KYB Group's interest rate risk exposure.

(Millions of yen)

	FY2014 (April 1, 2014–March 31, 2015)	**FY2015 (April 1, 2015–March 31, 2016)**
Impact on profit or loss and capital	¥191	**¥126**

Sensitivity analysis shows how much profit or loss and capital would change if market interest rates increased by one percentage point with respect to interest-bearing liabilities with floating rates other than liabilities where swaps were used to convert to a fixed rate. This analysis assumes that all other variables will remain unchanged.

(7) Fair value of financial instruments

1) Method used to determine fair value

The fair values of financial assets and financial liabilities are determined as follows: For estimates of fair values, the market price is used if available. If no market price can be obtained, the fair value is estimated by discounting future cash flows or by using some other suitable valuation method.

2) Fair value for categories of financial instruments

Financial assets and liabilities with a fair value based on other comprehensive income and the financial assets and liabilities valued at amortized cost are as follows: Information about financial instruments for which a fair value is determined is provided in "(2) Categories of financial instruments."

(Millions of yen)

	Date of Transition (April 1, 2014)		FY2014 (March 31, 2015)		**FY2015 (March 31, 2016)**	
	Book value	Fair value	Book value	Fair value	Book value	Fair value
Financial assets with a fair value based on other comprehensive income:						
Stock	¥16,059	¥16,059	¥23,700	¥23,700	**¥16,998**	**¥16,998**
Derivatives	120	120	139	139	**207**	**207**
Other	936	936	888	888	**906**	**906**
Financial assets valued at amortized cost:						
Cash and cash equivalents	38,133	38,133	30,510	30,510	**25,296**	**25,296**
Trade and other receivables	91,093	91,093	97,270	97,270	**87,999**	**87,999**
Other	2,606	2,606	2,319	2,319	**1,843**	**1,843**
Financial liabilities with a fair value based on other comprehensive income:						
Borrowings	85,810	86,008	89,645	89,824	**88,840**	**89,191**
Derivatives	8	8	4	4	**1**	**1**
Financial liabilities valued at amortized cost:						
Trade and other payables	68,852	68,852	72,193	72,193	**66,211**	**66,211**
Finance lease obligations	2,857	2,857	2,679	2,679	**2,467**	**2,467**
Other	22,931	22,931	21,891	21,891	**18,538**	**18,538**

The fair value of financial assets and liabilities valued at amortized cost is virtually the same as book value.

3) Fair value hierarchy

For financial instruments measured at fair value, fair value measurement amounts are categorized as level 1, 2 or 3 depending on the observability and importance of the input used.

Level 1: Market value of the same asset or liability on a market with significant trading volume

Level 2: Fair values other than those in level 1 that were measured by using direct or indirect observable inputs

Level 3: Fair values calculated by using valuation methods that include observable inputs

Date of Transition (April 1, 2014)

(Millions of yen)

	Market value in active markets for similar assets (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Recurring fair value measurement				
Financial assets with a fair value based on other comprehensive income:				
Listed shares	¥15,866	¥ —	¥ —	¥15,866
Non-listed shares	—	—	193	193
Derivatives	—	120	—	120
Other	—	310	625	936
Total	15,866	430	818	17,114
Financial liabilities with a fair value based on other comprehensive income:				
Derivatives	—	8	—	8
Total	¥ —	¥ 8	¥ —	¥ 8

FY2014 (March 31, 2015)

(Millions of yen)

	Market value in active markets for similar assets (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Recurring fair value measurement				
Financial assets with a fair value based on other comprehensive income:				
Listed shares	¥23,508	¥ —	¥ —	¥23,508
Non-listed shares	—	—	192	192
Derivatives	—	139	—	139
Other	—	259	629	888
Total	23,508	398	821	24,727
Financial liabilities with a fair value based on other comprehensive income:				
Derivatives	—	4	—	4
Total	¥ —	¥ 4	¥ —	¥ 4

FY2015 (March 31, 2016)

(Millions of yen)

	Market value in active markets for similar assets (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Recurring fair value measurement				
Financial assets with a fair value based on other comprehensive income:				
Listed shares	**¥16,802**	**¥ —**	**¥ —**	**¥16,802**
Non-listed shares	**—**	**—**	**197**	**197**
Derivatives	**—**	**207**	**—**	**207**
Other	**—**	**251**	**654**	**906**
Total	**16,802**	**459**	**851**	**18,110**
Financial liabilities with a fair value based on other comprehensive income:				
Derivatives		**1**	**—**	**1**
Total	**¥ —**	**¥ 1**	**¥ —**	**¥ 1**

The fair value hierarchy is Level 3 for financial instruments valued at amortized cost shown in "2) Fair value for categories of financial instruments." None of these financial instruments were reclassified to Level 1 or 2 during the date of transition and the fiscal years ended March 31, 2015 and 2016.

4) Information concerning determination of Level 2 and Level 3 fair values

The fair value of derivatives is measured by using prices at counterparty financial institutions and other sources and other information. To determine the fair values of financial instruments with a hierarchy of Level 2 or Level 3, comparisons are made between the book values prior to the valuation and net assets calculated based on the Company's ownership of a company in the case of non-listed stocks and the valuation in the case of a membership. If the net assets or membership current value is less than the book value prior to the valuation, the difference is included in other comprehensive income.

(8) Financial derivatives and hedges

Cash flow hedges

Cash flow hedges are hedges for changes in future cash flows from planned transactions or from assets or liabilities that have already been recognized. Changes in the fair value of derivatives designated as cash flow hedges are included in other comprehensive income. Changes in future cash flows derived from hedged unrealized future transactions or from hedged assets or liabilities that have already been recognized are treated by using this accounting method until profits or losses are realized.

In accordance with internal administrative rules, the KYB Group uses interest rate and currency swaps and interest rate swaps to hedge risks associated with changes in cash flows resulting from changes in interest rates on loans and changes in foreign exchange rates associated with foreign currency denominated transactions. These swaps are designated as cash flow hedges.

When applying hedge accounting, in principle, the Company aims for consistency for the notional principal of the hedging method and item hedged, the length (maturity) of the hedge, and the basic interest value. This is for the purpose of maintaining high hedging effectiveness during the entire hedging period. In the fiscal years ended March 31, 2015 and 2016, there were no gains or losses concerning the portion of hedges that was not effective and the portion of hedges that was excluded from the evaluation of effectiveness.

As of the date of transition and March 31, 2015 and 2016, hedging methods designated as hedges had the following effect on the KYB Group's consolidated statements of financial position.

Date of Transition (April 1, 2014)

(Millions of yen)

	Notional principal	Book value: Derivative assets	Book value: Derivative liabilities	Account on the consolidated statements of financial position	Change in fair value used as basis for recognizing the ineffective portion
Cash flow hedge:					
Interest rate risk					
Interest rate swap	¥1,040	¥ —	¥ 8	Other financial liabilities (non-current)	¥—
Foreign exchange risk, interest rate risk					
Interest rate and currency swap	2,627	120	—	Other financial assets (non-current)	—

FY2014 (March 31, 2015)

(Millions of yen)

	Notional principal	Book value: Derivative assets	Book value: Derivative liabilities	Account on the consolidated statements of financial position	Change in fair value used as basis for recognizing the ineffective portion
Cash flow hedge:					
Interest rate risk					
Interest rate swap	¥ 800	¥ —	¥ 4	Other financial liabilities (non-current)	¥—
Foreign exchange risk, interest rate risk					
Interest rate and currency swap	3,238	139	—	Other financial assets (non-current)	—

FY2015 (March 31, 2016)

(Millions of yen)

	Notional principal	Book value: Derivative assets	Book value: Derivative liabilities	Account on the consolidated statements of financial position	Change in fair value used as basis for recognizing the ineffective portion
Cash flow hedge:					
Interest rate risk					
Interest rate swap	**¥ 400**	**¥ —**	**¥ 1**	Other financial liabilities (non-current)	**¥—**
Foreign exchange risk, interest rate risk					
Interest rate and currency swap	**2,136**	**207**	**—**	Other financial assets (non-current)	**—**

As of the date of transition and March 31, 2015 and 2016, items hedged that are designated as hedges had the following effect on the KYB Group's consolidated statements of financial position.

Date of Transition (April 1, 2014)

(Millions of yen)

	Change in fair value used as basis for recognizing the ineffective portion	Amount recognized as other components of capital
Cash flow hedge:		
Interest rate risk		
Floating rate borrowings	¥—	¥ (5)
Foreign exchange risk, interest rate risk		
Floating-rate loans denominated in foreign currencies	—	96

FY2014 (March 31, 2015)

(Millions of yen)

	Change in fair value used as basis for recognizing the ineffective portion	Amount recognized as other components of capital
Cash flow hedge:		
Interest rate risk		
Floating rate borrowings	¥—	¥ (3)
Foreign exchange risk, interest rate risk		
Floating-rate loans denominated in foreign currencies	—	100

FY2015 (March 31, 2016)

(Millions of yen)

	Change in fair value used as basis for recognizing the ineffective portion	Amount recognized as other components of capital
Cash flow hedge:		
Interest rate risk		
Floating rate borrowings	**¥—**	**¥ (1)**
Foreign exchange risk, interest rate risk		
Floating-rate loans denominated in foreign currencies	**—**	**161**

20 Capital and Other Components of Capital

(1) Share capital and capital surplus

The Companies Act of Japan (hereinafter, the "Companies Act") requires at least half of payments for newly issued stock to be included in share capital. The remainder can be added to the capital reserve, which is included in the capital surplus.

Furthermore, the Companies Act allows for the capital reserve to be incorporated in capital if this is approved by the general shareholders' meeting.

Changes in the total number of shares authorized and the total number of shares issued are as follows:

	Total number of shares authorized (Shares)	Total number of shares issued (Shares)	Share capital (Millions of yen)	Capital surplus (Millions of yen)
Balance at April 1, 2014	491,955,000	257,484,315	¥27,648	¥29,543
Change	—	—	—	0
Balance at March 31, 2015	491,955,000	257,484,315	27,648	29,544
Change	—	—	—	(129)
Balance at March 31, 2016	491,955,000	257,484,315	27,648	29,414

Notes: 1. The Company issues common stock with no par value.
2. Full payments have been made for all shares issued.

(2) Retained earnings

Retained earnings consist of other retained earnings and the retained earnings reserve. Other retained earnings are primarily the accumulated earnings of the KYB Group.

The Companies Act assumes that one-tenth of the amount of dividends paid from retained earnings will be added to the capital reserve or retained earnings reserve until the sum of these two items reaches one-fourth of share capital. The retained earnings reserve can be used to offset a loss. In addition, it is possible to reverse the retained earnings reserve with the approval of the general shareholders' meeting.

(3) Treasury shares

The Companies Act states that a company can purchase its own stock, up to the distributable amount, with the number of shares, total cost and other terms determined by a resolution approved by general shareholders' meeting. In addition, if treasury stock is purchased using open market transactions or a public tender offer, the board of directors can approve a resolution to purchase treasury shares as prescribed in the Articles of Incorporation and with terms that comply with the requirements of the Companies Act.

The number of treasury shares and changes in the number of these shares are as follows:

	Number of shares (Shares)	Amount (Millions of yen)
Balance at April 1, 2014	1,978,091	¥565
Change	15,781	8
Balance at March 31, 2015	1,993,872	573
Change	15,561	6
Balance at March 31, 2016	2,009,433	579

(4) Other components of equity

1) Net change in financial assets measured at fair value through other comprehensive income

This figure is the net change in financial assets measured at fair value through other comprehensive income.

2) Effective portion of the change in the fair value of cash flow hedges

The KYB Group uses hedges to reduce exposure to risk associated with changes in future cash flows. This figure is the portion that is regarded as effective in relation to the net change in the fair value of derivatives designated as cash flow hedges.

3) Exchange differences on translation of foreign operations

These are differences that occur during the consolidation process using the foreign currency-denominated financial statements of foreign operations.

21 Dividends

Fiscal year dividend payments are as follows:

FY2014 (April 1, 2014–March 31, 2015)

Resolution	Type of shares	Aggregate dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Annual Shareholders' Meeting, June 25, 2014	Common shares	¥1,278	¥5.00	March 31, 2014	June 26, 2014
Board of Directors Meeting, October 31, 2014	Common shares	1,278	5.00	September 30, 2014	December 5, 2014

FY2015 (April 1, 2015–March 31, 2016)

Resolution	Type of shares	Aggregate dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Annual Shareholders' Meeting, June 24, 2015	Common shares	**¥1,778**	**¥7.00**	March 31, 2015	June 25, 2015
Board of Directors Meeting, October 30, 2015	Common shares	**1,277**	**5.00**	September 30, 2015	December 4, 2015

Dividends with a record date during the fiscal year but a payment date in the following fiscal year were as follows:

Resolution	Type of shares	Aggregate dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Annual Shareholders' Meeting, June 24, 2016	Common shares	**¥1,533**	**¥6.00**	March 31, 2016	June 27, 2016

22 Breakdown of Expenses by Nature

The composition of the cost of sales and selling, general and administrative expenses is as follows:

(Millions of yen)

	FY2014 (April 1, 2014–March 31, 2015)	**FY2015 (April 1, 2015–March 31, 2016)**
Salaries and other costs	¥ 66,610	**¥ 66,693**
Retirement benefit expenses	2,062	**2,845**
Depreciation and amortization	15,191	**17,075**
Packing expenses	13,058	**12,112**
Other	257,900	**239,007**
Total	¥354,821	**¥337,732**

23 Finance Income and Finance Costs

The composition of finance income and finance costs is as follows:

(Millions of yen)

	FY2014 (April 1, 2014–March 31, 2015)	**FY2015 (April 1, 2015–March 31, 2016)**
Finance income:		
Interest income		
Financial assets valued at amortized cost:	¥ 251	**¥ 113**
Dividends received		
Financial assets with a fair value based on other comprehensive income	616	**448**
Foreign exchange gain or loss	1,082	**—**
Total	¥1,949	**¥ 561**
Finance costs:		
Interest expense		
Financial liabilities valued at amortized cost	¥1,518	**¥1,215**
Foreign exchange loss	—	**848**
Total	¥1,518	**¥2,062**

24 Income and Costs (Except Finance Income and Finance Costs)

(1) Net sales

The composition of net sales is as follows:

(Millions of yen)

	FY2014 (April 1, 2014–March 31, 2015)	**FY2015 (April 1, 2015–March 31, 2016)**
Product sales	¥369,686	**¥354,769**
Construction sales	641	**551**
Total	¥370,327	**¥355,320**

(2) Other income

The composition of other income is as follows:

(Millions of yen)

	FY2014 (April 1, 2014–March 31, 2015)	**FY2015 (April 1, 2015–March 31, 2016)**
Foreign exchange gain	¥ 159	**¥ —**
Technical assistance payments received	809	**896**
Gains on sales of fixed assets	33	**28**
Other	1,184	**1,747**
Total	¥2,184	**¥2,671**

(3) Other expenses

The composition of other expenses is as follows:

(Millions of yen)

	FY2014 (April 1, 2014–March 31, 2015)	**FY2015 (April 1, 2015–March 31, 2016)**
Foreign exchange loss	¥ —	**¥ 1,499**
Loss on disposal of fixed assets	657	**509**
Impairment loss	2,172	**4,049**
Loss associated with the Anti-Monopoly Act	—	**8,152**
Other	384	**431**
Total	¥3,213	**¥14,640**

Note: Losses associated with the Anti-Monopoly Act are fines and other expenses involving a violation of U.S. antitrust law concerning the sale of shock absorbers for automobiles and motorcycles.

25 Income Taxes

(1) Tax expenses

The major components of income tax expenses are as follows:

(Millions of yen)

	FY2014 (April 1, 2014–March 31, 2015)	**FY2015 (April 1, 2015–March 31, 2016)**
Current income taxes:		
Current year	¥5,920	**¥4,445**
Prior year	(670)	**—**
Subtotal	5,250	**4,445**
Deferred income taxes:		
Recognition and elimination of temporary differences	(1,389)	**(2,040)**
Change in valuation allowances	1,757	**2,542**
Change in tax rate, etc.	920	**500**
Subtotal	1,288	**1,002**
Total	¥6,538	**¥5,447**

(2) Reconciliation of the difference between the statutory tax rate and the effective tax rate

The components of the difference between the KYB Group's statutory and effective tax rates are as follows: The effective tax rate is income tax expense divided by profit before tax.

(%)

	FY2014 (April 1, 2014–March 31, 2015)	**FY2015 (April 1, 2015–March 31, 2016)**
Statutory tax rate	34.8%	**32.3%**
Expenses never recognized as tax deductible expenses	2.7	**4.9**
Income taxes for prior periods	(4.5)	**—**
Tax rate differential of consolidated subsidiaries	(3.9)	**(12.8)**
Retained earnings of foreign subsidiaries	3.8	**9.7**
Revision in assessment of probability of recovering deferred tax assets	4.9	**61.0**
Reversal of deferred tax assets due to change in applicable tax rates	6.2	**17.7**
Fines and other penalties	—	**85.5**
Other	0.1	**(5.5)**
Effective tax rate	43.9%	**192.8%**

The KYB Group pays primarily a corporate income tax, an inhabitants tax and an enterprise tax that are deducted from taxable income. Based on these three taxes, the effective tax rate was 34.8% and 32.3% in the years ended March 31, 2015 and 2016, respectively. Overseas subsidiaries pay income and other taxes in the countries where they are located.

FY2014
The Act for Partial Amendment of the Income Tax Act (Act No. 9 of 2015) and the Act for Partial Amendment of the Local Tax Act (Act No. 2 of 2015) were promulgated on March 31, 2015. The corporate income tax rate and other tax rates were lowered or otherwise revised beginning with consolidated fiscal years starting on or after April 1, 2015.

In conjunction with these revised tax rates, the statutory tax rate used to calculate deferred tax assets and deferred tax liabilities was lowered from the previous 34.8% to 32.3% for temporary differences expected to be realized or settled in the consolidated fiscal year starting on April 1, 2015 and to 31.5% for temporary differences expected to be realized or settled in the consolidated fiscal year starting on April 1, 2016 or in subsequent fiscal years.

FY2015
The Act for Partial Amendment of the Income Tax Act (Act No. 15 of 2016) and the Act for Partial Amendment of the Local Tax Act (Act No. 13 of 2016) were approved by Japan's Diet on March 29, 2016. As a result, the corporate income tax rate and other tax rates were lowered or otherwise revised beginning with consolidated fiscal years starting on or after April 1, 2016.

In conjunction with these revised tax rates, the statutory tax rate used to calculate deferred tax assets and deferred tax liabilities was lowered from the previous 32.3% to 30.2% for temporary differences expected to be realized or settled in the consolidated fiscal years starting on April 1, 2016 and April 1, 2017 and to 29.9% for temporary differences expected to be realized or settled in the consolidated fiscal year starting on April 1, 2018 or in subsequent fiscal years.

(3) Changes in deferred tax assets and liabilities
Changes in deferred tax assets and liabilities are as follows:

FY2014 (April 1, 2014–March 31, 2015)

(Millions of yen)

	Balance at April 1, 2014	Amount recognized for profit or loss	Amount recognized for other comprehensive income	Balance at March 31, 2015
Deferred tax assets:				
Liability for retirement benefits	¥ 8,092	¥ (938)	¥(2,372)	¥ 4,781
Deductible losses carried forward	—	318	—	318
Accrued bonuses	1,586	(98)	—	1,488
Provision for product warranties	905	66	—	971
Software	1,292	(93)	—	1,198
Tax effect of unrealized gains on inventories	963	(194)	—	770
Tax effect of unrealized gains on fixed assets	233	132	—	365
Impairment loss	147	272	—	418
Valuation loss on inventories	326	108	—	434
Deductible expenses for assets used in research and development	249	141	—	390
Cumulative asset retirement obligation	450	(45)	—	405
Other	1,957	(625)	(5)	1,328
Total	16,201	(957)	(2,377)	12,867
Deferred tax liabilities:				
Financial assets at fair value	2,016	(1)	2,235	4,250
Undistributed earnings of consolidated overseas subsidiaries	3,085	562	—	3,647
Retirement benefit trust assets	2,904	(386)	—	2,517
Property, plant and equipment	3,965	(365)	—	3,600
Development cost	469	264	—	733
Other	526	279	(2)	803
Total	12,965	352	2,233	15,550
Net deferred tax assets	¥ 3,236	¥(1,309)	¥(4,610)	¥ (2,683)

Note: Differences resulting from changes in foreign exchange rates include amounts treated as profit or loss.

FY2015 (April 1, 2015–March 31, 2016)

(Millions of yen)

	Balance at April 1, 2015	Amount recognized for profit or loss	Amount recognized for other comprehensive income	Balance at March 31, 2016
Deferred tax assets:				
Liability for retirement benefits	**¥ 4,781**	**¥ (205)**	**¥3,041**	**¥ 7,617**
Deductible losses carried forward	**318**	**119**	**—**	**437**
Accrued bonuses	**1,488**	**(98)**	**—**	**1,390**
Provision for product warranties	**971**	**45**	**—**	**1,016**
Software	**1,198**	**(205)**	**—**	**993**
Tax effect of unrealized gains on inventories	**770**	**(210)**	**—**	**560**
Tax effect of unrealized gains on fixed assets	**365**	**(12)**	**—**	**353**
Impairment loss	**418**	**24**	**—**	**442**
Valuation loss on inventories	**434**	**(283)**	**—**	**151**
Deductible expenses for assets used in research and development	**390**	**(85)**	**—**	**305**
Cumulative asset retirement obligation	**405**	**(196)**	**—**	**209**
Other	**1,328**	**964**	**(39)**	**2,252**
Total	**12,867**	**(143)**	**3,001**	**15,725**
Deferred tax liabilities:				
Financial assets at fair value	**4,250**	**(800)**	**(1,354)**	**2,096**
Undistributed earnings of consolidated overseas subsidiaries	**3,647**	**(273)**	**—**	**3,374**
Retirement benefit trust assets	**2,517**	**(263)**	**—**	**2,254**
Property, plant and equipment	**3,600**	**(192)**	**—**	**3,408**
Development cost	**733**	**182**	**—**	**915**
Other	**803**	**2,205**	**—**	**3,008**
Total	**15,550**	**859**	**(1,354)**	**15,055**
Net deferred tax assets	**¥ (2,683)**	**¥(1,002)**	**¥4,356**	**¥ 670**

Note: Differences resulting from changes in foreign exchange rates include amounts treated as profit or loss.

(4) Deductible temporary differences and deductible losses carried forward not recognized as deferred tax assets
Deductible temporary differences and deductible losses carried forward that are not recognized as deferred tax assets are as follows:

(Millions of yen)

	Date of Transition (April 1, 2014)	FY2014 (March 31, 2015)	**FY2015 (March 31, 2016)**
Deductible temporary differences	¥1,652	¥ 5,671	**¥ 9,074**
Deductible losses carried forward	6,760	7,165	**10,215**
Total	¥8,412	¥12,836	**¥19,289**

Deductible losses carried forward that are not recognized as deferred tax assets and that are expected to expire are as follows:

(Millions of yen)

	Date of Transition (April 1, 2014)	FY2014 (March 31, 2015)	**FY2015 (March 31, 2016)**
Within 1st year	¥ 435	¥ 516	**¥ 552**
2nd year	463	582	**7**
3rd year	523	8	**100**
4th year	7	106	**312**
5th year and thereafter	5,333	5,953	**9,244**
Total	¥6,760	¥7,165	**¥10,215**

26 Other Comprehensive Income

Reclassification adjustments and tax-effect amounts associated with other comprehensive income are as follows:

(Millions of yen)

	FY2014 (April 1, 2014–March 31, 2015)	**FY2015 (April 1, 2015–March 31, 2016)**
Net change in financial assets measured at fair value through other comprehensive income		
Amount arising during the year:		
Before tax effect	¥ 7,341	**¥ (3,769)**
Tax effects	(2,235)	**1,354**
Subtotal	5,106	**(2,415)**
Remeasurements of defined benefit plans		
Amount arising during the year:		
Before tax effect	7,608	**(9,700)**
Tax effects	(2,370)	**3,041**
Subtotal	5,238	**(6,660)**
Share of other comprehensive income of investments accounted for using the equity method		
Amount arising during the year:		
Before tax effect	362	**(465)**
Tax effects	—	**—**
Subtotal	362	**(465)**
Exchange differences on translation of foreign operations		
Amount arising during the year:		
Before tax effect	6,129	**(5,729)**
Tax effects	—	**—**
Subtotal	6,129	**(5,729)**
Effective portion of the change in the fair value of cash flow hedges		
Amount arising during the year:		
Before tax effect	21	**98**
Tax effects	(7)	**(39)**
Subtotal	14	**58**
Total	¥16,849	**¥(15,210)**

27 Earnings per Share

The basis for calculating basic earnings per share is as follows:

	FY2014 (April 1, 2014–March 31, 2015)	**FY2015 (April 1, 2015–March 31, 2016)**
Profit (loss) for the year attributable to owners of the parent (Millions of yen)	¥8,036	**¥(3,161)**
Average number of shares (Shares)	255,501,255	**255,485,162**
Basic earnings per share (Yen)	¥31.45	**¥(12.37)**

Diluted earnings per share is not shown because there are no dilutive common stock equivalents.

28 Contingent Liabilities

The KYB Group guarantees the loans and other debt from financial institutions and other lenders at affiliates. The amount of these guarantees at the end of each fiscal year was as follows:

(Millions of yen)

	Date of Transition (April 1, 2014)	FY2014 (March 31, 2015)	**FY2015 (March 31, 2016)**
Affiliates:			
Bank loans	¥1,772	¥1,852	**¥1,689**
Total	¥1,772	¥1,852	**¥1,689**

Information concerning the Anti-Monopoly Act

In September 2015, the KYB Group reached an agreement with the U.S. Department of Justice concerning plea bargain. In association with this agreement, a class action lawsuit has been filed in the United States and Canada naming the Company and the Company's U.S. subsidiary as the defendant.

In addition, some customers have asked for the payment of damages.

Although these lawsuits do not contain any specific monetary figures, the results of this litigation may have an effect on the Company's performance and other aspects of business operations.

29 Commitments

Significant commitments concerning contractual liabilities for purchases of property, plant and equipment totaled ¥1,673 million on March 31, 2016.

30 Related Party Transactions

Compensation of senior executives

Compensation of KYB Group senior executives was as follows:

(Millions of yen)

	FY2014 (April 1, 2014–March 31, 2015)	**FY2015 (April 1, 2015–March 31, 2016)**
Compensation and bonuses	¥344	**¥304**
Total	¥344	**¥304**

31 Subsidiaries

Major subsidiaries of the Company are as describe on page 22 of this report.

32 Investments Accounted for Using Equity Method

The book values of the KYB Group's equity investments in affiliates accounted for using the equity method and that are immaterial individually are as follows:

(Millions of yen)

	Date of Transition (April 1, 2014)	FY2014 (March 31, 2015)	**FY2015 (March 31, 2016)**
Book values	¥4,448	¥4,308	**¥3,833**

Summary information for affiliates accounted for using the equity method and that are immaterial individually is as follows: All monetary figures have been adjusted in accordance with the KYB Group's equity interest in each company.

(Millions of yen)

	FY2014 (April 1, 2014–March 31, 2015)	**FY2015 (April 1, 2015–March 31, 2016)**
Profit from continuing operations	¥ (15)	**¥(1,292)**
Other comprehensive income (net of tax)	362	**(465)**
Total	¥347	**¥(1,757)**

33 Subsequent Events

(1) Merger of KYB group companies in China

The Board of Directors of the Company approved a resolution on November 9, 2015 for the merger of consolidated subsidiaries KYB Industrial Machinery (Zhenjiang) Ltd. and KYB Hydraulics Industry (Zhenjiang) Ltd. with KYB Industrial Machinery (Zhenjiang) the surviving company.

Summary

1) Profiles of merged companies

Surviving company: KYB Industrial Machinery (Zhenjiang) Ltd.
Activities: Manufacture and sales of shock absorbers for automobile
Company absorbed: KYB Hydraulics Industry (Zhenjiang) Ltd.
Activities: Manufacture and sales of hydraulic equipment for construction machinery

2) Date of merger

April 1, 2016

3) Legal structure

KYB Industrial Machinery (Zhenjiang) Ltd., the surviving company, absorbed KYB Hydraulics Industry (Zhenjiang) Ltd., which was dissolved following the merger.

4) Name after merger

KYB Industrial Machinery (Zhenjiang) Ltd.

5) Other items concerning the merger (including the purpose)

The purpose of the merger is to build a stronger base of operations that can adapt with flexibility to upcoming changes in market conditions. The merger is part of measures to consolidate manufacturing bases in China in order to improve efficiency by using the resources of the KYB group companies more effectively.

(2) Merger of KYB group companies in Japan

The Board of Directors of the Company approved a resolution on December 25, 2015 for the merger of consolidated subsidiaries KYB-YS Co., Ltd., and KYB-CADAC Co., Ltd. with KYB-YS the surviving company.

Summary

1) Profiles of merged companies

Surviving company: KYB-YS Co., Ltd.
Activities: Manufacture and sales of hydraulic equipment, precision components and other products
Company absorbed: KYB-CADAC Co., Ltd.
Activities: Manufacture and sales of casting and metal mold products

2) Date of merger

April 1, 2016

3) Legal structure

KYB-YS Co., Ltd., the surviving company, absorbed KYB-CADAC Co., Ltd., which was dissolved following the merger.

4) Name after merger

KYB-YS Co., Ltd.

5) Other items concerning the merger (including the purpose)

The purpose of the merger is to build a stronger base of operations that can adapt with flexibility to upcoming changes in market conditions. By reorganizing manufacturing operations in the Nagano area of Japan, this merger is intended to improve efficiency by using the resources of the KYB group companies more effectively.

34 First-time adoption

(1) Transition to reporting based on IFRS

The KYB Group started preparing consolidated financial statements based on IFRS in the fiscal year ended March 31, 2016. The accounting policies used for the preparation of these IFRS financial statements are explained in Note 3, "Significant Accounting Policies."

The consolidated financial statements for the fiscal year ended March 31, 2015 are the most recent financial statements prepared in accordance with Japanese accounting standards (hereinafter, "J-GAAP"). The date of transition to IFRS is April 1, 2014.

As a rule, IFRS 1 requires the retroactive application of this standard. However, there is an exemption that allows a company to choose voluntarily to not perform this retroactive application of IFRS to some items. The KYB Group has used this exemption for the following items.

1) Business combinations

IFRS 3 "Business Combinations" is not retroactively applied to business combinations that occurred prior to the change to IFRS.

2) Translation differences for foreign operations

Foreign currency translation differences at foreign operations on the date of transition to IFRS are deemed to be zero.

3) Designation of equity instruments

For equity instruments that were recognized prior to the change to IFRS, based on facts and conditions existing on the date of the change to IFRS, these instruments are designated as having a fair value that is determined by other comprehensive income.

4) Borrowing costs

For transactions prior to the change to IFRS, IAS 23 "Borrowing Costs" has not been applied retroactively.

5) Deemed cost

IFRS 1 allows using the fair value of property, plant and equipment as of the transition date as the deemed cost of these assets. The KYB Group is using the fair value as of the transition date as the deemed cost for IFRS for some property, plant and equipment.

On the date of transition to IFRS and when preparing IFRS consolidated financial statements for the fiscal year ended March 31, 2015, the KYB Group has made the necessary adjustments to the consolidated financial statements based on the Japanese accounting standards that were already disclosed.

The adjustment table that must be provided in the first fiscal year in which IFRS was used is in "(2) Adjustments to equity on the date of transition (April 1, 2014)."

(2) Adjustments to equity on the date of transition (April 1, 2014)

(Millions of yen)

J-GAAP	J-GAAP	Effect of transition to IFRS	IFRS	Note	IFRS
ASSETS					**ASSETS**
Current assets:					Current assets:
Cash and time deposits	¥ 39,505	¥ (1,372)	¥ 38,133	A	Cash and cash equivalents
Notes and accounts receivables	86,443	4,649	91,093	B	Trade and other receivables
Finished goods	24,642	22,278	46,920		Inventories
Work in process	13,566	(13,566)	—		
Raw materials and supplies	8,368	(8,368)	—		
Deferred tax assets	4,815	(4,815)	—	E	
Short-term loans receivable	45	1,373	1,419	A, G	Other financial assets
Other	8,854	(4,672)	4,183	B	Other current assets
Allowance for doubtful accounts	(193)	193	—	B	
Total current assets	186,048	(4,301)	181,748		Total current assets
Non-current assets:					Non-current assets:
Property, plant and equipment:					
Buildings and structures, net	47,362	100,380	147,742	C	Property, plant and equipment
Machinery, equipment and vehicles, net	54,846	(54,846)	—	C	
Land	26,619	(26,619)	—	C	
Lease assets, net	2,788	(2,788)	—	C	
Construction in progress	13,012	(13,012)	—	C	
Other, net	3,007	(3,007)	—	C	
Total property, plant and equipment	147,636	105	147,742		
Intangible assets:					
Goodwill	622	—	622	H	Goodwill
Software	156	2,743	2,900	I	Intangible assets
Other	1,391	(1,391)	—		
Total intangible assets	2,170	1,352	3,522		
Investments and other assets:					
Investment securities	20,712	(16,264)	4,448	D	Investments accounted for using the equity method
Net defined benefit asset	94	680	775		Other non-current assets
Deferred tax assets	1,934	5,595	7,530	E	Deferred tax assets
Other	2,542	15,759	18,301	G	Other financial assets
Allowance for doubtful accounts	(57)	57	—		
Total investments and other assets:	25,226	5,828	31,055		
Total non-current assets	175,034	7,285	182,319		Total non-current assets
Total assets	¥361,083	¥ 2,984	¥364,067		Total assets

(Millions of yen)

J-GAAP	J-GAAP	Effect of transition to IFRS	IFRS	Note	IFRS
LIABILITIES					**LIABILITIES**
Current liabilities:					Current liabilities:
Notes and accounts payable–trade	¥ 62,584	¥ 6,268	¥ 68,852	F	Trade and other payables
Short-term loans payable	44,206	63	44,269		Bonds and borrowings
Lease obligations	585	22,073	22,658	G	Other financial liabilities
Accounts payable–other	11,701	(11,701)	—	F	
Income tax payable	5,501	—	5,501		Income taxes payables
Notes payable–facilities	2,966	(2,966)	—		
Provision for product warranties	5,220	236	5,457	J	Provisions
Provision for directors' bonuses	173	(173)	—		
Other	13,805	(12,839)	967	F	Other current liabilities
Total current liabilities	146,746	959	147,705		Total current liabilities
Non-current liabilities:					Non-current liabilities:
Long-term loans payable	41,395	146	41,541		Bonds and borrowings
Lease obligations	2,271	865	3,137	G	Other financial liabilities
Deferred tax liabilities	888	3,405	4,294	E	Deferred tax liabilities
Deferred tax liabilities for land revaluation	3,965	(3,965)	—		
Provision for directors' retirement benefit	74	1,896	1,970	J	Provisions
Provision for environmental measures	220	(220)	—		
Provision for retirement benefit	9,949	2,574	12,524	K	Liability for retirement benefits
Asset retirement obligations	386	(386)	—		
Other	1,188	(1,011)	178	F	Other non-current assets
Total non-current liabilities	60,339	3,304	63,643		Total non-current liabilities
Total liabilities	207,085	4,263	211,348		Total liabilities
NET ASSETS					**EQUITY**
Shareholders' equity					
Common stock	27,647	—	27,648		Share capital
Capital surplus	29,543	—	29,543		Capital surplus
Retained earnings	78,323	8,887	87,210		Retained earnings
Treasury stock, at cost	(565)	—	(565)		Treasury shares
	—	3,685	3,685	K	Other components of equity
Total shareholders' equity	134,948	12,572	147,521		Total equity attributable to owners of the parent
Accumulated other comprehensive income:					
Valuation difference on available-for-sale securities	4,354	(4,354)	—		
Revaluation reserve for land	5,316	(5,316)	—		
Foreign currency translation adjustment	3,651	(3,651)	—	L	
Remeasurements of defined benefit plans	506	(506)	—	K	
Total accumulated other comprehensive income	13,828	(13,828)	—		
Minirity interests	5,220	(22)	5,198		Non-controlling interests
Total net assets	153,997	(1,279)	152,719		Total equity
Total liabilities and net assets	¥361,083	¥ 2,984	¥364,067		Total liabilities and equity

(3) Adjustments to equity for FY2014 (March 31, 2015)

(Millions of yen)

J-GAAP	J-GAAP	Effect of transition to IFRS	IFRS	Note	IFRS
ASSETS					**ASSETS**
Current assets:					Current assets:
Cash and time deposits	**¥ 31,752**	**¥ (1,242)**	**¥ 30,510**	A	Cash and cash equivalents
Notes and accounts receivables	**91,249**	**6,021**	**97,270**	B	Trade and other receivables
Finished goods	**25,365**	**21,547**	**46,912**		Inventories
Work in process	**12,905**	**(12,905)**	**—**		
Raw materials and supplies	**8,855**	**(8,855)**	**—**		
Deferred tax assets	**4,756**	**(4,756)**	**—**	E	
Short-term loans receivable	**116**	**1,242**	**1,358**	A, G	Other financial assets
Other	**10,166**	**(6,260)**	**3,906**	B	Other current assets
Allowance for doubtful accounts	**(306)**	**306**	**—**	B	
Total current assets	**184,859**	**(4,903)**	**179,957**		Total current assets
Non-current assets:					Non-current assets:
Property, plant and equipment:					
Buildings and structures, net	**52,018**	**113,795**	**165,813**	C	Property, plant and equipment
Machinery, equipment and vehicles, net	**63,849**	**(63,849)**	**—**	C	
Land	**27,252**	**(27,252)**		C	
Lease assets, net	**2,752**	**(2,752)**	**—**	C	
Construction in progress	**14,519**	**(14,519)**	**—**	C	
Other, net	**3,516**	**(3,516)**	**—**	C	
Total property, plant and equipment	**163,910**	**1,903**	**165,813**		
Intangible assets:					
Goodwill	**316**	**1**	**318**	H	Goodwill
Software	**219**	**3,646**	**3,865**	I	Intangible assets
Other	**1,440**	**(1,440)**	**—**		
Total intangible assets	**1,976**	**2,207**	**4,183**		
Investments and other assets:					
Investment securities	**28,204**	**(23,898)**	**4,308**	D	Investments accounted for using the equity method
Net defined benefit asset	**1,699**	**559**	**2,258**		Other non-current assets
Deferred tax assets	**2,189**	**3,480**	**5,670**	E	Deferred tax assets
Other	**2,146**	**23,542**	**25,688**	G	Other financial assets
Allowance for doubtful accounts	**(57)**	**57**	**—**		
Total investments and other assets:	**34,183**	**3,740**	**37,924**		
Total non-current assets	**200,069**	**7,850**	**207,920**		Total non-current assets
Total assets	**¥384,929**	**¥2,948**	**¥387,877**		Total assets

(Millions of yen)

J-GAAP	J-GAAP	Effect of transition to IFRS	IFRS	Note	IFRS
LIABILITIES					**LIABILITIES**
Current liabilities:					Current liabilities:
Notes and accounts payable–trade	**¥ 64,991**	**¥ 7,202**	**¥ 72,193**	F	Trade and other payables
Short-term loans payable	**46,785**	**105**	**46,890**		Bonds and borrowings
Lease obligations	**574**	**21,168**	**21,742**	G	Other financial liabilities
Accounts payable–other	**13,439**	**(13,439)**	**—**	F	
Income tax payable	**1,614**	**—**	**1,614**		Income taxes payables
Notes payable–facilities	**1,539**	**(1,539)**	**—**		
Provision for product warranties	**6,783**	**305**	**7,088**	J	Provisions
Provision for directors' bonuses	**226**	**(226)**	**—**		
Other	**13,522**	**(12,498)**	**1,024**	F	Other current liabilities
Total current liabilities	**149,475**	**1,076**	**150,552**		Total current liabilities
Non-current liabilities:					Non-current liabilities:
Long-term loans payable	**42,623**	**131**	**42,755**		Bonds and borrowings
Lease obligations	**2,105**	**727**	**2,832**	G	Other financial liabilities
Deferred tax liabilities	**5,157**	**3,196**	**8,353**	E	Deferred tax liabilities
Deferred tax liabilities for land revaluation	**3,599**	**(3,599)**	**—**		
Provision for directors' retirement benefit	**88**	**1,901**	**1,989**	J	Provisions
Provision for environmental measures	**220**	**(220)**	**—**		
Provision for retirement benefit	**6,011**	**—**	**6,012**	K	Liability for retirement benefits
Asset retirement obligations	**399**	**(399)**	**—**		
Other	**989**	**(861)**	**128**		Other non-current liabilities
Total non-current liabilities	**61,195**	**874**	**62,069**		Total non-current liabilities
Total liabilities	**210,671**	**1,950**	**212,621**		Total liabilities
NET ASSETS					**EQUITY**
Shareholders' equity					
Common stock	**27,647**	**—**	**27,648**		Share capital
Capital surplus	**29,543**	**—**	**29,544**		Capital surplus
Retained earnings	**81,066**	**16,865**	**97,931**		Retained earnings
Treasury stock, at cost	**(573)**	**—**	**(573)**		Treasury shares
	—	**14,757**	**14,757**	K	Other components of equity
Total shareholders' equity	**137,684**	**31,623**	**169,307**		Total equity attributable to owners of the parent
Accumulated other comprehensive income:					
Valuation difference on available-for-sale securities	**9,671**	**(9,671)**	**—**		
Revaluation reserve for land	**5,682**	**(5,682)**	**—**		
Foreign currency translation adjustment	**9,640**	**(9,640)**	**—**	L	
Remeasurements of defined benefit plans	**5,670**	**(5,670)**	**—**	K	
Total accumulated other comprehensive income	**30,664**	**(30,664)**	**—**		
Minirity interests	**5,909**	**40**	**5,949**		Non-controlling interests
Total net assets	**174,258**	**998**	**175,256**		Total equity
Total liabilities and net assets	**¥384,929**	**¥ 2,948**	**¥387,877**		Total liabilities and equity

(4) Notes concerning adjustments to equity

Major items concerning adjustments to equity are as follows:

A. With IFRS, time deposits of more than three months are included in other financial assets rather than in cash and deposits when using J-GAAP.

B. Notes and accounts receivables, allowance for doubtful accounts, and other accounts receivable, which are separate items with J-GAAP, are presented as trade and other receivables.

C. Buildings and structures, net, machinery, equipment and vehicles, net, tools and fixtures, net, land, and construction in progress, which are separate items with Japanese accounting standards, are presented as property, plant and equipment.

D. Investments that use the equity method and are included in investment securities with J-GAAP are presented as separate items.

E. Deferred tax assets and deferred tax liabilities, which are current assets and liabilities with J-GAAP, are entirely non-current assets and liabilities.

F. Notes and accounts payables and other accounts payable, which are separate items with J-GAAP, are presented as trade and other payables.

G. In accordance with IFRS presentation rules, other financial assets and other financial liabilities are shown separately.

H. Goodwill

With J-GAAP, goodwill is amortized in equal amounts over five years. However, small amounts of goodwill are treated as an expense in the fiscal year when the goodwill was recognized. With IFRS, goodwill is no longer amortized beginning on the date of transition to IFRS. An adjustment has been made to retained earnings to reflect the end of this amortization.

On the date of transition to IFRS, an impairment test was performed for all goodwill regardless of whether or not there were indications that impairment may be needed.

The effect on the consolidated statements of financial position is as follows:

(Millions of yen)

Consolidated Statements of Financial Position	Date of Transition (April 1, 2014)	FY2014 (March 31, 2015)
Assets	¥—	¥1
Retained earnings	—	1

I. Intangible assets

Some development expenses that are recognized as expenses under J-GAAP must be included in assets if the expenses meet certain IFRS requirements. These expenses are included in intangible assets.

The effect on the consolidated statements of financial position is as follows:

(Millions of yen)

Consolidated Statements of Financial Position	Date of Transition (April 1, 2014)	FY2014 (March 31, 2015)
Assets	¥1,352	¥2,206
Retained earnings	882	1,473

J. Employee benefits

J-GAAP does not require an accounting procedure for accrued paid leave and special time off and other remuneration based on reaching a certain number of years of service. With IFRS, these items are recognized as liabilities and retained earnings are adjusted to reflect this liability.

The effect on the consolidated statements of financial position is as follows:

(Millions of yen)

Consolidated Statements of Financial Position	Date of Transition (April 1, 2014)	FY2014 (March 31, 2015)
Liabilities	¥1,352	¥1,359
Retained earnings	(880)	(928)

K. Retirement benefit adjustment

With J-GAAP, an adjustment (reclassification adjustment) of other comprehensive income is performed for the portion of unrecognized actuarial differences included in cumulative other comprehensive income that was treated as an expense in the current fiscal year. With IFRS, this portion of unrecognized actuarial differences is reversed because this reclassification adjustment is not allowed.

The effect on the consolidated statements of financial position is as follows:

(Millions of yen)

Consolidated Statements of Financial Position	Date of Transition (April 1, 2014)	FY2014 (March 31, 2015)
Liabilities	¥(907)	¥(138)
Retained earnings	595	689

L. Translation differences associated with foreign operations

The Company has chosen to use an exemption in IFRS 1 that allows treating the cumulative foreign currency translation differences at foreign operations (included in components of other capital) as of the date of transition to IFRS as zero and transferring the entire amount to retained earnings.

The effect on the consolidated statements of financial position is as follows:

(Millions of yen)

Consolidated Statements of Financial Position	Date of Transition (April 1, 2014)	FY2014 (March 31, 2015)
Components of other capital	¥(3,651)	¥(3,651)
Retained earnings	3,651	3,651

(5) Adjustments to comprehensive income for FY2014 (April 1, 2014–March 31, 2015)

(Millions of yen)

J-GAAP	J-GAAP	Effect of transition to IFRS	IFRS	Note	IFRS
Net sales	**¥370,425**	**¥ (98)**	**¥370,327**		Net sales
Cost of sales	**299,603**	**(1,318)**	**298,285**		Cost of sales
Gross profit	**70,822**	**1,220**	**72,042**		Gross profit
Selling, general and administration	**57,230**	**(695)**	**56,536**	E, F, G	Selling, general and administration
	—	**15**	**15**	C	Equity in losses of affiliates
	—	**2,184**	**2,184**	B	Other income
	—	**3,213**	**3,213**	D, E	Other expenses
Operating income	**13,591**	**870**	**14,461**		Operating profit
Non-operating income	**4,154**	**(4,154)**	**—**		
Non-operating expenses	**1,893**	**(1,893)**	**—**		
	—	**1,949**	**1,949**	A	Finance income
	—	**1,518**	**1,518**	A	Finance costs
Extraordinary income	**37**	**(37)**	**—**	B	
Extraordinary losses	**2,717**	**(2,717)**	**—**	D	
Income before income taxes and minority interests	**13,171**	**1,720**	**14,892**		Profit before tax
Total income taxes	**5,852**	**685**	**6,538**		Income tax expense
Income before minority interests	**7,319**	**1,035**	**8,354**		Profit for the year
Other comprehensive income:					Other comprehensive income:
Valuation difference on available-for-sale securities	**5,317**	**(211)**	**5,106**		Net change in financial assets measured at fair value through other comprehensive income
Revaluation reserve for land	**365**	**(365)**	**—**		
Foreign currency translation adjustment	**6,155**	**(26)**	**6,129**		Exchange differences on translation of foreign operations
Remeasurements of defined benefit plans	**5,161**	**77**	**5,238**		Remeasurements of defined benefit plans
Share of other comprehensive income of affiliates accounted for using equity method	**362**	**—**	**362**		Share of other comprehensive income of investments accounted for using the equity method
	—	**14**	**14**		Effective portion of the change in the fair value of cash flow hedge
Total other comprehensive income	**17,361**	**(513)**	**16,849**		Total other comprehensive income
Comprehensive income	**¥ 24,680**	**¥ 522**	**¥ 25,203**		Comprehensive income for the year

(6) Note concerning adjustments to comprehensive income in the fiscal year ended March 31, 2015

Major items concerning comprehensive income adjustments are as follows:

A. In accordance with IFRS presentation rules, financial revenue and financial costs are shown as separate items.

B. Gains on sales of fixed assets, which is extraordinary income with J-GAAP, is shown as other income with IFRS.

C. Loss from investments using the equity method, which is non-operating income with J-GAAP, is shown as a separate item called loss from investments using the equity method with IFRS.

D. Loss on disposal of fixed assets, which is an extraordinary loss with J-GAAP, is shown as other expenses with IFRS.

E. Goodwill

With J-GAAP, goodwill is amortized over the number of years that the goodwill is estimated to be useful. With IFRS, goodwill is no longer amortized beginning on the date of transition to IFRS. An adjustment has been made to retained earnings to reflect the end of this amortization.

On the date of transition to IFRS, an impairment test was performed for all goodwill regardless of whether or not there were indications that impairment may be needed.

The effect on the consolidated statements of income is as follows:

(Millions of yen)

Consolidated Statements of Income	FY2014 (April 1, 2014–March 31, 2015)
Selling, general and administrative expenses	¥(156)
Other expenses	155
Operating profit	1
Profit before tax	1

F. Accrued paid leave

No accounting procedure is required for accrued paid leave with J-GAAP. With IFRS, accrued paid leave is recorded as liability and the change in this liability has an effect on profit or loss.

The effect on the consolidated statements of income is as follows:

(Millions of yen)

Consolidated Statements of Income	FY2014 (April 1, 2014–March 31, 2015)
Cost of sales	¥14
Selling, general and administrative expenses	2
Operating profit	(15)
Profit before tax	(15)

G. Adjustment for retirement benefits

With J-GAAP, an adjustment (restatement adjustment) to other comprehensive income is performed for the portion of unrecognized actuarial gains and losses included in cumulative other comprehensive income that was treated as an expense in the current fiscal year. With IFRS, this expense is reversed because this restatement adjustment is not allowed.

The effect on the consolidated statements of income is as follows:

(Millions of yen)

Consolidated Statements of Income	FY2014 (April 1, 2014–March 31, 2015)
Cost of sales	¥(106)
Selling, general and administrative expenses	(32)
Operating profit	138
Profit before tax	138

(7) Cash flow adjustment for the fiscal year ended March 31, 2015

There are no significant adjustments involving the cash flow statements based on J-GAAP and IFRS.

Other

Quarterly information for FY2015 (April 1, 2015–March 31, 2016)

(Millions of yen)

	Cumulative first quarter	Cumulative second quarter	Cumulative third quarter	FY2015
Net sales	¥90,537	¥179,765	¥264,888	**¥355,384**
Income (loss) attributable to owners of parent	4,783	(750)	2,258	**3,697**
Net income (loss)	3,089	(3,392)	(1,435)	**(2,237)**

(Yen)

Net income (loss) per share	¥ 12.09	¥ (13.28)	¥ (5.62)	**¥ (8.76)**

(Yen)

	First quarter	Second quarter	Third quarter	Fourth quarter
Net income (loss) per share	¥12.09	¥(25.37)	¥7.66	¥(3.14)

Notes: 1. Quarterly information for the fiscal year ended March 31, 2016 was prepared using J-GAAP.
2. Financial information for the fiscal year ended March 31, 2016 and for the fourth quarter of this fiscal year has not been audited or reviewed by the independent auditor.

Independent Auditor's Report

KPMG

Independent Auditor's Report

To the Board of Directors of KYB Corporation:

We have audited the accompanying consolidated financial statements of KYB Corporation and its consolidated subsidiaries, which comprise the consolidated financial statement of financial position as at March 31, 2016, and the consolidated statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year 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 International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 KYB Corporation and its consolidated subsidiaries as at March 31, 2016, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG AZSA LLC

August 2, 2016
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.