KYB Corporation

Printed in Japan

KYB Corporation Annual Report 2007

Our Precision, Your Advantage

Annual Report 2007

Year Ended March 31, 2007

Contents

The Joy of Industrial Crafting

A World Where *Monozukuri* (Manufacturing Expertise) Makes People Happy

We want to remain a company that supplies customers and markets with valuable ideas. We are also dedicated to supplying new forms of value and achieving even greater customer satisfaction. To accomplish this, we view our mission as "manufacturing that goes the extra yard." To us, the joy of manufacturing is the ability to be recognized for two key strengths. One is "reliable quality," a concept that is rooted in our view that our customers include all end users of our products. The other is the ability to contribute to even more "comfortable living." Backing up these strengths are innovative technologies and a powerful R&D program. This spirit is expressed directly by our KYB logo and corporate statement, "Our Precision, Your Advantage."

Welding operation for assembly hatch covers for ships

KYB's Brand Platform

We adopted the name KYB Corporation on October 1, 2005, which is now used alongside our official name, Kayaba Industry Co., Ltd. This allows us to use the well-known KYB brand as our company name as well. Additionally, we established the corporate slogan "Our Precision, Your Advantage" for use with the new logo.

Vision **The world that KYB brand wants to realize**

A society of smiles through manufacturing

KYB is striving to create a society where the joy of manufacturing underpins the development of society and makes people smile.

Value **The value that KYB brand provides**

Technology for comfortable living

Emotional value: Comfortable living, joy of manufacturing
Functional value: Reliable quality
The value that KYB promises to end users—
"comfortable living" that is a step above, through innovative technology and diligent product development.

The value that KYB promises to the clients—
reliable quality that even considers end users as "patrons."

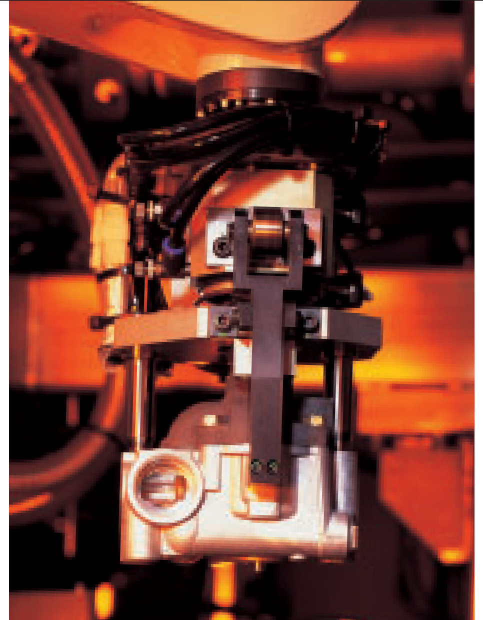
The value that KYB promises to the employees—
the "joy of manufacturing" where each and every individual can actually feel that they are making a difference in society.

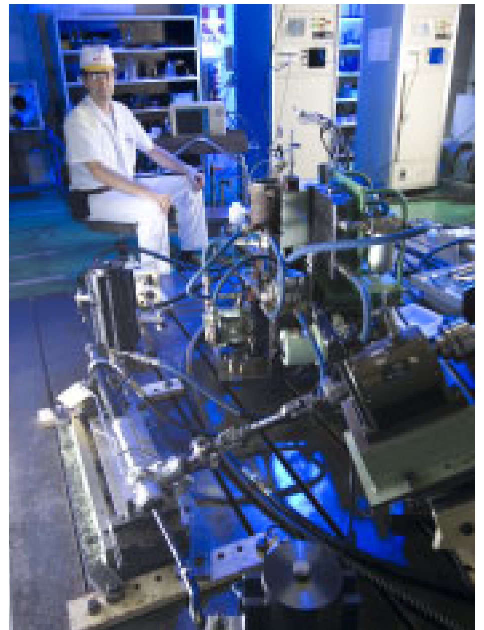
Mission **The mission that KYB brand must accomplish**

Manufacturing that goes the extra yard

KYB will continue to be a corporation that can give valuable proposals to clients and markets, making the most of the solid and reliable technology that has been developed over the years.

We will conduct manufacturing that is a step ahead with our own hands to provide new values and unprecedented satisfaction to our customers.





Satoru Yamamoto,
President and Representative Director

To Our Shareholders

Big Increases in Sales and Earnings

Fiscal 2006, ended March 2007, was the second year of our "Change & Accomplish V10 (C&A V10)" medium-term management plan. The highlight of this year was solid growth in sales of hydraulic equipment used in construction machinery. This growth was due chiefly to higher demand for hydraulic excavators and other types of construction machinery in China, Russia, India, and other countries. Strong sales of shock absorbers also contributed to our performance. The main reasons were growth in overseas production by Japanese automakers, the largest buyers of KYB shock absorbers, and an increase in aftermarket shock absorber sales, mainly in Eastern Europe. Fiscal 2006 sales and earnings include the contributions of seven newly consolidated subsidiaries. Together, these factors raised our consolidated net sales more than 20%, to ¥356,083 million.

Earnings rose to all-time highs. Operating income was up 116%, to ¥14,573 million, and net income jumped 138%, to ¥6,959 million. However, earnings were affected by an increase in variable expenses and other operating expenses. One reason was a greater reliance on outsourced production to keep up with rapid growth in orders for our products. Higher packing and freight expenses were another reason. Rising expenses prevented us to some extent from translating all of the sales growth in hydraulic products into higher earnings. We are fully aware of the need to fix this problem. We shall not be satisfied with the past year's outstanding performance. We will focus on improving profitability by manufacturing more products internally, thereby achieving continued growth in sales and earnings.

CONSOLIDATED FINANCIAL HIGHLIGHTS

KYB Corporation and Consolidated Subsidiaries
Years Ended March 31

	Millions of yen		Change	
	2007	2006	¥ million	%
For the year:				
Net sales	**¥356,083**	¥290,456	¥65,627	22.6
Costs and expenses	**341,510**	283,733	57,777	20.4
Net income	**6,959**	2,917	4,042	138.6
At year-end:				
Total net assets	**¥ 87,817**	¥ 80,681	¥ 7,136	8.8
Total assets	**285,146**	247,966	37,180	15.0
Per share data (in yen):				
Net income	**¥ 31.33**	¥ 12.63		
Cash dividends applicable to the year	**7.00**	6.00		

Note: Per share amounts are based on the average number of shares outstanding for each year.

Reinforcing Overseas Production Activities with a Greater Focus on KYB's *Monozukuri* (Manufacturing Expertise)

Under the C&A V10 medium-term management plan, we have been shifting our priority from quantity to quality, and progress is well under way. Capital expenditures have raised our output capacity along with productivity. In addition, we are increasing prices to offset the much higher cost of raw materials. Despite this progress, our performance overseas is still unsatisfactory in comparison to the growth in overseas sales and earnings at many other Japanese manufacturers.

One illustration is the performance gap between the overseas companies that we acquired and those that we established and built up ourselves. At acquired companies, differences in corporate culture tend to hamper the acceptance of our *monozukuri* concept and the good results that could have been made by the concept. On the other hand, productivity is high at overseas plants that we built ourselves from the ground up, particularly in Southeast Asia. This gives us confidence in our policy of making KYB *monozukuri* the basis of all our global manufacturing activities.

Improving overseas production activities is not solely to raise earnings. We also need to sell our products at prices that accurately reflect their value. Prices must incorporate the sharp increase in the cost of steel and other raw materials. Furthermore, our prices should be based on customers' recognition of the monetary value of the benefits our products deliver. Outstanding durability and smooth rides are two examples. Setting the prices at appropriate levels will give us a framework for earning a solid return from our operations.

Training the People Who Execute KYB *Monozukuri*

Needless to say, human resources are vital for successful *monozukuri*. Until now, our training programs have been provided mostly to workers in Japan. However, we began taking many actions to enhance the skills of our overseas workforce, including managers.

At Gifu area, we have recently completed a training center where Japanese and foreign technicians can receive training programs together. We have also established a training center at a plant in Thailand. Our decision to bolster training programs is driven by the rapid globalization of our operations. Standardizing fundamental *monozukuri* technologies, such as the KYB Production System, for tasks like welding and electroplating is essential to maintain consistent product quality and factory utilization rates. Furthermore, we hold global management conferences in many locations that bring together top executives from KYB Group companies. Quality management is a primary topic at every conference. Executives study successful and unsuccessful quality programs at Group factories in order to reinforce their understanding of KYB *monozukuri.*

Fiscal 2007—A Year to Set the Stage for Our Next Plan

Fiscal 2007, ending March 31, 2008, is the final year of C&A V10. The outlook is for another year of strong sales at Japanese automakers. In the construction machinery industry, an increase in exports from Japan of hydraulic excavators and other machinery is expected. We are moving quickly to capitalize on these opportunities. Actions include investments to increase sales and to improve our operating framework with the aim of boosting earnings.

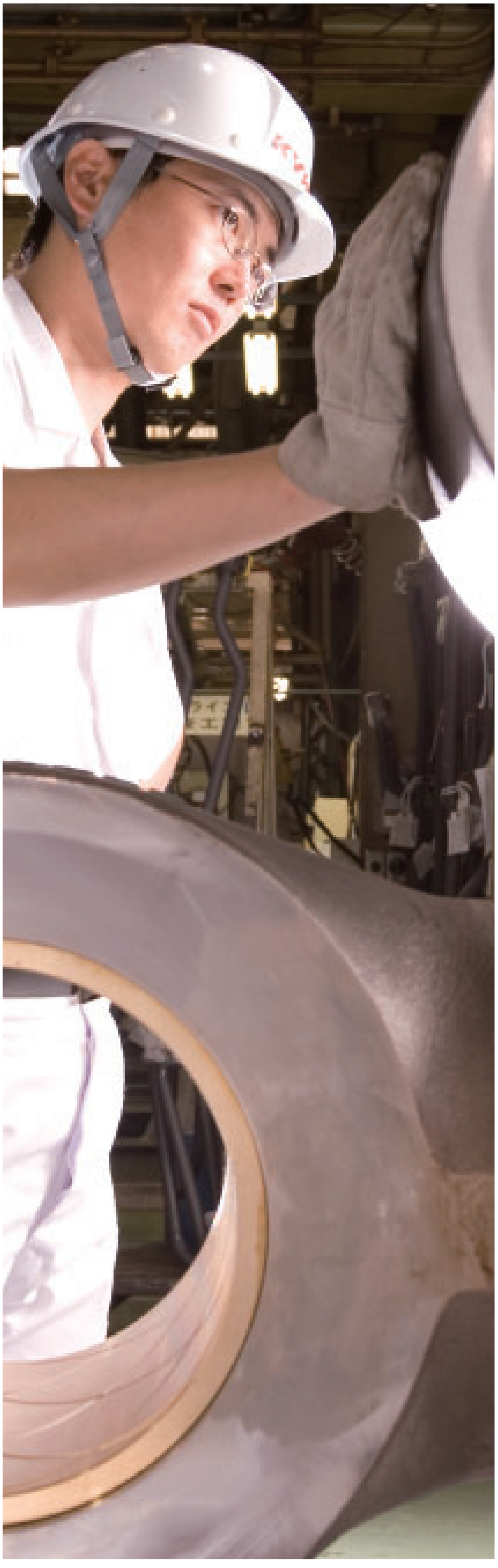
Increasing the scale of our operations alone is not enough to raise productivity. Equally, it is vital that we build production lines and factories with even higher efficiency. Demand for construction machinery hydraulic equipment is skyrocketing. To add the capacity to meet this demand and increase new orders, we will make further capital expenditures in fiscal 2007 versus the previous fiscal year. Our objective is to build manufacturing infrastructure based on a long-term perspective. Fiscal 2007 is the final year of the current management plan but, at the same time, we view this year as the effective start of our next plan. In our hydraulic equipment business, we are pursuing quantity and quality. However, we will not simply seek to maximize the sales volume of motorcycle and automobile components; instead, we will concentrate on qualitative improvements. Furthermore, these improvements must contribute to consistent profitability.

A Commitment to Shareholder Value

Distributing a suitable level of earnings to shareholders is one of our highest management priorities. Our basic policy has been to maintain a dividend-on-equity (DOE) ratio of at least 2% in every fiscal year. In line with this policy, we raised the dividend applicable in fiscal 2006 to ¥7 per share, ¥1 more than the previous year, including the interim dividend. We will continue to use retained earnings for strategic investments that raise our corporate value. Additional production facilities, new overseas manufacturing bases, and new product development are examples of these investments. We firmly believe these actions will allow us to meet the expectations of shareholders in the coming years.

S. Yamamoto.

Satoru Yamamoto
President and Representative Director



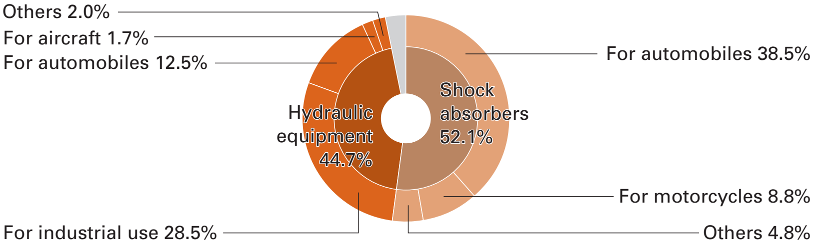
Hydraulic Products

Major Products

Shock absorbers:
For automobiles, motorcycles, railway vehicles, and all-terrain vehicles
Seismic isolation systems and vibration control dampers

Hydraulic equipment:
For industrial use: Pumps, valves, motors, and cylinders
For automobiles: Hydraulic and electric power steering systems and four-wheel steering systems
For aircraft: Equipment for landing systems, flight control systems, pneumatic/hydraulic systems, and space flight-related equipment

Sales Composition by Product



R&D Highlights of the Year

- Developed air suspension system that improves riding comfort and steering stability by absorbing twisting forces when changing direction; the new system also has a compact design that is space-saving.
- Developed motorcycle electronically controlled steering damper with variable damping in accordance with traveling speed, for effortless steering at low speeds and stability at high speeds.
- Developed front fork with double adjuster for adjustment of damping; permits independent adjustment of damping on the compression side at the low-speed and high-speed ends of the damping operation speed range.
- Developed high-performance semi-active vibration control system that greatly reduces vibrations on N700 *Shinkansen* (bullet train) rail cars.
- Developed pressure relief valve for power shovel rotating motor that provides a much better operating sensation.
- Developed a new type of mini-motion package (electrohydraulic actuator) for a U.S. agricultural machinery manufacturer; the new motion package is smaller, lighter, and has lower emissions.
- Developed and started sales of the Kurumame driving recorder that uses the recordings of events immediately before and after an accident to analyze the causes and assist in safe driving.

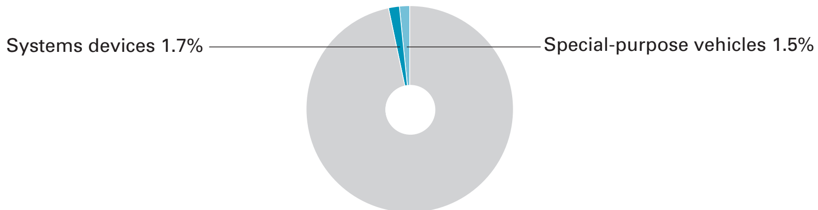
System Products

Major Products

Special-purpose vehicles:
Concrete mixer trucks, granule carriers, and special-function vehicles

Systems devices:
Motion simulators, control systems, hydraulic systems, auditorium and stage control systems, hydraulic tunnel borers, ship-based hydraulic equipment, and environment-friendly products

Sales Composition by Product



R&D Highlights of the Year

- Developed hydraulic tunnel borer with a rock-boring device and hydraulic shovel to remove debris at the tip, an unprecedented design. Permits the excavation of tunnels with a 4.5-meter diameter at a depth of up to 500 meters with high efficiency.
- Developed truck for shredding sensitive documents. Documents are shredded and mixed within the truck's drum to provide outstanding security; in addition, the truck has a compression system to transport shredded documents efficiently.
- Developed concrete mixer truck with wireless remote control for the drum.

Hydraulic Products

Segment sales increased ¥66,843 million, to ¥345,539 million (US$2,928,297 thousand), and operating income increased ¥7,293 million, to ¥20,214 million (US$171,305 thousand).

Shock Absorbers

Sales of shock absorbers for assembly use increased in Japan mainly because of a high volume of exports. Overseas, sales increased due to higher output by Japanese automakers at factories outside Japan and big increases in exports of replacement shock absorbers to Eastern Europe and North America. The result was a 22.5% increase in automotive shock absorber sales.

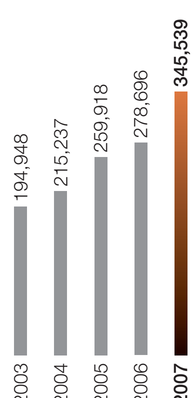
Sales of motorcycle shock absorbers were lower in Japan for the first time in two years. Although motorcycle production in Japan declined, there was a high volume of exports of large motorcycles, mainly to North America and Europe. Sales also benefited from much higher motorcycle production in Southeast Asia. The result was a 16.6% increase in sales of motorcycle shock absorbers.

Hydraulic Equipment

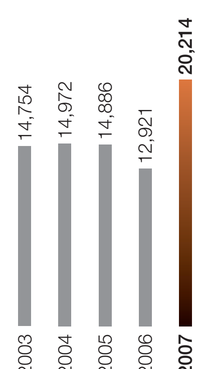
Sales of industrial hydraulic equipment increased 36.2% because of a sharp increase in sales to manufacturers of construction machinery. Sales of hydraulic excavators increased in China and orders for these excavators were up significantly in India and Russia. Higher demand in China for mini-excavators also contributed to sales growth.

Sales of power steering products, which are used in automobiles, increased 20.9%. The main reasons were growth in exports to the U.S. Big Three automakers and higher sales of hydraulic pumps for continuously variable transmissions (CVT).

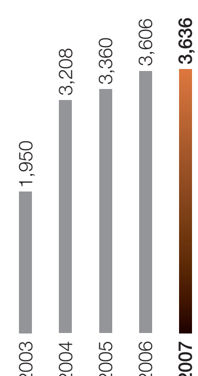
In the aerospace sector, sales increased slightly, as a review of Japan's medium-term defense plan resulted in virtually no growth in sales of aerospace equipment.



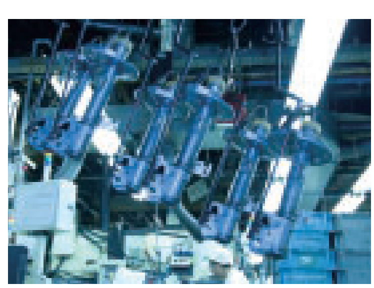
Sales
(Millions of yen)



Operating Income
(Millions of yen)



R&D Expenditures
(Millions of yen)



Painted
shock absorbers

System Products

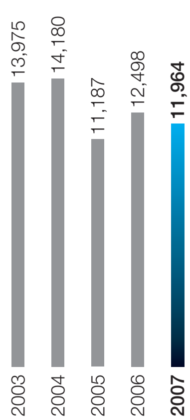
Segment sales decreased ¥534 million, to ¥11,964 million (US$101,390 thousand). Operating income improved from a loss of ¥413 million to income of ¥398 million (US$3,373 thousand) because of an improvement in the profitability of systems devices.

Special-Purpose Vehicles

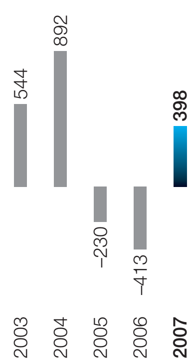
Sales of special-purpose vehicles increased 10.2%. Sales were negatively affected by an end to the temporary increase in demand for concrete mixer trucks, the segment's major product, leading up to Japan's imposition of tighter exhaust restrictions in urban areas. However, this decline was offset by growth in concrete mixer truck replacement demand in other areas of Japan.

Systems Devices

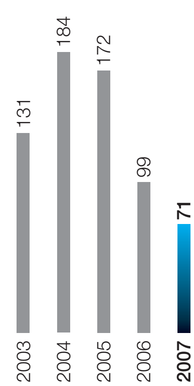
Sales decreased 18.3%, as a drop in sales of environment-friendly and auditorium and stage control system products outweighed the contribution from a recovery in orders for hydraulic tunnel borers and military products.



Sales
(Millions of yen)

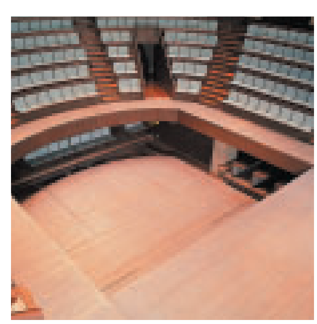


Operating Income
(Millions of yen)



R&D Expenditures
(Millions of yen)

Welding operation on rotating drum for concrete mixer truck



Theater equipment: Saitama Arts Theater

International Activities

The KYB Group has manufacturing bases in North America, South America, Europe, and Southeast Asia to serve the overseas factories of Japanese manufacturers of automobiles, motorcycles and construction machinery. These bases give the Group a global supply network for automobile and motorcycle shock absorbers, automotive hydraulic equipment, and other products.

Work is now under way in China to increase the production of automobile shock absorbers and hydraulic equipment for construction machinery.

Overseas sales increased ¥45,992 million, or 44.5%, to ¥149,240 million (US$1,264,746 thousand).

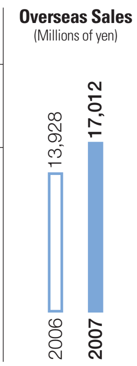
This growth raised overseas sales from 35.5% to 41.9% of total sales, a 6.4 percentage point increase that underscores the rising importance of overseas activities at the KYB Group.

The Group will continue to make investments to maintain a global infrastructure that conducts procurement and manufacturing activities at the most suitable locations in the world.

Southeast Asia

Countries:
Indonesia, Malaysia, Thailand

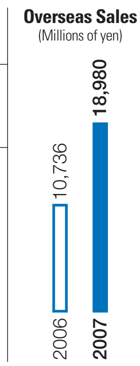
4.8% of total consolidated sales



East Asia

Countries:
China, South Korea, Taiwan

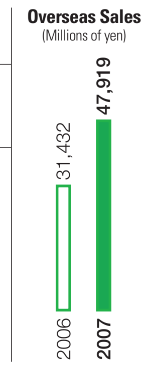
5.3% of total consolidated sales



North America

Countries:
United States, Canada

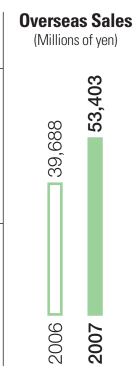
13.5% of total consolidated sales



Europe

Countries:
Germany, United Kingdom, Spain, Italy, France, Czech Republic, Russia, Poland

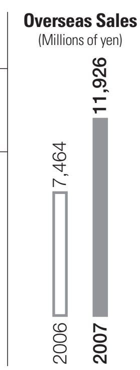
15.0% of total consolidated sales

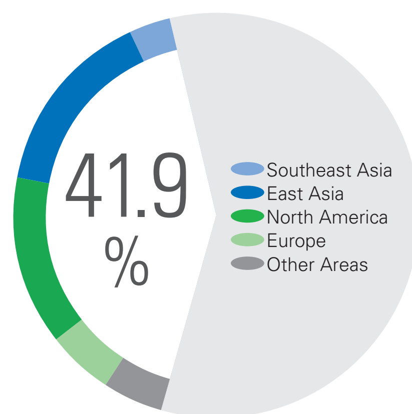


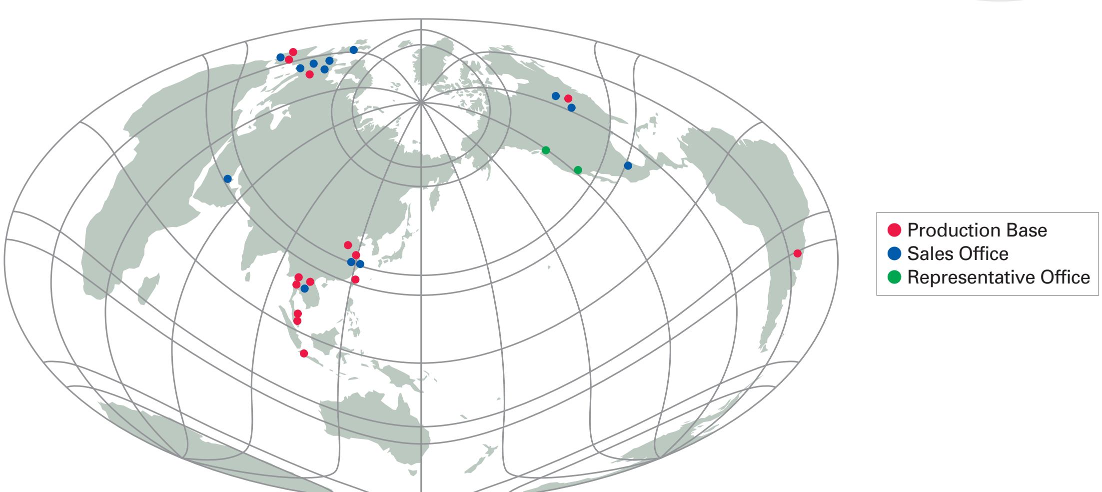
Other Areas

Countries:
Brazil, United Arab Emirates

3.3% of total consolidated sales







Environmental and Welfare Activities

Photo above:
Saidan, a vehicle for shredding sensitive documents
Photo at left:
Chipping vehicle for pruned branches

Environmental Policies

KYB has established basic environmental objectives so that all employees act as a unified team in carrying out environmental activities (established in July 1992 and revised in March 2003).

Slogan

"Protect the green earth and create products gentle to the environment."

Basic Environmental Policies

KYB creates products gentle to both people and the planet. As a company that provides power and comfort, KYB is dedicated to the promotion of environmental activities as an important tool for evaluating management.

(1) Strive to ensure long-term and sustainable operations throughout the entire KYB Group.

(2) Work to promote harmony with society and contribute to the global community as a good corporate citizen.

(3) Clarify every employee's role so that all employees can participate fully.

Activity Plan Related to Environmental Preservation

KYB is promoting activities on a Companywide scale by defining goals every year according to its "Activity Plan Related to Environmental Preservation."

The main results of activities in 2006 are as indicated below.

Activity Results for 2006

Compliation range: Sagami Plant, Kumagaya Plant, Gifu North Plant, and Gifu South Plant

Activities		Goal for 2006	Result for 2006	Activity Plan Goal for 2010
Prevention of global warming	CO_2 emissions	92,864 ton-CO_2/year or less (5.0% increase or less compared to 2004)	97,969 ton-CO_2/year (10.8% increase compared to 2004)	7% decrease in emissions (1990 comparison)
Energy savings	Energy usage (Basic unit)	250.4 ℓ/million yen or less (2% decrease compared to 2004)	218.9 ℓ/million yen (14.3% decrease compared to 2004)	6% decrease in basic unit (2004 comparison)
Recycling and recycling rate improvement	Recycling	86.6% recycling rate (2% increase compared to 2005)	84.1% recycling rate (0.5% decrease compared to 2005)	Improvement in recycling and recycling rate
	Zero emissions	3% or less landfilled waste	4.2% landfilled waste	3% or less landfilled waste
Decrease in waste	General waste	709 tons/year or less (5% increase or less compared to 2004)	787 tons/year (16.5% increase compared to 2004)	Decrease in discharge to level of 2004 or less
	Industrial waste	4,655 tons/year or less (12% increase or less compared to 2004)	5,563 tons/year (33.8% increase compared to 2004)	Decrease in discharge to level of 2004 or less
	Metal scraps (Basic unit)	97.4 kg/million yen or less (2% decrease compared to 2004)	94.6 kg/million yen (4.8% decrease compared to 2004)	6% decrease in discharge (2004 comparison)

Notes:
- In line with the changes following 2003 such as closure of plants and establishment of subsidiaries, since fiscal 2005 the activity plan up to 2010 has been reviewed based on the 2004 plan. Due to a further expected increase in production in the future, goals are set to keep general and industrial waste to the level of 2004 or less.
- Assuming discharge generated from production activities of KYB as wastes, such discharge is categorized into general waste, industrial waste, and metal scraps.
- For energy, electricity and fuel are converted into crude oil equivalent and total values are displayed as total energy.
- Basic units are calculated based on the shipment volume of production.

Board of Directors and Corporate Auditors

(As of June 26, 2007)

Board of Directors

CHAIRMAN AND REPRESENTATIVE DIRECTOR

Tadahiko Ozawa

PRESIDENT AND REPRESENTATIVE DIRECTOR

Satoru Yamamoto

EXECUTIVE MANAGING DIRECTOR AND REPRESENTATIVE DIRECTOR

Yoshitake Yonekubo
Technology, Information Systems
General Manager, Engineering Div. and Affiliated Business Operations

EXECUTIVE MANAGING DIRECTOR

Kenzo Noguchi
Finance, Accounting, Audit, Corporate Planning, Legal, CSR, Sales Administration, General Affairs, and Personal Administration
General Manager, Corporate Planning Div.

MANAGING DIRECTORS

Toshio Watanabe
Gifu Area Liaison Officer
General Manager, Automotive Components Operations

Ken Mizumukai
Production, Purchasing, Quality Control, Environment and Safety Control
General Manager, Quality & Production Div. and Quality Control Dept.

Masao Usui
General Manager, Hydraulic Components Operations

Kazuhisa Ikenoya
General Manager, Automotive Engineering Headquarters,
Deputy General Manager, Automotive Components Operations

DIRECTORS

Kiyoshi Inoue
General Manager, Electronics Div., Affiliated Business Operations

Akiyoshi Tanaka
President, KYB Manufacturing North America, Inc., Deputy General Manager, Automotive Components Operations

Keiichi Handa
General Manager, Sales & Marketing Headquarters,
Automotive Components Operations

Shigeki Hirokado
General Manager, Gifu South Plant,
Hydraulic Components Operations

Takafumi Shoji
General Manager, Finance & Accounting Dept.

Yasusuke Nakajima
General Manager, Hydraulic Sales Headquarters,
Hydraulic Components Operations

Kazuhiro Ogata
General Manager, Gifu North Plant,
Automotive Components Operations

Hitoshi Nitta
General Manager, Gifu North Motorcycle Plant,
Automotive Components Operations

Morio Komiya
General Manager, Sagami Plant, Hydraulic Components Operations

Eiji Hisada
General Manager, Corporate Planning Dept., Corporate Planning Div.

Corporate Auditors

STANDING CORPORATE AUDITORS

Hidetsune Iseki
Katsuhisa Egawa
Ichiro Akieda

CORPORATE AUDITOR

Hitoshi Fukushima

Financial Section

CONSOLIDATED FIVE-YEAR SUMMARY

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

	Millions of yen					Thousands of U.S. dollars
	2007	2006	2005	2004	2003	**2007**
For the year:						
Net sales	**¥356,083**	¥290,456	¥270,329	¥228,525	¥207,643	**$3,017,653**
Costs and expenses	**341,510**	283,733	260,687	217,406	198,706	**2,894,153**
Net income	**6,959**	2,917	5,501	6,040	2,663	**58,975**
Capital expenditures	**19,735**	15,678	14,070	10,395	8,398	**167,246**
At year-end:						
Working capital	**¥ 23,758**	¥ 21,392	¥ 26,492	¥ 17,918	¥ 24,550	**$ 201,339**
Total net assets	**87,817**	80,681	74,037	69,690	61,499	**744,212**
Total assets	**285,146**	247,966	222,224	213,845	194,455	**2,416,492**
	Yen					U.S. dollars
Per share:						
Net income	**¥ 31.33**	¥ 12.63	¥ 24.15	¥ 26.55	¥ 11.47	**$ 0.27**
Cash dividends applicable to the year	**7.00**	6.00	6.00	6.00	5.00	**0.06**
Net worth	**372.60**	343.99	316.64	299.34	266.62	**3.16**
Number of employees	**10,596**	8,387	8,186	7,645	6,105	

Note: U.S. dollar amounts were translated from Japanese yen, for convenience only, at ¥118=US$1, the approximate exchange rate prevailing on March 31, 2007.

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.

Contents

Summary

There was a substantial increase of 22.6% in consolidated net sales to ¥356,083 million (US$3,017,653 thousand) in the fiscal year ended March 31, 2007. This growth was mainly attributable to a big increase in sales of industrial-use hydraulic equipment, which is used primarily in construction machinery, and higher sales of automobile shock absorbers. A newly consolidated subsidiary also contributed to sales growth. Cost of sales increased ¥52,338 million, or 21.2%, to ¥299,228 million (US$2,535,831 thousand) but declined by 1.0 percentage point to 84.0% of net sales. The result was a ¥13,289 million increase in gross profit and an improvement in the gross margin from 15.0% to 16.0%.

Operating income increased ¥7,850 million, to ¥14,573 million (US$123,500 thousand). This increase was due to the substantial growth in sales, sales price increases to reflect the higher cost of steel, that allowed KYB to finally catch up to hikes in steel prices, measures to reduce the cost of sales and the yen's depreciation. Selling, general and administrative expenses increased ¥5,439 million, to ¥42,282 million (US$358,322 thousand), which was 11.9% of net sales. This increase was mainly a reflection of higher packing and freight expenses.

In other income (expenses), foreign exchange gain, net decreased ¥587 million, interest expenses increased ¥503 million along with growth in interest-bearing debt, loss on sale and disposal of property, plant and equipment, net increased ¥462 million and there was a patent settlement of ¥443 million and severance and retirement benefit expenses of ¥272 million at overseas subsidiaries. The result was net other expenses of ¥1,092 million (US$9,254 thousand), a ¥2,378 million decline from the net other income in the previous fiscal year.

Income before income taxes and minority interests increased ¥5,472 million, or 68.3%, to ¥13,481 million (US$114,246 million) and net income increased ¥4,042 million to ¥6,959 million (US$58,975 thousand), which was 2.0% of net sales. Net income per share was ¥31.33 (US$0.27).

Performance by Segment

Hydraulic Products segment sales increased ¥66,843 million, or 24.0%, to ¥345,539 million (US$2,928,297 thousand). Sales of automobile shock absorbers increased due mainly to an increase in sales of shock absorbers for assembly use as a high volume of exports from Japan lifted domestic automobile production. Overseas, automobile shock absorber sales benefited from a big upturn in sales of vehicles made by the Japanese automakers, the largest user of KYB automobile shock absorbers outside Japan, and higher sales of aftermarket shock absorbers in Eastern Europe and North America. For industrial-use hydraulic equipment, there was a sharp increase in sales of equipment used in construction machinery. One reason was much higher demand for hydraulic excavators in China, India, Russia and other countries. Growth in demand for mini-shovels in China's urban areas was another factor. Sales price increases to reflect the higher cost of steel, measures to reduce the cost of sales and the yen's depreciation, along with other factors, combined to produce an increase of ¥7,293 million, or 56.4% in segment operating income, to ¥20,214 million (US$171,305 thousand).

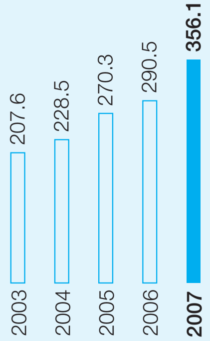
System Products segment sales decreased ¥534 million, or 4.3%, to ¥11,964 million (US$101,390 thousand). In the special-purpose vehicles sector, there was an increase in sales of concrete mixer trucks, the largest component of sales. Demand was negatively impacted by the end of a temporary upturn in demand caused by Japan's stricter exhaust emissions restrictions in the Tokyo area. However, this was offset by growth in replacement demand for aging concrete mixer trucks in other regions of Japan. Sales of systems devices declined. Although there was a recovery in sales of tunnel excavation machinery and products sold to the Japanese Ministry of Defense, sales of environmental machinery and auditorium and stage control systems were lower. Segment operating income was ¥398 million (US$3,373 thousand), compared with a loss of ¥413 million in the previous fiscal year, due mainly to an improvement in the profitability of the systems devices sector.

For geographic segments, KYB started reporting performance in North America separately in the past fiscal year because of the growing importance of this region. North America was included in "other areas" in prior fiscal years.

In Europe, sales increased ¥11,541 million, or 30.6%, to ¥49,291 million (US$417,720 thousand), mostly because of higher sales of aftermarket parts in Russia, Poland and other

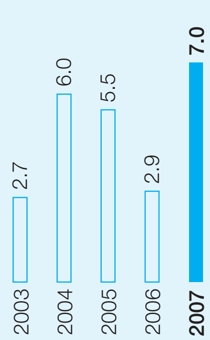
Net Sales

(Billions of yen)



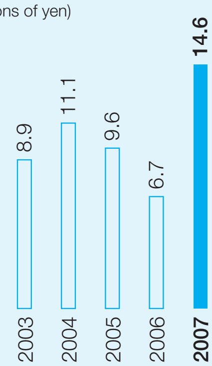
Net Income

(Billions of yen)



Operating Income

(Billions of yen)



countries in Eastern Europe further contributed to performance in this region. Operating income was ¥464 million (US$3,932 thousand) compared with a loss of ¥372 million in the prior fiscal year.

In North America, sales increased ¥9,525 million, or 32.6%, to ¥38,745 million (US$328,348 thousand). This was due to higher sales of shock absorbers for assembly use for Japanese automakers and sales of aftermarket parts for major distributors. Operating loss increased ¥104 million, to ¥807 million (US$6,838 thousand).

In other areas, sales increased ¥11,975 million, or 59.4%, to ¥32,126 million (US$272,254 thousand). In China, sales of shock absorbers for automobiles were higher and there was another substantial increase in sales of hydraulic equipment for construction machinery. In Southeast Asia, sales of automobile and motorcycle shock absorbers increased. Operating income improved by ¥1,735 million to ¥2,382 million (US$20,186 thousand).

Financial Condition

Total assets amounted to ¥285,146 million (US$2,416,492 thousand), an increase of ¥37,180 million, or 15.0%, compared with the previous fiscal year-end. Total current assets increased ¥25,307 million, or 18.1%, to ¥165,125 million (US$1,399,364 thousand). This was mainly attributable to higher sales and growth in trade notes and accounts receivable and inventories due to a newly consolidated subsidiary. Net property, plant and equipment increased ¥16,626 million, or 21.4%, to ¥94,344 million (US$799,526 thousand) because of higher capital expenditures and the newly consolidated subsidiary. Total investments and other non-current assets decreased ¥4,753 million, or 15.6%, to ¥25,677 million (US$217,602 thousand) mainly because of a decline in investments in and loans to unconsolidated subsidiaries and affiliated companies.

Total liabilities increased ¥30,044 million, or 18.0%, to ¥197,329 million (US$1,672,280 thousand). The major causes were increases in trade notes and accounts payable due to growth in production volume and in long-term debt less current maturities resulting primarily from debt at the newly consolidated subsidiary. Interest-bearing debt increased ¥8,028 million, or 14.0%, to ¥65,571 million (US$555,686 thousand), due to a newly consolidated subsidiary, which had interest-bearing debt of ¥8,193 million. The debt-equity ratio (interest-bearing debt divided by net assets excluding minority interests) increased from 75.0% to 79.0% and the current ratio decreased from 1.18 to 1.17.

Total net assets increased ¥7,136 million to ¥87,817 million (US$744,212 thousand) mostly because of higher retained earnings. However, the large increase in total assets caused the equity ratio to decline by 1.8 percentage points to 29.1%.

Cash Flows

Net cash provided by operating activities was ¥20,358 million (US$172,526 thousand), 47.3% higher than in the previous fiscal year. Major uses of cash were changes in trade notes and accounts receivable of ¥11,218 million and changes in inventories of ¥5,323 million. The primary sources of cash were income before income taxes and minority interests of ¥13,481 million, depreciation and amortization of ¥12,461 million, changes in trade notes and accounts payable of ¥10,141 million and changes in payables—other of ¥2,313 million.

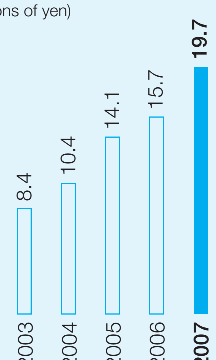
Net cash used in investing activities increased 14.8% to ¥18,323 million (US$155,280 thousand). The primary use of cash was payments for acquisition of property, plant and equipment of ¥19,042 million.

Net cash used in financing activities was ¥3,157 million (US$26,754 thousand), compared to the net cash provideded by financing activities of ¥2,965 million in the previous fiscal year. The primary uses of cash were acquisition and disposal of treasury stock, net of ¥2,052 million, which was used in exchange for the acquisition of stock in a subsidiary, and cash dividends paid of ¥1,325 million.

Although cash was used for a payment for acquisition of property, plant and equipment and changes in trade notes and accounts receivable, an increase of ¥5,472 million, or 68.3% in income before income taxes and minority interests and other factors resulted in a net increase of ¥1,688 million, or 11.3%, in cash and cash equivalents at the end of year, to ¥16,651 million (US$141,110 thousand).

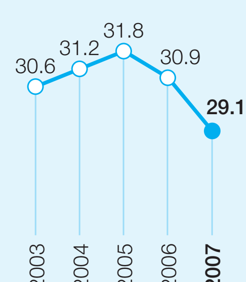
Capital Expenditures

(Billions of yen)



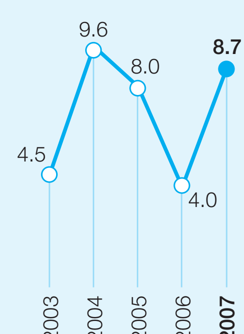
Equity Ratio

(%)



Return on Equity (ROE)

(%)



CONSOLIDATED BALANCE SHEETS

Kayaba Industry Co., Ltd. and its Consolidated Subsidiaries   As of March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	**2007**	2006	**2007**
Current assets:			
Cash and time deposits (Note 10)	**¥ 16,407**	¥ 10,665	**$ 139,042**
Trade receivables:			
Notes and accounts (Note 3)	**97,710**	82,475	**828,051**
Unconsolidated subsidiaries and affiliated companies	**2,943**	3,677	**24,941**
Allowance for doubtful accounts	**(1,019)**	(680)	**(8,635)**
Marketable securities (Note 12)	**631**	—	**5,347**
Inventories (Note 4)	**43,975**	35,103	**372,669**
Deferred tax assets (Note 7)	**3,736**	2,585	**31,661**
Short-term loans receivable	**11**	5,028	**93**
Prepaid expenses and other current assets	**731**	965	**6,195**
Total current assets	**165,125**	139,818	**1,399,364**
Property, plant and equipment (Note 5):			
Land	**18,549**	17,555	**157,195**
Buildings and structures	**50,735**	43,029	**429,958**
Machinery, equipment and automobiles	**199,419**	177,956	**1,689,992**
Construction in progress	**2,905**	2,736	**24,618**
Total property, plant and equipment	**271,608**	241,276	**2,301,763**
Less: Accumulated depreciation	**(177,264)**	(163,558)	**(1,502,237)**
Net property, plant and equipment	**94,344**	77,718	**799,526**
Investments and other non-current assets:			
Investments in and loans to unconsolidated subsidiaries and affiliated companies (Note 12)	**3,683**	7,719	**31,212**
Investment securities (Note 12)	**16,303**	17,868	**138,161**
Lease deposits, loans and other long-term receivables	**1,711**	1,419	**14,500**
Deferred tax assets (Note 7)	**2,407**	1,437	**20,398**
Goodwill	**1,317**	1,792	**11,161**
Other assets	**391**	284	**3,314**
Allowance for doubtful accounts	**(135)**	(89)	**(1,144)**
Total investments and other non-current assets	**25,677**	30,430	**217,602**
Total assets	**¥285,146**	¥247,966	**$2,416,492**

See accompanying notes.

LIABILITIES AND NET ASSETS	Millions of yen 2007	Millions of yen 2006	Thousands of U.S. dollars (Note 1) 2007
Current liabilities:			
Bank loans (Note 5)	**¥ 25,715**	¥ 20,315	**$ 217,924**
Current maturities of long-term debt (Note 5)	**4,428**	8,867	**37,525**
Trade payables:			
Notes and accounts (Note 3)	**80,993**	68,626	**686,381**
Unconsolidated subsidiaries and affiliated companies	**693**	404	**5,873**
Payables—other	**13,236**	9,786	**112,170**
Accrued expenses	**9,564**	7,840	**81,051**
Income taxes payable	**5,380**	2,028	**45,593**
Allowance for bonuses to directors and corporate auditors	**121**	—	**1,025**
Other current liabilities	**1,237**	560	**10,483**
Total current liabilities	**141,367**	118,426	**1,198,025**
Long-term liabilities:			
Long-term debt less current maturities (Note 5)	**34,731**	28,361	**294,331**
Retirement benefits (Note 6)	**15,045**	15,420	**127,500**
Deferred tax liabilities on land revaluation	**4,513**	4,513	**38,246**
Allowance for environmental expenses	**196**	—	**1,661**
Other long-term liabilities	**1,477**	565	**12,517**
Total long-term liabilities	**55,962**	48,859	**474,255**
Contingent liabilities (Note 9)			
Net assets (Note 8):			
Common stock:			
Authorized—491,955,000 shares			
Issued—222,984,315 shares	**19,114**	19,114	**161,983**
Capital surplus	**20,263**	20,249	**171,720**
Retained earnings	**32,350**	27,070	**274,153**
Less: Treasury stock, at cost	**(162)**	(78)	**(1,373)**
Net unrealized holding gains on securities, net of taxes	**5,287**	6,768	**44,805**
Revaluation reserve for land, net of taxes	**4,761**	4,761	**40,347**
Foreign currency translation adjustments	**1,358**	(1,166)	**11,509**
Minority interests in consolidated subsidiaries	**4,846**	3,963	**41,068**
Total net assets	**87,817**	80,681	**744,212**
Total liabilities and net assets	**¥285,146**	¥247,966	**$2,416,492**

CONSOLIDATED STATEMENTS OF INCOME

Kayaba Industry Co., Ltd. and its Consolidated Subsidiaries   Years Ended March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	**2007**
Net sales (Note 16)	**¥356,083**	¥290,456	**$3,017,653**
Cost of sales (Notes 14 and 16)	**299,228**	246,890	**2,535,831**
Gross profit	**56,855**	43,566	**481,822**
Selling, general and administrative expenses (Notes 14 and 16)	**42,282**	36,843	**358,322**
Operating income (Note 16)	**14,573**	6,723	**123,500**
Other income (expenses):			
Interest and dividend income	**388**	278	**3,288**
Interest expense	**(1,725)**	(1,222)	**(14,618)**
Other, net (Note 15)	**245**	2,230	**2,076**
Net other income (expenses)	**(1,092)**	1,286	**(9,254)**
Income before income taxes and minority interests	**13,481**	8,009	**114,246**
Income taxes (Note 7):			
Current	**7,089**	3,598	**60,076**
Deferred	**(1,033)**	898	**(8,754)**
Income before minority interests	**7,425**	3,513	**62,924**
Minority interests	**466**	596	**3,949**
Net income	**¥ 6,959**	¥ 2,917	**$ 58,975**
	Yen		U.S. dollars (Note 1)
Amounts per share of common stock:			
Net income	**¥ 31.33**	¥ 12.63	**$ 0.27**
Cash dividends applicable to the year	**7.00**	6.00	**0.06**

See accompanying notes.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Kayaba Industry Co., Ltd. and its Consolidated Subsidiaries Years Ended March 31, 2007 and 2006

	Thousands	Millions of yen								
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized holding gains on securities, net of taxes	Revaluation reserve for land, net of taxes	Foreign currency translation adjustments	Minority interests in consolidated subsidiaries	Total net assets
Balance at March 31, 2005	222,984	¥19,114	¥20,249	¥26,714	¥ (62)	¥3,592	¥3,658	¥(2,609)	¥3,381	¥74,037
Cash dividends paid	—	—	—	(1,337)	—	—	—	—	—	(1,337)
Bonuses to directors and corporate auditors	—	—	—	(121)	—	—	—	—	—	(121)
Net income	—	—	—	2,917	—	—	—	—	—	2,917
Decrease due to revaluation reserve for land, net of taxes	—	—	—	(1,103)	—	—	—	—	—	(1,103)
Acquisition of treasury stock	—	—	—	—	(16)	—	—	—	—	(16)
Disposal of treasury stock	—	—	0	—	0	—	—	—	—	0
Net change of items other than shareholders' equity	—	—	—	—	—	3,176	1,103	1,443	582	6,304
Balance at March 31, 2006	222,984	19,114	20,249	27,070	(78)	6,768	4,761	(1,166)	3,963	80,681
Cash dividends paid	**—**	**—**	**—**	**(1,325)**	**—**	**—**	**—**	**—**	**—**	**(1,325)**
Bonuses to directors and corporate auditors	**—**	**—**	**—**	**(97)**	**—**	**—**	**—**	**—**	**—**	**(97)**
Net income	**—**	**—**	**—**	**6,959**	**—**	**—**	**—**	**—**	**—**	**6,959**
Decrease resulting from change of consolidation scope	**—**	**—**	**—**	**(257)**	**(3)**	**—**	**—**	**—**	**—**	**(260)**
Acquisition of treasury stock	**—**	**—**	**—**	**—**	**(2,059)**	**—**	**—**	**—**	**—**	**(2,059)**
Disposal in treasury stock	**—**	**—**	**14**	**—**	**1,978**	**—**	**—**	**—**	**—**	**1,992**
Net change of items other than shareholders' equity	**—**	**—**	**—**	**—**	**—**	**(1,481)**	**—**	**2,524**	**883**	**1,926**
Balance at March 31, 2007	**222,984**	**¥19,114**	**¥20,263**	**¥32,350**	**¥ (162)**	**¥5,287**	**¥4,761**	**¥1,358**	**¥4,846**	**¥87,817**

	Thousands of U.S. dollars (Note 1)								
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized holding gains on securities, net of taxes	Revaluation reserve for land, net of taxes	Foreign currency translation adjustments	Minority interests in consolidated subsidiaries	Total net assets
Balance at March 31, 2006	$161,983	$171,601	$229,407	$ (661)	$57,356	$40,347	$ (9,881)	$33,585	$683,737
Cash dividends paid	**—**	**—**	**(11,229)**	**—**	**—**	**—**	**—**	**—**	**(11,229)**
Bonuses to directors and corporate auditors	**—**	**—**	**(822)**	**—**	**—**	**—**	**—**	**—**	**(822)**
Net income	**—**	**—**	**58,975**	**—**	**—**	**—**	**—**	**—**	**58,975**
Decrease resulting from change of consolidation scope	**—**	**—**	**(2,178)**	**(25)**	**—**	**—**	**—**	**—**	**(2,203)**
Acquisition of treasury stock	**—**	**—**	**—**	**(17,449)**	**—**	**—**	**—**	**—**	**(17,449)**
Disposal of treasury stock	**—**	**119**	**—**	**16,762**	**—**	**—**	**—**	**—**	**16,881**
Net change of items other than shareholders' equity	**—**	**—**	**—**	**—**	**(12,551)**	**—**	**21,390**	**7,483**	**16,322**
Balance at March 31, 2007	**$161,983**	**$171,720**	**$274,153**	**$ (1,373)**	**$44,805**	**$40,347**	**$11,509**	**$41,068**	**$744,212**

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Kayaba Industry Co., Ltd. and its Consolidated Subsidiaries Years Ended March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	**2007**
Cash flows from operating activities:			
Income before income taxes and minority interests	**¥13,481**	¥ 8,009	**$114,246**
Depreciation and amortization	**12,461**	10,407	**105,602**
Loss on sale and disposal of property, plant and equipment, net	**832**	370	**7,051**
Patent settlement	**443**	—	**3,754**
Gain on sale of investment securities	**(103)**	(335)	**(873)**
Amortization of goodwill	**632**	647	**5,356**
Changes in allowance for doubtful accounts	**373**	472	**3,161**
Changes in retirement benefits	**(675)**	(303)	**(5,721)**
Interest and dividend income	**(388)**	(278)	**(3,288)**
Interest expense	**1,725**	1,222	**14,619**
Equity in earnings of unconsolidated subsidiaries and affiliated companies	**(502)**	(495)	**(4,254)**
Changes in trade notes and accounts receivable	**(11,218)**	(9,004)	**(95,068)**
Changes in inventories	**(5,323)**	(3,483)	**(45,110)**
Changes in trade notes and accounts payable	**10,141**	12,806	**85,941**
Increase in allowance for directors and corporate auditors	**121**	—	**1,025**
Increase in allowance for environmental expenses	**196**	—	**1,661**
Changes in payables—other	**2,313**	(1,071)	**19,602**
Other, net	**1,374**	(623)	**11,643**
Subtotal	**25,883**	18,341	**219,347**
Interest and dividends received	**689**	527	**5,839**
Interest paid	**(1,695)**	(1,195)	**(14,364)**
Income taxes paid	**(4,138)**	(3,877)	**(35,068)**
Income taxes refunded	**62**	25	**526**
Payment for patent settlement	**(443)**	—	**(3,754)**
Net cash provided by operating activities	**20,358**	13,821	**172,526**
Cash flows from investing activities:			
Transfer to time deposits	**(683)**	(642)	**(5,788)**
Transfer from time deposits	**964**	1,127	**8,169**
Payment for acquisition of property, plant and equipment	**(19,042)**	(16,166)	**(161,373)**
Proceeds from sale of property, plant and equipment	**1,697**	2,070	**14,381**
Payment for acquisition of subsidiaries' stock	**(452)**	—	**(3,830)**
Payment for acquisition of investment securities	**(800)**	(1,068)	**(6,780)**
Proceeds from sale of investment securities	**169**	392	**1,432**
Payment for loans	**(87)**	(95)	**(737)**
Proceeds from collection of loans	**361**	29	**3,059**
Other, net	**(450)**	(1,607)	**(3,813)**
Net cash used in investing activities	**(18,323)**	(15,960)	**(155,280)**
Cash flows from financing activities:			
Increase in bank loans, net	**2,300**	2,253	**19,492**
Proceeds from long-term debt	**8,151**	6,224	**69,076**
Repayment of long-term debt	**(10,011)**	(4,024)	**(84,839)**
Payment for bond redemption	**(70)**	—	**(593)**
Acquisition and disposal of treasury stock, net	**(2,052)**	(23)	**(17,390)**
Cash dividends paid	**(1,325)**	(1,337)	**(11,229)**
Cash dividends paid for minority interests	**(150)**	(128)	**(1,271)**
Net cash provided by (used in) financing activities	**(3,157)**	2,965	**(26,754)**
Effect of exchange rate changes on cash and cash equivalents	**481**	177	**4,076**
Net increase (decrease) in cash and cash equivalents	**(641)**	1,003	**(5,432)**
Cash and cash equivalents at beginning of year	**14,963**	13,960	**126,805**
Increase in cash and cash equivalents due to change of consolidation scope	**2,329**	—	**19,737**
Cash and cash equivalents at end of year (Note 10)	**¥16,651**	¥14,963	**$141,110**

 See accompanying notes.

1. Basis of Presenting Consolidated Financial Statements

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

The accounts of the Company's overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English (with certain expanded disclosure and the inclusion of the consolidated statements of changes in net assets for 2006) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Certain supplementary information included in the statutory Japanese-language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2007, which was ¥118 to U.S.$1. The convenience translations should not be construed as representation that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. Summary of Significant Accounting Policies

Consolidation

The consolidated financial statements of the Company include the accounts of the Company and its significant subsidiaries (26 in 2007 and 19 in 2006), which are controlled through substantial ownership of majority voting rights or the existence of certain conditions.

Financial statements of certain consolidated subsidiaries that have the fiscal year ending December 31 were consolidated with adjustments made for material transactions that took place in the three-month period between the balance sheet date of such subsidiaries and that of the Company. In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiaries.

The difference between the cost of an investment and equity in its net assets at the date of acquisition is being amortized over five years.

Equity method

Investments in four affiliated companies in 2007 and 2006 (20% to 50% owned and certain others less than 20% owned) are accounted for by the equity method and, accordingly, are stated at cost adjusted for equity in undistributed earnings and losses from the date of acquisition.

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

Foreign currency translation

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

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

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

Cash and cash equivalents

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

Allowance for doubtful accounts

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

Inventories

Inventories are stated at cost by the periodic-average method.

Securities

Under the accounting standard for financial instruments, the Companies examine the intent of holding each security and classify those securities as (a) securities held for trading purposes, (b) debt securities intended to be held to maturity, (c) equity securities issued by subsidiaries and affiliated companies and (d) all other securities that are not classified in any of the above categories (hereafter, "available-for-sale securities").

Equity securities issued by subsidiaries and affiliated companies that are not consolidated or accounted for using the equity method are stated at moving-average cost.

Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Realized gains and losses on sales of such securities are computed using moving-average cost.

Securities with no available fair market value are stated at moving-average cost.

Derivative transactions and hedge accounting

The accounting standard for financial instruments requires companies to state derivative financial instruments at fair value and to recognize changes in the fair value as gains or losses unless derivative financial instruments are used for hedging purposes.

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

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

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

Property, plant and equipment

Property, plant and equipment are carried at cost except for certain land used for business operations. Depreciation is computed by the declining-balance method at rates based on the estimated useful lives, except for buildings acquired after March 31, 1998, which are depreciated using the straight-line method. Overseas consolidated subsidiaries mainly use the straight-line method over the estimated useful lives.

Land revaluation

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

According to the revised law, the Company and a certain subsidiary are not permitted to revalue the land at any time, even if the fair value of the land declines. Such unrecorded revaluation loss amounted to ¥3,290 million (US$27,881 thousand) as of March 31, 2007.

Research and development

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

Certain lease transactions

Finance leases, except for those leases for which the ownership of the leased assets is considered to be transferred to lessees, are accounted for as operating leases.

Allowance for bonuses to directors and corporate auditors

The Company and its domestic consolidated subsidiaries provide allowance for bonuses to directors and corporate auditors based on the estimated amounts of payments.

Previously, bonuses to directors and corporate auditors continued to be subject to approval at the general shareholders' meeting in Japan. Effective from the year ended March 31, 2007, the Company and its domestic consolidated subsidiaries adopted the new accounting standard, "Accounting Standard for Directors' Bonuses" (Statement No. 4 issued by the Accounting Standards Board of Japan on November 29, 2005). This new standard states that bonuses to directors and corporate auditors must be expensed at the year-end to which such bonuses are attributable and are no longer allowed to be accounted for as an appropriation of retained earnings. As a result, the effect of the adoption was to decrease income before income taxes and minority interests for the year ended March 31, 2007 by ¥121 million ($1,025 thousand).

Retirement benefits

(1) Employees' severance and retirement benefits

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

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

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

Actuarial gains and losses are recognized in the consolidated statements of income in equal amounts over the average of the estimated remaining service lives (14 to 15 years), commencing with the succeeding period.

(2) Severance and retirement allowance for directors and corporate auditors

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

Allowance for environmental expenses

Allowance for environmental expenses is provided based on estimated costs for the disposal of PCB (polychlorinated biphenyl) as mandated by the Law Concerning Special Measures against PCB Waste.

Income taxes

Income taxes comprise corporation, enterprise and inhabitants taxes.

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

Amounts per share

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

Accounting Standard for Presentation of Net Assets in the Balance Sheet

Effective from the year ended March 31, 2007, the Company and its domestic consolidated subsidiaries adopted the new accounting standard, "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Statement No. 5 issued by the Accounting Standards Board of Japan on December 9, 2005), and the implementation guidance for the accounting standard for presentation of net assets in the balance sheet (Financial Accounting Standard Implementation Guidance No. 8 issued by the Accounting Standards Board of Japan on December 9, 2005) (collectively, the "New Accounting Standards").

Under the New Accounting Standards, the balance sheets comprise three sections, which are the assets, liabilities and net assets sections. Previously, the balance sheets comprised the assets, liabilities, minority interests, as applicable, and the shareholders' equity sections.

Under the New Accounting Standards, the following items are presented differently compared to the previous presentation. Minority interests are required to be included in the net assets section under the New Accounting Standards. Under the previous presentation rules, companies were required to present minority interests between the non-current liabilities and shareholders' equity sections.

The consolidated balance sheets as of March 31, 2006 have been restated to conform to the 2007 presentation. As a result, minority interests amounting to ¥3,963 million are included in the net assets section as of March 31, 2006. But there were no effects on the total assets or total liabilities from applying the New Accounting Standards to the balance sheets as of March 31, 2006.

The adoption of the New Accounting Standards had no impact on the consolidated statements of income for the years ended March 31, 2007 and 2006.

Accounting Standard for Consolidated Statement of Changes in Net Assets

Effective from the year ended March 31, 2007, the Company and its domestic consolidated subsidiaries adopted the new accounting standard, "Accounting Standard for Statement of Changes in Net Assets" (Statement No. 6 issued by the Accounting Standards Board of Japan on December 27, 2005), and the implementation guidance for the accounting standard for statement of changes in net assets (Financial Accounting Standard Implementation Guidance No. 9 issued by the Accounting Standards Board of Japan on December 27, 2005) (collectively, the "Additional New Accounting Standards").

Accordingly, the Company prepared the statements of changes in net assets for the year ended March 31, 2007 in accordance with the Additional New Accounting Standards. Also, the Company voluntarily prepared the consolidated statement of changes in net assets for the year ended March 31, 2006 in accordance with the Additional New Accounting Standards. Previously, consolidated statements of shareholders' equity were prepared for the purpose of inclusion in the consolidated financial statements although such statements were not required under Japanese GAAP.

Reclassifications

Certain prior-year amounts have been reclassified to conform to the current-year presentation.

3. Effect of Bank Holiday on March 31, 2007

Notes receivable of ¥959 million ($8,127 thousand) and notes payable of ¥435 million ($3,686 thousand) maturing on March 31, 2007 were treated as having been settled on the maturity date, even though financial institutions in Japan were closed on March 31, 2007.

4. Inventories

Inventories as of March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Finished products	**¥19,476**	¥15,132	**$165,051**
Work in process	**16,228**	14,098	**137,525**
Raw materials and supplies	**8,271**	5,873	**70,093**
	¥43,975	¥35,103	**$372,669**

5. Bank Loans and Long-Term Debt

Bank loans as of March 31, 2007 and 2006 were represented by short-term notes, generally 90 days, bearing annual interest rates ranging from 0.55% to 6.09% and from 0.51% to 5.60%, respectively.

Long-term debt as of March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Loans from banks and others, due through 2016 with interest rates ranging from 0.55% to 6.00%:			
Secured	**¥ 200**	¥ 400	**$ 1,695**
Unsecured	**38,959**	36,828	**330,161**
Total	**39,159**	37,228	**331,856**
Less: Current maturities	**(4,428)**	(8,867)	**(37,525)**
	¥34,731	¥28,361	**$294,331**

As is customary in Japan, security may have to be given if requested by a lending bank, and such bank has the right to offset cash deposited with it against any debt or all obligations that become due and, in the case of default or certain other specified events, against all debts payable to the bank. The Company has never received such a request.

As of March 31, 2007, the following assets were pledged as collateral for notes and long-term bank loans:

	Millions of yen	Thousands of U.S. dollars
Property, plant and equipment, less accumulated depreciation	¥13,042	$110,525

The aggregate annual maturities of long-term debt were as follows:

Fiscal years ending March 31,	Millions of yen	Thousands of U.S. dollars
2008	¥ 4,428	$ 37,526
2009	4,098	34,729
2010	1,821	15,432
2011	2,518	21,339
2012	16,000	135,593
Thereafter	10,294	87,237
	¥39,159	$331,856

6. Retirement Benefits

Retirement benefits included in the liabilities section of the consolidated balance sheets as of March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Projected benefit obligation	**¥37,301**	¥38,042	**$316,110**
Unrecognized actuarial differences	**8,016**	5,611	**67,932**
Less: Fair value of plan assets	**(31,115)**	(28,800)	**(263,686)**
Liability for employees' severance and retirement benefits	**14,202**	14,853	**120,356**
Severance and retirement allowance for directors and corporate auditors	**843**	567	**7,144**
Total retirement benefits	**¥15,045**	¥15,420	**$127,500**

Included in the consolidated statements of income for the years ended March 31, 2007 and 2006 were employees' severance and retirement benefit expenses comprising the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Service costs—benefits earned during the year	**¥1,961**	¥1,762	**$16,619**
Interest cost on projected benefit obligation	**748**	758	**6,339**
Expected return on plan assets	**(526)**	(220)	**(4,458)**
Amortization of actuarial differences	**(265)**	199	**(2,246)**
Special payment of extra retirement benefits	**23**	8	**195**
Severance and retirement benefit expenses	**¥1,941**	¥2,507	**$16,449**

The estimated amount of all employees' retirement benefits to be paid at the future retirement date is allocated equally to each service year using the estimated number of total service years. The discount rates used by the Company and certain consolidated subsidiaries were 2.0% to 2.5% for the years ended March 31, 2007 and 2006. The rates of expected return on plan assets used by the Company and certain consolidated subsidiaries were 2.5% to 3.0% and 1.0% to 2.5% for the years ended March 31, 2007 and 2006, respectively.

7. Income Taxes

Income taxes applicable to the Company and its domestic consolidated subsidiaries are comprised of corporation taxes, inhabitants taxes and enterprise taxes. Income taxes of the foreign consolidated subsidiaries are based generally on the tax rates applicable in their countries of incorporation. The aggregate statutory tax rate for the years ended March 31, 2007 and 2006 was 39.8%.

The following table summarizes the significant differences between the statutory tax rate and the actual effective tax rate:

Statutory tax rate	39.8%
Increase in valuation allowance	3.9
Effect of dividend income elimination	2.3
Amortization of goodwill	1.8
Non-deductible expenses (entertainment expense, etc.)	0.8
Equity in earnings of the affiliated companies	(1.5)
Tax credit	(1.8)
Other	(0.4)
Effective tax rate	44.9%

Significant components of the deferred tax assets and liabilities as of March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Deferred tax assets:			
Provision for employees' severance and retirement benefits	**¥10,106**	¥10,399	**$ 85,644**
Loss carried forward	**4,085**	3,888	**34,619**
Accrued bonuses	**1,662**	1,434	**14,085**
Accrued expenses (accrual for product warranties, etc.)	**850**	325	**7,203**
Inventories	**703**	543	**5,958**
Allowance for doubtful accounts	**434**	285	**3,678**
Enterprise taxes	**381**	179	**3,229**
Software	**375**	285	**3,178**
Allowance for retirement benefits for directors and corporate auditors	**338**	227	**2,864**
Other	**974**	649	**8,254**
Total deferred tax assets	**19,908**	18,214	**168,712**
Less: Valuation allowance	**(5,483)**	(4,833)	**(46,466)**
	14,425	13,381	**122,246**
Deferred tax liabilities:			
Unrealized holding gains on securities	**(3,833)**	(4,495)	**(32,483)**
Securities contributed to employees' retirement benefit trust	**(3,520)**	(3,917)	**(29,830)**
Tax allowable reserves for deduction of fixed assets	**(429)**	(530)	**(3,636)**
Undistributed earnings of overseas subsidiaries	**(356)**	(274)	**(3,017)**
Other	**(191)**	(143)	**(1,619)**
Total deferred tax liabilities	**(8,329)**	(9,359)	**(70,585)**
Net deferred tax assets	**¥ 6,096**	¥ 4,022	**$ 51,661**

8. Net Assets

The Japanese Corporate Law ("the Law") became effective on May 1, 2006, replacing the Japanese Commercial Code ("the Code"). The Law is generally applicable to events and transactions occurring after April 30, 2006 and for fiscal years ending after that date.

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

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

Under the Code, companies were required to set aside an amount equal to at least 10% of the aggregate amount of cash dividends and other cash appropriations as legal earnings reserve until the total of legal earnings reserve and additional paid-in capital equaled 25% of common stock.

Under the Code, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or could be capitalized by a resolution of the Board of Directors. Under the Law, both of these appropriations generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Code, however, on condition that the total amount of legal earnings reserve and additional paid-in capital remained equal to or exceeded 25% of common stock, they were available for distribution by a resolution of the shareholders' meeting. Under the Law, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

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

At the annual shareholders' meeting held on June 26, 2007, the shareholders approved cash dividends amounting to ¥811 million ($7,551 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2007. Such appropriations are recognized in the period in which they are approved by the shareholders.

9. Contingent Liabilities

As of March 31, 2007, the Companies were contingently liable for trade notes receivable discounted amounting to ¥52 million (US$441 thousand) and trade notes receivable endorsed amounting to ¥526 million (US$4,458 thousand).

The Company was also contingently liable under guarantees of indebtedness of unconsolidated subsidiaries and affiliated companies amounting to ¥300 million (US$2,542 thousand) and of employees' loans for their own houses amounting to ¥14 million (US$119 thousand) as of March 31, 2007.

10. Cash and Cash Equivalents

The reconciliation of cash and time deposits shown in the consolidated balance sheets and cash and cash equivalents shown in the consolidated statements of cash flows as of March 31, 2007 and 2006 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Cash and time deposits	**¥16,407**	¥10,665	**$139,042**
Less: Time deposits with maturities exceeding three months	**(387)**	(665)	**(3,280)**
Add: Commercial paper with maturity less than three months	**631**	4,963	**5,348**
Cash and cash equivalents	**¥16,651**	¥14,963	**$141,110**

11. Lease Information

Finance leases that do not transfer ownership to lessees are not capitalized and are accounted for in the same manner as operating leases.

A summary of assumed amounts of acquisition cost, accumulated depreciation and net book value of buildings, machinery and equipment and other assets as of March 31, 2007 and 2006 is as follows:

	Millions of yen						Thousands of U.S. dollars		
	2007			2006			**2007**		
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
Buildings	**¥1,581**	**¥ 675**	**¥ 906**	¥1,573	¥ 486	¥1,087	**$13,398**	**$ 5,720**	**$ 7,678**
Machinery and equipment	**1,580**	**464**	**1,116**	1,109	512	597	**13,390**	**3,932**	**9,458**
Other assets	**3,613**	**1,664**	**1,949**	3,423	1,532	1,891	**30,619**	**14,102**	**16,517**
Total	**¥6,774**	**¥2,803**	**¥3,971**	¥6,105	¥2,530	¥3,575	**$57,407**	**$23,754**	**$33,653**

Future minimum lease payments as of March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Due within one year	**¥1,174**	¥1,005	**$ 9,949**
Due after one year	**2,797**	2,570	**23,704**
	¥3,971	¥3,575	**$33,653**

Lease payments and the assumed depreciation charge for the years ended March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Lease payments	**¥1,184**	¥1,053	**$10,034**
Assumed depreciation charge	**1,184**	1,053	**10,034**

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

Since the portion of the future minimum lease payments is minor compared to the balance of property, plant and equipment as of March 31, 2007 and 2006, interest expense has been included in acquisition costs and depreciation expense.

Future minimum lease payments under operating leases, inclusive of interest, as of March 31, 2007 and 2006 were ¥170 million (US$1,441 thousand) and ¥744 million, respectively, including ¥98 million (US$831 thousand) and ¥121 million, respectively, due within one year.

12. Securities

A. The following tables summarize acquisition costs, book values and the fair value of securities with available fair values as of March 31, 2007 and 2006.

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

	Millions of yen						Thousands of U.S. dollars		
	2007			2006			**2007**		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	**¥4,492**	**¥13,564**	**¥9,072**	¥3,801	¥15,109	¥11,308	**$38,068**	**$114,949**	**$76,881**

Available-for-sale securities: Other securities

	Millions of yen						Thousands of U.S. dollars		
	2007			2006			**2007**		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	**¥524**	**¥303**	**¥(221)**	¥516	¥508	¥(8)	**$4,441**	**$2,568**	**$(1,873)**

B. The following table summarizes the book values of securities with no available fair values as of March 31, 2007 and 2006.

Equity securities issued by subsidiaries and affiliated companies and available-for-sale securities:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Non-listed equity securities	**¥2,436**	¥2,251	**$20,644**
Money Management Fund	**631**	—	**5,347**
Unconsolidated subsidiaries and affiliated companies' equity securities	**3,576**	3,107	**30,305**

C. Proceeds from sales of available-for-sale securities in the year ended March 31, 2007 amounted to ¥170 million (US$1,441 thousand) and the related gains amounted to ¥103 million (US$873 thousand).

Proceeds from sales of available-for-sale securities in the year ended March 31, 2006 amounted to ¥393 million and the related gains and losses amounted to ¥335 million and ¥1 million, respectively.

13. Derivative Financial Instruments

The Company and certain consolidated subsidiaries have entered into forward exchange contracts with banks as hedges against receivables denominated in foreign currencies and interest rate swap agreements for certain assets with fixed interest rates and certain liabilities with variable interest rates to hedge their exposure to fluctuations of interest rates.

These derivative financial transactions are utilized solely for hedging purposes under the internal control rules and the supervision of the Board of Directors. The Companies do not anticipate any credit loss from non-performance by the counterparties to forward exchange contracts and interest rate swap agreements.

The following summarizes the hedging derivative financial instruments used by the Companies and the items hedged:

Hedging instruments:

Forward foreign exchange contracts, interest rate swap contracts

Hedged items:

Foreign currency transactions, bank loans

An evaluation of hedge effectiveness during the years ended March 31, 2007 and 2006 was omitted as hedge accounting has been applied to derivative transactions.

14. Research and Development Costs

Research and development costs charged to the cost of sales and selling, general and administrative expenses for the years ended March 31, 2007 and 2006 were ¥3,708 million (US$31,424 thousand) and ¥3,706 million, respectively.

15. Other Income (Expenses)—Other, Net

Other, net, included in other income (expenses) for the years ended March 31, 2007 and 2006 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Royalty income	**¥598**	¥ 585	**$5,068**
Equity in earnings of unconsolidated subsidiaries and affiliated companies	**502**	495	**4,254**
Loss on disposal of inventories	**(202)**	(140)	**(1,712)**
Foreign exchange gain, net	**335**	922	**2,839**
Loss on sale and disposal of property, plant and equipment, net	**(832)**	(370)	**(7,051)**
Gain on sale of investment securities	**103**	335	**873**
Reversal of allowance for uncollectibles	**10**	13	**85**
Severance and retirement benefit expenses (Note 6)	**(272)**	—	**(2,305)**
Allowance for environmental expenses	**(196)**	—	**(1,661)**
Patent settlement	**(443)**	—	**(3,754)**
Others	**642**	390	**5,440**
	¥245	¥2,230	**$2,076**

16. Segment Information

Business segments

The Companies operate primarily in the production and sale of hydraulic products and system products. Refer to the "Review of Operations" and "Financial Review" for more information about the major products of each segment.

Business segment information for the years ended March 31, 2007 and 2006 was as follows:

	Millions of yen				
Year ended March 31, 2007:	Hydraulic products	System products	Total	Elimination and/or Corporate	Consolidated
Sales:					
Outside customers	**¥344,783**	**¥11,300**	**¥356,083**	**¥ —**	**¥356,083**
Intersegment	**756**	**664**	**1,420**	**(1,420)**	**—**
Total sales	**345,539**	**11,964**	**357,503**	**(1,420)**	**356,083**
Operating expenses	**325,325**	**11,566**	**336,891**	**4,619**	**341,510**
Operating income	**¥ 20,214**	**¥ 398**	**¥ 20,612**	**¥ (6,039)**	**¥ 14,573**
Identifiable assets	**¥242,134**	**¥11,638**	**¥253,772**	**¥31,374**	**¥285,146**
Depreciation and amortization	**11,883**	**322**	**12,205**	**84**	**12,289**
Capital expenditures	**19,336**	**314**	**19,650**	**85**	**19,735**

	Millions of yen				
Year ended March 31, 2006:	Hydraulic products	System products	Total	Elimination and/or Corporate	Consolidated
Sales:					
Outside customers	¥278,282	¥12,174	¥290,456	¥ —	¥290,456
Intersegment	414	324	738	(738)	—
Total sales	278,696	12,498	291,194	(738)	290,456
Operating expenses	265,775	12,911	278,686	5,047	283,733
Operating income	¥ 12,921	¥ (413)	¥ 12,508	¥ (5,785)	¥ 6,723
Identifiable assets	¥203,708	¥10,884	¥214,592	¥33,374	¥247,966
Depreciation and amortization	9,765	398	10,163	87	10,250
Capital expenditures	15,248	355	15,603	75	15,678

	Thousands of U.S. dollars				
Year ended March 31, 2007:	Hydraulic products	System products	Total	Elimination and/or Corporate	Consolidated
Sales:					
Outside customers	**$2,921,890**	**$ 95,763**	**$3,017,653**	**$ —**	**$3,017,653**
Intersegment	**6,407**	**5,627**	**12,034**	**(12,034)**	**—**
Total sales	**2,928,297**	**101,390**	**3,029,687**	**(12,034)**	**3,017,653**
Operating expenses	**2,756,992**	**98,017**	**2,855,009**	**39,144**	**2,894,153**
Operating income	**$ 171,305**	**$ 3,373**	**$ 174,678**	**$ (51,178)**	**$ 123,500**
Identifiable assets	**$2,051,983**	**$ 98,627**	**$2,150,610**	**$265,882**	**$2,416,492**
Depreciation and amortization	**100,703**	**2,729**	**103,432**	**712**	**104,144**
Capital expenditures	**163,864**	**2,661**	**166,525**	**721**	**167,246**

Geographic segments

Geographic segment information for the years ended March 31, 2007 and 2006 was as follows:

Year ended March 31, 2007:	Millions of yen						
	Japan	Europe	North America	Other areas	Total	Elimination and/or Corporate	Consolidated
Sales:							
Outside customers	¥239,888	¥48,037	¥38,705	¥29,453	¥356,083	¥ —	¥356,083
Intersegment	26,748	1,254	40	2,673	30,715	(30,715)	—
Total sales	266,636	49,291	38,745	32,126	386,798	(30,715)	356,083
Operating expenses	248,992	48,827	39,552	29,744	367,115	(25,605)	341,510
Operating income	¥ 17,644	¥ 464	¥ (807)	¥ 2,382	¥ 19,683	¥ (5,110)	¥ 14,573
Identifiable assets	¥206,233	¥37,784	¥21,824	¥29,739	¥295,580	¥(10,434)	¥285,146

Year ended March 31, 2006:	Millions of yen						
	Japan	Europe	North America	Other areas	Total	Elimination and/or Corporate	Consolidated
Sales:							
Outside customers	¥205,600	¥36,870	¥29,195	¥18,791	¥290,456	¥ —	¥290,456
Intersegment	20,388	880	25	1,360	22,653	(22,653)	—
Total sales	225,988	37,750	29,220	20,151	313,109	(22,653)	290,456
Operating expenses	214,077	38,122	29,923	19,504	301,626	(17,893)	283,733
Operating income	¥ 11,911	¥ (372)	¥ (703)	¥ 647	¥ 11,483	¥ (4,760)	¥ 6,723
Identifiable assets	¥181,758	¥26,444	¥19,061	¥18,898	¥246,161	¥ 1,805	¥247,966

Year ended March 31, 2007:	Thousands of U.S. dollars						
	Japan	Europe	North America	Other areas	Total	Elimination and/or Corporate	Consolidated
Sales:							
Outside customers	$2,032,949	$407,093	$328,009	$249,602	$3,017,653	$ —	$3,017,653
Intersegment	226,678	10,627	339	22,652	260,296	(260,296)	—
Total sales	2,259,627	417,720	328,348	272,254	3,277,949	(260,296)	3,017,653
Operating expenses	2,110,102	413,788	335,186	252,068	3,111,144	(216,991)	2,894,153
Operating income	$ 149,525	$ 3,932	$ (6,838)	$ 20,186	$ 166,805	$ (43,305)	$ 123,500
Identifiable assets	$1,747,737	$320,203	$184,949	$252,026	$2,504,915	$ (88,423)	$2,416,492

Overseas sales

Overseas sales, including those of the Companies, by geographic area for the years ended March 31, 2007 and 2006 were as follows:

	Millions of yen					
Year ended March 31, 2007:	Europe	North America	East Asia	Southeast Asia	Other areas	Total
I. Overseas sales	**¥53,403**	**¥47,919**	**¥18,980**	**¥17,012**	**¥11,926**	**¥149,240**
II. Consolidated sales	**—**	**—**	**—**	**—**	**—**	**356,083**
III. Ratio of overseas sales (%)	**15.0%**	**13.5%**	**5.3%**	**4.8%**	**3.3%**	**41.9%**

	Millions of yen					
Year ended March 31, 2006:	Europe	North America	East Asia	Southeast Asia	Other areas	Total
I. Overseas sales	¥39,688	¥31,432	¥10,736	¥13,928	¥7,464	¥103,248
II. Consolidated sales	—	—	—	—	—	290,456
III. Ratio of overseas sales (%)	13.6%	10.8%	3.7%	4.8%	2.6%	35.5%

	Thousands of U.S. dollars					
Year ended March 31, 2007:	Europe	North America	East Asia	Southeast Asia	Other areas	Total
I. Overseas sales	**$452,568**	**$406,093**	**$160,847**	**$144,170**	**$101,068**	**$1,264,746**
II. Consolidated sales	**—**	**—**	**—**	**—**	**—**	**3,017,653**
III. Ratio of overseas sales (%)	**15.0%**	**13.5%**	**5.3%**	**4.8%**	**3.3%**	**41.9%**

17. Subsequent Event

On June 26, 2007, the shareholders of the Company authorized the following appropriations of retained earnings as of March 31, 2007:

	Millions of yen	Thousands of U.S. dollars
Cash dividends, ¥4 (US$0.03) per share	¥891	$7,551

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

We have audited the accompanying consolidated balance sheets of Kayaba Industry Co., Ltd. and consolidated subsidiaries as of March 31, 2007 and 2006, and the related consolidated statements of income, changes in net assets and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Kayaba Industry Co., Ltd. and subsidiaries as of March 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2007 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

Tokyo, Japan
June 26, 2007

Major Subsidiaries and Affiliates

(As of July 1, 2007)

Japan

Kayaba System Machinery Co., Ltd.

—Manufacturing and sales of system products

Sumitomo-Fudosan Shiba Daimon Bldg., 5-5, Shibadaimon 2-chome, Minato-ku, Tokyo 105-0012, Japan
Tel: 81-3-5733-9441 Fax: 81-3-5733-9504

KYB Engineering and Service Co., Ltd.

—Sales of shock absorbers and hydraulic equipment

Shuwa Shiba Park Bldg. A, 8F, 4-1, Shiba Kouen 2-chome, Minato-ku, Tokyo 105-0011, Japan
Tel: 81-3-5777-7501 Fax: 81-3-5401-3362

KYB Trondule Co., Ltd.

—Manufacturing and sales of electronic equipment

3909 Ura, Nagaoka City, Niigata 949-5406, Japan
Tel: 81-258-92-6903 Fax: 81-258-92-6901

Japan Analysts Co., Ltd.

—Analysis and evaluation of lubricating oil

Matsunaga Bldg., 1-17, Hamamatsu-cho 2-chome, Minato-ku, Tokyo 105-0013, Japan
Tel: 81-3-3436-5660 Fax: 81-3-3436-1077

KK Hydraulics Ltd.

—Sales and after-service of hydraulic equipment

World Trade Center Bldg., 4-1, Hamamatsu-cho 2-chome, Minato-ku, Tokyo 105-6111, Japan
Tel: 81-3-3578-1197 Fax: 81-3-3578-1198

Yanagisawa Seiki MFG Co., Ltd.

—Manufacturing and sales of shock absorbers and hydraulic equipment

7001 Oaza-Sakaki, Sakaki-machi, Hanishina-gun, Nagano 389-0601, Japan
Tel: 81-268-82-2850 Fax: 81-268-82-2857

KYB Kanayama Co., Ltd.

—Manufacturing of shock absorbers and hydraulic equipment

4350-130 Aza-Funeno Tobe, Kanayama-cho, Gero City, Gifu 509-1605, Japan
Tel: 81-576-35-2201 Fax: 81-576-35-2877

MacGREGOR-Kayaba, Ltd.

—Manufacturing and sales of hatch covers for ships

Suzue Baydium, 9F, 15-1, Kaigan 1-chome, Minato-ku, Tokyo 105-0022, Japan
Tel: 81-3-5403-1951 Fax: 81-3-5403-1953

Takako Industries, Inc.

—Manufacturing and sales of hydraulic pump components and electronic machine parts

32-1, Housono-Nishi 1-chome, Seika-cho, Souraku-gun, Kyoto 619-0240, Japan
Tel: 81-774-95-3336 Fax: 81-774-95-3337

North America and South America

KYB Manufacturing North America, Inc.

—Manufacturing and sales of shock absorbers

2625 North Morton, Franklin, Indiana 46131, U.S.A.
Tel: 1-317-736-7774 Fax: 1-317-736-4618

KYB America LLC

—Sales of shock absorbers and hydraulic equipment

140 North Mitchell Court, Addison, Illinois 60101, U.S.A.
Tel: 1-630-620-5555 Fax: 1-630-620-8133

KYB do Brasil Fabricante de Autopeças Ltda.

—Manufacturing and sales of shock absorbers

Rua Francisco Ferreira da Cruz, 3000, Fazenda Rio Grande PR, CEP 83820-000, Brazil
Tel: 55-41-2102-8200 Fax: 55-41-2102-8210

KYB Latinoamerica, S.A. de C.V.

—Sales of shock absorbers

Av. de Las Palmas #731, Despacho 1301, Col. Lomas de Chapultepec, C.P. 11000, Mexico D.F.
Tel: 52-55-5282-5770 Fax: 52-55-5282-5661

Europe

KYB Europe GmbH

—Sales of shock absorbers

Kimpler Strasse 336, D-47807 Krefeld, Germany
Tel: 49-2151-931430 Fax: 49-2151-9314320

KYB Steering Spain, S.A.

—Manufacturing and sales of hydraulic equipment

Poligono Industrial de Ipertegui No. 2, nave 12, 31160, Orcoyen (Navarra), Spain
Tel: 34-948-321004 Fax: 34-948-321005

KYB Suspensions Europe, S.A.

—Manufacturing and sales of shock absorbers

Ororbia (Navarra), Apartando 260-31080, Pamplona, Spain
Tel: 34-948-421700 Fax: 34-948-322338

KYB Manufacturing Czech s.r.o.

—Manufacturing and sales of shock absorbers

U Panasonicu 277, Stare Civice, 530 06 Pardubice, Czech Republic
Tel: 420-466-812-232 Fax: 420-466-812-281

KYB Middle East f.z.e.

—Sales of shock absorbers

LOB 16-302, Jebel Ali Free Zone, Dubai, United Arab Emirates
P.O. Box: 261819
Tel: 971-4-887-2448 Fax: 971-4-887-2438

Asia

KYB Steering (Thailand) Co., Ltd.
—Manufacturing and sales of hydraulic equipment
700/460 Moo 7, Tambol Don Hua Roh, Amphur Muang,
Chonburi 20000, Thailand
Tel: 66-3-845-0076 Fax: 66-3-845-4313

KYB Industrial Machinery (Zhenjiang) Ltd.
—Manufacturing and sales of shock absorbers
Jing 12 Lu, Zhenjiang New Zone, New & High-Tech Industry
Development Park, Zhenjiang, Jiangsu 212009,
People's Republic of China
Tel: 86-511-8889-1008 Fax: 86-511-8888-6848

KYB Hydraulics Industry (Zhenjiang) Ltd.
—Manufacturing and sales of hydraulic equipment
Jing 12 Lu, Zhenjiang New Zone, New & High-Tech Industry
Development Park, Zhenjiang, Jiangsu 212009,
People's Republic of China
Tel: 86-511-8889-7200 Fax: 86-511-8889-7222

KYB Trading (Shanghai) Co., Ltd.
—Sales of shock absorbers
Huamin Empire Plaza 5-L, 728 Yanan Road West,
Shanghai 200050, People's Republic of China
Tel: 86-21-6211-9299 Fax: 86-21-5237-9001

KYB Technical Center (Thailand) Co., Ltd.
—Engineering services
700/363 Moo 6, Amata Nakorn Industrial Estate, Bangna-Trad
Road, K.M. 57, Tambol Don Hua Roh, Amphur Muang,
Chonburi 20000, Thailand
Tel: 66-3-846-8251 Fax: 66-3-846-8252

KYB Asia Co., Ltd.
—Sales of shock absorbers
Block A1-A2, No. 40-114-115 Bangna-Trad Road, K.M. 16.5,
Bangcha-long Sub-District, Bangplee District,
Samutprakarn 10540, Thailand
Tel: 66-2-740-7920 Fax: 66-2-740-7924

KYB Manufacturing Vietnam Co., Ltd.
—Manufacturing and sales of shock absorbers
Plot I 10-11-12, Thang Long Industrial Park,
Dong Anh District, Hanoi, Vietnam
Tel: 84-4-881-2773 Fax: 84-4-881-2774

KYB (Thailand) Co., Ltd.
—Manufacturing and sales of shock absorbers
700/363 Moo 6, Amata Nakorn Industrial Park 2, Bangna-Trad
Road, K.M.57, Tambol Don Hua Roh, Amphur Muang,
Chonburi 20000, Thailand
Tel: 66-3-846-9999 Fax: 66-3-845-8331

KYB Manufacturing Taiwan Co., Ltd.
—Manufacturing and sales of shock absorbers and hydraulic equipment
No. 493, Kuang Hsing Rd., Bade City,
Taoyuan Pref. 33450, Taiwan
Tel: 886-3-368-3123 Fax: 886-3-368-3369

KYB-UMW Malaysia Sdn. Bhd. / KYB-UMW Steering Malaysia Sdn. Bhd.
—Manufacturing and sales of shock absorbers and hydraulic equipment
Lot 8, Jalan Waja 16, Telok Panglima Garang, 42500 Kuala Langat,
Selangor Darul Ehsan, Malaysia
Tel: 60-3-31226222 Fax: 60-3-31226677

P.T. Kayaba Indonesia
—Manufacturing and sales of shock absorbers
JL. Rawaterate 1/4, Pulogadung Industrial Estate,
Jakarta Timur 13930, Indonesia
Tel: 62-21-4615020 Fax: 62-21-4600048

Husco-Kayaba Hydraulics (Shanghai), Ltd.
—Manufacturing and sales of hydraulic equipment
No. 235, Jiangtian Road, East Songjiang Industry Zone,
Shanghai 201600, People's Republic of China
Tel: 86-21-5774-6468 Fax: 86-21-3774-0186

KK Hydraulics Sales (Shanghai) Co., Ltd.
—Sales and after-service of hydraulic equipment
B-908 Far East International Plaza, 317 Xianxia Road,
Shanghai 200051, People's Republic of China
Tel: 86-21-6235-1606 Fax: 86-21-6295-7080

Corporate Information

(As of March 31, 2007)

Company Data

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

Date of Establishment:
November 25, 1948

Fiscal Year:
April 1 to March 31

Paid-in Capital:
¥19,114 million

Number of Employees:
10,596 (Consolidated basis)

Securities Traded:
Tokyo Stock Exchange (First Section)

Plants:
Sagami, Kumagaya,
Gifu North, Gifu South

R&D Centers:
Basic Technology R&D Center,
Production Technology R&D Center

Sales Branches:
Nagoya, Osaka, Fukuoka, Sapporo,
Sendai, Hamamatsu, Hiroshima

Overseas Offices:

Europe Branch
Kimpler Str. 336,
47807 Krefeld, Germany
Tel: 49-2151-9314350
Fax: 49-2151-9314330

California Representative Office
5790 Katella Ave., Cypress,
CA 90630, U.S.A.
Tel: 1-562-799-3862
Fax: 1-562-799-3863

Seattle Representative Office
700 5th Ave., Suite 5900,
Seattle, WA 98104, U.S.A.
Tel: 1-206-386-5625
Fax: 1-206-621-9448

Shareholder Information

Common Stock Issued:
222,984,315 shares

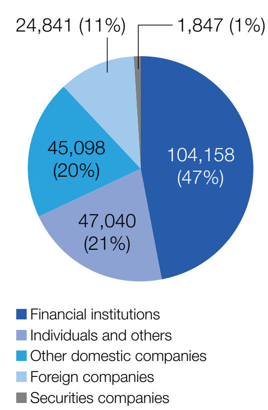
Number of Shareholders:
15,708

Transfer Agent and Registrar:
Mizuho Trust & Banking Co., Ltd.
2-1, Yaesu 1-chome, Chuo-ku,
Tokyo 100-0005, Japan

Major Shareholders:

Name	Shareholdings (Thousands)	Percent of Total Shares Issued
Toyota Motor Corporation	19,654	8.81
Japan Trustee Services Bank, Ltd. (Trust Account)	19,559	8.77
The Master Trust Bank of Japan, Ltd. (Trust Account)	10,367	4.65
Meiji Yasuda Life Insurance Company	10,046	4.51
UBS AG London A/C IPB Segregated Client Account	8,412	3.77
Bridgestone Corporation	7,952	3.57
Trust & Custody Services Bank, Ltd. (Mizuho Corporate Bank, Ltd., Retirement Benefit Trust Account Re-entrusted by Mizuho Trust & Banking Co., Ltd.)	7,338	3.29
Mizuho Corporate Bank, Ltd.	7,163	3.21
Sompo Japan Insurance Inc.	6,744	3.02
Japan Trustee Services Bank, Ltd. (Trust Account 4)	6,711	3.01
Total	103,946	46.62

Composition of Shareholders:
(Thousands)



Monthly Stock Price Range (Tokyo Stock Exchange)