Our Precision, Your Advantage

ANNUAL REPORT 2017

Year Ended March 31, 2017

Contents

Forward-Looking Statements

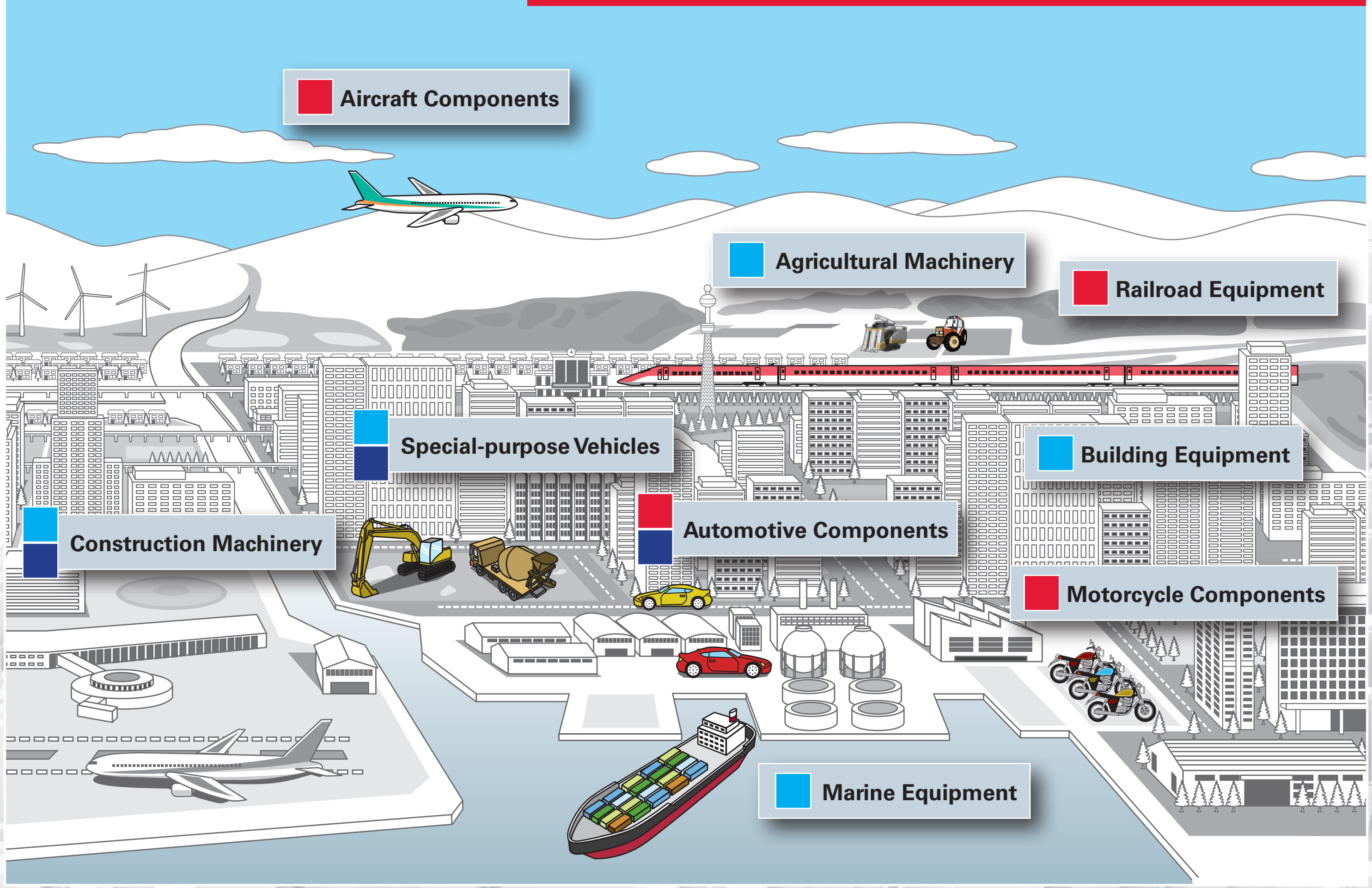
This annual report contains forward-looking statements, including KYB's plans and strategies, as well as statements that report historical results. Forward-looking statements involve such known and unknown risks and uncertainties as economic conditions; currency exchange rates; laws, regulations, and 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 automobiles, motorcycles, construction machinery, railroad cars, aircraft, special-purpose vehicles, seismic isolation systems, vibration control dampers, and marine equipment.

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

KYB in Everyday Living



Vibration Control Technology


Automobiles


Motorcycles


Railroad Equipment

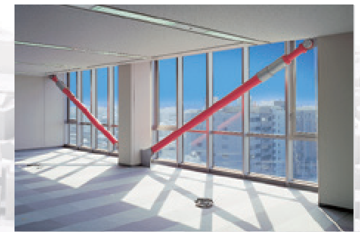

Aircraft Components

Power Control Technology


Construction Machinery

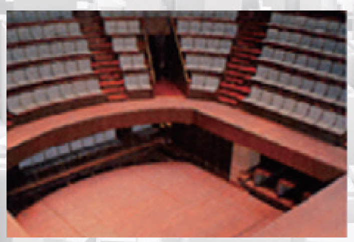

Industrial Vehicles


Special-purpose Vehicles


Vibration Control Dampers


Agricultural Machinery

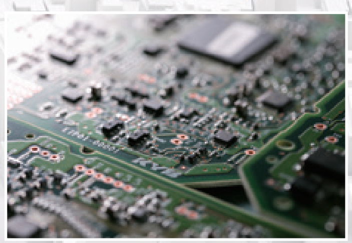

Industrial Machinery


Building and Stage Equipment


Marine Components

Electronic Control Technology


Mobile Communication Device


High-Performance EPS

What is KYB? Global Production and Sales Network

The KYB Group, which has plants and companies in 23 countries and areas around the world, remains dedicated to working as a unified team to quickly meet customers' needs and to providing technologies and products that make people's lives safe and comfortable.

Japan

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


Gifu North Plant


Developmental Experiment Center


Gifu South Plant


KYB Kanayama Co., Ltd.


Gifu East Plant


Kayaba System Machinery Co., Ltd.


Kumagaya Plant


KYB Trondule Co., Ltd.

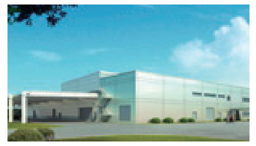

Sagami Plant


KYB-YS Co., Ltd.


Production Technology R&D Center / Machine Tools Center

Asia

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


KYB (China) Investment Co., Ltd.


KYB Motorcycle Suspension India Pvt. Ltd.


KYB Steering (Thailand) Co., Ltd.


PT. KYB Hydraulics Manufacturing Indonesia


KYB-Conmat Private Limited

Americas

1974	Established KYB Corp. of America (presently KYB Americas Corporation) in the United States
2000	Established Arvin-Kayaba Do Brasil LTDA. (presently KYB-Mando do Brasil Fabricante de Autopecas S.A.), a joint venture, in Brazil (50.0% KYB ownership)
2004	Established KYB Latinoamerica S.A de C.V. in Mexico
2012	Established KYB Mexico S.A. de C.V. in Mexico
2013	Established Comercial de Autopeças KYB do Brasil Ltda. in Brazil.


KYB Americas Corporation


KYB Mexico S.A. de C.V.


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


COMERCIAL DE AUTOPEÇAS KYB DO BRASIL LTDA.

Europe

1983	Jointly acquired AP Amortiguadores S.A. (presently KYB Suspensions Europe, S. A. U.) in Spain
1989	Established Kayaba Europe GmbH (presently KYB Europe GmbH) in Germany
1996	Established Kayaba Spain, S.A. (presently KYB Steering Spain, S.A.U.), a joint venture, in Spain
2003	Established KYB Manufacturing Czech s.r.o., a joint venture, in the Czech Republic
2008	Established KYB Advanced Manufacturing Spain, S.A.U., a joint venture, in Spain
2009	Established KYB Europe Headquarters GmbH in Germany
2012	Established KYB Europe Headquarters B.V. in the Netherlands, and LLC KYB Eurasia in Russia
2013	Established KYB CHITA Manufacturing Europe s.r.o., a joint venture, in the Czech Republic (70.0% KYB ownership)
2015	KYB Advanced Manufacturing Spain, S.A.U. became a wholly owned subsidiary.


KYB EUROPE HEADQUARTERS GmbH


KYB CHITA Manufacturing Europe s.r.o.


KYB Manufacturing Czech s.r.o.


LLC KYB Eurasia

Note: KYB ownership is as of March 31, 2017. Companies with no ownership shown are wholly owned subsidiaries.

What is KYB?

At a Glance

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

Segment	Sales Breakdown by Segment	Major Products

Automotive Components (AC) Operations

- **Shock absorbers for automobiles**
  Shock absorbers (OE, aftermarket)
- **Shock absorbers for motorcycles**
  Front folk, Rear cushion units
- **Hydraulic equipment for automobiles**
  Vane pumps, Power steering systems, Vane Pumps for CVT, EPS
- **Others**
  Stay damper

AC Operations
¥231,036 million
65.0%


Shock Absorbers


Steer-by-wire


Vane Pumps for CVT Hydraulic Systems


DLC Coated Front Fork


Rear Cushion Units

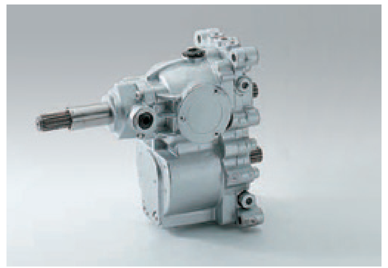

Shock Absorbers for Snowmobiles

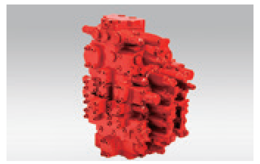
Hydraulic Components (HC) Operations:

- **Hydraulic equipment for industrial use**
  Cylinders, Valves, Pumps, Motors, MMP, HST
- **Others**
  Dampers for railroad cars, Brakes for railroad cars, Seals

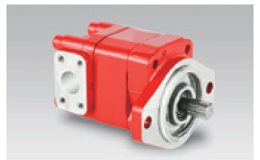
HC Operations
¥96,316 million
27.1%

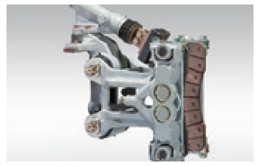

Hydraulic Cylinders


Integrated HST (pump and motor)


Hydraulic Valves

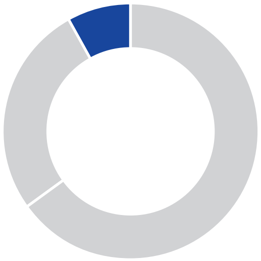

Semi-active Suspension Systems for Bullet Train Cars


Gear Pump


Caliper Brakes

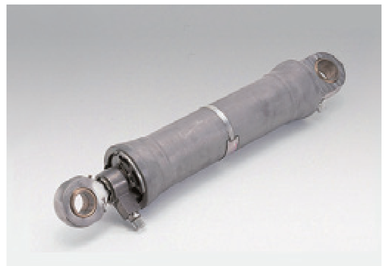
Special-purpose Vehicles, Aircraft Components, System Products and Electronics Components Business

- **Special-purpose vehicles**
  Concrete mixer trucks
- **Hydraulic equipment for aircraft**
  Actuators, Valves, Wheels, Brakes
- **System products and electronic components, etc.**
  Vibration control dampers, Auditorium and stage control systems, ECU, Mobile communication devices



Special-purpose Vehicles, Aircraft Components, System Components and Electronic Components
¥27,964 million
7.9%

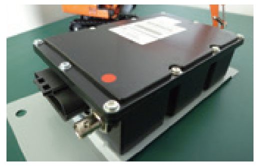

Concrete Mixer Trucks


Actuators


Vibration Control Devices


Movable Floors with Variable Seating


Vibration Control Dampers


Mobile Communication Device

Ten-Years Summary

KYB Corporation and its Consolidated Subsidiaries
Years ended March 31,

	Millions of yen									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
	IFRS	IFRS	IFRS	JGAAP	JGAAP	JGAAP	JGAAP	JGAAP	JGAAP	JGAAP
Net sales	**¥355,316**	¥355,320	¥370,327	¥352,711	¥305,752	¥337,159	¥320,083	¥252,021	¥329,262	¥387,080
Cost and expenses	**336,692**	337,732	354,821	334,541	295,279	315,621	295,931	248,125	329,212	368,809
Operating profit	**19,247**	4,327	14,461	18,170	10,473	21,538	24,152	3,896	50	18,271
Operating profit margin [%]	**5.4**	1.2	3.9	5.2	3.4	6.4	7.5	1.5	0.0	4.7
Profit before tax / Income (loss) before income taxes and minority interests	**18,852**	2,825	14,892	21,032	12,994	21,760	24,440	1,671	(4,300)	15,218
Profit (loss) attributable to owners of the parent / Net income (loss)	**14,544**	(3,161)	8,036	12,761	7,789	13,898	17,014	661	(5,230)	8,398
Comprehensive income	**18,345**	(17,832)	25,203	20,310	16,061	14,997	14,406	—	—	—
Return on equity attributable to owners of the parent / Return on equity (ROE)	**9.3**	—	5.1	9.7	7.3	14.8	21.1	0.9	—	9.9
Cash flows from operating activities	**31,153**	19,958	22,335	28,788	18,984	17,399	35,433	22,655	8,499	19,707
Cash flows from investing activities	**(21,337)**	(20,320)	(30,658)	(36,078)	(36,125)	(20,000)	(7,233)	(12,828)	(26,505)	(20,166)
Cash flows from financing activities	**(969)**	(3,395)	(555)	5,709	8,529	(3,455)	(16,968)	(6,646)	32,200	4,192
R&D expenses	**7,621**	7,760	8,910*	6,917	5,468	4,035	3,218	2,817	3,268	3,367
Depreciation and amortization	**15,922**	17,075	15,191	17,294	14,554	13,508	13,427	15,318	16,552	14,973
Capital expenditures	**20,578**	21,300	30,087	29,908	39,215	27,173	8,916	10,082	24,968	23,564
Working capital	**33,278**	23,511	29,405	39,303	22,179	42,006	46,023	48,701	43,513	29,120
Total equity attributable to owners of the parent	**164,299**	148,278	169,307	—	—	—	—	—	—	—
Total equity / Total net assets	**169,771**	153,381	175,256	153,997	116,435	102,762	89,964	78,489	76,451	91,739
Total assets	**381,326**	359,002	387,877	361,083	327,912	301,349	285,134	269,361	269,655	289,739
Cash and cash equivalents at end of period	**33,988**	25,296	30,510	38,132	35,215	42,010	48,123	37,664	34,272	20,073
Ratio of equity attributable to owners of the parent / Equity ratio [%]	**43.1**	41.3	43.6	41.2	34.5	33.2	30.6	27.3	26.6	29.8

	Yen									
Per share data:										
Basic earnings per share / Net income (loss)	**¥ 56.93**	¥ (12.37)	¥ 31.45	¥ 55.25	¥ 35.24	¥ 62.87	¥ 77.54	¥ 3.03	¥ (23.620)	¥ 37.72
Equity attributable to owners of parent per share / Net worth	**643.15**	580.40	662.67	582.28	512.18	453.00	395.18	336.55	327.97	387.45
Cash dividends applicable to the year	**12.00**	11.00	12.00	9.00	8.00	9.00	8.00	2.50	3.50	7.00
P/E ratio [Times]	**10.2**	—	14.0	7.9	13.1	8.0	8.6	113.9	—	10.2
Number of employees	**14,350**	13,796	13,732	13,033	12,306	11,975	11,440	10,977	11,370	11,546

*JGAAP

Striving to Create New Value

A Look Back at the Management Environment in Fiscal 2016

Market Recovery in China Contributes to Performance

Fiscal 2016, ended March 31, 2017, the final fiscal year of our medium-term business plan, saw several major factors impact the world economy. The UK has chosen to withdraw from the EU, triggering problems regarding how the country will secede. In the US, there are political concerns regarding the shift towards protectionism. And the Middle East is facing instability in its governments. Yet even with these challenges, the global market has become relatively strong. On the other hand, the Japanese economy has seen an improvement in corporate earnings and the employment situation. We have also seen signs of an upswing in consumer spending and capital investment as the business environment moves towards a slight recovery.

In KYB's major business domain of the automobile market, domestic demand remained flat, while conditions were favorable in Europe, and we saw increasing demand in China. In the construction machinery market, domestic demand increased in response to exhaust gas regulations, and there was a recovery in demand in the China market.

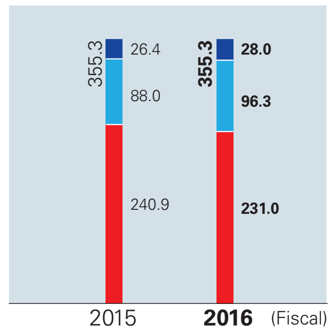
Amidst this environment, the KYB Group is working to strengthen its revenue base, construct a system that can respond to changes in the environment by improving information accuracy, and restore customer trust through fair, transparent, sincere business activities. As we strive to close the gap between where we are and our ideal company, we are working on the following activities as we launch into our next medium-term business plan.

- AC (Automotive Components) Operations
  Develop value-added products and innovative monozukuri (manufacturing expertise), expand profits with sales promotions for aftermarket products
- HC (Hydraulic Components) Operations
  Carry out reforms aimed at a business structure that can respond to instability in demand, increase the ratio of products other than excavators
- Special-purpose Vehicles
  Domestic: Capture demand related to Olympics and urban redevelopment
  Overseas: Establish production system in India while strengthening cooperation with mother plants in Japan.
- Aircraft Components
  Resolve issues at hand, such as production streamlining
- Vibration control equipment
  Respond to the urgent problem of the need for long period earthquake precautions, develop a seismic isolation oil damper with a lock system that is effective for large buildings

Next, let's look at the KYB Group's performance in fiscal 2016. The recovery in the China excavator market and the structural reforms carried out in fiscal 2015 drove net sales to ¥335.3 billion, with segment profit at ¥18.6 billion, operating profit at ¥19.2 billion, and profit attributable to owners of the parent at ¥14.5 billion. These results greatly exceed our forecast at the start of the fiscal year.

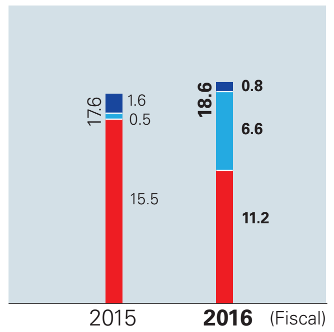
There is a large divide between our results and the numerical targets we set forth three years ago. However, even with the impact of a slump in the China excavator market, we still exceeded the goals set forth at the start of the fiscal year: net sales of ¥342.0 billion and operating profit of ¥13.0 billion.

Net Sales by Business Segment
(Billions of yen)



AC Operations | HC Operations
Special-purpose Vehicles, Aircraft Components, System Products and Electronics Components

Segment Profits by Business Segmentt
(Billions of yen)



AC Operations | HC Operations
Special-purpose Vehicles, Aircraft Components, System Products and Electronics Components

Review of the 2014 Medium-term Business Plan

Concerns over the Balance of Supply and Demand

Under the 2011 medium-term business plan, we strengthened the business foundation by investing in new plants and increasing our production capacity. With this foundation, we carried out the 2014 medium-term business plan (2014 mid-term plan) over the three years from fiscal 2014 to fiscal 2016. This plan focused on our ideal goal for 2020: becoming "a trustworthy company that supplies products to all of the world's major manufacturers of automobiles and construction machinery." We worked proactively to secure orders in an effort to return the Group to a growth track.

However, our initial mid-term plan targets for net sales and operating income were not achieved, and we have many things to learn from and reconsider over those three years. In particular, we faced a problem where the balance of supply and demand was upset because the slowdown in the China market was worse than initially forecast, while emerging markets faced an economic slump. With a high percentage of HC Operations' business related to excavators, we were unable to efficiently use the plants and production facilities that we had invested in globally. Also, in AC Operations, the management level overseas was not able to match the expansion of the business scale, and quality and productivity suffered. Lack of overseas earnings as well as an extraordinary loss related to the fine for a violation of the US Antitrust Law greatly impacted our performance.

The second half of the 2014 mid-term plan saw a shift towards recovery, with the impact of the fiscal

2015 consolidation of HC Operations subsidiaries in China and Nagano and the bottoming out of the construction market in China.

2017 Mid-term Plan

Aiming for Group Net Sales of ¥500.0 Billion from 2020 Onward

The KYB Group has 80 years of experience with hydraulics as its core technology. We will continue to grow globally as a comprehensive hydraulic equipment manufacturer that brings together vibration control, power control, and systems technologies. The Group will work together to provide people around the world with peace of mind, safety, and comfort, and be a trusted brand that contributes to creating an abundant society.

The new mid-term plan starting in fiscal 2017 is our third and final mid-term plan since we envisioned our ideal for 2020 in 2010.

In the management environment surrounding the KYB Group, there are growing hopes for infrastructure improvements in China and emerging countries. However, there is increasing uncertainty in the world economy, in particular related to the trends in the US. In technology, we expect accelerating innovation in such areas as IoT, AI, robotics and autonomous driving, and a rise in cooperation between different types of businesses and new competitors. Furthermore, laws and regulations will tighten in response to increasing Environmental, Social and Governance (ESG) criteria, and as a corporation we must make sincere efforts to comply.

While being aware of the points for improvement during the previous mid-term plan, we must focus on the key source for any manufacturer: the workplace. We will provide guidance to resolve management issues at hand, such as production, sales and technology working together to improve quality, increasing productivity, and responding to customers. At the same time, we will stabilize the revenue base, leading to a stronger KYB brand.

Regarding monozukuri, technology, and products, we will create new value for KYB through encouraging innovation, move toward the next stage of becoming the industry leader, improving corporate value and achieving continuous growth.

Our targets for fiscal 2019, the final year of the plan, are net sales of ¥398.0 billion, segment profit of ¥26.0 billion, segment profit ratio of 6.5%, and return on equity (ROE)* of 10%, while placing emphasis on segment (by business division) management.

Our previous goal for fiscal 2020 was group net sales of ¥600.0 billion. However, with the changes in the business environment, we have revised this target. We will use the three years of the 2017 mid-term plan to lay down a steady foundation, aim for group net sales of ¥500.0 billion from 2020 onward, and achieve a corporate ranking of A.

*ROE: Profit attributable to owners of the parent ÷ Equity

2017 New Mid-term Plan Policies

Our initiatives by division are as listed below:

AC Operations

We will form a three-division system comprising the Suspension Headquarters, Steering Headquarters, and Motorcycle Headquarters, clarify the person in charge and profit contributions for each product line, improve the management level, and speed up decision making and strategy execution.

Under this new system, we will reorganize plants, increase capacities, and develop and conduct sales promotions for the added-value electronics products that will support the future of the Company. These activities will be based on customer needs, business strategies, and compliance with their research and development road maps.

Specific initiatives are as follows:

- Shock Absorbers: Maintain our sales and profit expansion policy.
  - Increase trust in the KYB brand by strengthening relations with customers (OEM and aftermarket products).
  - Reduce costs for existing products and pursue manufacturing efficiency by introducing innovative production lines.
- Motorcycles: Convert to a business structure that can generate profits.
  - Make the necessary adjustments on redundant capacity.
  - Improve profitability through innovative development and manufacturing.
- Motorsports: Increase technological strength and brand recognition through the newly established Motorsports Dept.
  - Consolidate various activities for automotive suspension, automotive steering, and motorcycle suspension in international races.
  - Aim to participate in world top category races.
- Systems products: Advance technological development with a focus on autonomous driving.
  - Strengthen development of high-value-added products for suspension, pumps, and steering based on systems technology.

HC Operations

In order to ensure stable net sales and profits that are not impacted by changes in the market, we plan to build a revenue base that is not dependent on quantity and to increase competitive power. Also, we will strengthen a system for the sales and development of hydraulic products for industries other than construction machinery, such as for agricultural machinery and railways. We plan to progress further with localization particularly in China, where government leadership is accelerating the development of railway systems.

Specific initiatives are as follows:

- Excavators for construction machinery: Establish the optimum production system and establish a business constitution that earns profits.
  - Create an integrated control valve production line (one that consolidates the casting process with the machining, assembly, and coating processes).
- Agricultural machinery: sales promotions by assertively entering the agriculture field
  - Product strategies and development that match the needs of the region.
  - Commence overseas production of hydrostatic transmissions (HSTs), which incorporate both pumps and motors.
- For railways: Sales promotions by strengthening overseas markets and releasing new products, establish revenue base.
  - Offer high-value-added products and systems suitable for high grade trains, limited express trains, and next-model bullet trains (Domestic).

• Progress even further with localization, make efforts in the maintenance business (China and elsewhere).

Special-purpose Vehicles Div., Aircraft Components Div., System Products and Electronics Components
In Special-purpose Vehicles, we will maintain sales and market share by making sure to capture domestic demand related to the Tokyo Olympics/Paralympics and urban redevelopment. Also, production system establishment is progressing in India, where infrastructure investment is strong and the sales ratio is high.

In Aircraft Components, we will ride the worldwide trend toward increasing aircraft production. We are aiming for the Aircraft Components Div. to generate sales of ¥10.0 billion independently by fiscal 2020. We are planning for the Aircraft Components Div. to develop over a very long-term span, using the knowledge of aircraft technology that is part of KYB's heritage to respond to a wide range of needs.

Specific initiatives are as follows:

■ Special-purpose Vehicles Div.: Maintain and expand sales and market share.
- Make sure to capture domestic demand related to the Tokyo Olympics/Paralympics and urban redevelopment.
- Increase production capacity at India plant, make efforts that take into consideration an earnings structure with a reduced variable cost ratio.

■ Aircraft Components Div.: Achieve sales of ¥10.0 billion independently (by fiscal 2020)
- Promote cost reduction activity
- Expand private sector business, continue activities to become a Tier 1 system supplier

- Our initiatives outside of business activities are as follows:

Human Resources
We are training human resources that can act from a global mindset and point of view through the overseas trainee dispatch system and increasing the work experience of young employees, thus improving the competitive power of our monozukuri and technology/product development. Furthermore, we are increasing the sphere of activity for female employees to create a work environment where diverse human resources can put in their best efforts, and ensuring human resources as Japan moves towards an aging population and declining birth rate.

Technology and Product Development
We will offer customers up-to-date technology and products through development based on a long-term strategy, leading to further orders. Also, we will focus on efficiently developing products based on our core technology for everything from basic technology to product development, while also developing systems products that combine those products and technologies.

Monozukuri
We are proactively promoting automation using our own highly developed production technology, manufacturing methods and equipment together with IoT and AI. We are working to construct an innovative production line that will reduce lead-time and space by half and double productivity. In order to recover quickly with minimal investment, we will respond to demand for cost reductions from European and other manufacturers while making possible a system that can ensure profits by making production lines more compact.

Management
In order to further increase the effectiveness of our internal controls system, we are working to comply with global regulations, make the best use of our internal reporting system, and strengthen our compliance with corporate governance and codes. Further, we have established a new CSR Division under the direct control of the President to respond to stricter ESG evaluations. In addition to strengthening our corporate governance and internal controls functions by unifying them, we plan to improve business continuity by putting in place a BCP (business continuity plan) as well as BCM (business continuity management). In addition, we are making proactive efforts for social support/contribution activities (outside of business activities), and making contributions to the sound development of society.

Fiscal 2017 is the first year of the 2017 mid-term plan. During this year, we will construct a management base and revenue base with a system that is flexible towards sudden environmental changes. In particular, we will move more quickly to carry out drastic structural reforms, including strengthening the Head Office organization and business division structure, concentrating resources on investing in new product development, and reorganizing and consolidating plants.
Regarding our projected net sales in fiscal 2017, we forecast sales volume to increase in both AC and HC Operations. However, with the currency exchange rate set for a higher yen, we forecast a decline in sales performance compared to the previous fiscal year. Segment profits are also expected to decline, impacted by a rise in the cost of steel material and a change in product composition, in addition to the effect of the exchange rate.

To our Shareholders and Investors

Maximizing Shareholder Value through Growth Strategy and Appropriate Distribution of Earnings

The KYB Group is aiming to grow further on a global scale as we move toward our 100th year of operations in 2035. By strengthening our core hydraulics technology and bringing together vibration control, power control, and systems technologies, we will continue to evolve as a comprehensive hydraulic equipment manufacturer.

The KYB Group will work to provide people around the world with peace of mind, safety, and comfort. We will strive to be a trusted brand widely known on a global scale while continuing to contribute toward creating an abundant society.

Dividend Policy
KYB positions the appropriate distribution of earnings to shareholders as an important management policy. In fiscal 2016, the annual dividend per share was¥12, consisting of an interim dividend of¥5 and a year-end dividend of¥7. Starting in fiscal 2017, we will launch a new policy of aiming for a consolidated dividend payout ratio of 30%, and at least 2% (annual rate) of shareholders' equity on a consolidated basis.

Also, effective as of October 1, 2017, we plan to execute a reverse stock split at 1 share per 10 shares of common stock. The purpose is to change the share unit number of common stock to one hundred shares, maintain the price level per trading unit, and avoid changing the number of shareholder voting rights. For the annual dividend forecast, we plan to distribute an interim dividend of¥6 and a year-end dividend of¥65.

The profits generated from our structural reforms shall be reinvested primarily in new product development, new plant establishment and M&As. In addition, they shall be properly balanced between returns to shareholders and solidifying our financial base as we seek to maximize shareholder value.

In closing, I'd like to offer my gratitude to KYB's shareholders and investors, and humbly ask for your continued support.

July 2017

Y. nakajima

Yasusuke Nakajima
Representative Director, President Executive Officer

Corporate Governance

Basic Policy for Corporate Governance

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

Management Principles

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

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

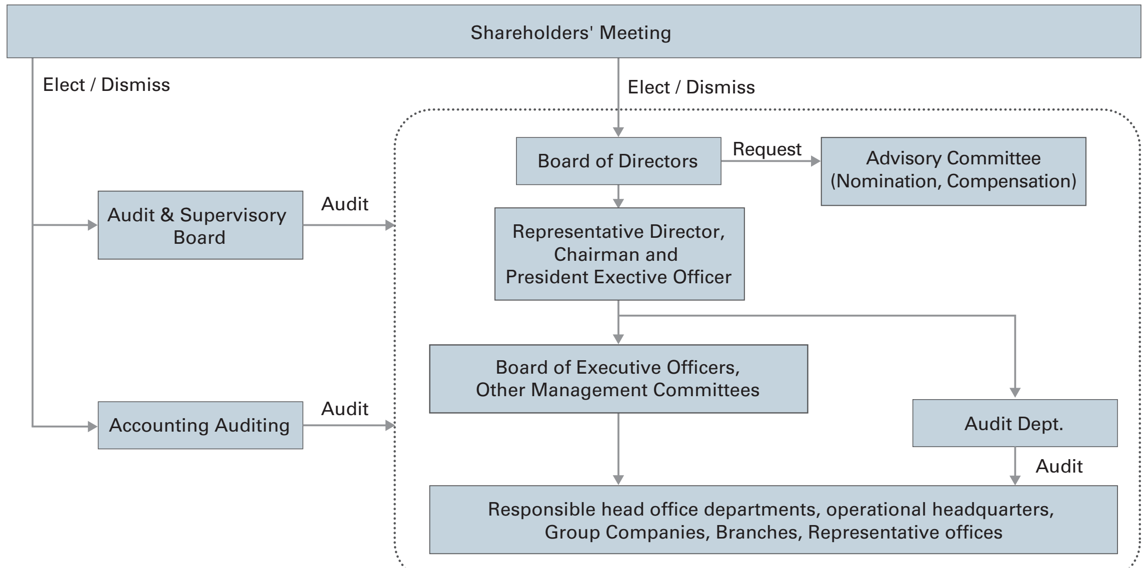
Basic Policies

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

Outline of Corporate Governance Systems Structure

Structure based on Companies Act	Company with Audit & Supervisory Board
Board chairperson	Chairman of the Board of Directors
Number of directors	8 (including 2 outside directors)
Number of Audit & Supervisory Board Members	4 (including 2 outside audit & supervisory board members)
Number of independent directors/ audit & supervisory board members	2 outside directors and 1 outside audit & supervisory board member
Independent auditor	KMPG AZSA LLC

Corporate Governance Structure



Selection of Outside Directors and Audit & Supervisory Board Members

KYB has two outside directors and two outside audit & supervisory board members and selects in accordance with the requirements of the Companies Act. Standards for independence prescribed by securities exchanges and other organizations are used for the selection of independent directors and audit & supervisory board members.

Reasons for Selections of Outside Directors

Rokuro Tsuruta (Independent Director) Representative of Rokuro Tsuruta Law Office	Mr. Tsuruta is an outside director because KYB believes he can continue to use his knowledge and experience as an attorney to provide valuable opinions and recommendations for strengthening internal controls and compliance and about other subjects.
Shuhei Shiozawa (Independent Director) Professor of Economics, Keio University	Mr. Shiozawa is an outside director because KYB believes he can continue to use his extensive knowledge and insight concerning economics to provide valuable opinions and recommendations concerning KYB's finances and CSR activities.

Reasons for Selections of Outside Audit & Supervisory Board Members

Michio Tani	Mr. Tani is an outside audit & supervisory board member because KYB believes he can use his considerable expertise involving finance and accounting based on the knowledge and experience acquired during his financial institution career to provide valuable opinions and recommendations.
Osamu Kawase (Independent Audit & Supervisory Board Member)	Mr. Kawase is an independent audit & supervisory board member because KYB believes he can use his knowledge and experience acquired during a career in the non-life insurance industry to provide valuable opinions and recommendations primarily from the standpoint of audits of business operations.

Compensation

1. Compensation for directors and audit & supervisory board members and the number of applicable individuals

Category	Total compensation (Millions of yen)	Compensation by category (Millions of yen)				Number of applicable individuals
		Basic compensation	Stock options	Bonuses	Retirement payments	
Directors (excludes outside directors)	256	206	—	51	—	6
Audit & Supervisory Board Members (excludes outside members)	43	43	—	—	—	2
Outside officers	58	58	—	—	—	4

2. Compensation paid to the independent auditor

Category	Millions of yen			
	FY2015		**FY2016**	
	Compensation for audit certification	Compensation for non-auditing services	Compensation for audit certification	Compensation for non-auditing services
KYB Corporation	85	15	**73**	**5**
Consolidated subsidiaries	25	—	**31**	**—**
Total	110	15	**105**	**5**

3. Significant Compensation

Five consolidated subsidiaries, including KYB Americas Corporation, have paid ¥122 million to KPMG International, which belongs to the same network as the independent auditor used by KYB, for audit certification and other services for fiscal 2016.

Investor Relations Activities

The IR Section of the Finance Division discloses information as required by laws and regulations and discloses other information that is important or useful for shareholders and other investors.

The IR Section conducted the following activities during the fiscal year ended March 31, 2017.

Major Activities of FY2016

Activities for securities analysts and institutional investors	• Information meetings: 2 (End of first half and fiscal year) • Small meeting: 1 • Conferences: 2 • Overseas IR events: 3
Activity for individual investors	• Company information meetings: 4 • Plant tour: 1
IR website	• https://www.kyb.co.jp/ir/index.html • Information meeting materials, flash reports, securities reports, annual reports and other documents

Management (As of June 23, 2017)

Representative Director, President Executive Officer

Yasusuke Nakajima

Representative Director, Executive Vice President Executive Officer

Takaaki Kato

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

Morio Komiya

Members of the Board of Directors, Senior Managing Executive Officers

Keisuke Saito

Takafumi Shoji

Masao Ono

Member of the Board of Directors (Outside)

Rokuro Tsuruta

Shuhei Shiozawa

Senior Managing Executive Officers

Keiichi Handa

Managing Executive Officers

Kazuhiro Ogata
Eiji Hisada
Kenji Yamanouchi
Hiroshi Ogawa
Hideki Nonoyama
Shizuka Sakai
Osamu Kunihara
Toshihiko Hatakeyama

Executive Officers

Hitoshi Nitta
Ikuo Inagaki
Masaru Tsuboi
Tomoyuki Nagata
Masayoshi Sakemi
Shigeru Ooshita
Koji Yamamoto
Hiroshi Kurotaki
Takashi Kondo
kimiro sudo
Masahiro Kawase

Audit & Supervisory Board Members

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 2017.

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 53.5% 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.

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 decline in demand for these products during the global economic downturn caused by the financial crisis may have a significant impact on results of operations. The KYB Group sells most of its special-purpose vehicles, aircraft components, system products and electronic components in Japan. Especially 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.

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 KYB Group is unable to fully reflect an increase in the cost of materials or parts in its selling prices, or if it is not possible 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 KYB Group takes out these loans while carefully monitoring financial markets. However, procuring funds in a timely manner at favorable terms may not be possible if there is broad decline in prices of the KYB Group's products, an economic recession, a credit crunch, a decline in the KYB Group's credit rating, or for other reasons. Any of these events may affect the KYB Group's financial condition and results of operations.

5) Worsening Overseas Business Conditions

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

6) Counterparty Credit Risk

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

Risks Relating to Significant Litigation or Other Legal Action

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

Risks Relating to Fires, Accidents and Natural Disasters

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

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

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

Consolidated Subsidiaries and Equity-Method Affiliates

As of March 31, 2017

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, hydraulic equipment, and casting and metal mold products	Apr. 1953	100.0%
KYB Kanayama Co., Ltd.	Gifu, Japan	Manufacturing of shock absorbers and hydraulic equipment	Jul. 1970	100.0%
KYB Motorcycle Suspension Co., Ltd.	Gifu, Japan	Manufacturing and sales of shock absorbers for motorcycles	Oct. 2013	66.6%
Takako Industries, Inc.	Kyoto, Japan	Manufacturing and sales of hydraulic pump components and electronic machine parts	Apr. 1973	100.0%
KYB Engineering and Service Co., Ltd.	Tokyo, Japan	Sales of shock absorbers and hydraulic equipment	Mar. 1956	100.0%
KYB Logistics Co., Ltd.	Gifu, Japan	Packaging and delivery of shock absorbers and hydraulic equipment	Jul. 1987	100.0%

The Americas

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

Europe

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

Asia

Name	Location	Principal business	Established	Ownership
KYB (China) Investment Co., Ltd.	Jiangsu, China	Headquarter of KYB's China base	Nov. 2010	100.0%
Wuxi KYB Top Absorber Co., Ltd.	Jiangsu, China	Manufacturing and sales of shock absorbers for motorcycles	Aug. 2008	100.0%
KYB Industrial Machinery (Zhenjiang) Ltd.	Jiangsu, China	Manufacturing and sales of shock absorbers for automobiles, and hydraulic equipment for industrial use	Dec. 2002	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%
Changzhou KYB Leadrun Vibration Reduction Technology Co., Ltd.	Jiangsu, China	Manufacturing, sales, repair, and after services of railroad equipment	Aug. 2008	49.0%
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, 2017

Company Name: KYB Corporation

Head Office: World Trade Center Bldg., 4-1, Hamamatsu-cho 2-chome, Minato-ku, Tokyo 105-6111, Japan
Tel: 81-3-3435-3511 Fax: 81-3-3436-6759

URL: http://www.kyb.co.jp

Date of Establishment: March 10, 1935

Fiscal Year: April 1 to March 31

Paid-in Capital: ¥27,647.6 million

Number of Employees: 14,350 (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, 2017

Common Stock Issued: 257,484,315 shares

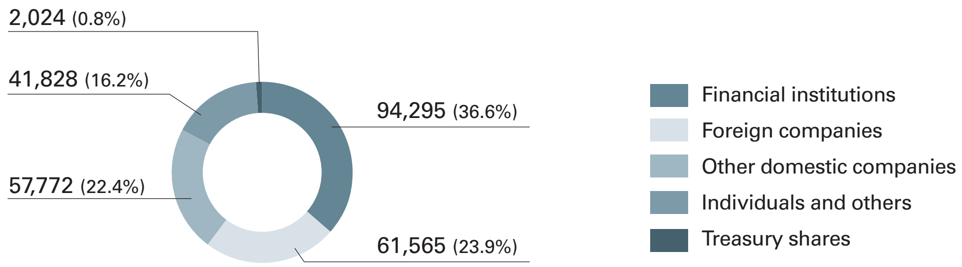
Number of Shareholders: 11,847

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)	14,186	5.51
Japan Trustee Services Bank, Ltd. (Trust Account)	13,700	5.32
Meiji Yasuda Life Insurance Company	10,046	3.90
Hitachi Construction Machinery Co., Ltd.	8,920	3.46
KYB suppliers' stock ownership	7,219	2.80
Trust & Custody Services Bank, Ltd. as trustee for Mizuho Bank, Ltd. Retirement Benefit Trust Account re-entrusted by Mizuho Trust and Banking Co., Ltd.	6,115	2.37
Ogaki Kyoritsu Bank, Ltd.	5,914	2.30
Mizuho Bank, Ltd.	4,905	1.91
THE BANK OF NEW YORK MELLON 140044 (Standing Proxy: Settlement & Clearing Services Division, Mizuho Bank, Ltd.)	4,120	1.60
Total	94,780	36.81

Composition of Shareholders:
(Thousands)



Monthly Stock Price Range:
(Tokyo Stock Exchange)

	FY2011	FY2012	FY2013	FY2014	FY2015
High (¥)	508	675	523	471	646
Low (¥)	245	402	380	263	298
At year-end (¥)	460	436	440	333	580

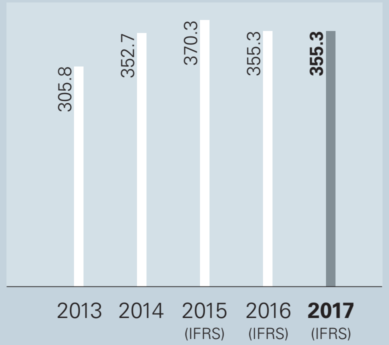
Financial Section

Contents

Financial Highlights

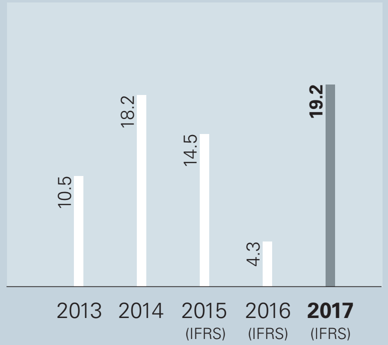
Net Sales

(Billions of yen)



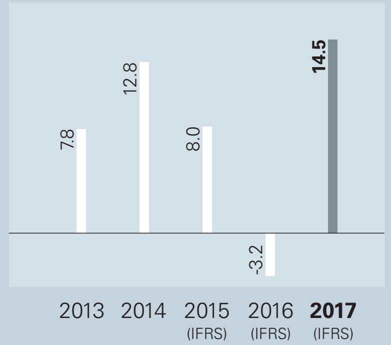
Operating Profit

(Billions of yen)



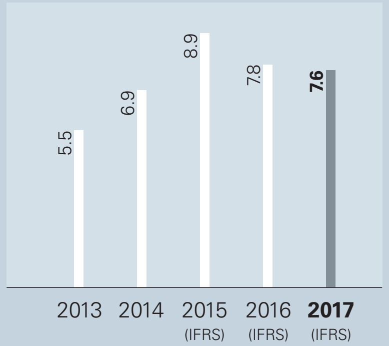
Profit (Loss) Attributable to Owners of the Parent / Net Income

(Billions of yen)



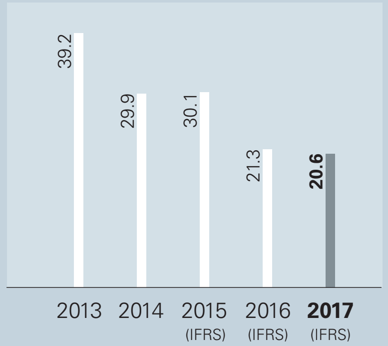
R&D Expenses

(Billions of yen)



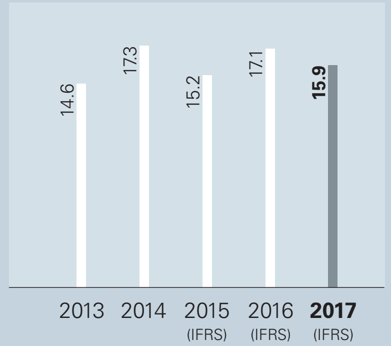
Capital Expenditure

(Billions of yen)



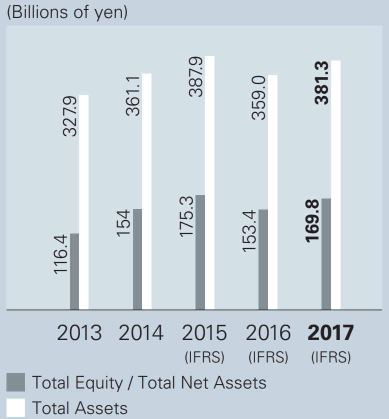
Depreciation and Amortization

(Billions of yen)



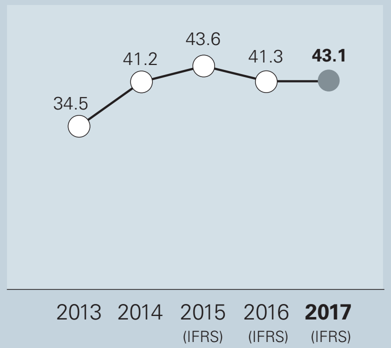
Total Equity and Total Assets / Total Assets

(Billions of yen)



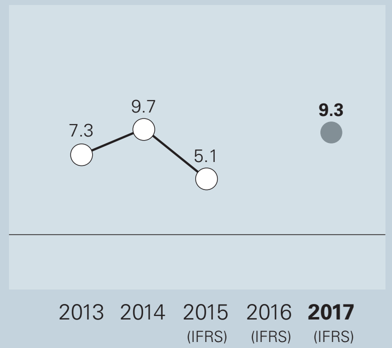
Ratio of Equity Attributable to Owners of the Parent / Equity Ratio

(%)



Return on equity attributable to owners of the parent / Return on Equity (ROE)

(%)



Financial Review

Summary

In the automotive components segment, sales of shock absorbers for automobiles decreased 7.1% to ¥151.0 billion. Although sales were firm in Japan and overseas, monetary sales were reduced by the yen's strength. Sales of motorcycle shock absorbers increased 8.1% to ¥28.5 billion because of strong sales in the core markets of China, Vietnam and India. Sales of hydraulic equipment for automobiles, which is used mainly for power steering, increased 0.5% to ¥46.5 billion. Sales of power steering hydraulic pumps decreased but there was an increase in sales of vane pumps for electric power steering and for continuous variable transmissions. Sales of other products, mainly ATV (all-terrain vehicle) equipment, were ¥5.1 billion. As a result, sales in the automotive components segment totaled ¥231.0 billion, segment profit was ¥11.1 billion and the segment profit margin was 4.8%.

In the hydraulic components segment, sales of industrial hydraulic components, which are used mainly in construction machinery, increased 11.1% to ¥88.6 billion. In Japan, demand was higher because of new restrictions on exhaust emissions. In addition, there was a recovery in sales of hydraulic components in China. Sales of other components, mainly railway semi-active systems and shock absorbers, were down 6.6% to ¥7.7 billion. As a result, hydraulic components segment sales were ¥96.3 billion, segment profit was ¥6.6 billion and the segment profit margin was 6.8%.

In the other segment, the primary activities are special-purpose vehicles, aircraft components, system products and electronic components. Sales of special-purpose vehicles, mainly concrete mixer trucks, decreased 6.1% to ¥8.5 billion due to a slowdown in demand associated with the 2011 earthquake and tsunami in Japan. Sales of hydraulic equipment for aircraft increased 10.4% to ¥7.7 billion. Sales of system products and electronic components increased 13.6% to ¥11.7 billion. As a result, segment sales were ¥28.0 billion, segment profit was ¥834 million and the segment profit margin was 3.0%.

As a result, consolidated net sales were ¥355.3 billion, almost same as in the previous year.

Earnings benefited from business structural reforms that consisted mainly of cost-cutting initiatives at all KYB Group companies. As a result, operating profit was ¥19.2 billion, income before income taxes was ¥18.9 billion and profit attributable to owners of parent was ¥14.5 billion.

Financial Condition

Total assets increased ¥22.3 billion to ¥381.3 billion. This was mainly due to an increase in cash and cash equivalents, trade and other receivables, and other financial assets.

Total liabilities increased ¥5.9 billion to ¥211.6 billion mainly because of an increase in trade and other *payables*.

Total equity increased ¥16.4 billion to¥169.8 billion mainly because of an increase in retained earnings.

The ratio of equity attributable to owners of the parent increased 1.8 percentage point from one year earlier to 43.1% at the end of March 2017 due to an increase in net assets.

Cash Flows

Net cash flows from operating and investing activities was ¥9.8 billion and net cash used in financing activities was ¥1.0 billion. After a deduction of ¥0.2 billion for changes in foreign exchange rates, there was an increase of ¥8.7 billion in cash and cash equivalents to ¥34.0 billion.

Net cash from operating activities increased 56.1% to ¥31.2 billion. The main reasons for this increase were profit before tax of ¥18.9 billion and depreciation and amortization of ¥15.9 billion. Net cash used in investing activities increased 5.0% to ¥21.3 billion. This was mainly due to payments of ¥19.7 billion for purchases of property, plant and equipment.

Net cash used in financing activities was ¥1.0 billion. There were payments of ¥17.9 billion for the repayment of long-term borrowings and ¥2.8 billion for dividends. Major sources of cash inflow were proceeds of ¥15.3 billion from long-term borrowing and a net increase of ¥5.2 billion in short-term borrowings.

Financial Statements

Consolidated Statements of Financial Position

KYB Corporation and its Consolidated Subsidiaries
March 31, 2016 and 2017

	Note	Millions of yen 2016	2017
ASSETS			
Current assets:			
Cash and cash equivalents	7, 18	¥ 25,296	**¥ 33,988**
Trade and other receivables	8, 15, 18	87,999	**92,653**
Inventories	9	48,291	**49,640**
Other current financial assets	18	954	**1,039**
Other current assets		3,793	**3,641**
Total current assets		166,333	**180,962**
Non-current assets:			
Property, plant and equipment	10, 15	158,609	**158,990**
Goodwill	11	318	**283**
Intangible assets	11	4,424	**5,850**
Investments accounted for using the equity method	31	3,833	**5,438**
Other non-current financial assets	18	18,999	**23,169**
Other non-current assets		622	**500**
Deferred tax assets	24	5,865	**6,132**
Total non-current assets		192,669	**200,364**
Total assets		¥359,002	**¥381,326**
LIABILITIES			
Current liabilities:			
Trade and other payables	14, 18	¥ 66,211	**¥ 72,137**
Borrowings	15, 18	50,492	**50,983**
Income tax payables		1,413	**1,536**
Other current financial liabilities	18	18,416	**18,274**
Provisions	16	5,313	**3,754**
Other current liabilities		978	**1,001**
Total current liabilities		142,822	**147,684**
Non-current liabilities:			
Borrowings	15, 18	38,348	**39,962**
Liability for retirement benefits	17	13,893	**11,589**
Other non-current financial liabilities	18	2,592	**2,405**
Provisions	16	1,994	**2,127**
Other non-current liabilities		777	**56**
Deferred tax liabilities	24	5,194	**7,732**
Total non-current liabilities		62,799	**63,871**
Total liabilities		¥205,621	**¥211,555**
EQUITY			
Equity attributable to owners of the parent:			
Share capital	19	¥ 27,648	**¥ 27,648**
Capital surplus	19	29,414	**29,414**
Retained earnings	19	86,393	**100,995**
Treasury shares	19	(579)	**(587)**
Other components of equity	19	5,402	**6,829**
Total equity attributable to owners of the parent		148,278	**164,299**
Non-controlling interests		5,103	**5,472**
Total equity		153,381	**169,771**
Total liabilities and equity		¥359,002	**¥381,326**

Consolidated Statements of Income

KYB Corporation and its Consolidated Subsidiaries
Years ended March 31, 2016 and 2017

	Note	Millions of yen 2016	2017
Net sales	23	¥355,320	**¥355,316**
Cost of sales	21	283,247	**282,886**
Gross profit		72,073	**72,430**
Selling, general and administrative expenses	21	54,485	**53,806**
Equity in earnings (losses) of affiliates	31	(1,292)	**1,016**
Other income	23	2,671	**2,036**
Other expenses	13, 23	14,640	**2,430**
Operating profit		4,327	**19,247**
Finance income	22	561	**593**
Finance costs	22	2,062	**988**
Profit before taxes		2,825	**18,852**
Income tax expenses	24	5,447	**3,774**
Profit (loss) for the year		¥ (2,622)	**¥ 15,078**
Profit attributable to:			
Owners of the parent		¥ (3,161)	**¥ 14,544**
Non-controlling interests		539	**533**
Profit (loss) for the year		¥ (2,622)	**¥ 15,078**

	Note	Yen 2016	2017
Earnings per share			
Basic earnings per share	26	¥ (12.37)	**¥ 56.93**

Consolidated Statements of Comprehensive Income

KYB Corporation and its Consolidated Subsidiaries
Years ended March 31, 2016 and 2017

	Note	Millions of yen 2016	2017
Profit (loss) for the year		¥ (2,622)	**¥15,078**
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Net change in financial assets measured at fair value through other comprehensive income	25	(2,415)	**3,342**
Remeasurements of defined benefit plans	25	(6,660)	**1,705**
Share of other comprehensive income of investments accounted for using the equity method	25	(465)	**17**
Total		(9,540)	**5,064**
Items that may be reclassified to profit or loss:			
Exchange differences on translation of foreign operations	25	(5,729)	**(1,509)**
Effective portion of the change in the fair value of cash flow hedges	25	58	**(85)**
Share of other comprehensive income of investments accounted for using the equity method	25	—	**(203)**
Total		(5,670)	**(1,797)**
Total other comprehensive income		(15,210)	**3,267**
Comprehensive income for the year		¥(17,832)	**¥18,345**
Comprehensive income for the year attributable to:			
Owners of the parent		¥(17,828)	**¥17,708**
Non-controlling interests		(4)	**636**
Comprehensive income for the year		¥(17,832)	**¥18,345**

Financial Statements

Consolidated Statements of Changes in Equity

KYB Corporation and its Consolidated Subsidiaries
Years ended March 31, 2016 and 2017

		Millions of yen											
						Other components of equity							
	Note	Share capital	Capital surplus	Retained earnings	Treasury shares	Net change in financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plans	Exchange differences on translation of foreign operations	Effective portion of the change in the fair value of cash flow hedges	Total other components of equity	Comprehensive income for the year attributable to owners of the parent	Non-controlling interests	Total equity
Balance at April 1, 2015		¥27,648	¥29,544	¥ 97,931	¥(573)	¥8,697	¥ —	¥ 5,963	¥ 97	¥14,757	¥169,307	¥5,949	¥175,256
Comprehensive income for the year:													
Loss for the year		—	—	(3,161)	—	—	—	—	—	—	(3,161)	539	(2,622)
Other comprehensive income	25	—	—	—	—	(2,415)	(6,627)	(5,688)	63	(14,667)	(14,667)	(543)	(15,210)
Total comprehensive income for the year		—	—	(3,161)	—	(2,415)	(6,627)	(5,688)	63	(14,667)	(17,828)	(4)	(17,832)
Transactions with owners:													
Contributions by and distributions to owners in their capacity as owners:													
Acquisition of treasury shares		—	—	—	(6)	—	—	—	—	—	(6)	—	(6)
Disposal of treasury shares		—	0	—	0	—	—	—	—	—	0	—	0
Dividends of surplus	20	—	—	(3,066)	—	—	—	—	—	—	(3,066)	—	(3,066)
Transfer to retained earnings		—	—	(5,311)	—	(1,315)	6,627	—	—	5,311	—	—	—
Total contributions by and distributions to owners in their capacity as owners		—	0	(8,377)	(6)	(1,315)	6,627	—	—	5,311	(3,072)	—	(3,072)
Changes in equity interest of subsidiaries:													
Acquisition of non-controlling interests		—	(130)	—	—	—	—	—	—	—	(130)	(573)	(703)
Dividends of surplus		—	—	—	—	—	—	—	—	—	—	(269)	(269)
Total changes in equity interest of subsidiaries		—	(130)	—	—	—	—	—	—	—	(130)	(842)	(971)
Total transactions with owners		—	(129)	(8,377)	(6)	(1,315)	6,627	—	—	5,311	(3,201)	(842)	(4,043)
Balance at March 31, 2016		27,648	29,414	86,393	(579)	4,967	—	275	160	5,402	148,278	5,103	153,381
Comprehensive income for the year:													
Profit for the year		**—**	**—**	**14,544**	**—**	**—**	**—**	**—**	**—**	**—**	**14,544**	**533**	**15,078**
Other comprehensive income	25	**—**	**—**	**—**	**—**	**3,342**	**1,702**	**(1,796)**	**(83)**	**3,164**	**3,164**	**103**	**3,267**
Total comprehensive income for the year		**—**	**—**	**14,544**	**—**	**3,342**	**1,702**	**(1,796)**	**(83)**	**3,164**	**17,708**	**636**	**18,345**
Transactions with owners:													
Contributions by and distributions to owners in their capacity as owners:													
Acquisition of treasury shares		**—**	**—**	**—**	**(8)**	**—**	**—**	**—**	**—**	**—**	**(8)**	**—**	**(8)**
Disposal of treasury shares		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Dividends of surplus	20	**—**	**—**	**(2,810)**	**—**	**—**	**—**	**—**	**—**	**—**	**(2,810)**	**—**	**(2,810)**
Change of scope of equity method		**—**	**—**	**1,175**	**—**	**—**	**—**	**—**	**—**	**—**	**1,175**	**—**	**1,175**
Changes in business combination		**—**	**—**	**(45)**	**—**	**—**	**—**	**—**	**—**	**—**	**(45)**	**—**	**(45)**
Transfer to retained earnings		**—**	**—**	**1,737**	**—**	**(35)**	**(1,702)**	**—**	**—**	**(1,737)**	**—**	**—**	**—**
Total contributions by and distributions to owners in their capacity as owners		**—**	**—**	**57**	**(8)**	**(35)**	**(1,702)**	**—**	**—**	**(1,737)**	**(1,687)**	**—**	**(1,687)**
Changes in equity interest of subsidiaries:													
Dividends of surplus		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(267)**	**(267)**
Total changes in equity interest of subsidiaries		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(267)**	**(267)**
Total transactions with owners		**—**	**—**	**57**	**(8)**	**(35)**	**(1,702)**	**—**	**—**	**(1,737)**	**(1,687)**	**(267)**	**(1,955)**
Balance at March 31, 2017		**¥27,648**	**¥29,414**	**¥100,995**	**¥(587)**	**¥8,274**	**¥ —**	**¥(1,521)**	**¥ 77**	**¥ 6,829**	**¥164,299**	**¥5,472**	**¥169,771**

Consolidated Statements of Cash Flows

KYB Corporation and its Consolidated Subsidiaries
Years ended March 31, 2016 and 2017

	Note	Millions of yen 2016	2017
Cash flows from operating activities:			
Profit before tax		¥ 2,825	**¥18,852**
Depreciation and amortization		17,075	**15,922**
Impairment loss		4,049	**147**
Increase (decrease) in assets and liabilities for retirement benefits		(70)	**149**
Increase (decrease) in provision for product warranties		(1,772)	**(1,495)**
Finance income		(561)	**(593)**
Finance costs		1,215	**988**
Equity in (earnings) losses of affiliates		1,292	**(1,016)**
(Increase) decrease in trade and other receivables		6,010	**(5,052)**
(Increase) decrease in inventories		(3,574)	**(1,889)**
Increase (decrease) in trade and other payables		(3,645)	**6,640**
Loss associated with the Anti-Trust law		8,152	**700**
Reversal of foreign currency translation adjustment		(64)	**—**
Other		1,928	**2,209**
Subtotal		32,860	**35,562**
Interest received		109	**94**
Dividends received		782	**1,072**
Interest paid		(1,283)	**(1,003)**
Income taxes paid		(4,450)	**(3,815)**
Refund of income taxes		34	**—**
Payments of loss associated with the Anti-Trust law		(8,095)	**(757)**
Net cash from operating activities		19,958	**31,153**
Cash flows from investing activities:			
Payment into time deposits		(332)	**(237)**
Proceeds from withdrawal of time deposits		665	**255**
Payment for purchases of property, plant and equipment		(21,967)	**(19,734)**
Proceeds from sale of property, plant and equipment		350	**31**
Payment for purchases of other financial assets		(702)	**(1)**
Proceeds from sale of other financial assets		2,942	**178**
Other		(1,275)	**(1,830)**
Net cash flows from investing activities		(20,320)	**(21,337)**
Cash flows from financing activities:			
Net increase (decrease) in short-term borrowings		2,839	**5,207**
Repayments of lease obligations		(615)	**(456)**
Proceeds from long-term borrowings		14,548	**15,294**
Repayment of long-term borrowings		(16,164)	**(17,928)**
Payments for purchase of treasury shares		(6)	**(8)**
Proceeds from sales of treasury shares		0	**—**
Dividends paid	20	(3,066)	**(2,810)**
Dividends paid to non-controlling interests		(269)	**(267)**
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation		(663)	**—**
Net cash flows from financing activities		(3,395)	**(969)**
Effects of changes in foreign exchange rates		(1,458)	**(160)**
Net increase (decrease) in cash and cash equivalents		(5,215)	**8,687**
Cash and cash equivalents at beginning of period	7	30,510	**25,296**
Increase (decrease) in cash and cash equivalents resulting from merger with unconsolidated subsidiaries		—	**5**
Cash and cash equivalents at end of period	7	¥25,296	**¥33,988**

Notes to the Consolidated Financial Statements

KYB Corporation and its Consolidated Subsidiaries
Years ended March 31, 2016 and 2017

1 Reporting Company

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

On June 23, 2017, the Board of Directors approved the consolidated financial statements of the KYB Group for the fiscal year ended March 31, 2017.

2 Basis of Preparation

(1) Compliance with IFRS

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

(2) Basis of measurement

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

(3) Presentation currency and units

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

(4) Early adoption of new standards

The KYB Group has early adopted IFRS 9 "Financial Instruments" (revised July 2014) for the preparation of the consolidated financial statements.

3 Significant Accounting Policies

(1) Basis of consolidation

1) Subsidiaries

Subsidiaries are entities whose financial and operating policies are directly or indirectly controlled by the KYB Group in order for the Group to benefit from those entities' activities. The Company prepares the consolidated financial statements based on the financial statements of subsidiaries that are entities controlled by the KYB Group as of March 31 of each consolidated fiscal year. Control is the power of a parent company to determine the financial and operating policies of an investee company in order to benefit from that company's activities. The existence and effect of voting rights that the KYB Group can potentially exercise or transfer at the moment are taken into account in determining if the KYB Group controls other companies. The financial statements of subsidiaries are included in the consolidated financial statements of the KYB Group from the date that the control commences until the date that the control ceases.

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

2) Affiliates

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

3) Joint ventures

Joint ventures are entities in which joint control by the KYB Group and another entity is established by contractual agreement with regard to an economic activity. In the KYB Group, these economic activities are carried out by the jointly controlled entities. As with affiliates, the KYB Group's interest in this joint control is accounted for using the equity method.

(2) Business combinations

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

Non-controlling interests are measured either at fair value or in terms of the ratio between the net amount of identifiable assets of the acquired company and the non-controlling interest.

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

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

(3) Foreign currency translation

1) Foreign currency transactions

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

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

2) Foreign operations

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

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

(4) Cash and cash equivalents

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

(5) Financial instruments

1) Non-derivative financial assets

i) Initial recognition and measurement

The KYB Group categorizes financial assets as either (a) financial assets measured at amortized cost, (b) debt financial assets measured at fair value through other comprehensive income, (c) equity financial assets measured at fair value through other comprehensive income, or (d) financial assets measured at fair value through profit or loss. A category is assigned when each financial asset is initially recognized. The KYB Group recognizes trade receivables and other receivables when they occur. The normal purchases and sales of other financial assets are recognized on the transaction date when the KYB Group makes a firm commitment to purchase or sell an asset.

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

(a) Financial assets measured at amortized cost

Financial assets are classified as financial assets measured at amortized cost if both of the following conditions are satisfied.

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

(b) Debt financial assets measured at fair value through other comprehensive income

Financial assets are classified as debt financial assets measured at fair value through other comprehensive income if both of following conditions are satisfied.

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

(c) Equity financial assets measured at fair value through other comprehensive income

Certain equity financial assets are measured through fair value and changes are recognized through other comprehensive income. The selection of this method is irreversible. These financial assets are categorized as equity financial assets measured at fair value through other comprehensive income.

(d) Financial assets measured at fair value through profit or loss

All financial assets that are not assigned to one of the three preceding categories are categorized as financial assets measured at fair value through profit and loss. When these assets are initially recognized, the KYB Group's decision not to recognize these assets as financial assets measured at fair value through profit or loss is not irreversible.

ii) Subsequent measurement

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

(a) Financial assets measured at amortized cost

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

(b) Debt financial assets measured at fair value through other comprehensive income

Changes in the fair value of debt financial assets measured at fair value through other comprehensive income are recognized through other comprehensive income. If the recognition of these financial assets is terminated, the amount included in other comprehensive income in prior years is transferred to profit or loss.

(c) Equity financial assets measured at fair value through other comprehensive income

Changes in the fair value of equity financial assets measured at fair value through other comprehensive income are recognized through other comprehensive income. If the recognition of these financial assets is terminated, or there is a significant decrease in fair value, the amount included in other comprehensive income in prior years is transferred directly to retained earnings.

Dividends on equity financial assets measured at fair value through other comprehensive are recognized in profit or loss.

(d) Financial assets measured at fair value through profit or loss

Financial assets measured at fair value through profit or loss are measured at fair value after the initial recognition and any change is recognized through profit or loss.

iii) Derecognition

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

iv) Impairment

The KYB Group has an allowance for doubtful accounts for expected credit losses associated with financial assets measured at amortized cost.

At the end of each reporting period, the KYB Group performs an assessment to determine if there have been any significant changes in credit risk associated with financial assets since these assets were initially recognized. To perform this assessment, the risk of the failure to fulfill obligations concerning the financial assets as of the reporting date is compared with the risk as of the date the assets were initially recognized. This is done by using information that could indicate a significant increase in credit risk subsequent to the initial recognition by obtaining information that can be used without excessive costs or labor. Furthermore, this information must be reasonable and supported.

If the KYB Group determines that credit risk concerning financial assets is low as of the reporting date, the assumption is made that there has been no significant increase in the credit risk since the financial assets were initially recognized.

If there has been a significant increase in credit risk concerning financial assets since the initial recognition, there is an allowance for doubtful accounts for the corresponding financial assets that is equal to the expected credit losses for the entire fiscal period. If there has been no significant increase in this credit risk, this allowance is equal to the expected credit losses for 12 months.

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

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

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

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

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

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

2) Non-derivative financial liabilities

i) Measurement at the time of initial recognition

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

ii) Subsequent measurement

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

iii) Derecognition

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

3) Derivative financial instruments and hedge accounting

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

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

i) Fair value hedges

Changes in the fair value of derivatives designated as fair value hedges that fulfill the requirements for such derivatives are recognized in profit or loss as changes in the fair value of the hedged asset or liability.

ii) Cash flow hedges

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

Cumulative amounts in equity are reclassified to profit or loss for the period in which the hedged item affects profit or loss. However, if the scheduled transaction designated by the hedge accounting results in the recognition of a non-financial asset or liability, the amount recognized in equity is transferred to the carrying amount of such non-financial asset or liability.

If scheduled transaction designated by the hedge accounting is no longer expected to occur, cumulative gains or losses recorded in equity are transferred to profit or loss.

iii) Derivatives that do not satisfy the conditions for hedge accounting

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

(6) Inventories

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

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

(7) Property, plant and equipment

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

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

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

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

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

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

(8) Intangible assets and goodwill

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

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

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

•Software: 5 years
•Development costs: 5 years

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

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

(9) Leases

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

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

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

(10) Impairment of non-financial assets

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

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

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

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

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

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

(11) Post-retirement benefits

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

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

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

Adjustments due to performance and actuarial differences resulting from changes in actuarial consumptions are recognized in other comprehensive income in the period when they are incurred and immediately transferred to retained earnings.

Past service cost is recognized in profit or loss for the period in which it is incurred.

For the cost for defined contribution retirement benefits, payments due to the defined contribution retirement program are recognized as expenses for the corresponding periods during which employees have provided the associated services.

(12) Provisions and contingent liabilities

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

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

Provisions for product warranties are prepared to provide for the payment of product warranty costs. The provisions are the sum of estimated product warranty costs in relation to current fiscal year sales based on actual product warranty costs in prior years and estimated product warranty costs that take into consideration actual warranty costs in prior years. The future period for the expected outflow of economic benefits is set to be within one year from the end of each consolidated fiscal year. Obligations whose probability as of the fiscal year-end date cannot be recognized and provisions that do not satisfy the recognition standards for provisions are noted as contingent liabilities.

(13) Treasury shares

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

(14) Revenue recognition

1) Sale of goods

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

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

2) Provision of services

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

3) Dividend income

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

(15) Government grants

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

(16) Borrowing costs

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

(17) Income taxes

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

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

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

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

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

4 Significant Accounting Estimates and Determining Estimates

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

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

(1) Impairment of non-financial assets

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

(2) Income taxes

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

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

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

(3) Post-retirement benefits

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

(4) Provisions and contingent liabilities

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

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

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

5 Published Standards and Interpretations Not Applied

As of the date of approval of the consolidated financial statements, announcements had been made regarding the new enactment or revisions of the following major Standards and Interpretations. However, as their application to fiscal years before March 31, 2017 is not obligatory, the KYB Group has not opted for early adoption. The KYB Group is currently considering the impact that their adoption may have on its consolidated financial statements, but cannot estimate this impact at present.

IFRS		Enforcement period (from the year beginning)	Adoption period for the KYB Group	Details of new enactment and revision
IAS 7	Statement of cash flows	January 1, 2017	FY2017 (April 1, 2017–March 31, 2018)	New disclosure concerning change in liabilities resulting from financial activities
IFRS 15	Revenue from contracts with customers	January 1, 2018	FY2018 (April 1, 2018–March 31, 2019)	Accounting and disclosure requirements related to recognition of revenue
IFRS 16	Lease	January 1, 2019	FY2019 (April 1, 2019–March 31, 2020)	Accounting and disclosure requirements related to lease transactions

6 Segment Information

(1) General information about reportable segments

Each reportable segment of the KYB Group is the business unit in the KYB Group, for which separable 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 five business categories: "Automotive Components," "Hydraulic Components," "Special-purpose Vehicles," "Aircraft Components" and "System Products and Electronic Equipment," which consists of activities that do not belong to four segments.

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

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

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

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

The accounting methods for each reportable segment are almost the same as those set forth in Note 3, "Significant Accounting Policies." Segment profit is calculated by deducting cost of sales and selling, general and administrative expenses from net sales. Intersegment sales and transfers are based on the market prices.

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

FY2015 (April 1, 2015–March 31, 2016)

(Millions of yen)

	Reportable segment						
	Automotive components	Hydraulic components	Subtotal	Other (Note 1)	Total	Adjustment (Note 2)	Consolidated
Net sales:							
Outside customer	¥240,903	¥88,024	¥328,926	¥26,394	¥355,320	¥ —	¥355,320
Intersegment sales and transfers	136	2,944	3,080	1,824	4,904	(4,904)	—
Total	241,039	90,968	332,006	28,218	360,224	(4,904)	355,320
Segment profit (Note 3)	15,484	444	15,928	1,631	17,559	30	17,588
Equity in earnings (losses) of affiliates	(1,320)	28	(1,292)	—	(1,292)	—	(1,292)
Other income and expenses (net) (Note 4)	(8,944)	(3,311)	(12,255)	286	(11,969)	—	(11,969)
Operating profit (loss)	5,220	(2,839)	2,381	1,917	4,297	30	4,327
Finance income and costs (net)							(1,502)
Profit before taxes							2,825
Depreciation and amortization	10,224	6,012	16,236	845	17,081	(5)	17,075
Impairment losses	463	3,478	3,941	108	4,050	(1)	4,049
Increase of non current asssets (Note 5)	15,070	4,518	19,588	1,712	21,300	—	21,300

Notes: 1. "Other" includes "Special-purpose Vehicles," "Aircraft Components" and "System Products and Electronic Equipment" that are not included in the two of reportable segment.
2. ¥30 million of adjustment of segment profits is the elimination of intersegment transactions.
3. Segment profit is calculated by deducting cost of sales and selling, general and administrative expenses from net sales.
4. Other income and expenses are described in Note 23, "Income and Costs (Except Finance Income and Finance Costs)."
5. Non-current assets do not include investments accounted for using the equity method, other financial assets, deferred tax assets and other items.

FY2016 (April 1, 2016–March 31, 2017)

(Millions of yen)

	Reportable segment						
	Automotive components	Hydraulic components	Subtotal	Other (Note 1)	Total	Adjustment (Note 2)	Consolidated
Net sales:							
Outside customer	**¥231,036**	**¥96,316**	**¥327,352**	**¥27,964**	**¥355,316**	**¥ —**	**¥355,316**
Intersegment sales and transfers	**577**	**2,336**	**2,913**	**1,812**	**4,725**	**(4,725)**	**—**
Total	**231,613**	**98,652**	**330,265**	**29,776**	**360,041**	**(4,725)**	**355,316**
Segment profit (Note 3)	**11,135**	**6,583**	**17,719**	**834**	**18,553**	**71**	**18,624**
Equity in earnings of affiliates	**639**	**377**	**1,016**	**—**	**1,016**	**—**	**1,016**
Other income and expenses (net) (Note 4)	**(324)**	**(123)**	**(447)**	**53**	**(394)**	**—**	**(394)**
Operating profit	**11,451**	**6,837**	**18,288**	**887**	**19,175**	**71**	**19,247**
Finance income and costs (net)							**(395)**
Profit before taxes							**18,852**
Depreciation and amortization	**9,938**	**5,206**	**15,144**	**784**	**15,928**	**(6)**	**15,922**
Impairment losses	**80**	**37**	**116**	**30**	**147**	**—**	**147**
Increase of non current asssets (Note 5)	**14,733**	**3,804**	**18,537**	**2,037**	**20,575**	**4**	**20,578**

Notes: 1. "Other" includes "Special-purpose Vehicles," "Aircraft Components" and "System Products and Electronic Equipment" that are not included in the two of reportable segment.
2. ¥71 million of adjustment of segment profits are the elimination of intersegment transactions.
3. Segment profit is calculated by deducting cost of sales and selling, general and administrative expenses from net sales.
4. Other income and expenses are described in Note 23, "Income and Costs (Except Finance Income and Finance Costs)."
5. Non-current assets do not include investments accounted for using the equity method, other financial assets, deferred tax assets and other items.

(4) Changes in reportable segments

In the first quarter of this fiscal year, we reexamined the "Aircraft components" business which had been included in "Hydraulic components" and made this the separate "Aircraft components division" for the reinforcement and expansion of the KYB Group's operations.

After considering the quantitative criteria for a reportable segment with regard to the "Aircraft components division", the decision was made to include this division in "Other."

Financial information for the previous fiscal year has been revised to reflect this change.

[Related Information]

FY2015 (April 1, 2015–March 31, 2016)

1. Information for Products and Services

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

2. Information for Geographic Regions

(1) Net sales

(Millions of yen)

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

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

(2) Non-current assets

(Millions of yen)

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

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

3. Information about Major Customer

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

FY2016 (April 1, 2016–March 31, 2017)

1. Information for Products and Services

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

2. Information for Geographic Regions

(1) Net sales

(Millions of yen)

Japan	Europe	U.S.A.	China	South East Asia	Other areas	Total
¥165,336	**¥52,454**	**¥40,450**	**¥24,751**	**¥25,010**	**¥47,315**	**¥355,316**

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

(2) Non-current assets

(Millions of yen)

Japan	Europe	U.S.A.	China	South East Asia	Other areas	Total
¥101,595	**¥14,524**	**¥8,946**	**¥11,243**	**¥13,560**	**¥15,256**	**¥165,124**

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

3. Information about Major Customer

Of sales to outside customers, the Company's sales to its largest customer group, Automotive Components, account for 9.47% or ¥33,655 million of net sales on the consolidated statements of income.

7 Cash and Cash Equivalents

The breakdown of cash and cash equivalents is as follows:

(Millions of yen)

	FY2015 (March 31, 2016)	**FY2016 (March 31, 2017)**
Cash and time deposits	¥22,970	**¥30,241**
Deposits with maturities less than three months	2,326	**3,748**
Total	¥25,296	**¥33,988**

8 Trade and Other Receivables

The breakdown of trade and other receivables is as follows:

(Millions of yen)

	FY2015 (March 31, 2016)	**FY2016 (March 31, 2017)**
Trade notes and accounts receivables	¥76,689	**¥77,836**
Electronically recorded monetary claims	5,369	**8,179**
Other receivables	6,515	**7,085**
Allowance for doubtful accounts	(574)	**(446)**
Total	¥87,999	**¥92,653**

Amounts presented in the consolidated statements of financial position are after allowing for doubtful accounts.
Trade and other receivables are classified as financial assets measured at amortized cost.

9 Inventories

The breakdown of inventories is as follows:

(Millions of yen)

	FY2015 (March 31, 2016)	**FY2016 (March 31, 2017)**
Finished goods	¥26,139	**¥27,215**
Work in process	13,768	**13,745**
Raw materials and supplies	8,383	**8,681**
Total	¥48,291	**¥49,640**

Inventory write-downs recognized in cost of sales for the years ended March 31, 2016 and 2017 were ¥1,260 million and ¥1,426 million, respectively.

10 Property, Plant and Equipment

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

Historical costs

(Millions of yen)

	Buildings and structures	Machinery, equipment and vehicles	Tools and equipment	Land	Construction in progress	Total
Balance at April 1, 2015	¥ 98,018	¥226,348	¥46,257	¥27,642	¥14,520	¥412,785
Acquisition	849	2,256	1,928	238	14,088	19,359
Disposals	(393)	(5,632)	(2,091)	—	(8)	(8,125)
Transfers from construction in progress	5,541	11,835	396	—	(17,772)	—
Exchange differences on translation	(2,357)	(6,818)	(438)	(327)	(438)	(10,378)
Other	13	(401)	107	6	(342)	(616)
Balance at March 31, 2016	101,672	227,587	46,159	27,559	10,047	413,024
Acquisition	792	2,227	2,751	53	12,602	18,424
Disposals	(551)	(5,435)	(1,869)	—	(4)	(7,860)
Transfers from construction in progress	3,743	10,282	559	—	(14,585)	—
Exchange differences on translation	(886)	(1,748)	(295)	(18)	(164)	(3,110)
Other	(127)	(1,542)	(65)	—	(154)	(1,888)
Balance at March 31, 2017	¥104,644	¥231,371	¥47,239	¥27,594	¥ 7,743	¥418,591

Accumulated depreciation and accumulated impairment losses

(Millions of yen)

	Buildings and structures	Machinery, equipment and vehicles	Tools and equipment	Land	Construction in progress	Total
Balance at April 1, 2015	¥45,868	¥159,727	¥41,193	¥184	¥—	¥246,971
Depreciation and amortization	3,737	10,150	2,275	—	—	16,162
Impairment losses	1,138	2,768	42	100	—	4,049
Disposals	(325)	(5,340)	(2,027)	—	—	(7,692)
Exchange differences on translation	(725)	(3,988)	(340)	—	—	(5,053)
Other	8	(6)	7	(32)	—	(23)
Balance at March 31, 2016	49,701	163,311	41,150	253	—	254,415
Depreciation and amortization	3,365	9,174	2,414	—	—	14,953
Impairment losses	5	57	9	—	76	147
Disposals	(490)	(4,953)	(1,775)	—	—	(7,218)
Exchange differences on translation	(374)	(1,350)	(242)	—	—	(1,966)
Other	(93)	(589)	(48)	—	—	(730)
Balance at March 31, 2017	¥52,114	¥165,649	¥41,508	¥253	¥76	¥259,601

Carrying amount

(Millions of yen)

	Buildings and structures	Machinery, equipment and vehicles	Tools and equipment	Land	Construction in progress	Total
Balance at April 1, 2015	¥52,150	¥66,621	¥5,064	¥27,458	¥14,520	¥165,813
Balance at March 31, 2016	51,971	64,276	5,009	27,306	10,047	158,609
Balance at March 31, 2017	52,530	65,722	5,731	27,341	7,667	158,990

For information on impairment losses, please refer to Note 13,"Impairment Losses."

Property, plant and equipment under construction is presented above within construction in progress.

11 Goodwill and Intangible Assets

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

Historical costs

(Millions of yen)

	Goodwill	Development costs	Other	Total
Balance at April 1, 2015	¥622	¥2,472	¥2,358	¥5,453
Acquisition	—	—	100	100
Internally generated	—	1,261	—	1,261
Disposals	—	(7)	(1)	(8)
Exchange differences on translation	—	(52)	(148)	(201)
Other	—	(127)	(6)	(133)
Balance at March 31, 2016	622	3,547	2,303	6,472
Acquisition	—	—	147	147
Internally generated	—	2,070	—	2,070
Disposals	—	(15)	(12)	(27)
Exchange differences on translation	(67)	6	(55)	(116)
Other	—	(12)	(0)	(13)
Balance at March 31, 2017	¥555	¥5,597	¥2,382	¥8,533

Accumulated depreciation and accumulated impairment losses

(Millions of yen)

	Goodwill	Development costs	Other	Total
Balance at April 1, 2015	¥304	¥ 266	¥699	¥1,269
Amortization (Note)	—	401	118	519
Disposals	—	—	(0)	(0)
Exchange differences on translation	—	(10)	(48)	(57)
Balance at March 31, 2016	304	657	769	1,731
Amortization (Note)	—	590	131	721
Disposals	—	—	(9)	(9)
Exchange differences on translation	(33)	5	(15)	(43)
Balance at March 31, 2017	¥271	¥1,252	¥876	¥2,400

Note: Amortization of intangible assets is included in "cost of sales" and "selling, general and administrative expenses" in the consolidated statements of income.

Carrying amount

(Millions of yen)

	Goodwill	Development costs	Other	Total
Balance at April 1, 2015	¥318	¥2,206	¥1,659	¥4,183
Balance at March 31, 2016	318	2,890	1,534	4,742
Balance at March 31, 2017	283	4,345	1,505	6,134

Research and development expenditures recognized in the fiscal years ended March 31, 2016 and 2017 were ¥7,760 million and ¥7,621 million, respectively, and are included in selling, general and administrative expenses in the consolidated statements of income.

12 Leases

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

(Millions of yen)

	FY2015 (March 31, 2016)	**FY2016 (March 31, 2017)**
Buildings and structures	¥ 661	**¥ 569**
Machinery, equipment and vehicles	1,148	**800**
Land	201	**189**
Other	554	**632**
Total	¥2,563	**¥2,190**

The breakdown of finance lease obligations is as follows:

(Millions of yen)

	FY2015 (March 31, 2016)	**FY2016 (March 31, 2017)**
Minimum lease payments:		
Due within one year	¥ 571	**¥ 507**
Due after one year and within five years	1,763	**1,615**
Due over five years	269	**161**
Future finance cost	135	**46**
Present value of finance lease obligations	¥2,467	**¥2,238**

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

(Millions of yen)

	FY2015 (March 31, 2016)	**FY2016 (March 31, 2017)**
Minimum lease payments:		
Due within one year	¥ 555	**¥ 497**
Due after one year and within five years	1,724	**1,595**
Due over five years	189	**146**
Total	¥2,467	**¥2,238**

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

(Millions of yen)

	FY2015 (March 31, 2016)	**FY2016 (March 31, 2017)**
Minimum lease payments:		
Due within one year	¥ 482	**¥ 742**
Due after one year and within five years	1,261	**1,284**
Due over five years	2	**54**
Total	¥1,745	**¥2,081**

Minimum lease payments recognized through profit or loss in the year ended March 31, 2017 were ¥721 million.

13 Impairment Losses

The KYB Group classifies minimum cash flow generating units by company and by business.

Due to the worsening business climate, the KYB Group recognized impairment losses on assets in the years ended March 31, 2016 and 2017. These impairment losses are included in "other expenses" in the consolidated statements of income.

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

FY2015 (April 1, 2015–March 31, 2016)

(Millions of yen)

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

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

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

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

The discount rate is calculated based on such factors as the pretax weighted average cost of capital and using external and internal information to appropriately reflect business risks, which is 10.4%.

There were no goodwill impairment charges during the year ended March 31, 2016.

FY2016 (April 1, 2016–March 31, 2017)

(Millions of yen)

Segment	Area	Use	Category	Amount
Automotive Components	Japan	Idle assets	Machinery, Construction in progress and other	¥ 80
Hydraulic Components	Japan	Idle assets	Machinery	37
Other	Japan	Business assets	Machinery, Tools and equipment and other	30
Total				¥147

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

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

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

The discount rate is calculated based on such factors as the pretax weighted average cost of capital and using external and internal information to appropriately reflect business risks, which is 8.4%.

There were no goodwill impairment charges during the year ended March 31, 2017.

14 Trade and Other Payables

The breakdown of trade and other payables is as follows:

(Millions of yen)

	FY2015 (March 31, 2016)	**FY2016 (March 31, 2017)**
Notes and accounts payables	¥58,788	**¥41,567**
Electronically recorded monetary claims	1,379	**23,576**
Other payables	6,044	**6,994**
Total	¥66,211	**¥72,137**

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

15 Borrowings

The breakdown of borrowings is as follows:

(Millions of yen)

	FY2015 (March 31, 2016)	**FY2016 (March 31, 2017)**
Current liabilities		
Current borrowings	¥32,557	**¥37,740**
Current portion of non-current borrowings	17,935	**13,242**
Total	50,492	**50,983**
Non-current liabilities		
Non-current borrowings	38,348	**39,962**
Total	¥38,348	**¥39,962**

Assets pledged as collateral and collateralized debt are as follows:

(Millions of yen)

	FY2015 (March 31, 2016)	**FY2016 (March 31, 2017)**
Pledged assets		
Notes receivebles	¥273	**¥341**
Buildings and structures	178	**196**
Machinery and equipment	232	**242**
Land	85	**86**
Other property, plant and equipment	14	**17**
Total	781	**883**
Collateralized debt		
Current borrowings	114	**84**
Current portion of non-current borrowings	2	**2**
Non-current borrowings	5	**3**
Total	¥121	**¥ 90**

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

16 Provisions

The breakdown of provisions is as follows:

(Millions of yen)

	FY2015 (March 31, 2016)	**FY2016 (March 31, 2017)**
Provisions for product warranties	¥4,958	**¥3,342**
Other	2,349	**2,539**
Total	7,307	**5,881**
Current	5,313	**3,754**
Non-current	1,994	**2,127**

Changes in provisions are as follows:

(Millions of yen)

	Provisions for product warranties	Other	Total
Balance at April 1, 2015	¥6,783	¥2,294	¥9,077
Provisions made	2,050	314	2,363
Provisions used	(1,708)	(251)	(1,959)
Provisions reversed	(2,114)	(5)	(2,119)
Other	(53)	(3)	(56)
Balance at March 31, 2016	4,958	2,349	7,307
Current	4,958	355	5,313
Non-current	—	1,994	1,994
Balance at March 31, 2016	4,958	2,349	7,307
Provisions made	1,491	474	1,965
Provisions used	(1,919)	(165)	(2,084)
Provisions reversed	(1,066)	(122)	(1,188)
Other	(121)	2	(119)
Balance at March 31, 2017	3,342	2,539	5,881
Current	3,342	412	3,754
Non-current	—	2,127	2,127
Balance at March 31, 2017	¥3,342	¥2,539	¥5,881

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

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

17 Post-Retirement Benefits

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

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

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

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

(1) Defined benefit plans

1) Risks related to defined benefit plans

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

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

2) Amounts recognized in the consolidated statements of financial position

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

(Millions of yen)

	FY2015 (March 31, 2016)	**FY2016 (March 31, 2017)**
Present value of defined benefit obligations in funded defined benefit plans	¥38,004	**¥38,071**
Fair value of plan assets	(29,293)	**(31,641)**
Net defined benefit assets and liabilities (funded)	8,711	**6,429**
Present value of defined benefit obligations in unfunded defined benefit plans	5,171	**5,160**
Net defined benefit assets and liabilities	13,882	**11,589**
Assets related to retirement benefits in the consolidated statements of financial position	(11)	**—**
Liabilities related to retirement benefits in the consolidated statements of financial position	13,893	**11,589**
Net defined benefit assets and liabilities	¥13,882	**¥11,589**

3) Net defined benefit obligations (assets)

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

FY2015 (April 1, 2015–March 31, 2016)

(Millions of yen)

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

FY2016 (April 1, 2016–March 31, 2017)

(Millions of yen)

	Present value of defined benefit obligations	Fair value of plan assets	Total
Balance at April 1, 2016	**¥43,175**	**¥(29,293)**	**¥13,882**
Service cost	**2,423**	**—**	**2,423**
Interest expenses	**149**	**—**	**149**
Gains or losses on plan assets	**—**	**(97)**	**(97)**
Remeasurement:			
Actuarial gains and losses arising from changes in demographic assumptions	**774**	**—**	**774**
Actuarial gains and losses arising from changes in financial assumptions	**(1,026)**	**(2,053)**	**(3,079)**
Contributions:			
Company contribution to plans	**—**	**(1,082)**	**(1,082)**
Benefits paid	**(2,268)**	**918**	**(1,350)**
Other	**3**	**(33)**	**(30)**
Balance at March 31, 2017	**¥43,230**	**¥(31,641)**	**¥11,589**

4) Breakdown of plan assets

The breakdown of plan assets is as follows:

FY2015 (March 31, 2016)

(Millions of yen)

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

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

FY2016 (March 31, 2017)

(Millions of yen)

	Assets with quoted market prices in an active market	Assets without quoted market prices in an active market	Total
Domestic stocks	**¥19,027**	**¥ —**	**¥19,027**
Foreign stocks	**803**	**—**	**803**
Domestic bonds	**3,657**	**—**	**3,657**
Foreign bonds	**854**	**—**	**854**
Life insurance general account	**—**	**4,700**	**4,700**
Cash and time deposits	**1,767**	**—**	**1,767**
Other	**—**	**834**	**834**
Total	**¥26,108**	**¥5,533**	**¥31,641**

Domestic stocks include ¥18,079 million of stock held by the retirement benefit trust established for the lump-sum retirement benefit plan.

5) Actuarial assumptions

The principal assumptions used in actuarial calculations are as follows:

(Millions of yen)

	FY2015 (March 31, 2016)	**FY2016 (March 31, 2017)**
Discount rate	0.3%	**0.5%**

6) Sensitivity analysis

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

	Fluctuations	Impact on defined benefit obligations
Discount rate	Up 0.5%	Decrease ¥2,407 million
	Down 0.5%	Increase ¥2,666 million

7) Information related to future cash flows

In the year ended March 31, 2017, expected contributions to defined benefit plans in the next fiscal year are ¥1,050 million. The weighted average duration of defined benefit obligations was 12.25 years and 13.16 years at the years ended March 31, 2016 and 2017, respectively.

8) Information on correspondence of assets and liabilities

For plans with reserves, the KYB Group engages in long-term investment to ensure correspondence of assets and liabilities with pension scheme obligations. The KYB Group positively monitors investment durations and expected yields to ensure correspondence with future cash outflows arising from pension obligations. This risk management process is unchanged from the year ended March 31, 2016.

(2) Defined contribution plans

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

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

(Millions of yen)

	FY2015 (April 1, 2015–March 31, 2016)	**FY2016 (April 1, 2016–March 31, 2017)**
Retirement benefit expenses related to defined contribution plans	¥553	**¥414**

18 Financial Instruments

(1) Capital management

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

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

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

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

(2) Categories of financial instruments

(Millions of yen)

	FY2015 (March 31, 2016)	**FY2016 (March 31, 2017)**
Financial assets		
Financial assets measured at fair value through other comprehensive income:		
Stock	¥ 16,998	**¥ 21,761**
Derivatives	207	**98**
Other	906	**382**
Financial assets valued at amortized cost:		
Cash and cash equivalents	25,296	**33,988**
Trade and other receivables	87,999	**92,653**
Other	1,843	**1,967**
Total	133,248	**150,850**
Financial liabilities		
Financial liabilities measured at fair value through other comprehensive income:		
Derivatives	1	**—**
Financial liabilities measured at fair value through net profit:		
Derivatives	—	**1**
Financial liabilities valued at amortized cost:		
Trade and other payables	66,211	**72,137**
Borrowings	88,840	**90,944**
Other	18,538	**18,441**
Total	¥173,591	**¥181,523**

Financial assets measured at fair value through other comprehensive income are included in “other financial assets” on the consolidated financial position.

Financial assets measured at fair value through other comprehensive income

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

In the fiscal years ended March 31, 2016 and 2017, the fair value and dividends received for financial assets measured at fair value through other comprehensive income and that are included in “other financial assets” are as follows:

(Millions of yen)

	FY2015 (March 31, 2016) Fair value	FY2015 (April 1, 2015–March 31, 2016) Dividends received	**FY2016 (March 31, 2017)** Fair value	**FY2016 (April 1, 2016–March 31, 2017)** Dividends received
Listed shares	¥16,802	¥398	**¥21,438**	**¥330**
Unlisted shares	197	1	**323**	**43**
Derivatives	207	—	**98**	**—**
Other	906	49	**382**	**0**
Total	¥18,110	¥448	**¥22,242**	**¥373**

Sales during the fiscal year of financial assets measured at fair value through other comprehensive income are as follows:

(Millions of yen)

FY2015 (April 1, 2015–March 31, 2016)			**FY2016 (April 1, 2016–March 31, 2017)**		
Fair value on day of sale	Cummulative gain/loss	Dividend income	Fair value on day of sale	Cummulative gain/loss	Dividend income
¥2,851	¥1,315	¥57	**¥148**	**¥35**	**¥5**

Most sales were the result of reviews of business relationships. In the fiscal years ended March 31, 2016 and 2017, the cumulative amounts (after taxes) transferred from components of other capital to retained earnings were ¥1,315 million and ¥35 million, respectively.

(3) Financial risk management

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

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

(4) Credit risk management

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

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

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

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

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

FY2015 (March 31, 2016)

(Millions of yen)

Days in arrears	Financial assets for which the allowance for doubtful accounts is measured by using expected credit losses over the next 12 months	Financial assets for which the allowance for doubtful accounts is measured by using expected credit losses for the entire period: Financial assets for which credit risk is much greater than the initial credit risk	Financial assets for which the allowance for doubtful accounts is measured by using expected credit losses for the entire period: Financial assets with doubtful account allowance equal to expected credit losses over entire period	Total
No arrears	—	—	¥86,848	¥86,848
Less than 90 days	—	—	1,031	1,031
More than 90 days less than 180 days	—	—	199	199
More than 180 days	—	—	508	508
Total	—	—	¥88,586	¥88,586

FY2016 (March 31, 2017)

(Millions of yen)

Days in arrears	Financial assets for which the allowance for doubtful accounts is measured by using expected credit losses over the next 12 months	Financial assets for which the allowance for doubtful accounts is measured by using expected credit losses for the entire period: Financial assets for which credit risk is much greater than the initial credit risk	Financial assets for which the allowance for doubtful accounts is measured by using expected credit losses for the entire period: Financial assets with doubtful account allowance equal to expected credit losses over entire period	Total
No arrears	—	—	¥91,506	¥91,506
Less than 90 days	—	—	886	886
More than 90 days less than 180 days	—	—	184	184
More than 180 days	—	—	523	523
Total	—	—	¥93,100	¥93,100

Change in allowance for doubtful accounts

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

FY2015 (March 31, 2016)

(Millions of yen)

	Expected credit losses over next 12 months	Expected credit losses for the entire period: Financial assets for which credit risk is much greater than the initial credit risk	Expected credit losses for the entire period: Financial assets that always have a doubtful account allowance equal to expected credit losses over the entire period	Total
Balance at beginning of the year	—	—	¥341	¥341
Allowance	—	—	411	411
Allowance used	—	—	(100)	(100)
Allowance reverded	—	—	(26)	(26)
Other	—	—	(41)	(41)
Balance at end of the year	—	—	¥587	¥587

FY2016 (March 31, 2017)

(Millions of yen)

	Expected credit losses over next 12 months	Expected credit losses for the entire period: Financial assets for which credit risk is much greater than the initial credit risk	Expected credit losses for the entire period: Financial assets that always have a doubtful account allowance equal to expected credit losses over the entire period	Total
Balance at beginning of the year	**—**	**—**	**¥587**	**¥587**
Allowance	**—**	**—**	**156**	**156**
Allowance used	**—**	**—**	**(235)**	**(235)**
Allowance reverded	**—**	**—**	**(46)**	**(46)**
Other	**—**	**—**	**(16)**	**(16)**
Balance at end of the year	**—**	**—**	**¥447**	**¥447**

Transfers of financial assets

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

Notes discounted as of March 31, 2016 and 2017 are as follows:

(Millions of yen)

	FY2015 (March 31, 2016)	**FY2016 (March 31, 2017)**
Discounted notes receivable	¥154	**¥—**

(5) Liquidity risk management

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

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

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

FY2015 (March 31, 2016)

(Millions of yen)

	Book balance	Due within one year	Due after one year and within two years	Due after two years and within three years	Due after three years and within four years	Due after four years and within five years	Due over five years
Non-derivative financial liabilities:							
Trade and other payables	¥ 66,211	¥ 66,211	¥ —	¥ —	¥ —	¥ —	¥ —
Short-term borrowings	32,557	32,557	—	—	—	—	—
Current portion of non-current borrowings	17,935	17,935	—	—	—	—	—
Long-term borrowings	38,348	—	12,736	12,022	7,521	4,560	1,509
Total	155,051	116,703	12,736	12,022	7,521	4,560	1,509
Derivative financial liabilities:							
Forward exchange contract	—	—	—	—	—	—	—
Interest swap	1	1	—	—	—	—	—
Total	¥ 1	¥ 1	¥ —	¥ —	¥ —	¥ —	¥ —

FY2016 (March 31, 2017)

(Millions of yen)

	Book balance	Due within one year	Due after one year and within two years	Due after two years and within three years	Due after three years and within four years	Due after four years and within five years	Due over five years
Non-derivative financial liabilities:							
Trade and other payables	**¥ 72,137**	**¥ 72,137**	**¥ —**	**¥ —**	**¥ —**	**¥ —**	**¥ —**
Short-term borrowings	**37,740**	**37,740**	**—**	**—**	**—**	**—**	**—**
Current portion of non-current borrowings	**13,242**	**13,242**	**—**	**—**	**—**	**—**	**—**
Long-term borrowings	**39,962**	**—**	**14,030**	**10,956**	**8,232**	**5,879**	**865**
Total	**163,081**	**123,119**	**14,030**	**10,956**	**8,232**	**5,879**	**865**
Derivative financial liabilities:							
Forward exchange contract	**1**	**1**	**—**	**—**	**—**	**—**	**—**
Interest swap	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Total	**¥ 1**	**¥ 1**	**¥ —**	**¥ —**	**¥ —**	**¥ —**	**¥ —**

(6) Market risk management

1) Foreign exchange risk

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

Analysis of foreign exchange sensitivity

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

(Millions of yen)

	FY2015 (April 1, 2015–March 31, 2016)	**FY2016 (April 1, 2016–March 31, 2017)**
Impact on segment profit:		
US dollars	¥156	**¥155**
Euro	49	**42**

In the fiscal years ended March 31, 2016 and 2017, the appreciation or depreciation of the yen by one yen in relation to the US dollar and euro would have the above effect on the KYB Group's segment profit. For this analysis, all other variables are assumed to remain the same.

2) Interest rate risk

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

Analysis of interest rate sensitivity

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

(Millions of yen)

	FY2015 (April 1, 2015–March 31, 2016)	**FY2016 (April 1, 2016–March 31, 2017)**
Impact on profit before tax	¥126	**¥71**

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

(7) Fair value of financial instruments

1) Method used to determine fair value

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

2) Fair value for categories of financial instruments

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

(Millions of yen)

	FY2015 (March 31, 2016)		**FY2016 (March 31, 2017)**	
	Book value	Fair value	Book value	Fair value
Financial assets measured at fair value through other comprehensive income:				
Stock	¥16,998	¥16,998	**¥21,761**	**¥21,761**
Derivatives	207	207	**98**	**98**
Other	906	906	**382**	**382**
Financial assets measured at amortized cost:				
Cash and cash equivalents	25,296	25,296	**33,988**	**33,988**
Trade and other receivables	87,999	87,999	**92,653**	**92,653**
Other	1,843	1,843	**1,967**	**1,967**
Financial liabilities measured at fair value through other comprehensive income:				
Derivatives	1	1	**—**	**—**
Financial liabilities measured at fair value through net profit:				
Derivatives	—	—	**1**	**1**
Financial liabilities measured at amortized cost:				
Trade and other payables	66,211	66,211	**72,137**	**72,137**
Borrowings	88,840	89,191	**90,944**	**91,098**
Other	18,538	18,538	**18,441**	**18,441**

The fair value of financial assets and liabilities measured at amortized cost, except borrowings, is virtually the same as book value.

3) Fair value hierarchy

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

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

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

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

FY2015 (March 31, 2016)

(Millions of yen)

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

FY2016 (March 31, 2017)

(Millions of yen)

	Market value in active markets for similar assets (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Financial assets measured at fair value through other comprehensive income:				
Listed shares	**¥21,438**	**¥ —**	**¥ —**	**¥21,438**
Non-listed shares	**—**	**—**	**323**	**323**
Derivatives	**—**	**98**	**—**	**98**
Other	**—**	**264**	**118**	**382**
Total	**¥21,438**	**363**	**441**	**22,242**
Financial liabilities measured at fair value through other comprehensive income:				
Derivatives	**—**	**—**	**—**	**—**
Financial liabilities measured at fair value through net profit:				
Derivatives	**—**	**1**	**—**	**1**
Total	**¥ —**	**¥ 1**	**¥ —**	**¥ 1**

The fair value hierarchy is Level 3 for financial instruments measured at amortized cost shown in "2) Fair value for categories of financial instruments."

None of these financial instruments are reclassified to Level 1 or 2 during the fiscal years ended March 31, 2016 and 2017

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

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

(8) Financial derivatives and hedges

Cash flow hedges

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

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

When applying hedge accounting, in principle, the Company aims for consistency for the notional principal of the hedging method and item hedged, the length (maturity) of the hedge, and the basic interest value. This is for the purpose of maintaining high hedging effectiveness during the entire hedging period. In the fiscal years ended March 31, 2016 and 2017, there were no gains or losses concerning the portion of hedges that was not effective and the portion of hedges that was excluded from the evaluation of effectiveness.

As of March 31, 2016 and 2017, hedging methods designated as hedges had the following effect on the KYB Group's consolidated statements of financial position.

FY2015 (March 31, 2016)

(Millions of yen)

	Notional principal	Book value: Derovative assets	Book value: Derovative liabilities	Account on the consolidated statements of financial position
Cash flow hedge:				
Interest rate risk Interest rate swap	¥ 400	¥ —	¥ 1	Other financial liabilities (non-current)
Foreign exchange risk, interest rate risk Interest rate and currency swap	—	—	—	Other financial assets (current)
Foreign exchange risk, interest rate risk Interest rate and currency swap	2,136	207	—	Other financial assets (non-current)

FY2016 (March 31, 2017)

(Millions of yen)

	Notional principal	Book value: Derovative assets	Book value: Derovative liabilities	Account on the consolidated statements of financial position
Cash flow hedge:				
Interest rate risk Interest rate swap	**¥ —**	**¥ —**	**¥ —**	Other financial liabilities (non-current)
Foreign exchange risk, interest rate risk Interest rate and currency swap	**632**	**46**	**—**	Other financial assets (current)
Foreign exchange risk, interest rate risk Interest rate and currency swap	**851**	**52**	**—**	Other financial assets (non-current)

19 Capital and Other Components of Capital

(1) Share capital and capital surplus

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

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

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

	Total number of shares authorized (Shares)	Total number of shares issued (Shares)	Share capital (Millions of yen)	Capital surplus (Millions of yen)
Balance at April 1, 2015	491,955,000	257,484,315	¥27,648	¥29,544
Change	—	—	—	(129)
Balance at March 31, 2016	491,955,000	257,484,315	27,648	29,414
Change	81,045,000	—	—	—
Balance at March 31, 2017	573,000,000	257,484,315	27,648	29,414

Notes: 1. The Company issues common stock with no par value.
2. Full payments have been made for all shares issued.
3. The total number of authorized shares increased by 81,045,000 shares as a result of the partial amendment of the Articles of Incorporation on June 24, 2016.

(2) Retained earnings

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

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

(3) Treasury shares

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

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

	Number of shares (Shares)	Amount (Millions of yen)
Balance at April 1, 2015	1,993,872	¥573
Change	15,561	6
Balance at March 31, 2016	2,009,433	579
Change	15,403	8
Balance at March 31, 2017	2,024,836	587

(4) Other components of equity

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

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

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

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

3) Exchange differences on translation of foreign operations

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

20 Dividends

Fiscal year dividend payments are as follows:

FY2015 (April 1, 2015–March 31, 2016)

Resolution	Type of shares	Aggregate dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Annual Shareholders' Meeting, June 24, 2015	Common shares	¥1,788	¥7.00	March 31, 2015	June 25, 2015
Board of Directors Meeting, October 30, 2015	Common shares	1,277	5.00	September 30, 2015	December 4, 2015

FY2016 (April 1, 2016–March 31, 2017)

Resolution	Type of shares	Aggregate dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Annual Shareholders' Meeting, June 24, 2016	Common shares	**¥1,533**	**¥6.00**	March 31, 2016	June 27, 2016
Board of Directors Meeting, November 7, 2016	Common shares	**1,277**	**5.00**	September 30, 2016	December 2, 2016

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

Resolution	Type of shares	Aggregate dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Annual Shareholders' Meeting, June 23, 2017	Common shares	**¥1,788**	**¥7.00**	March 31, 2017	June 26, 2017

21 Breakdown of Expenses by Nature

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

(Millions of yen)

	FY2015 (April 1, 2015–March 31, 2016)	**FY2016 (April 1, 2016–March 31, 2017)**
Salaries and other costs	¥ 66,693	**¥ 67,740**
Retirement benefit expenses	2,845	**2,913**
Depreciation and amortization	17,075	**15,922**
Packing expenses	12,112	**11,226**
Other	239,007	**238,891**
Total	¥337,732	**¥336,692**

22 Finance Income and Finance Costs

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

(Millions of yen)

	FY2015 (April 1, 2015–March 31, 2016)	**FY2016 (April 1, 2016–March 31, 2017)**
Finance income:		
Interest income		
Financial assets measured at amortized cost:	¥ 113	**¥106**
Dividends received		
Financial assets measured at fair value through other comprehensive income	448	**373**
Foreign exchange gain	—	**114**
Total	¥ 561	**¥593**
Finance costs:		
Interest expense		
Financial liabilities measured at amortized cost	¥1,215	**¥988**
Foreign exchange loss	848	**—**
Total	¥2,062	**¥988**

23 Income and Costs (Except Finance Income and Finance Costs)

(1) Net sales

The composition of net sales is as follows:

(Millions of yen)

	FY2015 (April 1, 2015–March 31, 2016)	**FY2016 (April 1, 2016–March 31, 2017)**
Product sales	¥354,769	**¥354,460**
Construction sales	551	**856**
Total	¥355,320	**¥355,316**

(2) Other income

The composition of other income is as follows:

(Millions of yen)

	FY2015 (April 1, 2015–March 31, 2016)	**FY2016 (April 1, 2016–March 31, 2017)**
Technical assistance payments received	¥ 896	**¥ 770**
Gains on sales of fixed assets	28	**41**
Other	1,747	**1,225**
Total	¥2,671	**¥2,036**

(3) Other expenses

The composition of other expenses is as follows:

(Millions of yen)

	FY2015 (April 1, 2015–March 31, 2016)	**FY2016 (April 1, 2016–March 31, 2017)**
Foreign exchange loss	¥ 1,499	**¥ 799**
Loss on disposal of fixed assets	509	**498**
Impairment loss	4,049	**147**
Loss associated with the Anti-Trust law	8,152	**700**
Other	431	**286**
Total	¥14,640	**¥2,430**

Note: FY2015 (April 1, 2015–March 31, 2016)
Losses associated with the Anti-Trust law are fine and other expenses involving a violation of U.S. antitrust law concerning the sale of shock absorbers for automobiles and motorcycles.

FY2016 (April 1, 2016–March 31, 2017)
Losses associated with the Anti-Trust law are compensation cost involving a violation of U.S. antitrust law concerning the sale of shock absorbers for automobiles and motorcycles.

24 Income Taxes

(1) Tax expenses

The major components of income tax expenses are as follows:

(Millions of yen)

	FY2015 (April 1, 2015–March 31, 2016)	**FY2016 (April 1, 2016–March 31, 2017)**
Current income taxes	¥4,445	**¥3,628**
Deferred income taxes	1,002	**145**
Total	¥5,447	**¥3,774**

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

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

(%)

	FY2015 (April 1, 2015–March 31, 2016)	**FY2016 (April 1, 2016–March 31, 2017)**
Statutory tax rate	32.3%	**30.2%**
Expenses never recognized as tax deductible expenses	4.9	**1.4**
Tax rate differential of consolidated subsidiaries	(12.8)	**(2.2)**
Tax credits	(20.5)	**(1.0)**
Retained earnings of foreign subsidiaries	9.7	**1.0**
Revision in assessment of probability of recovering deferred tax assets	61.0	**(8.0)**
Reversal of deferred tax assets due to change in applicable tax rates	17.7	**—**
Equity in profit or loss of affiliates	15.0	**(1.6)**
Fines and other penalties	85.5	**0.0**
Other	0.0	**0.4**
Effective tax rate	192.8%	**20.0%**

The KYB Group pays primarily a corporate income tax, an inhabitants tax and an enterprise tax that are deducted from taxable income. Based on these three taxes, the effective tax rate was 32.3% and 30.2% in the years ended March 31, 2016 and 2017, respectively. Overseas subsidiaries pay income and other taxes in the countries where they are located.

(3) Changes in deferred tax assets and liabilities

Changes in deferred tax assets and liabilities are as follows:

FY2015 (April 1, 2015–March 31, 2016)

(Millions of yen)

	Balance at April 1, 2015	Amount recognized for profit or loss	Amount recognized for other comprehensive income	Balance at March 31, 2016
Deferred tax assets:				
Liability for retirement benefits	¥ 2,264	¥ 59	¥3,041	¥ 5,364
Deductible losses carried forward	318	119	—	437
Accrued bonuses	1,488	(98)	—	1,390
Provision for product warranties	971	45	—	1,016
Software	1,198	(205)	—	993
Tax effect of unrealized gains on inventories	770	(210)	—	560
Tax effect of unrealized gains on fixed assets	365	(12)	—	353
Impairment loss	418	24	—	442
Valuation loss on inventories	434	(283)	—	151
Deductible expenses for assets used in research and development	390	(85)	—	305
Cumulative asset retirement obligation	405	(196)	—	209
Other	1,328	964	(39)	2,252
Total	10,349	121	3,001	13,471
Deferred tax liabilities:				
Financial assets at fair value	4,250	(800)	(1,354)	2,096
Undistributed earnings of consolidated overseas subsidiaries	3,647	(273)	—	3,374
Property, plant and equipment	3,600	(192)	—	3,408
Development cost	733	182	—	915
Other	803	2,205	—	3,008
Total	13,033	1,122	(1,354)	12,801
Net deferred tax assets	¥ (2,683)	¥(1,002)	¥4,356	¥ 670

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

FY2016 (April 1, 2016–March 31, 2017)

(Millions of yen)

	Balance at April 1, 2016	Amount recognized for profit or loss	Amount recognized for other comprehensive income	Balance at March 31, 2017
Deferred tax assets:				
Liability for retirement benefits	**¥ 5,364**	**¥ 154**	**¥ (753)**	**¥ 4,765**
Deductible losses carried forward	**437**	**(272)**	**—**	**165**
Accrued bonuses	**1,390**	**185**	**—**	**1,574**
Provision for product warranties	**1,016**	**(278)**	**—**	**738**
Software	**993**	**(116)**	**—**	**877**
Tax effect of unrealized gains on inventories	**560**	**72**	**—**	**631**
Tax effect of unrealized gains on fixed assets	**353**	**144**	**—**	**497**
Impairment loss	**442**	**49**	**—**	**491**
Valuation loss on inventories	**151**	**382**	**—**	**532**
Deductible expenses for assets used in research and development	**305**	**(14)**	**—**	**290**
Cumulative asset retirement obligation	**209**	**16**	**—**	**225**
Other	**2,252**	**426**	**21**	**2,699**
Total	**13,471**	**745**	**(732)**	**13,485**
Deferred tax liabilities:				
Financial assets at fair value	**2,096**	**241**	**1,436**	**3,773**
Undistributed earnings of consolidated overseas subsidiaries	**3,374**	**(185)**	**—**	**3,189**
Property, plant and equipment	**3,408**	**(1)**	**—**	**3,406**
Development cost	**915**	**275**	**—**	**1,191**
Other	**3,008**	**517**	**—**	**3,526**
Total	**12,801**	**847**	**1,436**	**15,084**
Net deferred tax assets	**¥ 670**	**¥(102)**	**¥(2,168)**	**¥ (1,599)**

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

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

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

(Millions of yen)

	FY2015 (March 31, 2016)	**FY2016 (March 31, 2017)**
Deductible temporary differences	¥ 9,074	**¥13,424**
Deductible losses carried forward	10,215	**10,532**
Total	¥19,289	**¥23,956**

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

(Millions of yen)

	FY2015 (March 31, 2016)	**FY2016 (March 31, 2017)**
Within 1st year	¥ 552	**¥ 7**
2nd year	7	**92**
3rd year	100	**486**
4th year	312	**3,981**
5th year and thereafter	9,244	**5,967**
Total	¥10,215	**¥10,532**

25 Other Comprehensive Income

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

(Millions of yen)

	FY2015 (April 1, 2015–March 31, 2016)	**FY2016 (April 1, 2016–March 31, 2017)**
Items that will not be reclassified to profit or loss		
Net change in financial assets measured at fair value through other comprehensive income		
Amount arising during the year	¥ (3,769)	**¥4,779**
Tax effects	1,354	**(1,436)**
Subtotal	(2,415)	**3,342**
Remeasurements of defined benefit plans		
Amount arising during the year	(9,700)	**2,457**
Tax effects	3,041	**(753)**
Subtotal	(6,660)	**1,705**
Share of other comprehensive income of investments accounted for using the equity method		
Amount arising during the year	(465)	**17**
Subtotal	(465)	**17**
Total	(9,540)	**5,064**
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations		
Amount arising during the year	(5,729)	**(1,509)**
Subtotal	(5,729)	**(1,509)**
Effective portion of the change in the fair value of cash flow hedges		
Amount arising during the year	98	**(158)**
Reclassification adjustments	—	**53**
Before tax effect	98	**(106)**
Tax effects	(39)	**21**
Subtotal	58	**(85)**
Share of other comprehensive income of investments accounted for using the equity method (net of tax)		
Amount arising during the year	—	**(203)**
Subtotal	—	**(203)**
Total	(5,670)	**(1,797)**
Total other comprehensive income	¥(15,210)	**¥3,267**

26 Earnings per Share

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

	FY2015 (April 1, 2015–March 31, 2016)	**FY2016 (April 1, 2016–March 31, 2017)**
Profit (loss) for the year attributable to owners of the parent (Millions of yen)	¥(3,161)	**¥14,544**
Average number of shares (Shares)	255,485,162	**255,469,508**
Basic earnings per share (Yen)	¥(12.37)	**¥56.93**

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

27 Contingent Liabilities

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

(Millions of yen)

	FY2015 (March 31, 2016)	**FY2016 (March 31, 2017)**
Affiliates:		
Bank loans	¥1,689	**¥1,289**
Total	¥1,689	**¥1,289**

Information concerning the Anti-Trust law

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

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

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

28 Commitments

Significant commitments concerning contractual liabilities for purchases of property, plant and equipment as of March 31, 2016 and 2017 are ¥1,673 million and ¥1,407 million, respectively.

29 Related Party Transactions

Compensation of senior executives

Compensation of KYB Group senior executives is as follows:

(Millions of yen)

	FY2015 (April 1, 2015–March 31, 2016)	**FY2016 (April 1, 2016–March 31, 2017)**
Compensation and bonuses	¥304	**¥256**
Total	¥304	**¥256**

30 Subsidiaries

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

31 Investments Accounted for Using Equity Method

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

(Millions of yen)

	FY2015 (March 31, 2016)	**FY2016 (March 31, 2017)**
Book values	¥3,833	**¥5,438**

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

(Millions of yen)

	FY2015 (April 1, 2015–March 31, 2016)	**FY2016 (April 1, 2016–March 31, 2017)**
Profit for the year (Profit (loss) from continuing operations)	¥(1,292)	**¥1,016**
Other comprehensive income (net of tax)	(465)	**(187)**
Total	¥(1,757)	**¥ 830**

32 Subsequent Events

(Consolidation of shares and change in number of shares constituting a trading unit)

On April 25, 2017, the KYB Board of Directors approved a change in the number of shares constituting a trading unit and approved resolutions to submit proposals for a consolidation of shares and amendments to the Articles of Incorporation at the 95th general meeting of shareholders to be held on June 23, 2017.

(1) Purpose for consolidation of shares and change in number of shares constituting a trading unit

Japanese stock exchanges have announced the Action Plan for Consolidating Trading Units, which aims to standardize the trading unit of domestic companies listed on Japanese stock exchanges at 100 shares of common stock by October 1, 2018.

As a company listed on the Tokyo Stock Exchange, KYB shall respect this aim and change in number of shares constituting a trading unit from the current 1,000 shares to 100 shares. In addition, to keep the current price level of number of shares constituting a trading unit and prevent a change in the number of voting rights, KYB plans to consolidate 10 shares into 1 share.

(2) Detail of consolidation of shares

1) Type of shares to be consolidated

Common shares

2) Method and ratio of the consolidation of shares

Shareholders of record on September 30, 2017 (effectively September 29, 2017) will be consolidated at the rate of 1 share for each 10 shares originally held on October 1, 2017.

3) Reduction in number of shares as a result of consolidation

Total number of issued shares before consolidation (March 31, 2017)	257,484,315 shares
Reduction in number of shares as a result of consolidation	231,735,884 shares
Total number of issued shares after consolidation	25,748,431 shares

Note: The reduction in number of shares as a result of consolidation and total number of issued shares after consolidation are theoretical values calculated based on the total number of issued shares before consolidation of shares and on the consolidation ratio.

4) Treatment of fractional shares

If any fractional shares arise as a result of the consolidation of shares, pursuant to the provisions of the Companies Act of Japan, KYB will pay shareholders that have fractional shares in proportion to their respective fractions.

(3) Summary of change in number of shares constituting a trading unit

The trading unit will change from 1,000 shares to 100 shares on the date of consolidation of shares.

(4) Schedule for stock consolidation and change in number of shares constituting a trading unit

Board of Directors resolutions	April 25, 2017
Shareholders meeting	June 23, 2017
Stock consolidation and change in number of shares constituting trading unit	October 1, 2017 (planned)

(5) Effect on per share information

Assuming that KYB had implemented the said consolidation of shares at the beginning of the previous fiscal year, per share information for the fiscal year ended March 31, 2016 and 2017 is as follows:

(Yen)

	FY2015 (April 1, 2015–March 31, 2016)	**FY2016 (April 1, 2016–March 31, 2017)**
Equity attributable to owners of the parent per share	¥5,804.02	**¥6,431.51**
Basic earnings per share	(123.74)	**569.32**

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

Other

Quarterly information for FY2016 (April 1, 2016–March 31, 2017)

(Millions of yen)

	Cumulative first quarter	Cumulative second quarter	Cumulative third quarter	**FY2016**
Net sales	¥87,776	¥172,929	¥261,009	**¥355,316**
Income (loss) before income taxes and minority interests	3,991	6,802	13,079	**18,852**
Profit attributable to owners of the parent	3,709	5,615	9,605	**14,544**

(Yen)

Basic earnings per share	¥ 14.52	¥ 21.98	¥ 37.60	**¥ 56.93**

(Yen)

	First quarter	Second quarter	Third quarter	Fourth quarter
Basic earnings per share	¥14.52	¥7.46	¥15.61	¥19.34

KPMG

Independent Auditor's Report

To the Board of Directors of KYB Corporation:

We have audited the accompanying consolidated financial statements of KYB Corporation and its consolidated subsidiaries, which comprise the consolidated statement of financial position as at March 31, 2017, and the consolidated statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of KYB Corporation and its consolidated subsidiaries as at March 31, 2017, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG AZSA LLC

July 13, 2017
Tokyo, Japan