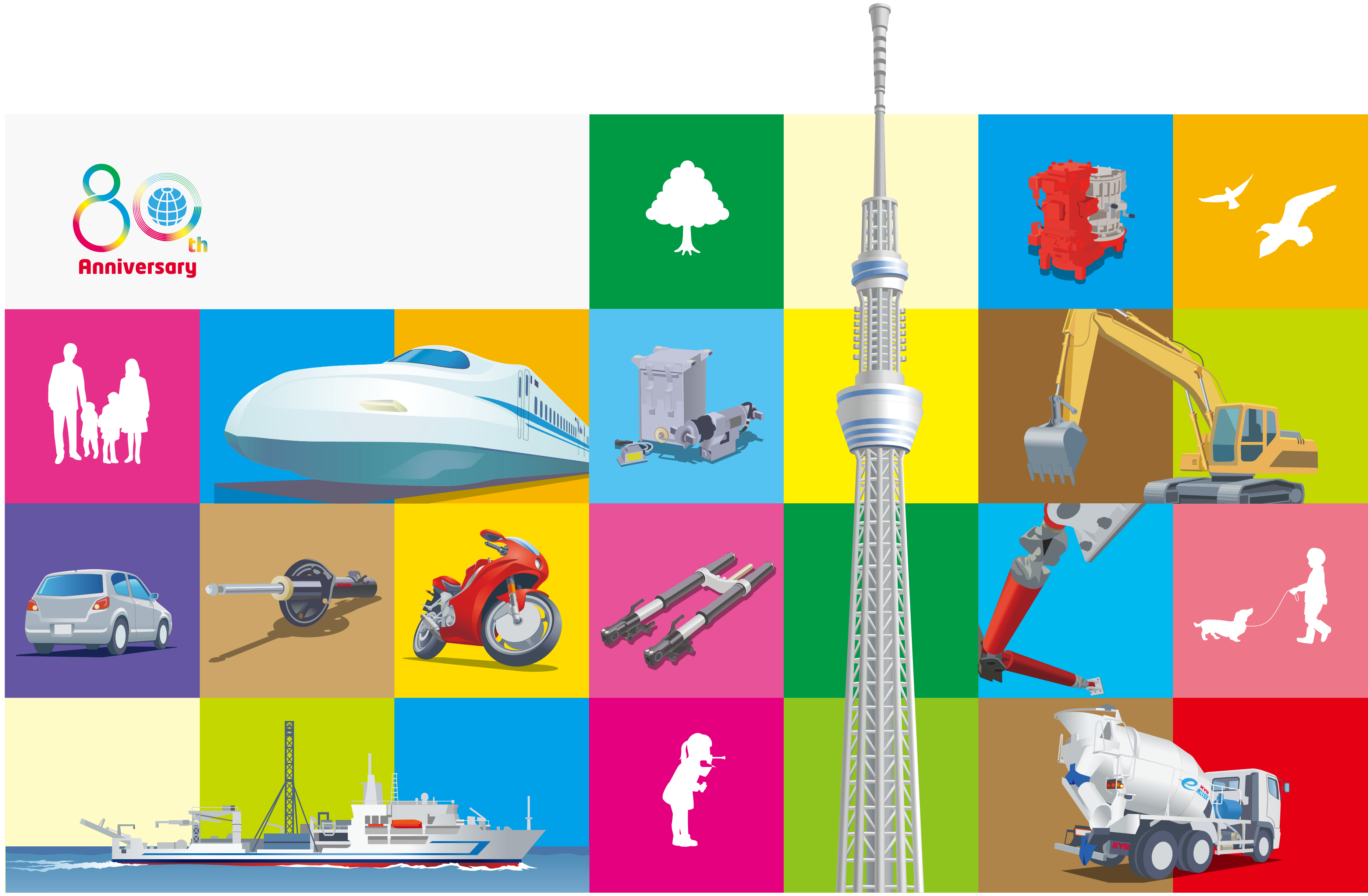
Our Precision, Your Advantage

ANNUAL REPORT 2015

Year Ended March 31, 2015



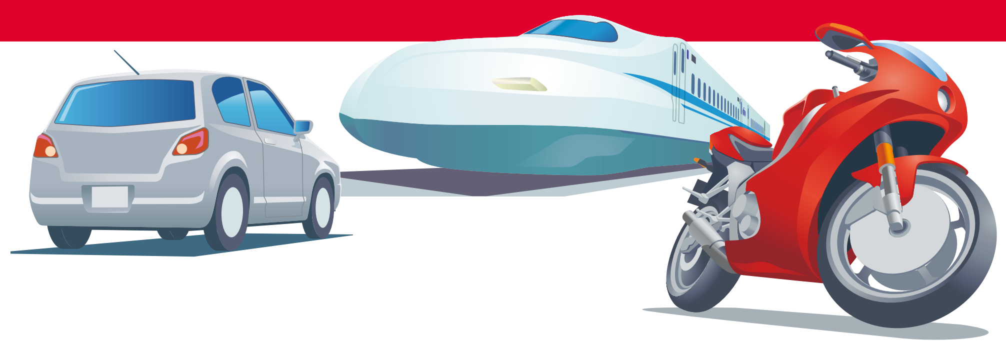
Contents

Forward-Looking Statements

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

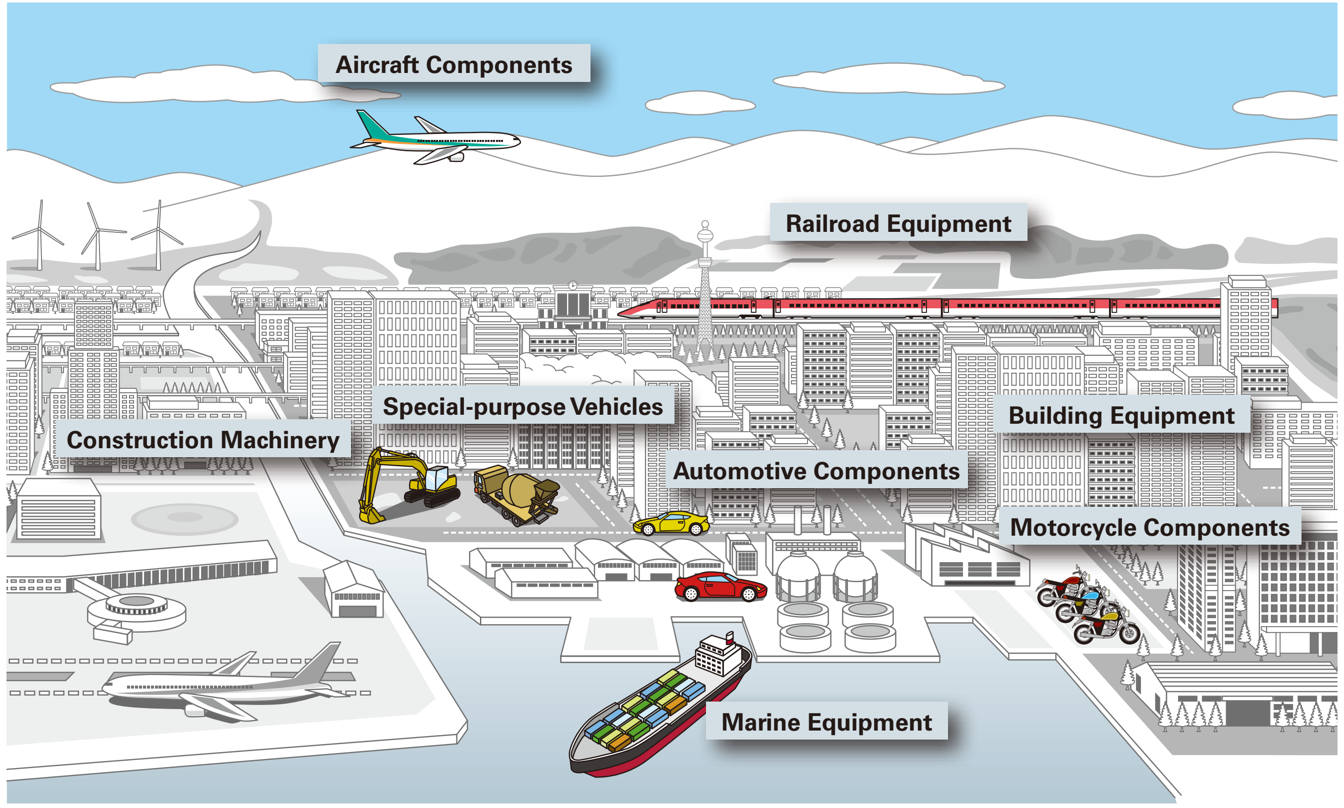
What is KYB?

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. KYB celebrated its 80th anniversary in March 2015, a milestone that represents years of consistently meeting a wide range of customer needs. 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.



Business Domain 1 KYB in Everyday Living

We support comfort and safety in all industries, from performance hydraulic technology to electronics.



Business Domain 2 Our Core Competence—Delivering Safety and Comfort

Vibration Control Technology

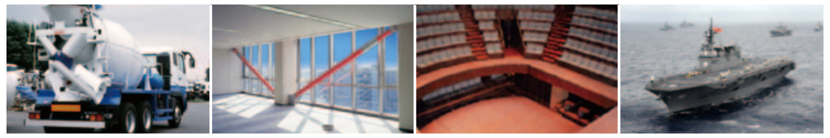
Automotive, Motorcycles, Railroad Equipment, Aircraft Components

Automotive | Motorcycles | Railroad Equipment | Aircraft Components

Power Control Technology

Construction Machinery, Special-purpose Vehicles, Building and Stage Equipment

Construction Machinery | Industrial Vehicles | Agricultural Machinery | Industrial Machinery



Special-purpose Vehicles | Vibration Control Dampers | Building and Stage Equipment | Marine Components

Electronic Control Technology

Electronic Components, System Technology

Mobile Communication Device | High-Performance EPS

Business Domain 3 Products that Improve our Lives

Automotive Components (AC) Operations:

Shock absorbers, Power steering systems, Vane pumps, Front forks, Rear cushion units, Stay dampers, System technology

Shock Absorbers | Steer-by-wire | Vane Pumps for CVT Hydraulic Systems | DLC Coated Front Fork | Rear Cushion Units

Hydraulic Components (HC) Operations:

Pumps, Motors, Cylinders, Valves, Semi-active suspension systems for bullet train cars, Dampers for railroad cars, Free locks, Actuators for aircraft

Actuators | Semi-active Suspension Systems for Bullet Train Cars | Caliper Brakes | Dampers for Railroad Cars | Wheel Brakes

Special-purpose Vehicles and System Products and Electronics Components Business:

Concrete mixer trucks, Granule carriers, Special-function vehicles, Motion simulators, Auditorium and stage control systems, Naval ship equipment, Tunnel borers, Environment-friendly equipment, Seismic isolation systems, Vibration control dampers, Electronic applications

Hydraulic Cylinders | Hydraulic Valves | Concrete Mixer Trucks | Vibration Control Devices | Vibration Control Dampers | Hejacules (Self Propelled Hydraulic Jack)

Business Domain 4

Global Production and Sales Network

13,732 employees at 89 plants and companies in 25 countries and areas around the world

Japan


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.

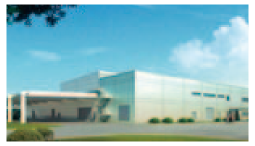

Sagami Plant


KYB-CADAC Co., Ltd.


Production Technology R&D Center / Machine Tools Center


KYB-YS Co., Ltd.

Asia


KYB (China) Investment Co., Ltd.


KYB Steering (Thailand) Co., Ltd.


KYB-Conmat Private Limited


KYB Motorcycle Suspension India Pvt. Ltd.


PT. KYB Hydraulics Manufacturing Indonesia

Americas


KYB Americas Corporation


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


KYB Mexico S.A. de C.V.


COMERCIAL DE AUTOPEÇAS KYB DO BRASIL LTDA.

Europe


KYB EUROPE HEADQUARTERS GmbH


KYB Manufacturing Czech s.r.o.


KYB CHITA Manufacturing Europe s.r.o.


LLC KYB Eurasia

History

80 Years of Progress

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	Invested in Yung Hwa Machinery Industrial Co., Ltd., of Taiwan (55.1% KYB ownership)
1971	Established Kumagaya Plant and Mie Plant
1974	Established sales company in the United States
1975	Established Sagami Plant
1976	Established shock absorber manufacturing company in Indonesia (30.0% KYB ownership)
1983	Established shock absorber manufacturing company in Malaysia (33.4% KYB ownership)
	Acquired shock absorber manufacturing company in Spain
1986	Established shock absorber manufacturing company in the United States
1989	Established sales company in Germany
1996	Established shock absorber manufacturing company (67.0% KYB ownership) and automobile hydraulic components manufacturing company in Thailand
	Established automobile hydraulic components manufacturing company in Spain
1999	Cadac Co., Ltd., became a subsidiary and changed its name to KYB-CADAC Co., Ltd.
2001	Automobile shock absorber manufacturing company in the United States became a wholly owned subsidiary.
2002	Established motorcycle shock absorber manufacturing company in Vietnam and automobile shock absorber manufacturing company in China
2003	Established automobile hydraulic shock absorber manufacturing company in the Czech Republic
2004	Established industrial-use hydraulic equipment manufacturing and sales companies in China
	KYB Trondule Co., Ltd., became a subsidiary.
	Established Kayaba System Machinery Co., Ltd.
	Established sales company in Mexico
2005	Unofficial company name was changed to KYB, new corporate philosophy and vision were established.
	Established sales company in Thailand
2006	Takako Industries Inc., became a subsidiary.
2008	Established Gifu East Plant
	Established railroad equipment and motorcycle shock absorber manufacturing and sales company in China
	Established automobile shock absorber manufacturing and sales company in Spain (66.7% KYB owned)
2009	Established European Regional Headquarters in Germany
2010	Established Regional Headquarters in China
2011	Yanagisawa Seiki MFG Co., Ltd., became a subsidiary and changed its name to KYB-YS Co., Ltd.
	Established Developmental Experiment Center and Machine Tools Center
	Established aftermarket hydraulic shock absorber sales company in Panama
	Established joint venture company in Brazil with Mando Corporation of Korea (50.0% KYB ownership)
	Merged U.S. subsidiary and its subsidiary, renamed KYB Americas Corporation
2012	Established Electronics Technology Center
	Established motorcycle shock absorber manufacturing and sales company in India (66.6% KYB ownership)
	Established hydraulic components manufacturing and sales company in Mexico
	Established Regional Headquarters in the Netherlands
	Established sales company in Russia
2013	Established KYB Motorcycle Suspension Co., Ltd., for the manufacture and sale of motorcycle hydraulic shock absorbers (66.6% KYB ownership)
	Acquired shares of concrete construction equipment maker in India and established a subsidiary (51.0% KYB ownership)
	Established hydraulic components manufacturing and sales company in Indonesia (75.0% KYB ownership)
	Established aftermarket product sales company in Brazil
	Established aftermarket automobile suspension spring manufacturing and sales company in the Czech Republic (70.0% KYB ownership)
2014	Established Chennai Sales Office in India
2015	KYB Manufacturing Spain, S.A.U., an automobile shock absorber manufacturing and sales company in Spain, became a wholly owned subsidiary.

Note: KYB ownership is as of March 31, 2015. Companies with no ownership shown are wholly owned subsidiaries.

Ten-Years Summary

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

	Millions of yen										Thousands of U.S. dollars
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	**2015**
For the year:											
Net sales	**¥370,425**	¥352,711	¥305,752	¥337,159	¥320,083	¥252,021	¥329,262	¥387,080	¥356,083	¥290,456	**$3,086,875**
Cost and expenses	**356,834**	334,541	295,279	315,621	295,931	248,125	329,212	368,809	341,510	283,733	**2,973,617**
Operating income	**13,591**	18,170	10,473	21,538	24,152	3,896	50	18,271	14,573	6,723	**113,258**
Operating income margin [%]	**3.7**	5.2	3.4	6.4	7.5	1.5	0.0	4.7	4.1	2.3	**3.7**
Income (loss) before income taxes and minority interests	**13,172**	21,032	12,994	21,760	24,440	1,671	(4,300)	15,218	13,481	8,009	**109,767**
Net income (loss)	**7,052**	12,761	7,789	13,898	17,014	661	(5,230)	8,398	6,959	2,917	**58,767**
Comprehensive income	**24,681**	20,310	16,061	14,997	14,406	—	—	—	—	—	**205,675**
Return on equity (ROE)	**4.4**	9.7	7.3	14.8	21.1	0.9	—	9.9	8.7	4.0	**4.4**
Cash flows from operating activities	**21,124**	28,788	18,984	17,399	35,433	22,655	8,499	19,707	20,358	13,821	**176,033**
Cash flows from investing activities	**(29,426)**	(36,078)	(36,125)	(20,000)	(7,233)	(12,828)	(26,505)	(20,166)	(18,323)	(15,960)	**(245,217)**
Cash flows from financing activities	**(580)**	5,709	8,529	(3,455)	(16,968)	(6,646)	32,200	4,192	(3,157)	2,966	**(4,833)**
R&D expenses	**8,910**	6,917	5,468	4,035	3,218	2,817	3,268	3,367	3,707	3,705	**74,250**
Depreciation and amortization	**16,491**	17,294	14,554	13,508	13,427	15,318	16,552	14,973	12,289	10,407	**137,425**
Capital expenditure	**29,785**	29,908	39,215	27,173	8,916	10,082	24,968	23,564	19,735	15,678	**248,208**
At year-end:											
Working capital	**¥ 35,384**	¥ 39,303	¥ 22,179	¥ 42,006	¥ 46,023	¥ 48,701	¥ 43,513	¥ 29,120	¥ 23,758	¥ 21,392	**$ 294,867**
Total net assets	**174,259**	153,997	116,435	102,762	89,964	78,489	76,451	91,739	87,817	76,718	**1,452,158**
Total assets	**384,930**	361,083	327,912	301,349	285,134	269,361	269,655	289,739	285,146	247,966	**3,207,750**
Cash and cash equivalents at end of period	**30,510**	38,132	35,215	42,010	48,123	37,664	34,272	20,073	16,651	14,963	**254,250**
Equity ratio [%]	**43.7**	41.2	34.5	33.2	30.6	27.3	26.6	29.8	29.1	30.9	**43.7**
	Yen										U.S. dollars
Per share data:											
Net income (loss)	**¥ 27.60**	¥ 55.26	¥ 35.24	¥ 62.87	¥ 77.54	¥ 3.03	¥ (23.62)	¥ 37.72	¥ 31.33	¥ 12.63	**$ 0.23**
Net worth	**658.92**	582.28	512.18	453.00	395.18	336.55	327.97	387.45	372.60	343.99	**5.49**
Cash dividends applicable to the year	**12.00**	9.00	8.00	9.00	8.00	2.50	3.50	7.00	7.00	6.00	**0.10**
P/E ratio [Times]	**15.9**	7.9	13.1	8.0	8.6	113.9	—	10.2	20.8	35.2	
Number of employees	**13,732**	13,033	12,306	11,975	11,440	10,977	11,370	11,546	10,596	8,387	

Notes: 1. U.S. dollar amounts were translated from Japanese yen, for convenience only, at ¥120=U.S.$1, the approximate exchange rate prevailing on March 31, 2015.
2. 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.

To Our Shareholders and Investors

As KYB's new President, I recognize that I am taking on a great responsibility in directing the KYB Group. I believe it is critical to steer the Group towards further growth by increasing corporate value and making sure customers around the world know that they can always count on us, and our products.

I must be honest; amidst the current challenging global environment, becoming the President of a global company is enough to test anyone's mettle.

In the Japanese economy, we see a positive factor in the form of increasing consumer spending. However, Japan's economic recovery has been progressing slowly overall, and the direction the recovery will take in the future is still unclear. In overseas markets, the U.S. economy is facing a slow recovery, weak crude oil prices, and high dollar valuation, all of which are causing a decline in capital investments and exports. However, the outlook for consumer spending is favorable, due to factors including falling gasoline prices. In the European market, the economic situation in the eurozone is still unstable. Also, the Russian economy continues to struggle, slowing growth in the region. At the same time, emerging economies such as China continue trending towards a slowdown, and the situation remains difficult to forecast.

KYB celebrated a notable milestone in 2015 as we reached our 80th anniversary. We are working to further expand, grow, and make strides with the Company as we move ahead towards our 100th anniversary. In management, we are focused on ensuring profit generation. In our medium-term business plan (the 2014 mid-term plan), which guides us for the fiscal years 2014 to 2016, we set forth the slogan, "Earning trust and orders from customers around the world by uniting the KYB Group's functions." This slogan guides us towards the growth ahead.

Fiscal 2014 Management Environment and Major Initiatives

In fiscal 2014, the year ended March 31, 2015, in our primary market of automobiles, we faced low sales in Europe, brought on by deterioration in the Russian economy, which faced the Ukraine crisis and low ruble valuation. However, various economic policies kept the U.S. economy strong, and favorable sales in Japan of light motor vehicles helped boost revenue on a consolidated basis.

In the construction machinery market in Japan, we had forecast a large decline due to a rush of demand before new small excavator exhaust emissions regulations, but the effect was less significant than initially expected. Overseas, inventory adjustments in the Chinese market caused a large decrease, but sales were strong in the U.S. and Europe. Sales faced only a slight decline on a consolidated basis.

The following is an outline of the major initiatives the Group took amidst these circumstances:

1. We enhanced our global manufacturing, supply, and sales system.
   1) Started mass production of CVT (Continuously Variable Transmission) pumps at our new plant in Mexico. (December 2014)
   2) Started construction on a new plant in Mexico that will manufacture automotive hydraulic shock absorbers. (December 2014)
   3) Completed construction on a new plant in Indonesia that manufactures hydraulic cylinders for mid-sized excavators aimed at the ASEAN market. (February 2015)
   4) Completed construction on a new plant in India that manufactures hydraulic shock absorbers for motorcycles under our jointly owned business with Yamaha Motor Co., Ltd. (April 2015)
   5) Expanded a plant in the Czech Republic in order to increase our automotive hydraulic shock absorber production system. (March 2015)
   6) Expanded a plant in North America (Takako America) in order to increase our hydraulic component production system. (March 2015)
   7) Started operations at the Chennai Branch to conduct supply and business activities in India (January 2015)
2. Improved our development and experiment capabilities
   Established the System Experiment Laboratory in Gifu prefecture, Japan. The facility conducts development for automotive hydraulic shock absorbers, automotive hydraulic components, and motorcycle hydraulic shock absorbers.

Yasusuke Nakajima
President

As you can see, we've had a busy year. Our efforts in fiscal 2014 increased sales by ¥17.7 billion, bringing our total for the year to ¥370.4 billion. However, rising personnel and R&D expenses at the Company and our domestic group companies caused operating profit and net income to decline. I'll discuss the Group's results further in the next section of this report.

Meeting Customer Expectations with Strong Workplaces

To grow KYB's corporate value and earn our customers' trust, we must increase performance at our workplaces—our heart and soul as a manufacturing company. We must make improvements in every aspect to maximize their potential and put them on a world-class level. Then, we will accurately understand our position in the marketplace, and quickly respond to customers' needs.

Our slogan in fiscal 2015 is "Narrow down important business tasks, complete them thoroughly." This is a critical year in which we must speed up our progress towards the targets of the 2014 mid-term plan. While increasing corporate value is our goal, we must do so while thoroughly committing to corporate ethics, such as compliance with laws and regulations. In keeping with KYB's corporate mission, we will also contribute to society through our CSR programs. In this way, we will respond to the expectations of our shareholders.

Moving ahead, KYB will continue with our constant product development, aimed at making our customers happy. We will fulfill our social responsibilities and strive to be a company that can contribute to an abundant, vibrant society through the power of manufacturing expertise.

I thank our shareholders and investors, and ask for your continued support as we move ever forward with the KYB Group.

July 2015

Yasusuke Nakajima
Representative Director, President Executive Officer

Earning Trust and Orders from Customers Around the World

—Narrow down important business tasks, complete them thoroughly—

KYB's new President Executive Officer Yasusuke Nakajima discusses his growth strategies for fiscal 2015, the second year of KYB's fiscal 2014 to 2016 medium-term business plan (the 2014 mid-term plan).

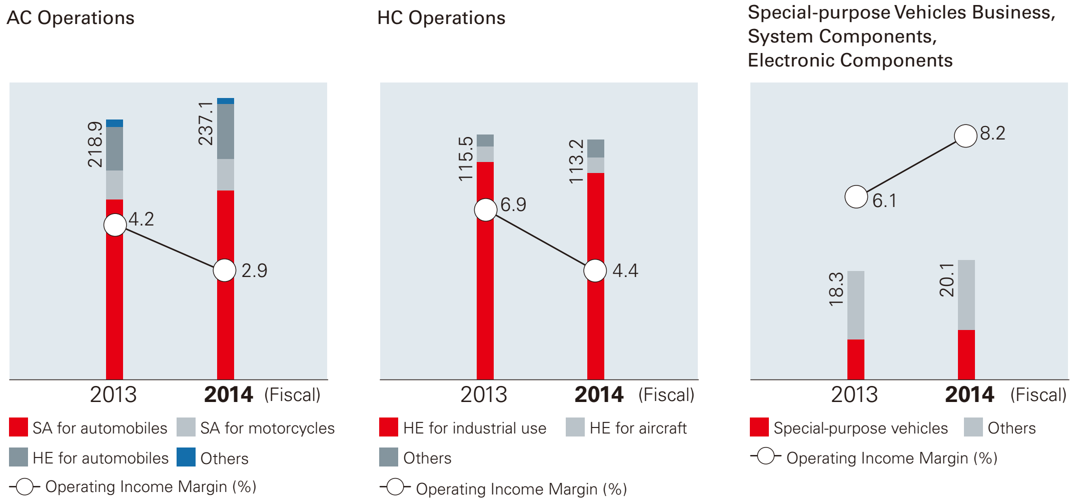
Q. Tell us about how the Company performed in fiscal 2014, the year ended March 31, 2015.

A. In fiscal 2014, the first year of the mid-term plan, net sales were ¥370.4 billion, operating income was ¥13.6 billion, and net income was ¥7.1 billion. Unfortunately, these results fall far short of our targets. The key causes were a drop in demand for construction machinery in China, and two factors in Russia: an exchange loss caused by the devaluation of the ruble, and a decrease in sales of aftermarket shock absorber products. On the brighter side, business remained favorable in North American markets.

Looking at net sales, an increase in sales of automotive products and the positive exchange rate effects boosted our results by 5%, or ¥17.7 billion, compared to the previous fiscal year. However, increases in personnel expenses, R&D expenses, and the amount of provisions for product warranties caused operating income to decrease year on year. Despite the positive influence of the exchange rate, net income also decreased, caused by a drop in business asset amounts.

Let's look at our two major business divisions, Automotive Components (AC Operations) and Hydraulic Components (HC Operations). Sales in AC Operations increased ¥18.1 billion to ¥237.1 billion, driven by expanding sales of automotive hydraulic components, particularly for OEM products such as shock absorbers and Electric Power Steering (EPS). However, operating income decreased due to the previously mentioned rising expenses. In HC Operations, there was a large decrease in profits due to an economic slowdown and declining demand in China, causing sales to fall ¥2.3 billion to ¥113.2 billion, and a drop in operating income.

Net Sales by Segment (Billions of yen)



SA: Shock Absorbers HE: Hydraulic Equipment

On the other hand, in our Special-purpose Vehicles and System Products and Electronics Components business divisions, strong domestic demand for concrete mixer trucks boosted sales by ¥1.8 billion to ¥20.1 billion, with operating income increasing to ¥1.7 billion.

Q. Having fallen short of the 2014 mid-term plan targets, and with new management in place, what are your targets for the current fiscal year?

A. We have revised our estimates for fiscal 2015, forecasting net sales of ¥377.0 billion and an operating income margin of 3.6%. That represents a large gap between the net sales of ¥400.0 billion and operating income margin of 5.5% as originally targeted when we determined the mid-term plan in fiscal 2014. We have faced external factors such as the sudden drop in ruble valuation and decreased demand in China. However, the main causes for the downward revisions are the affect of rising sales and administrative costs on profits, and inability to work on our strategic policies quickly enough to keep up with changes in the business environment.

To guide us in the task of closing the gap in the 2014 mid-term plan amidst an environment that remains severe, we set forth the slogan: "Narrow down important business tasks, complete them thoroughly."

If we can fully comprehend what caused the gap and properly understand customer needs, then we will be able to solve problems at every position and in every department: from development and manufacturing to sales and quality assurance. More than ever before, we will break down silos in department and Group communication while taking our technological abilities, cost reductions, and ability to quickly supply products to the next level.

Moving ahead, we forecast favorable conditions in the railway and aircraft fields, and requests for product types in the construction and industrial machinery fields are increasing. We must also revise our business categories, including entering new fields based on their potential for growth and profitability.

Q. Please explain the management strategy and business tasks for fiscal 2015.

A. Our tasks in fiscal 2015 will be targeted at making KYB even more competitive. We'll enhance our global quality assurance system and construct highly efficient, innovative lines. The LT50 activity, a campaign aimed at cutting manufacturing lead time in half, will be conducted at our overseas locations. In development, we'll monitor customers' new product models and accordingly conduct timely product development to capture orders. These include products for high and low value markets and electronic control and communications technology. In management strategy, we will thoroughly reduce fixed costs, and work to maintain an environment where diverse human resources can make great efforts.

In particular, we will use our global quality assurance system to stop quality issues from recurring. In fiscal 2014, our companies in Spain and the Czech Republic faced oil leak and component omission defects, respectively. To guard against future defects, we established a Quality Assurance Division and a Technology Division within the companies to drastically revise their manufacturing techniques.

Let's look at the tasks ahead in fiscal 2015 for each business division.

AC Operations

Our OEM strategy is critical to winning amidst the global competition. We are working to receive orders for global product models by speeding up to establish a unified product development in five areas around the world. For example, four of our manufacturing companies proposed an optimized method at the right time, winning orders for Honda's next generation Civic.

We're also creating the necessary facilities in key areas to respond to customer demand. In Mexico, we are establishing an automobile shock absorber plant in the same plot of land as our existing CVT pump plant. This new plant is scheduled to begin mass production in 2016.

We will also solve quality issues and increase productivity. A global system will be set up to make sure each company within the Group understands the quality issues we face. The system will also include training our human resources working in manufacturing, and making sure information on issues and solutions is shared globally throughout the Group.

Looking at market expansion, we plan to increase our share by launching sales of new lower priced brands at the end of 2015, in addition to our current brand series.

At our Russian subsidiary, we are reducing inventory by moving it out of the country. This will minimize risk of exchange loss as we aim for business continuance. And KYB Motorcycle Suspension Co., Ltd., is working on sales promotions targeting domestic manufacturers.

HC Operations

We have determined four main tasks in HC Operations. We will offer the best costs globally, surpassing our competition. We will conduct sales promotions for Chinese manufacturers, and create a flexible production system for the decelerating market. We will expand beyond our business domains globally. And finally, we will quickly enter new markets through speedy product development for new fields.

In construction machinery, we are working to lower costs for our major products. Our targets are a decrease of 30% for cylinders and 10% for drive motors. To reach these goals, we are increasing in-house production within the Group and locally procuring materials to suppress costs. Progress with the measures has been favorable.

Meanwhile, we must carefully monitor the slowdown in the Chinese economy, which is causing our customers to reduce working days due to lower production. We must face measures such as cutting fixed costs by reducing personnel, reducing working days due to lower production and suspending lines. It is critical that we foster multi-skill development in local staff members, and increase productivity. We are planning to continue with sales promotions for Chinese manufacturers, focusing on the industry leaders.

Another issue is the expansion of products other than hydraulic excavators. Our progress here has not been sufficient. We must quickly develop products for new fields such as skid steer loaders and agricultural machinery. We are focusing our efforts on entering these markets as quickly as possible.

Special-purpose Vehicles Business, System Components, Electronic Components

In the Special-purpose Vehicles Business, we are working to establish a production system to meet increased domestic demand and strengthening our foothold in the Indian market.

There has been a temporary drop in demand for concrete mixer trucks in the Indian market, but we forecast a recovery in fiscal 2015. With cooperation from our local partners, we will expand our array of products, establish a cost-competitive manufacturing system, enhance quality, and increase sales networks. We will get our first overseas special-purpose vehicles plant back on the growth track.

In Systems Components, we are working toward steady growth in the core business field of vibration control, where price competition is severe. We are thoroughly reducing costs by producing components in house, lowering procured item costs, and developing low cost products. We are also continuing to seek orders related to the 2020 Tokyo Olympics.

Q. Outside of its business divisions, what else is happening at KYB?

A. Our medium-term policy, set forth in the 2014 mid-term plan, is "Earning trust and orders from customers around the world by uniting the KYB Group's functions." Based on this, we are working on tackling issues from the point of view of human resources development, technology and product development, *monozukuri* (manufacturing expertise), and management. In particular, we are dealing with critical initiatives for human resources development and monozukuri. These are the keys to solving quality issues, reducing costs, and conducting product development based on market needs.

Human Resources

The driving force behind KYB's monozukuri is our human resources. We will continue to train our workers to maintain a global viewpoint. We will continue amassing our technical skill, another key to monozukuri.

We are focusing our efforts on quickly training management candidates from around the world. Our highly skilled workers are passing on their knowledge to ensure KYB's core technologies and skills for the next generation. We will continue reforming our human resource system by establishing a shared evaluation system throughout the Group and rules for the international transfer of workers.

Technology and Product Development

In April 2015, the System Experiment Laboratory became fully operational. It joins the test course and the Electronics Experiment Laboratory as part of the Developmental Experiment Center's facilities.

Having our own test course and experiment facilities is now one of our strengths. They will enable us to earn the trust of our customers because we can now offer even better proposals, backed by rigorous in-house evaluations.

Monozukuri

With fixed costs rising throughout the Company and in each business division, we will continue working to cut lead time in half and to thoroughly reduce logistics expenses. In response to rising fixed costs, we are working quickly on improvements, including building a world-leading, innovative production line that is compact and highly efficient.

Q. The 2014 mid-term plan involved plans for capital expenditures to raise the Group's productivity. What investments will be made in fiscal 2015?

A. We estimate that our capital expenditures for fiscal 2015 will total ¥22.0 billion. Our major investments will be in production equipment for our shock absorber plant in Mexico, expanding the aftermarket product manufacturing line in the U.S., and production equipment for new products in Vietnam. Of course, we will take into account market environments and progress with projects when making investments.

Q. It has been announced that a commemorative dividend for the Company's 80th anniversary will be included in the year-end dividend. Please tell us about your policy on distributing returns to shareholders in the future.

A. KYB positions the appropriate distribution of earnings to shareholders as an important management policy. That, of course, will not change. KYB's basic policy is to pay a dividend equivalent to a Dividend to Equity (DOE)* ratio of at least 2%.

The 80th anniversary commemorative dividend will be ¥2 per share, bringing the total to ¥7. In addition to the interim dividend of ¥5, the year-end dividend per share will be ¥12.

KYB will continue with the strategic use of retained earnings for capital and R&D investments, and plan to maximize our returns to shareholders through achieving the continuous growth of the Company.

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

Q. Finally, do you have a message to our shareholders and investors?

A. Domestically and overseas, the economic and social environment in which we are operating is changing from moment to moment. To reach our medium-term goals set for fiscal 2020, we are aware that it is critical to secure profits in each term.

As much as possible, we must earn the trust of our stakeholders and be a company for which our employees can feel proud to work. We plan for further growth in business fields while being aware of our market position. Also, we must raise our brand awareness though the assertive disclosure of information, while conducting governance and compliance fitting of a global company.

Having reached our 80th year, and looking forward to reaching our 100th, our management seeks to guide KYB in meeting the expectations of our shareholders and investors. I sincerely thank our stakeholders for their continued support of the KYB Group.

Corporate Governance

Basic Policy for Corporate Governance

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

Management Principles

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

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

Corporate Governance Systems

1. Overview of the corporate governance system

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

Board of Directors

The Board of Directors has seven members, including one outside director, and, in principle, meets once each month. Directors reach decisions about items prescribed by laws and regulations as well as policies and other important matters involving management. The directors also oversee the management of business operations. The outside director provides opinions to the Board from an independent standpoint, and plays a role in enhancing the management function as well as improving corporate governance. There are no personal, financial, business, or other relationships involving financial or other interests between KYB and the outside director.

Board of Executive Officers

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

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

Group Company Management Committee

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

Global Strategy Committee

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

Operation Review with the President

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

Board of Corporate Auditors

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

Audit Department

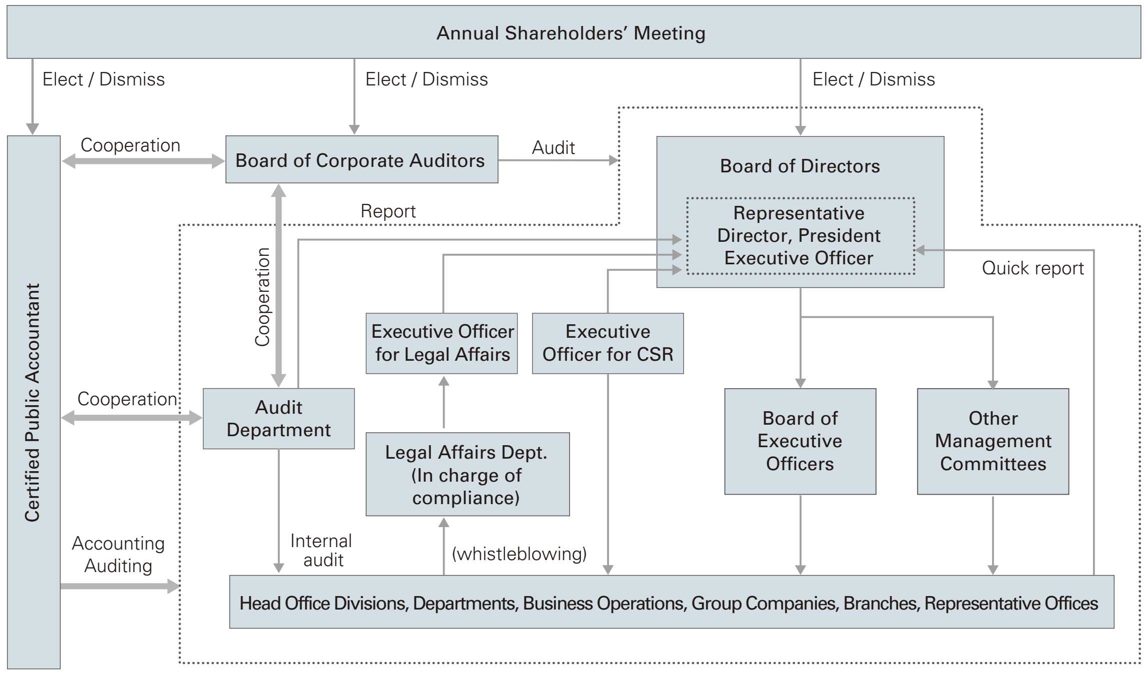
The Audit Department performs internal audits. This department performs audits of all business sites and group companies in accordance with the rules for internal audits. To ensure that audits are performed efficiently, there are periodic meetings with the Board of Corporate Auditors to share information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

2. Internal controls

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

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

Management Structure and Internal Controls



3. Risk management

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

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

Compensation

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

Category	Total compensation (Millions of yen)	Compensation by category (Millions of yen)				Number of applicable individuals
		Basic compensation	Stock options	Bonuses	Retirement payments	
Directors	344	264	—	81	—	8
Standing auditors (excludes outside auditors)	46	46	—	—	—	2
Outside auditors	43	43	—	—	—	2

2. Compensation paid to the independent auditor

	Millions of yen			
Category	2015		2014	
	Compensation for audit certification	Compensation for non-auditing services	Compensation for audit certification	Compensation for non-auditing services
KYB Corporation	56	37	57	22
Consolidated subsidiaries	21	—	20	—
Total	77	37	77	22

	Thousands of U.S. dollars (Note)	
Category	2015	
	Compensation for audit certification	Compensation for non-auditing services
KYB Corporation	467	308
Consolidated subsidiaries	175	—
Total	642	308

Note: U.S. dollar amounts were translated from Japanese yen, for convenience only, at ¥120=US$ 1, the approximate exchange rate prevailing on March 31, 2015.

3. Other Significant Compensation

Five consolidated subsidiaries, including KYB Americas Corporation, have paid ¥125 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, 2015)

Representative Director, Chairman

Masao Usui

Representative Director, President Executive Officer

Yasusuke Nakajima

Representative Director, Executive Vice President Executive Officer

Kazuhisa Ikenoya

Members of the Board of Directors, Senior Managing Executive Officers

Keisuke Saito
Morio Komiya
Takaaki Kato

Member of the Board of Directors (Outside)

Rokuro Tsuruta

Managing Executive Officers

Keiichi Handa
Takafumi Shoji
Kazuhiro Ogata
Eiji Hisada
Tadao Ogoshi
Yasuo Ooe
Masao Ono
Kenji Yamanouchi

Executive Officers

Shigeo Kidokoro
Hitoshi Arakawa
Hiroshi Ogawa
Hideki Nonoyama
Shizuka Sakai
Ikuo Inagaki
Sadaaki Hara
Toshihiko Hatakeyama
Osamu Kunihara
Masaru Tsuboi

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 2015.

1. Risks Relating to the Economic Environment

1) Economic Climate

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

2) Fluctuations in Exchange Rates and Interest Rates

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

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

2. Risks Relating to Business Operations

1) Demand Trends

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

2) Prices and Quality

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

3) Procurement of Materials and Parts

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

4) Fund procurement

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

5) Worsening Overseas Business Conditions

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

6) Counterparty Credit Risk

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

3. Risks Relating to Significant Litigation or Other Legal Action

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

4. Risks Relating to Fires, Accidents and Natural Disasters

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

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

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

Consolidated Subsidiaries and Equity-Method Affiliates

As of March 31, 2015

Consolidated Subsidiaries

Japan

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

The Americas

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

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

Europe

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

Asia

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

Equity-Method Affiliates

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

Corporate Information

As of March 31, 2015

Company Name:	Kayaba Industry Co., Ltd. (Use KYB Corporation as its popular name)
Head Office:	World Trade Center Bldg., 4-1, Hamamatsu-cho 2-chome, Minato-ku, Tokyo 105-6111, Japan Tel: 81-3-3435-3511 Fax: 81-3-3436-6759 URL: http://www.kyb.co.jp
Date of Establishment:	November 25, 1948
Fiscal Year:	April 1 to March 31
Paid-in Capital:	¥27,647.6 million
Number of Employees:	13,732 (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

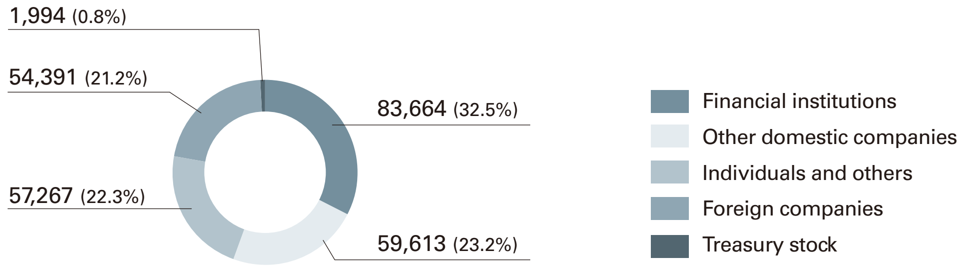
As of March 31, 2015

Common Stock Issued:	257,484,315 shares
Number of Shareholders:	16,390
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)	11,179	4.34
Meiji Yasuda Life Insurance Company	10,046	3.90
Hitachi Construction Machinery Co., Ltd.	8,920	3.46
Japan Trustee Services Bank, Ltd. (Trust Account)	7,579	2.94
KYB suppliers' stock ownership	6,341	2.46
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
JUNIPER (Standing proxy: The Bank of Tokyo-Mitsubishi UFJ, Ltd.)	5,503	2.14
Mizuho Bank, Ltd.	4,905	1.91
Total	86,157	33.46

Composition of Shareholders:
(Thousands)



Monthly Stock Price Range:
(Tokyo Stock Exchange)

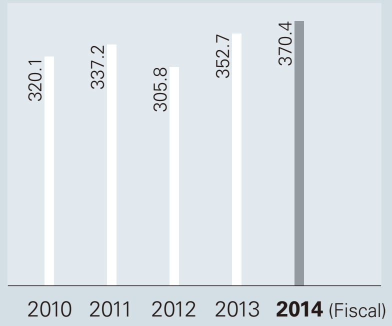
	FY2010	FY2011	FY2012	FY2013	FY2014
High (¥)	745	690	508	675	523
Low (¥)	309	333	245	402	380
At year-end (¥)	669	503	460	436	440

Financial Section

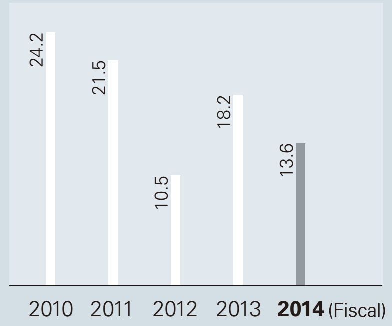
Contents

Financial Highlights

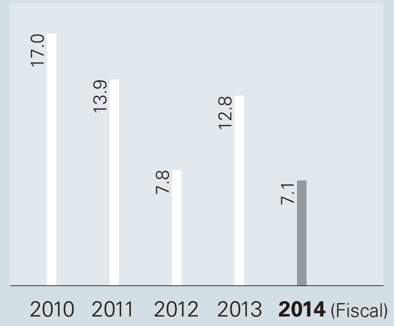
Net Sales
(Billions of yen)



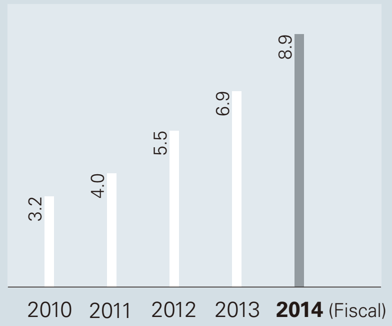
Operating Income
(Billions of yen)



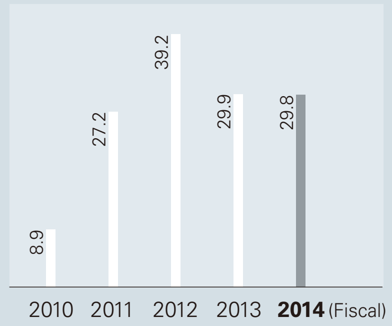
Net Income (Loss)
(Billions of yen)



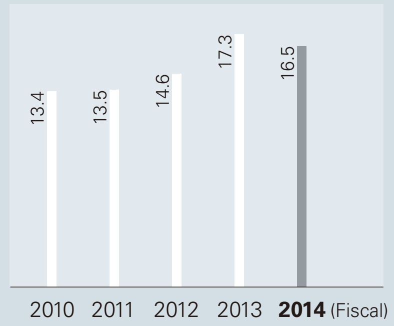
R&D Expenses
(Billions of yen)



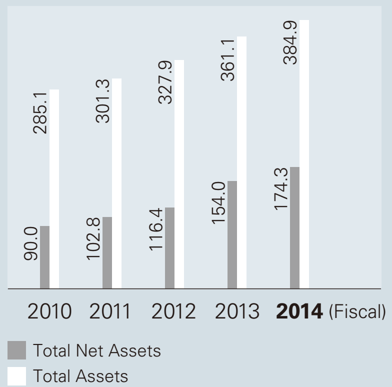
Capital Expenditure
(Billions of yen)



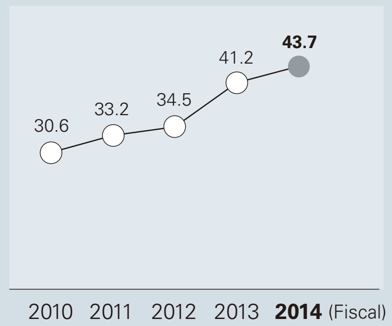
Depreciation and Amortization
(Billions of yen)



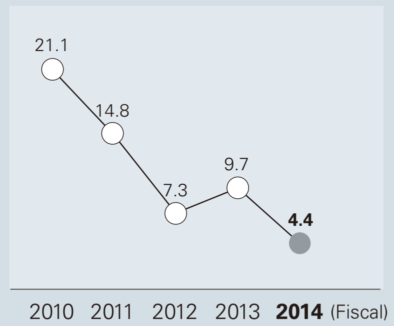
Total Net Assets and Total Assets
(Billions of yen)



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 8.3% to ¥237,086 million (US$1,975,717 thousand). Despite a large decrease in sales in Europe accompanying the economic deterioration in Russia, sales of automotive shock absorbers increased overall, supported by favorable domestic sales in Japan and a recovering U.S. economy. Sales of motorcycle shock absorbers also increased, with increased shipments domestically and to Taiwan. Sales of automotive hydraulic components, mainly for power steering, were also higher. There were new orders for electric power steering products and higher sales of CVT vane pumps.

In the hydraulic components segment, sales decreased 2.0% to ¥113,223 million (US$943,525 thousand). In sales of industrial hydraulic components, mainly for construction machinery, a large decline was forecast due to the rush demand before the previous year's consumption tax increase and exhaust emissions regulations. However, the effect was less significant than initially expected. Overseas, the slow recovery in the Chinese market and sluggishness in the ASEAN market contributed to the decrease in sales. Sales of hydraulic equipment for aircraft increased because of an increase in orders for spare parts.

In the special-purpose vehicles, system products, and electronic components segment, which represent as other in the reportable segment, sales increased 10.1% to ¥20,116 million (US$167,633 thousand). This strong growth was backed by growth in sales of special-purpose vehicles, mainly concrete mixer trucks, due to the combined benefits of demand associated with earthquake reconstruction activities and replacement demand for older vehicles.

As a result, consolidated net sales increased 5.0% to ¥370,425 million (US$3,086,875 thousand). Operating income decreased 24.7% in the automotive components segment and 37.9% in the hydraulic components segment and increased 47.0% in the special-purpose vehicles, system products, and electronic components segment. As a result, total operating income decreased ¥4,579 million to ¥13,591 million (US$113,258 thousand).

Other income and expenses resulted in net expenses of ¥419 million (US$3,492 thousand). Although there was a ¥729 million increase in foreign exchange gain, net, there were ¥1,676 million increase in impairment loss on fixed assets and ¥295 million increase in equity in losses of affiliates.

Income before income taxes and minority interests was ¥13,172 million (US$109,767 thousand). After income taxes of ¥4,647 million (US$38,725 thousand) and minority interests, net income was ¥7,052 million (US$58,767 thousand).

Financial Condition

Current assets decreased mainly because of a decrease in cash and time deposits and an increase in notes and accounts receivable–trade, which were higher due to the growth in sales. The increase in noncurrent assets was primarily attributable to growth in property, plant and equipment that resulted from speedy capital expenditures to expand and upgrade manufacturing facilities. As a result, total assets increased ¥23,847 million to ¥384,930 million (US$3,207,750 thousand).

Total liabilities increased ¥3,585 million to ¥210,671 million (US$1,755,592 thousand). The changes were due mainly to an increases in notes and accounts payable–trade because of sales growth and in loans payable.

Net assets increased ¥20,262 million to ¥174,259 million (US$1,452,158 thousand) mainly because of increases in retained earnings, net unrealized holding gains on securities, net of taxes, remeasurements of defined benefit plans, net of taxes.

The increase in net assets raised the equity ratio 2.5 percentage points to 43.7% at the end of March 2015.

Cash Flows

Net cash used in operating and investing activities was ¥8,302 million (US$69,184 thousand). The main reason for the negative cash flow was expenses associated with up-front investments to expand and upgrade production facilities. Net cash used in financing activities was ¥580 million (US$4,833 thousand). As a result, cash and cash equivalents at end of year decreased ¥7,622 million to ¥30,510 million (US$254,250 thousand).

Net cash provided by operating activities decreased 26.6% to ¥21,124 million (US$176,033 thousand). This was mainly due to decreases in income before income taxes and minority interests to ¥13,172 million (US$109,767 thousand) and in depreciation and amortization to ¥16,491 million (US$137,425 thousand), while income taxes paid were ¥9,279 million (US$77,325 thousand) and decrease in notes and accounts receivable—trade was ¥3,677 million (US$30,642 thousand).

Net cash used in investing activities decreased 18.4% to ¥29,426 million (US$245,217 thousand). The main use of cash was payment for acquisition of property, plant and equipment totaling ¥29,187 million (US$243,225 thousand).

Net cash used in financing activities was ¥580 million (US$4,833 thousand). This was mainly due to ¥2,150 million (US$17,917 thousand) of procurement for long-term loans payable, net, and cash dividends paid of ¥2,555 million (US$21,292 thousand).

Financial Statements

Consolidated Balance Sheets

Kayaba Industry Co., Ltd. and its Consolidated Subsidiaries
As of March 31, 2015 and 2014

ASSETS	Millions of yen 2015	Millions of yen 2014	Thousands of U.S. dollars (Note 1) 2015
Current assets:			
Cash and time deposits (Notes 10 and 12)	**¥ 31,752**	¥ 39,505	**$ 264,600**
Notes and accounts receivable—trade (Notes 4 and 12)	**91,249**	86,444	**760,408**
Inventories (Note 3)	**47,126**	46,577	**392,717**
Deferred tax assets (Note 16)	**4,756**	4,816	**39,633**
Short-term loans receivable	**117**	46	**975**
Other	**10,167**	8,854	**84,725**
Less—allowance for doubtful accounts	**(307)**	(193)	**(2,558)**
Total current assets	**184,860**	186,049	**1,540,500**
Property, plant and equipment:			
Buildings and structures, net (Note 4)	**52,018**	47,362	**433,483**
Machinery, equipment and vehicles, net (Note 4)	**63,850**	54,847	**532,083**
Land (Note 4)	**27,253**	26,619	**227,108**
Leased assets, net	**2,752**	2,789	**22,933**
Construction in progress	**14,520**	13,013	**121,000**
Other, net (Note 4)	**3,517**	3,007	**29,310**
Total property, plant and equipment	**163,910**	147,637	**1,365,917**
Intangible assets:			
Goodwill	**317**	622	**2,642**
Software	**219**	157	**1,825**
Other	**1,441**	1,392	**12,008**
Total intangible assets	**1,977**	2,171	**16,475**
Investments and other assets:			
Investment securities (Notes 12 and 13)	**28,204**	20,713	**235,033**
Asset for retirement benefits (Note 15)	**1,700**	95	**14,167**
Deferred tax assets (Note 16)	**2,190**	1,935	**18,250**
Other	**2,146**	2,540	**17,883**
Less—allowance for doubtful accounts	**(57)**	(57)	**(475)**
Total investments and other assets	**34,183**	25,226	**284,858**
Total noncurrent assets	**200,070**	175,034	**1,667,250**
Total assets	**¥384,930**	¥361,083	**$3,207,750**

See accompanying notes.

LIABILITIES AND NET ASSETS	Millions of yen 2015	Millions of yen 2014	Thousands of U.S. dollars (Note 1) 2015
Current liabilities:			
Notes and accounts payable—trade (Note 12)	**¥ 64,992**	¥ 62,584	**$ 541,600**
Short-term loans payable (Notes 4 and 12)	**46,785**	44,207	**389,875**
Lease obligations	**574**	585	**4,783**
Accounts payable—other	**13,440**	11,702	**112,000**
Income taxes payable (Note 16)	**1,614**	5,501	**13,450**
Notes payable—equipment	**1,539**	2,966	**12,825**
Provision for product warranties	**6,783**	5,221	**56,525**
Allowance for directors' and corporate auditors' bonuses	**227**	174	**1,892**
Other	**13,522**	13,806	**112,684**
Total current liabilities	**149,476**	146,746	**1,245,634**
Noncurrent liabilities:			
Long-term loans payable (Notes 4 and 12)	**42,624**	41,395	**355,200**
Lease obligations	**2,105**	2,272	**17,542**
Deferred tax liabilities for land revaluation	**3,600**	3,965	**30,000**
Deferred tax liabilities (Note 16)	**5,157**	888	**42,975**
Retirement benefits for directors and corporate auditors	**88**	74	**733**
Allowance for environmental measures	**220**	220	**1,833**
Liability for retirement benefits (Note 15)	**6,012**	9,949	**50,100**
Asset retirement obligations (Note 17)	**400**	386	**3,333**
Other	**989**	1,191	**8,242**
Total noncurrent liabilities	**61,195**	60,340	**509,958**
Total liabilities	**210,671**	207,086	**1,755,592**
Contingent liabilities (Note 7)**:**			
Net assets (Note 6)**:**			
Shareholders' equity			
Common stock	**27,648**	27,648	**230,400**
Capital surplus	**29,543**	29,543	**246,191**
Retained earnings	**81,066**	78,323	**675,550**
Treasury stock, at cost	**(573)**	(565)	**(4,775)**
Total shareholders' equity	**137,684**	134,949	**1,147,366**
Accumulated other comprehensive income			
Net unrealized holding gains on securities, net of taxes	**9,672**	4,354	**80,600**
Revaluation reserve for land	**5,682**	5,317	**47,350**
Foreign currency translation adjustments	**9,641**	3,651	**80,342**
Remeasurements of defined benefit plans	**5,670**	506	**47,250**
Total accumulated other comprehensive income	**30,665**	13,828	**255,542**
Minority interests	**5,910**	5,220	**49,250**
Total net assets	**174,259**	153,997	**1,452,158**
Total liabilities and net assets	**¥384,930**	¥361,083	**$3,207,750**

Consolidated Statements of Income

Kayaba Industry Co., Ltd. and its Consolidated Subsidiaries
Years ended March 31, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	2015
Net sales	**¥370,425**	¥352,711	**$3,086,875**
Cost of sales (Note 9)	**299,603**	282,466	**2,496,692**
Gross profit	**70,822**	70,245	**590,183**
Selling, general and administrative expenses (Note 9)	**57,231**	52,075	**476,925**
Operating income	**13,591**	18,170	**113,258**
Other income (expenses):			
Interest income	**251**	232	**2,092**
Dividends income	**616**	518	**5,133**
Royalty income	**809**	843	**6,742**
Equity in earnings (losses) of affiliates	**(19)**	276	**(158)**
Interest expenses	**(1,518)**	(1,577)	**(12,650)**
Foreign exchange gain, net	**1,215**	485	**10,125**
Gain on sale of investment securities	**3**	—	**25**
Gain on sale of investment in affiliates	**—**	1,255	**—**
Loss on sale and disposal of fixed assets, net	**(619)**	(164)	**(5,158)**
Impairment loss on fixed assets (Note 8)	**(2,032)**	(356)	**(16,933)**
Loss on valuation of investment securities	**(5)**	(13)	**(42)**
Loss on sale of investment securities	**—**	(21)	**—**
Loss on change in equity	**—**	(32)	**—**
Special retirement expenses	**(27)**	(26)	**(225)**
Other, net	**907**	1,442	**7,558**
Income before income taxes and minority interests	**13,172**	21,032	**109,767**
Income taxes (Note 16):			
Current	**5,250**	8,124	**43,750**
Past	**—**	—	**—**
Deferred	**(603)**	(291)	**(5,025)**
Income before minority interests	**7,319**	13,199	**60,992**
Minority interests	**267**	438	**2,225**
Net income	**¥ 7,052**	¥12,761	**$ 58,767**

	Yen		U.S. dollars (Note 1)
Amounts per share of common stock:			
Net income	**¥27.60**	¥55.26	**$0.23**
Cash dividends applicable to the year	**12.00**	9.00	**0.10**

See accompanying notes.

Consolidated Statements of Comprehensive Income

Kayaba Industry Co., Ltd. and its Consolidated Subsidiaries
Years ended March 31, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	2015
Income before minority interests	**¥ 7,319**	¥13,199	**$ 60,992**
Other comprehensive income:			
Net unrealized holding gains on securities, net of taxes	**5,318**	1,233	**44,317**
Revaluation reserve for land	**366**	—	**3,050**
Foreign currency translation adjustments	**6,155**	5,763	**51,292**
Remeasurements of defined benefit plans	**5,161**	—	**43,008**
Share of other comprehensive income of affiliates accounted for using equity method	**362**	115	**3,016**
Total other comprehensive income (Note 5)	**17,362**	7,111	**144,683**
Comprehensive income	**¥24,681**	¥20,310	**$205,675**
Comprehensive income attribute to:			
Comprehensive income attributable to owners of the parent	**23,889**	19,664	**199,075**
Comprehensive income attributable to minority interests	**792**	646	**6,600**

See accompanying notes.

Consolidated Statements of Changes in Net Assets

Kayaba Industry Co., Ltd. and its Consolidated Subsidiaries
Years ended March 31, 2015 and 2014

	Thousands	Millions of yen											
		Shareholders' equity					Accumulated other comprehensive income						
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized holding gains on securities, net of taxes	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Minority interests	Total net assets
Balance at March 31, 2013	222,984	¥ 19,114	¥21,009	¥ 67,217	¥(549)	¥106,791	¥3,122	¥5,317	¥(2,021)	¥ —	¥ 6,418	¥3,226	¥116,435
Issue of new shares	34,500	8,534	8,534	—	—	17,068	—	—	—	—	—	—	17,068
Cash dividends paid	—	—	—	(1,768)	—	(1,768)	—	—	—	—	—	—	(1,768)
Net income	—	—	—	12,761	—	12,761	—	—	—	—	—	—	12,761
Increase resulting from change in scope of consolidation	—	—	—	113	—	113	—	—	—	—	—	—	113
Acquisition of treasury stock	—	—	—	—	(16)	(16)	—	—	—	—	—	—	(16)
Disposal of treasury stock	—	—	0	—	0	0	—	—	—	—	—	—	0
Net change of items other than shareholder's equity	—	—	—	—	—	—	1,232	—	5,672	506	7,410	1,994	9,404
Balance at April 1, 2014	257,484	27,648	29,543	78,323	(565)	134,949	4,354	5,317	3,651	506	13,828	5,220	153,997
Cumulative effects of changes in accounting policies	—	—	—	**(1,676)**	—	**(1,676)**	—	—	—	—	—	—	**(1,676)**
Cash dividends paid	—	—	—	**(2,555)**	—	**(2,555)**	—	—	—	—	—	—	**(2,555)**
Net income	—	—	—	**7,052**	—	**7,052**	—	—	—	—	—	—	**7,052**
Change in functional currency of consolidated foreign subsidiaries	—	—	—	**(78)**	—	**(78)**	—	—	—	—	—	—	**(78)**
Acquisition of treasury stock	—	—	—	—	**(9)**	**(9)**	—	—	—	—	—	—	**(9)**
Disposal of treasury stock	—	—	**0**	—	**1**	**1**	—	—	—	—	—	—	**1**
Net change of items other than shareholder's equity	—	—	—	—	—	—	**5,318**	**365**	**5,990**	**5,164**	**16,837**	**690**	**17,527**
Balance at March 31, 2015	**257,484**	**¥27,648**	**¥29,543**	**¥81,066**	**¥(573)**	**¥137,684**	**¥9,672**	**¥5,682**	**¥9,641**	**¥5,670**	**¥30,665**	**¥5,910**	**¥174,259**

	Thousands of U.S. dollars (Note 1)											
	Shareholders' equity					Accumulated other comprehensive income						
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized holding gains on securities, net of taxes	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Minority interests	Total net assets
Balance at April 1, 2014	$230,400	$246,191	$652,692	$(4,708)	$1,124,575	$36,283	$44,308	$30,425	$4,217	$115,233	$43,500	$1,283,308
Cumulative effects of changes in accounting policies	—	—	**(13,967)**	—	**(13,967)**	—	—	—	—	—	—	**(13,967)**
Cash dividends paid	—	—	**(21,292)**	—	**(21,292)**	—	—	—	—	—	—	**(21,292)**
Net income	—	—	**58,767**	—	**58,767**	—	—	—	—	—	—	**58,767**
Change in functional currency of consolidated foreign subsidiaries	—	—	**(650)**	—	**(650)**	—	—	—	—	—	—	**(650)**
Acquisition of treasury stock	—	—	—	**(75)**	**(75)**	—	—	—	—	—	—	**(75)**
Disposal of treasury stock	—	**0**	—	**8**	**8**	—	—	—	—	—	—	**8**
Net change of items other than shareholder's equity	—	—	—	—	—	**44,317**	**3,042**	**49,917**	**43,033**	**140,309**	**5,750**	**146,059**
Balance at March 31, 2015	**$230,400**	**$246,191**	**$675,550**	**$(4,775)**	**$1,147,366**	**$80,600**	**$47,350**	**$ 80,342**	**$47,250**	**$255,542**	**$49,250**	**$1,452,158**

See accompanying notes.

Consolidated Statements of Cash Flows

Kayaba Industry Co., Ltd. and its Consolidated Subsidiaries
Years ended March 31, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	**2015**
Cash flows from operating activities:			
Income before income taxes and minority interests	**¥13,172**	¥21,032	**$109,767**
Depreciation and amortization	**16,491**	17,294	**137,425**
Loss on sale and disposal of fixed assets, net	**619**	164	**5,158**
Loss (gain) on sale of investment securities	**(3)**	21	**(25)**
Loss on write down of investment securities	**5**	13	**42**
Gain on sale of investment in affiliates	**—**	(1,255)	**—**
Impairment loss on fixed assets	**2,032**	356	**16,933**
Amortization of goodwill	**190**	156	**1,583**
Amortization of negative goodwill	**—**	(1)	**—**
Increase (decrease) in allowance for doubtful accounts	**107**	(349)	**892**
Increase (decrease) in liability for retirement benefit	**(718)**	241	**(5,983)**
Increase in provision for product warranties	**1,715**	1,308	**14,292**
Increase in retirement benefits for directors and corporate auditors	**12**	3	**100**
Increase in allowance for directors' and corporate auditors' bonuses	**52**	26	**433**
Decrease in allowance for environmental measures	**—**	(3)	**—**
Interest and dividends income	**(867)**	(750)	**(7,225)**
Interest expense	**1,518**	1,577	**12,650**
Equity in (earnings) losses of affiliates	**19**	(276)	**158**
Decrease in notes and accounts receivable—trade	**(3,677)**	(3,936)	**(30,642)**
Increase in inventories	**(482)**	(1,747)	**(4,017)**
Increase in notes and accounts payable—trade	**1,563**	520	**13,025**
Increase in accounts payable—other	**1,333**	277	**11,108**
Other, net	**(2,519)**	(1,279)	**(20,991)**
Subtotal	**30,562**	33,392	**254,683**
Interest and dividends received	**1,327**	1,304	**11,058**
Interest paid	**(1,536)**	(1,719)	**(12,800)**
Income taxes paid	**(9,279)**	(4,189)	**(77,325)**
Income taxes refunded	**50**	—	**417**
Net cash provided by operating activities	**21,124**	28,788	**176,033**
Cash flows from investing activities:			
Increase in time deposits	**(1,287)**	(839)	**(10,725)**
Decrease in time deposits	**1,566**	871	**13,050**
Payment for acquisition of property, plant and equipment	**(29,187)**	(35,550)	**(243,225)**
Proceeds from sale of property, plant and equipment	**157**	859	**1,308**
Payment for acquisition of investment securities	**(307)**	(1,475)	**(2,558)**
Payment for acquisition of investment in affiliates	**—**	(474)	**—**
Proceeds from sale of investment in affiliates	**—**	1,794	**—**
Payment for investments in capital of affiliates	**(232)**	—	**(1,933)**
Payment disbursement of loans receivable	**(331)**	(252)	**(2,758)**
Proceeds from collection of loans receivable	**270**	279	**2,250**
Other, net	**(75)**	(1,291)	**(626)**
Net cash used in investing activities	**(29,426)**	(36,078)	**(245,217)**
Cash flows from financing activities:			
Net decrease in short-term loans payable	**559**	3,251	**4,658**
Repayments of lease obligations	**(623)**	(477)	**(5,191)**
Proceeds from long-term loans payable	**16,393**	12,265	**136,608**
Repayment of long-term loans payable	**(14,243)**	(25,188)	**(118,691)**
Proceeds from issuance of common stock	**—**	17,068	**—**
Proceeds from stock issuance to minority shareholders	**206**	1,015	**1,717**
Purchase of treasury stock	**(9)**	(17)	**(75)**
Sale of treasury stock	**1**	1	**8**
Cash dividends paid	**(2,555)**	(1,768)	**(21,292)**
Cash dividends paid to minority shareholders	**(309)**	(441)	**(2,575)**
Net cash provided by (used in) financing activities	**(580)**	5,709	**(4,833)**
Effect of exchange rate changes on cash and cash equivalents	**1,234**	1,837	**10,283**
Net increase (decrease) in cash and cash equivalents	**(7,648)**	256	**(63,734)**
Cash and cash equivalents at beginning of year	**38,132**	35,215	**317,767**
Increase in cash and cash equivalents resulting from changes in scope of consolidation	**—**	2,661	**—**
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries	**26**	—	**217**
Cash and cash equivalents at end of year (Note 10)	**¥30,510**	¥38,132	**$254,250**

See accompanying notes.

Notes to Consolidated Financial Statements

Kayaba Industry Co., Ltd. and its Consolidated Subsidiaries
Years ended March 31, 2015 and 2014

1 Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of Kayaba Industry Co., Ltd. ("the Company") and its consolidated subsidiaries (together "the Companies") have been prepared in accordance with the provisions set forth in the Financial Instruments and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards ("IFRSs").

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

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

The accompanying consolidated financial statements have been restructured and translated into English from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. Certain supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2015, which was ¥120 to U.S.$1. The convenience translation should not be construed as representation that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2 Summary of Significant Accounting Policies

1. Consolidation

The consolidated financial statements of the Company include the accounts of the Company and its significant subsidiaries (40 in 2015 and 2014), which are controlled through substantial ownership of majority voting rights or the existence of certain conditions.

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

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

2. Equity Method

Investments in 5 affiliated companies in 2015 and 2014 (20% to 50% owned and certain others less than 20% owned) are accounted for by the equity method and, accordingly, are stated at cost adjusted for equity in undistributed earnings and losses from the date of acquisition.

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

3. Goodwill

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

4. Foreign Currency Translation

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

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

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

5. Cash and Cash Equivalents

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

6. Inventories

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

7. Securities

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

Equity securities issued by subsidiaries and affiliated companies that are not consolidated or accounted for using the equity method are stated at moving-average cost. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Realized gains and losses on sales of such securities are computed using moving-average cost. Other securities with no available fair market value are stated at moving-average cost.

8. Derivative Transactions and Hedge Accounting

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

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

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

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

9. Property, Plant and Equipment

Property, plant and equipment are stated at cost except for certain land used for business operation, which has been revalued. Depreciation is computed mainly by the straight-line method over the estimated useful lives.

10. Intangible Assets

Intangible assets are amortized using the straight-line method.

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

11. Leased Assets

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

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

12. Land Revaluation

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

According to the revised law, the Company and a certain subsidiary are not permitted to revalue the land at any time, even if the fair value of the land declines. Such unrecorded revaluation loss amounted to ¥6,307 million (US$52,588 thousand) and ¥6,300 million as of March 31, 2015 and 2014.

13. Allowance for Doubtful Accounts

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

14. Provision for Product Warranties

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

15. Allowance for Directors' and Corporate Auditors' Bonuses

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

16. Retirement Benefits for Directors and Corporate Auditors

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

17. Allowance for Environmental Measures

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

18. Accounting Policy of Net Defined Benefit Liability

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

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

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

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

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

19. Research and Development

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

20. Income Taxes

Income taxes comprise corporation, enterprise and inhabitants taxes.

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

21. Amounts per Share

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

22. Change in Accounting Policy

(1) Change in accounting policy that is difficult to distinguish from change in accounting estimate

(Change in the depreciation method)

From April 1, 2014, the Company and its consolidated domestic subsidiaries changed their depreciation method of property, plant and equipment, with some exceptions, from the declining-balance method (Buildings (including facilities attached to buildings) acquired on or after April 1, 1998, are depreciated using the straight-line method.) to the straight-line method.

In April 2014, the Company established the slogan "Earning trust and orders from customers around the world by uniting the KYB Group's functions" in the medium-term business plan. In line with this slogan, we are working to quickly establish a business structure that can accurately respond to change with speed and flexibility.

More specifically, we are sequentially switching to production lines that can quickly respond to customer needs, and reforming our lines from the traditional type that specializes in large quantity production of a specific model to lines that can efficiently manufacture small lot production of various models. As a result, production lines have become more versatile, so the Company has determined that the revision from the previous declining-balance pattern of depreciation to the straight-line pattern of depreciation is appropriate. Furthermore, the construction of integrated lines accompanying plant expansions has made possible an increase in efficiency and stable, long-term manufacture of many kinds of products. The Company has determined that the change to the straight-line method of calculating depreciation will enable proper cost allocation.

As a result of this change, operating income increased by ¥2,798 million (US$23,317 thousand) and income before income taxes and minority interests increased by ¥2,803 million (US$23,358 thousand) for the current fiscal year from the corresponding amounts which would have been recorded under the previous depreciation method.

(2) Application of Accounting Standard for Retirement Benefits
The Company and its consolidated domestic subsidiaries adopted article 35 of the "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26, May 17, 2012 (hereinafter, "Statement No. 26")) and article 67 of the "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, March 26, 2015 (hereinafter, "Guidance No. 25")) from the current fiscal year, and have changed the determination of retirement benefit obligations and current service costs. In addition, the Company and its consolidated domestic subsidiaries have changed the method of attributing expected benefit to periods from the straight-line method to a benefit formula basis. Also, regarding the duration of bonds, which is the determination basis of the calculation method used for the discount rate, the Company and its consolidated domestic subsidiaries changed from a determination method based on the approximate number of years in an employee's average remaining service period to a method using the single weighted-average rate of discount that reflects the estimated period and amount of benefit payment in each period.

In accordance with article 37 of Statement No.26, the effect of changing the determination of retirement benefit obligations and current service costs has been recognized in retained earnings at the beginning of the current fiscal year.

As a result of the application, the liability for retirement benefits obligation increased by ¥2,574 million (US$21,450 thousand) and retained earnings decreased by ¥1,676 million (US$13,967 thousand) at the beginning of the current fiscal year. In addition, operating income and income before tax increased by ¥85 million (US$708 thousand) in the current fiscal year, respectively. The amount of net assets per share decreased by ¥6.56 (US$0.05). Also the effects on the earnings per share are immaterial.

23. Change in Presentation
Consolidated Balance Sheets
"Deferred tax liabilities" was presented as included in the "Other" account under "Noncurrent liabilities" for the previous fiscal year, but because its importance in monetary terms increased for the current fiscal year, it was changed to be presented as a separate account. In order to reflect this change in presentation method, the consolidated financial statements of the previous fiscal year have been reclassified.

As a result, in the consolidated balance sheets for the previous fiscal year, ¥888 million yen that was presented in "Other" under "Noncurrent liabilities" has been reclassified as "Deferred tax liabilities."

3 Inventories

Inventories as of March 31, 2015 and 2014 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Finished goods	**¥25,365**	¥24,643	**$211,375**
Work in process	**12,906**	13,566	**107,550**
Raw materials and supplies	**8,855**	8,368	**73,792**
Total	**¥47,126**	¥46,577	**$392,717**

4 Short-Term Loans Payable and Long-Term Loans Payable

Short–term loans payable are generally represented by short-term notes and overdrafts from banks, and bearing average interest as of March 31, 2015 and 2014 at 2.2% and 2.0% per annum, respectively.

Short-term loans payable as of March 31, 2015 and 2014 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Secured	**¥ 102**	¥ 133	**$ 850**
Unsecured	**30,511**	30,668	**254,258**
Total	**30,613**	30,801	**255,108**
Current maturities of long-term loans payable	**16,172**	13,406	**134,767**
	¥46,785	¥44,207	**$389,875**

Long-term loans payable as of March 31, 2015 and 2014 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Loans from banks and others, due through 2026 with interest rates ranging from 0.26% to 13.90%:			
Secured	**¥ 22**	¥ 133	**$ 183**
Unsecured	**58,774**	54,668	**489,784**
Total	**58,796**	54,801	**489,967**
Less: Current maturities	**(16,172)**	(13,406)	**(134,767)**
	¥42,624	¥41,395	**$355,200**

As of March 31, 2015 and 2014, the following assets were pledged as collateral for short-term loans payable and long-term loans payable:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Notes receivable—trade	**¥240**	¥244	**$2,000**
Property, plant and equipment:			
Buildings and structures	**198**	220	**1,650**
Machinery, equipment and vehicles	**297**	227	**2,475**
Land	**96**	56	**800**
Other	**20**	13	**167**
Total	**¥851**	¥760	**$7,092**

The aggregate annual maturities of long-term loans payable as of March 31, 2015, were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2016	¥16,172	$134,767
2017	17,585	146,542
2018	11,509	95,908
2019	8,349	69,575
2020	3,972	33,100
Thereafter	1,209	10,075
	¥58,796	$489,967

5 Notes to Statements of Comprehensive Income

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

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Net unrealized holding gains on securities, net of taxes:			
Amount arising during the year	¥ 7,337	¥1,895	$ 61,142
Reclassification adjustments	0	0	0
Before tax effect	7,337	1,895	61,142
Tax effect	(2,019)	(662)	(16,825)
Net unrealized holding gains on securities, net of taxes	5,318	1, 233	44,317
Revaluation reserve for land, net of taxes:			
Tax effect	366	—	3,050
Revaluation reserve for land, net of taxes	366	—	3,050
Foreign currency translation adjustments:			
Amount arising during the year	6,174	5,730	51,450
Reclassification adjustments	(19)	33	(158)
Before tax effect	6,155	5,763	51,292
Tax effect	—	—	—
Foreign currency translation adjustments	6,155	5,763	51,292
Remeasurements of defined benefit plans, net of taxes:			
Amount arising during the year	7,371	—	61,425
Reclassification adjustments	128	—	1,067
Before tax effect	7,499	—	62,492
Tax effect	(2,338)	—	(19,484)
Remeasurements of defined benefit plans, net of taxes	5,161	—	43,008
Share of other comprehensive income of affiliated accounted for using equity method:			
Amount arising during the year	362	115	3,016
Total other comprehensive income	¥17,362	¥7,111	$144,683

6 Net Assets

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

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Japanese Corporate Law ("the Law"), in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Law, legal earnings reserve and additional paid in capital could be used to eliminate or reduce a deficit, or could capitalize by a resolution of the shareholders' meeting.

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

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

7 Contingent Liabilities

As of March 31, 2015, the Companies were contingently liable for trade notes receivable discounted amounting to ¥51 million (US$425 thousand) and for trade notes receivable endorsed amounting to ¥637 million (US$5,308 thousand).

The Company was also contingently liable under guarantees of indebtedness of unconsolidated subsidiaries and affiliated companies amounting to ¥1,852 million (US$15,433 thousand) as of March 31, 2015.

8 Impairment Loss on Fixed Assets

For the years ended March 31, 2015 and 2014, the Companies recognized impairment loss on fixed assets on the following groups of assets:

For the year ended March 31, 2015

Location	Use	Category
Kani-shi, Gifu, Japan	Idle assets	Machinery
Nagaoka-shi, Niigata, Japan	Business assets	Building and structure, Machinery
Zhenjiang, China	Business assets	Machinery
—	Other	Goodwill

For the year ended March 31, 2014

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

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

The book value of idle assets, that are not used for business operation and are not expected to generate cash flow in the future, was written down to the recoverable amounts. As a result, loss on impairment of fixed assets were recognized ¥13 million (US$108 thousand) and ¥356 million for the years ended March 31, 2015 and 2014, respectively.

The book value of business assets was written down to the recoverable amounts, due to a significant decline in profitability. As a result, loss on impairment of fixed assets were recognized ¥1,870 million (US$15,583 thousand) for the year ended March 31, 2015.

As the Company's urgent business recovery has been difficult, goodwill was written down to the recovery amounts because investment expenditures are not expected to recover. As a result, loss on impairment of fixed assets were recognized as ¥149 million ($1,242 thousand) for the year ended March 31, 2015.

9 Research and Development Costs

Research and development costs charged to the cost of sales and selling, general and administrative expenses for the years ended March 31, 2015 and 2014 were ¥8,910 million (US$74,250 thousand) and ¥6,917 million, respectively.

10 Cash and Cash Equivalents

The reconciliation of cash and time deposits shown in the consolidated balance sheets and cash and cash equivalents shown in the consolidated statements of cash flows as of March 31, 2015 and 2014 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Cash and time deposits	¥31,752	¥39,505	$264,600
Deposits with maturities more than three months	(1,242)	(1,373)	(10,350)
Cash and cash equivalents	¥30,510	¥38,132	$254,250

11 Lease Transaction

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

Future lease payments for operating leases that cannot be terminated for the years ended March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Due within one year	¥ 493	¥ 578	$4,108
Due after one year	637	1,138	5,309
Total	¥1,130	¥1,716	$9,417

12 Financial Instruments

1. Qualitative information on financial instruments

1) Policies for using financial instruments

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

2) Details of financial instruments and the related risks

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

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

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

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

3) Risk Management systems relating to financial instruments

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

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

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

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

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

2. Fair Values of Financial Instruments

The following were book value, fair value, and difference between them as of March 31, 2015 and 2014. Certain financial instruments were excluded from the following table as the fair values were not available (see Note 2).

	Millions of yen					
	2015			2014		
	Book value	Fair value	Differences	Book value	Fair values	Differences
(1) Cash and time deposits	¥ 31,752	¥ 31,752	¥ —	¥ 39,505	¥ 39,505	¥ —
(2) Notes and accounts receivables—trade	91,249	91,249	—	86,444	86,444	—
(3) Investment securities	23,542	23,542	—	15,903	15,903	—
Assets	146,543	146,543	—	141,852	141,852	—
(4) Notes and accounts payables—trade	64,992	64,992	—	62,584	62,584	—
(5) Short-term loans payable	30,613	30,613	—	30,801	30,801	—
(6) Long-term loans payable (including current portion)	58,796	58,974	178	54,801	55,000	199
Liabilities	¥154,401	¥154,579	¥178	¥148,186	¥148,385	¥199

	Thousands of U.S. dollars		
	2015		
	Book value	Fair values	Differences
(1) Cash and time deposits	$ 264,600	$ 264,600	$ —
(2) Notes and accounts receivables—trade	760,408	760,408	—
(3) Investment securities	196,183	196,183	—
Assets	1,221,191	1,221,191	—
(4) Notes and accounts payables—trade	541,600	541,600	—
(5) Short-term loans payable	255,108	255,108	—
(6) Long-term loans payable (including current portion)	489,967	491,450	1,483
Liabilities	$1,286,675	$1,288,158	$1,483

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

Assets:

(1) Cash and time deposits, and (2) Notes and accounts receivables—trade
The fair value approximates the book value because of their short-term maturities. Therefore, the fair value is recognized using the book value.

(3) Investment securities
The fair value of these securities is based on their stock market price.

Liabilities:

(4) Notes and accounts payables—trade, and (5) Short-term loans payable
The fair value approximates the book value because of their short-term maturities. Therefore, the fair value is recognized using the book value.

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

Derivatives:

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

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

Category	Millions of yen 2015	Millions of yen 2014	Thousands of U.S. dollars 2015
Unlisted equity securities	¥ 52	¥ 57	$ 433
Securities in unconsolidated subsidiaries and affiliates	4,610	4,753	38,417

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

3. The aggregate maturities subsequent to March 31, 2015 and 2014 for financial assets are as follows:

	Millions of yen							
	2015				2014			
	Due within one year	Due after one year and within five years	Due after five years and within ten years	Due over ten years	Due within one year	Due after one year and within five years	Due after five years and within ten years	Due over ten years
Cash and time deposits	¥ 31,752	¥—	¥—	¥—	¥ 39,505	¥ —	¥ —	¥ —
Notes and accounts receivables—trade	91,249	—	—	—	86,444	—	—	—
Total	¥123,001	¥—	¥—	¥—	¥125,949	¥ —	¥ —	¥ —

	Thousands of U.S. dollars			
	2015			
	Due within one year	Due after one year and within five years	Due after five years and within ten years	Due over ten years
Cash and time deposits	$ 264,600	$—	$—	$—
Notes and accounts receivables—trade	760,408	—	—	—
Total	$1,025,008	$—	$—	$—

13 Securities

The following tables summarize acquisition costs, book values and the fair value of securities with available fair values as of March 31, 2015 and 2014.

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

	Millions of yen						Thousands of U.S. dollars		
	2015			2014			2015		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥9,531	¥23,542	¥14,011	¥7,144	¥14,005	¥6,861	$79,425	$196,183	$116,758

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

	Millions of yen						Thousands of U.S. dollars		
	2015			2014			2015		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥—	¥—	¥—	¥2,084	¥1,897	¥(187)	$—	$—	$—

Unlisted equity securities (consolidated balance sheet amount of ¥52 million (US$433 thousand) and ¥57 million for the years ended March 31, 2015 and 2014) are not included in the above table due to the extreme difficulty of determining a fair value because there are no market prices.

The following table summarizes the proceeds from sales of available-for-sale securities in the years ended March 31, 2015 and 2014.

	Millions of yen						Thousands of U.S. dollars		
	2015			2014			2015		
	Proceeds from sales	Gain on sales	Loss on sales	Proceeds from sales	Gain on sales	Loss on sales	Proceeds from sales	Gain on sales	Loss on sales
Equity securities	¥4	¥3	¥—	¥13	¥—	¥21	$33	$25	$—

Impairment loss on securities

There was an asset impairment loss of ¥5 million (US$42 thousand) and ¥13 million for equity securities included in other securities for the years ended March 31, 2015 and 2014, respectively.

14 Derivative Transactions

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

The following tables summarize the fair value information as of March 31, 2015 and 2014 of derivative transactions for which hedge accounting has been applied:

Interest rate related derivatives

			Millions of yen		
			2015		
Hedge accounting method	Type of derivatives	Major hedged items	Contract amount	Contract amount due over one year	Fair value
Specified treatment for interest rate swaps	Interest rate swaps Receive floating rate Pay fixed rate	Long-term loans payable	¥ 800	¥ 400	(Note)
Specified treatment for interest rate and currency swaps	Interest rate and currency swaps Receive floating rate and U.S. dollar Pay fixed rate and Thai Baht	Long-term loans payable	2,422	1,637	(Note)
Specified treatment for interest rate and currency swaps	Interest rate and currency swaps Receive floating rate and U.S. dollar Pay fixed rate and Indian Rupee	Long-term loans payable	817	817	(Note)

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

			Thousands of U.S. dollars		
			2015		
Hedge accounting method	Type of derivatives	Major hedged items	Contract amount	Contract amount due over one year	Fair value
Specified treatment for interest rate swaps	Interest rate swaps Receive floating rate Pay fixed rate	Long-term loans payable	$ 6,667	$ 3,333	(Note)
Specified treatment for interest rate and currency swaps	Interest rate and currency swaps Receive floating rate and U.S. dollar Pay fixed rate and Thai Baht	Long-term loans payable	20,183	13,642	(Note)
Specified treatment for interest rate and currency swaps	Interest rate and currency swaps Receive floating rate and U.S. dollar Pay fixed rate and Indian Rupee	Long-term loans payable	6,808	6,808	(Note)

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

15 Retirement Benefits for Employees

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

The Company has established a retirement benefit payment trust.

At the year ended March 31, 2015, for the Company and its consolidated companies in Japan, 7 companies had lump-sum payment plans. In addition, for the Employees' Pension Fund, a company belonged to a comprehensive employees' pension fund and, for the defined benefit corporate pension plan, 6 companies outsourced asset management to a life insurance company, etc.

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

Retirement benefit obligation and pension plan assets as of March 31, 2015 and 2014 consisted of the following:

Defined benefit plans

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Movement in retirement benefit obligations:			
Balance at April 1, 2014	**¥36,052**	¥34,592	**$300,433**
Cumulative effects of changes in accounting policies	**2,575**	—	**21,459**
Restated balance	**38,627**	34,592	**321,892**
Service cost	**2,129**	1,873	**17,742**
Interest cost	**382**	523	**3,183**
Retirement benefit paid	**(2,543)**	(2,179)	**(21,192)**
Other	**(479)**	1,243	**3,992**
Balance at March 31, 2015	**¥38,116**	¥36,052	**$317,633**
Movement in plan assets:			
Balance at April 1, 2014	**¥26,198**	¥22,331	**$218,317**
Expected return on plan assets	**822**	384	**6,850**
Actuarial gain	**6,764**	3,158	**56,366**
Contributions paid by the employer	**1,022**	997	**8,517**
Benefit expenses	**(1,002)**	(672)	**(8,350)**
Balance at March 31, 2015	**¥33,804**	¥26,198	**$281,700**

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

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

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Funded retirement benefit obligations	**¥33,717**	¥32,101	**$280,975**
Plan assets	**(33,804)**	(26,197)	**(281,700)**
	(87)	5,904	**(725)**
Unfunded retirement benefit obligations	**4,399**	3,950	**36,658**
Total Net liability for retirement benefits at March 31, 2015	**¥ 4,312**	¥ 9,854	**$ 35,933**
Liability for retirement benefits	**¥ 6,012**	¥ 9,949	**$ 50,100**
Asset for retirement benefits	**(1,700)**	(95)	**(14,167)**
Total Net liability for retirement benefits at March 31, 2015	**¥ 4,312**	¥ 9,854	**$ 35,933**

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

Retirement benefit costs included in the consolidated statements of income for the years ended March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Service cost	**¥2,129**	¥1,872	**$17,742**
Interest cost	**382**	523	**3,183**
Expected return on plan assets	**(821)**	(384)	**(6,842)**
Net actuarial loss amortization	**128**	280	**1,067**
Other	**28**	90	**234**
Total retirement benefit costs for the year ended March 31, 2015	**¥1,846**	¥2,381	**$15,384**

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

Items included in cumulative adjustment for retirement benefits (before tax effect deduction) as of March 31, 2015 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Actuarial loss	**¥(7,499)**	¥ —	**$(62,492)**
Unrecognized actuarial difference	**¥(8,269)**	¥(770)	**$(68,908)**

Plan assets as of March 31, 2015 and 2014 are comprised as follows:

	2015	2014
Bonds	**13%**	18%
Equity securities	**64**	69
Cash and cash equivalents	**4**	7
Other	**19**	6
Total	**100%**	100%

Notes: 1. The amounts in this table include figures for pension plans that use simplified methods
2. Plan assets include the retirement benefit trust that were established in regards to lump-sum payment plans of 60% in the current fiscal year and 57% in the previous fiscal year.

Long-term expected rate of return

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

Actuarial assumptions

The principal actuarial assumptions at March 31, 2015 and 2014 (expressed as weighted averages) are as follows:

	2015	2014
Discount rate	**1.0–3.6%**	1.5–4.2%
Long-term expected rate of return	**1.8–3.7%**	1.5–2.0%

The required contribution of certain consolidated subsidiaries to defined-contribution pension plans for the years ended March 31, 2015 and 2014 were ¥456 million (US$3,800 thousand) and ¥421 million, respectively.

16 Income Taxes

The following table summarizes the significant differences between the statutory tax rate and the Companies' effective tax rate for financial statement purposes for the years ended March 31, 2015 and 2014.

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Deferred tax assets:			
Liability for retirement benefits	¥ 4,809	¥ 7,220	$ 40,075
Tax loss carried forward	2,544	1,857	21,200
Accrued bonuses	1,488	1,596	12,400
Provision for product warranties	1,437	905	11,975
Software	1,209	1,292	10,075
Tax effect of unrealized gains on inventories	967	1,041	8,058
Tax effect of unrealized gains on fixed assets	660	519	5,500
Impairment loss on fixed assets	574	178	4,783
Valuation loss on inventories	434	326	3,617
Deductible expenses for assets used in research and development	389	249	3,242
Accrued expenses (social security payments for bonuses)	220	234	1,833
Retirement benefits for directors and corporate auditors	173	201	1,442
Loss on revaluation of securities	132	144	1,100
Accrued enterprise tax	121	329	1,008
Cumulative asset retirement obligation	120	130	1,000
Other	1,043	861	8,692
Subtotal	16,320	17,082	136,000
Less: Valuation allowance	(3,369)	(2,577)	(28,075)
Total deferred tax assets	12,951	14,505	107,925
Deferred tax liabilities:			
Unrealized holding gains on securities	(4,316)	(2,273)	(35,967)
Undistributed earnings of consolidated overseas subsidiaries	(3,639)	(3,085)	(30,325)
Securities contributed to employees' retirement benefit trust	(2,517)	(2,904)	(20,975)
Tax allowable reserves for deduction of fixed assets	(128)	(158)	(1,067)
Other	(586)	(267)	(4,883)
Total deferred tax liabilities	(11,186)	(8,687)	(93,217)
Net deferred tax assets	¥ 1,765	¥ 5,818	$ 14,708

On March 31, 2015, amendments to the Japanese tax regulations were enacted into law. Based on the amendments, the statutory income tax rates utilized for the measurement of deferred tax assets and liabilities expected to be settled or realized from April 1, 2015 to March 31, 2016 and on or after April 1, 2016 are changed from 34.8% for the fiscal year ended March 31, 2015 to 32.3% and 31.5%, respectively, as of March 31, 2015.

Due to these changes in statutory income tax rates, net deferred tax assets (after deducting the deferred tax liabilities) decreased by ¥193 million (US$1,608 thousand) as of March 31, 2015, deferred income tax expense recognized for the fiscal year ended March 31, 2015 increased by ¥931 million (US$7,758 thousand), evaluation differences of other securities increased by ¥461 million (US$3,842 thousand) and remeasurements of defined benefit plans increased by ¥277 million (US$2,308 thousand).

Also, Deferred tax liabilities for land revaluation decreased by ¥365 million (US$3,042 thousand) and revaluation reserve for land increased by the same amount as deferred tax liabilities for land revaluation.

17 Asset Retirement Obligations

1. Asset Retirement Obligations Recognized in the Consolidated Balance Sheet

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

Asset retirement obligations calculated by using the estimated useful period since acquisition of the equipment, 4 to 31 years, and a discount rate of 2.0% for the years ended March 31, 2015 and 2014.

The asset retirement obligations as of March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Beginning of the year	¥386	¥391	$3,217
New obligations by acquisition of fixed assets	10	0	83
Changes in estimated obligations and accretion	6	5	50
Settlement payment	(2)	(10)	(17)
End of the year	¥400	¥386	$3,333

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

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

18 Segment Information

1. Segment Information

(a) General information about reportable Segments

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

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

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

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

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

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

Segment information as of and for the years ended March 31, 2015 and 2014 was as follows:

	Millions of yen						
	2015						
	Reportable segment						
	Automotive Components	Hydraulic Components	Subtotal	Other	Total	Adjustment	Consolidated
Segment sales:							
Outside customers	**¥237,086**	**¥113,223**	**¥350,309**	**¥20,116**	**¥370,425**	**¥ —**	**¥370,425**
Intersegment	**2,468**	**2,765**	**5,233**	**2,625**	**7,858**	**(7,858)**	**—**
Total sales	**239,554**	**115,988**	**355,542**	**22,741**	**378,283**	**(7,858)**	**370,425**
Segment profits	**6,890**	**4,967**	**11,857**	**1,651**	**13,508**	**83**	**13,591**
Segment assets	**221,304**	**140,155**	**361,459**	**30,086**	**391,545**	**(6,615)**	**384,930**
Other items							
Depreciation	**9,190**	**6,416**	**15,606**	**890**	**16,496**	**(5)**	**16,491**
Impairment loss on fixed assets	**82**	**—**	**82**	**1,950**	**2,032**	**—**	**2,032**
Increase in property, plant and equipment and intangible assets	**19,153**	**8,900**	**28,053**	**1,751**	**29,804**	**(19)**	**29,785**
Amortization of goodwill and negative goodwill	**35**	**—**	**35**	**155**	**190**	**—**	**190**

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

	Thousands of U.S. dollars						
	2015						
	Reportable segment						
	Automotive Components	Hydraulic Components	Subtotal	Other	Total	Adjustment	Consolidated
Segment sales:							
Outside customers	**$1,975,717**	**$943,525**	**$2,919,242**	**$167,633**	**$3,086,875**	**$ —**	**$3,086,875**
Intersegment	**20,566**	**23,042**	**43,608**	**21,875**	**65,483**	**(65,483)**	**—**
Total sales	**1,996,283**	**966,567**	**2,962,850**	**189,508**	**3,152,358**	**(65,483)**	**3,086,875**
Segment profits	**57,417**	**41,392**	**98,809**	**13,757**	**112,566**	**692**	**113,258**
Segment assets	**1,844,200**	**1,167,958**	**3,012,158**	**250,717**	**3,262,875**	**(55,125)**	**3,207,750**
Other items							
Depreciation	**76,583**	**53,467**	**130,050**	**7,417**	**137,467**	**(42)**	**137,425**
Impairment loss on fixed assets	**683**	**—**	**683**	**16,250**	**16,933**	**—**	**16,933**
Increase in property, plant and equipment and intangible assets	**159,608**	**74,167**	**233,775**	**14,591**	**248,366**	**(158)**	**248,208**
Amortization of goodwill and negative goodwill	**292**	**—**	**292**	**1,291**	**1,583**	**—**	**1,583**

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

2. Related Information

(a) Information about products and services

The information about products and services for the years ended March 31, 2015 and 2014 was omitted since same information is disclose in "1. Segment information".

(b) Information about geographic region

The information about geographic region as of and for the years ended March 31, 2015 and 2014 was as follows:

	Millions of yen						
	2015						
	Japan	Europe	U.S.A.	China	South East Asia	Other areas	Total
Net sales	**¥178,259**	**¥59,607**	**¥42,480**	**¥25,966**	**¥25,902**	**¥38,211**	**¥370,425**
Property, plant and equipment	**92,673**	**13,364**	**8,714**	**21,260**	**17,021**	**10,878**	**163,910**

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

	Thousands of U.S. dollars						
	2015						
	Japan	Europe	U.S.A.	China	South East Asia	Other areas	Total
Net sales	**$1,485,492**	**$496,725**	**$354,000**	**$216,383**	**$215,850**	**$318,425**	**$3,086,875**
Property, plant and equipment	**772,275**	**111,367**	**72,617**	**177,167**	**141,842**	**90,649**	**1,365,917**

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

(c) Information about major customers

The information about major customers for the years ended March 31, 2015 and 2014 was not disclosed since net sale to any customer was less than 10% of the amount of net sales in consolidated statement of income.

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

The information about impairment loss on fixed assets by reportable segment for the years ended March 31, 2015 and 2014 was omitted since same information is disclosed in the reportable segments.

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

Amortization of goodwill and unamortized balance of goodwill by reportable segments for the years ended March 31, 2015 and 2014 were as follows:

	Millions of yen				
	2015				
	Reportable segment				
	Automotive Components	Hydraulic Components	Subtotal	Other	Total
Goodwill					
Amortization	**¥35**	**¥—**	**¥35**	**¥155**	**¥190**
Unamortized balance	**2**	**—**	**2**	**315**	**317**

	Millions of yen				
	2014				
	Reportable segment				
	Automotive Components	Hydraulic Components	Subtotal	Other	Total
Goodwill					
Amortization	¥ 1	¥—	¥1	¥155	¥156
Unamortized balance	3	—	3	619	622
Negative goodwill					
Amortization	¥ 1	¥—	¥1	¥ —	¥ 1
Unamortized balance	—	—	—	—	—

	Thousands of U.S. dollars				
	2015				
	Reportable segment				
	Automotive Components	Hydraulic Components	Subtotal	Other	Total
Goodwill					
Amortization	**$292**	**$—**	**$292**	**$1,291**	**$1,583**
Unamortized balance	**17**	**—**	**17**	**2,625**	**2,642**

19 Subsequent Event

On June 24, 2015, the shareholders of the Company authorized the following appropriation of retained earnings as of March 31, 2015:

	Millions of yen	Thousands of U.S. dollars
	2015	**2015**
Cash dividends, ¥7.0 (US$0.06) per share	**¥1, 788**	**$14,900**

KPMG

Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Kayaba Industry Co., Ltd. and its consolidated subsidiaries , which comprise the consolidated balance sheets as at March 31, 2015 and 2014, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Kayaba Industry Co., Ltd. and its consolidated subsidiaries as at March 31, 2015 and 2014, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2015 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

July 14, 2015
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.