KYB Corporation

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KYB Corporation Annual Report 2008

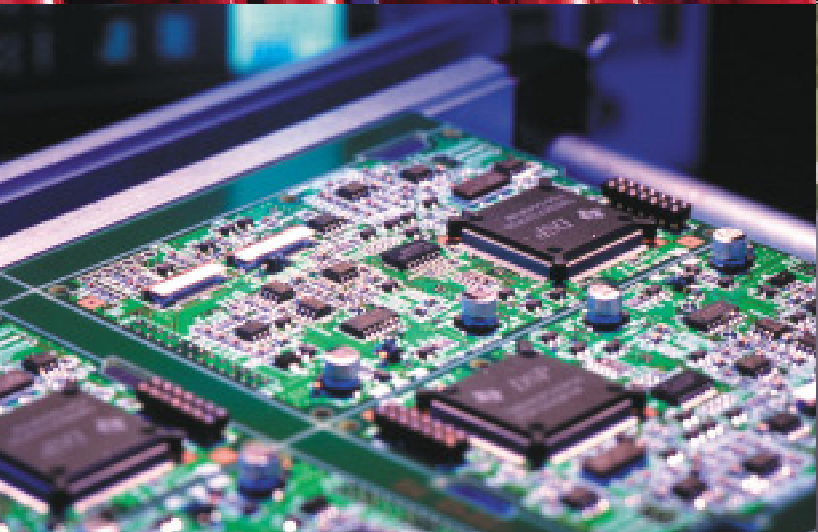
Our Precision, Your Advantage

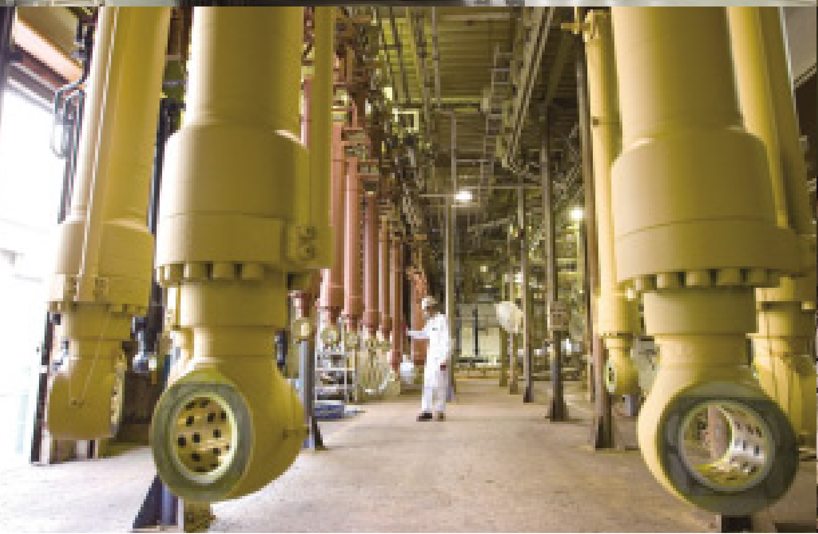
Quality Quest

The KYB Group is dedicated to providing technologies and products that make lives safer and more comfortable. Contributing to society in this manner is at the heart of our corporate philosophy. In the 21st century, we are determined to remain a group that can sustain growth while adhering to this stance.

"*Monozukuri* (manufacturing expertise) that goes the extra yard" is the basis of our operations. This is how we create innovative technologies and exciting new products. We also have an uncompromising commitment to the quality of our staff and management systems. By using this approach, we are moving confidently to achieve more progress for the benefit of the KYB Group and society.

Contents





"Our ultimate goal is growth in the value of the KYB Group and in the value that we create for our shareholders"

S. Yamamoto

Satoru Yamamoto
President and Representative Director

Earnings Rise to Record High as Sales Increase Again

In fiscal 2007, ended March 2008, there was a substantial upturn in demand for industrial hydraulic equipment, particularly for equipment used in construction machinery. Our performance also benefited from a big increase in sales of automobile shock absorbers due to the strength of overseas markets. As in the previous fiscal year, rising demand for hydraulic excavators in countries with emerging economies, such as China, Russia, India and many Middle Eastern nations, was a major source of growth in sales of hydraulic equipment. In fiscal 2007, we also saw higher orders for hydraulic equipment used in very large mining shovels for resource development projects. Sales of automobile shock absorbers increased in Japan and Europe. Sales of motorcycle shock absorbers were higher in Southeast Asia as we raised our production volume in this region to target growing demand. Overall, we achieved an 8.7% increase in consolidated net sales to ¥387,080 million.

A number of factors had a negative impact on our earnings. There were expenses associated with our large volume of capital expenditures. The 2008 tax reform had the effect of raising depreciation expenses, and the cost of raw materials increased rapidly during fiscal 2007. Despite these challenges, we increased sales and revised the prices of our products. Earnings rose to new all-time highs, as operating income was up 25.4% to ¥18,271 million and net income increased 20.7% to ¥8,398 million.

Good Prospects for Construction Machinery Despite Uncertain Market Outlook

Fiscal 2008, ending March 2009, is the first year of our new medium-term management plan. Many factors make it difficult to predict market trends in this fiscal year. The U.S. economy is weakening because of the subprime loan crisis, prices of natural resources continue to climb, and foreign exchange rate movements are creating challenges. But the construction machinery industry expects continued growth in China, India, Russia and other countries with emerging economies. KYB plans to keep pace with this growth by strengthening the production capacity of components used in construction machinery. We expect to use this growth to achieve another increase in earnings.

Consolidated Financial Highlights

KYB Corporation and its Consolidated Subsidiaries
Years Ended March 31

	Millions of yen		Change	
	2008	2007	¥ million	%
For the year:				
Net sales	**¥387,080**	¥356,083	¥30,997	8.7
Costs and expenses	**368,809**	341,510	27,299	8.0
Net income	**8,398**	6,959	1,439	20.7
At year-end:				
Total net assets	**¥ 91,739**	¥ 87,817	¥ 3,922	4.5
Total assets	**289,739**	285,146	4,593	1.6
Per share data (in yen):				
Net income	**¥ 37.72**	¥ 31.33		
Cash dividends applicable to the year	**7.00**	7.00		

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

The New Medium-term Plan— Rededicating Ourselves to Quality

Under the previous medium-term management plan, Change & Accomplish V10 (C&A V10), we enacted management reforms that shifted our priority from quantity to quality. This process was accompanied by steady growth in sales and earnings. Unfortunately, we were unable to reach our targeted ratio for ordinary income to sales. This spotlighted a key issue for KYB: the need to keep earnings growing at the same rate as sales. One cause of our slower earnings growth rate was components for construction machinery. We were making substantial capital expenditures to increase output of these components, but demand was rising even faster. The result was losses caused by a decline in manufacturing efficiency. KYB must establish an operating framework that can produce earnings that match our growth in sales. That means we are at a stage where we need to upgrade quality.

We are once again focusing our attention on quality, an area in which our progress was insufficient during the previous medium-term management plan. To achieve this progress, we formulated a new medium-term management plan, which is called Quality Quest—Our best in everything we do, KYB Global 108. The slowing U.S. economy and many other events make the operating climate for the KYB Group uncertain. Success will require adapting to change with flexibility and speed. We will continue to divide our key initiatives into four categories: human resources development, technology and product develpment, Monozukuri (manufacturing expertise) and management. Targets have been broken down into goals for individual employees. By fulfilling these goals and reaping the benefits of these accomplishments, the KYB Group will become an organization that can identify and adapt to change. Each employee needs to build on the achievement of each goal one at a time. This approach will give us a streamlined operating framework that is self-reliant in manufacturing products and generating earnings, even when market conditions are challenging. For the final year of the medium-term management plan, which is the fiscal year ending March 2011, our targets are consolidated net sales of at least ¥440 billion, an ordinary income to sales ratio of at least 6%, and a return on equity (ROE)* of at least 11%.

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

Quality Quest—Our best in everything we do, KYB Global 108

Human Resources Development

Aiming to create a corporate culture where each and every employee can grow and achieve success

- Dissemination of management principles and vision that will allow the KYB Group's employees to undertake their responsibilities based on a common set of principles and vision
- Standardization of job training programs within the Company
- Clarification of the requirements for each job

Technology & Product Development

Continuously offering innovative new products, the value of which our own customers appreciate

- Upgrade and standardize current technologies and develop more core technologies internally in order to become a global leader
- Encourage the use of internal proposals and the commercialization of those ideas to create new technologies, new markets and new businesses

***Monozukuri* (Manufacturing Expertise)**

Elimination of defective products, and delivery of products that can be relied upon by customers

- Increase the number of manufacturing technicians in order to respond to the globalization of markets and growth in production capacity
- Increase production efficiency
- Consistently utilize the benefits produced by the completion of the capital expenditure and investment plan

Management

Aim to become a company that has a global reputation for trust and the ability to generate profits on a global scale

- Take the necessary actions to turn around unprofitable business sites and business units
- Achieve profitability with non-profitable product groups
- Sell products at prices that properly reflect the value of the technologies used

Improving Manufacturing Efficiency

The pursuit of even greater quality by the entire KYB Group will require the successful execution of many activities, one of which is boosting our productivity. We are currently making investments to increase our production worldwide, yet demand continues to grow even faster than our capacity, as we are still unable to shift a sufficient amount of outsourced production to our own factories. To solve this problem, we need to increase manufacturing efficiency by reviewing our production activities. Extra capacity determined by this review can then be used to increase the percentage of products that we manufacture ourselves. The establishment of a new production line at the Gifu East Plant is one such example. We plan to start using this line in the current fiscal year. Improving manufacturing efficiency at the Gifu Plant is not the only benefit of the new production line. We will use this facility as a model for highly efficient production lines in other KYB Group plants. The objective is to use the new Gifu Plant line as the starting point for measures that will raise productivity throughout the KYB Group.

Overseas sales are rising as a share of our total sales. Sales growth is particularly strong in Europe and Asia. This is why we must work even harder on improving quality at our overseas plants. One example is our fiscal 2007 transfer of a production line in Spain to our plant in the Czech Republic, where our training programs are starting to yield benefits. As a result, productivity at the Czech plant is climbing as this facility generally exceeds its machine availability target. At a plant in North America, we altered production lines by constructing a new building, and transferred the operations of an inefficient warehouse that was being run by an external company. These actions are reducing losses at this plant and allowing us to make progress even as U.S. economic growth slows.

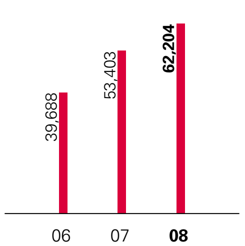
Total Overseas Sales: 43.8%

Europe

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

16.1% of total consolidated sales

Overseas Sales
(Millions of yen)

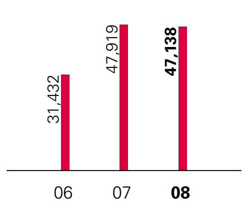


North America

Countries:
United States,
Canada

12.2% of total consolidated sales

Overseas Sales
(Millions of yen)

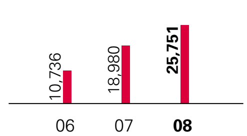


East Asia

Countries:
China, South Korea,
Taiwan

6.7% of total consolidated sales

Overseas Sales
(Millions of yen)

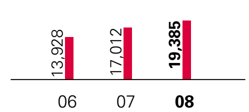


Southeast Asia

Countries:
Indonesia, Malaysia,
Thailand

5.0% of total consolidated sales

Overseas Sales
(Millions of yen)

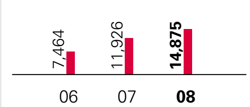


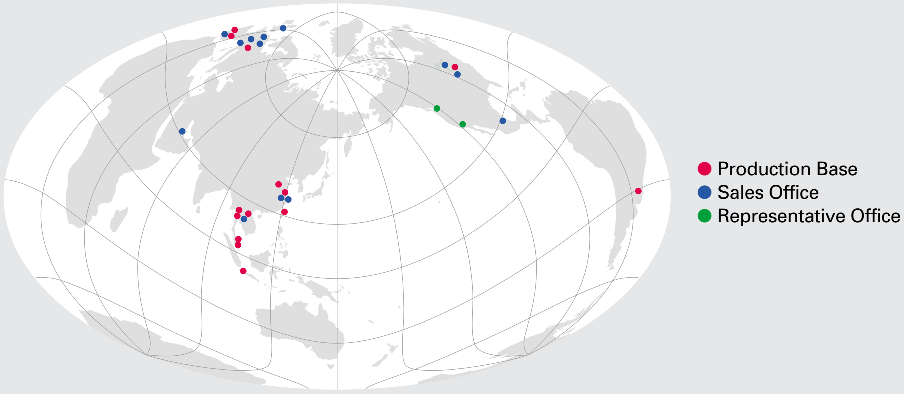
Other Areas

Countries:
Brazil, United
Arab Emirates

3.8% of total consolidated sales

Overseas Sales
(Millions of yen)





Increasing the motivation of KYB Group subsidiaries raises productivity and leads to improvements in sales and earnings. Therefore, it is necessary to comprehend the concept of manufacturing expertise. For this purpose, we provide numerous communication channels for overseas subsidiaries, such as global conferences that are held at overseas plants. Maintaining close communication by sharing useful information makes it possible for the entire Group to work as a unified team to achieve our goals.

Developing Technologies and Pioneering the Next Generation

In the current fiscal year, our research and development expenditures will be even higher than in the past fiscal year. These investments are focused on programs to reinforce the designs and production technology that back up our core products. This progress will make our leading global market position even stronger. To remain competitive amongst global competition, we must have a research and development program that goes beyond merely the pursuit of products that feature outstanding performance, such as improved fuel efficiency. Research must target new needs as well. We cannot create future profit centers without taking into account new customer needs involving the environment and earthquake resistance.

With regard to environmental protection, we will fulfill our obligations as a responsible corporate group while capitalizing on the business opportunities associated with environmental issues. For example, restrictions on construction machinery emissions are becoming stricter, and this is creating the need for improved fuel efficiency. In response, we are making

Biodegradable Fluid Damper (BFD)
This type adopts a biodegradable oil that demonstrates over 60% biodegradation by microorganisms as an actuating fluid. Because it exploits existing damper technology, this type offers the most practical approach among the various Green Technological Damper technologies.

hydraulic equipment more efficient in many ways, such as developing hydraulic excavator equipment that incorporates a hybrid electronic and hydraulic system. In the field of aqua technology, a new technology field that employs water, our research activities are beginning to produce results. Earthquake resistance is another priority. KYB research engineers are making progress in the creation of a hydraulic product that can withstand vertical and horizontal tremors. Potential applications are immense. This technology may be used in the future to protect important facilities such as nuclear power stations, hospitals and factories that make precise instruments.

Dedicated to Building on KYB's Global Reputation for Reliability

Preserving our global reputation for trust requires both aggressive and protective actions. We need to take the initiative to improve productivity and other aspects of our operations. At the same time, we must emphasize protective measures like maintaining a sound corporate culture and protecting the environment. Corporate governance is another key element of our reliability. In April 2008, we established internal control systems for financial reports to comply with the enactment of a new law in Japan. We view internal controls as more than just a way to enhance the transparency of our management. We also use these controls to help determine how employees perform their jobs and to improve the quality of their work. In this respect, we regard internal controls as a means of building the framework needed to sustain the quality of the KYB Group's operation. However, our job does not end with creating internal control systems. We conduct periodic reviews of these systems after they are implemented. This allows us to constantly identify areas where improvements are needed. Through activities like these, we plan to use internal control systems to improve the quality of all KYB Group activities.

The KYB Group positions environmental programs as one of its highest priorities. In particular, we are firmly committed to playing a part in dealing with global warming. Based on our environmental policy, group companies develop environmentally responsible products. Additionally, newly constructed KYB Group plants and other facilities incorporate environmental equipment such as solar panels and devices that cut CO_2 emissions. We have many other environmental activities as well, including a tree planting program to create forests. The KYB Group is dedicated to doing our part to protect the environment.

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 trusted corporate citizen.

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

Message to Shareholders

Our basic dividend policy is to maintain a consolidated dividend on equity (DOE)* ratio of at least 2%. Based on this policy and our performance in fiscal 2007, the dividend per share applicable to this fiscal year was unchanged at ¥7, which includes a first half dividend of ¥3.5.

Everyone at the KYB Group can take pride in our record-setting performance in fiscal 2007. But we have still not realized our full potential. For example, earnings were held back by product quality, productivity and other areas that require attention. During our new medium-term plan, we are aiming for qualitative improvements regarding our staff, products, manufacturing expertise and management. We intend to use these improvements to translate the KYB Group's many strengths into even more earnings. The ultimate goal is growth in the value of our Group and in the value that we create for our shareholders.

Satoru Yamamoto
President and Representative Director

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

Note: Revaluation and translation differences is sum of Net unrealized holding gains on securities, net of taxes, Unrealized gain from hedging instruments, Revaluation reserve for land, net of taxes and Foreign currency translation adjustments.

Board of Directors and Corporate Auditors
(As of June 25, 2008)

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 Division, and Affiliated Business Operations

Executive Managing Director

Kenzo Noguchi
Finance, Accounting, Audit, Corporate Planning, Legal, CSR, Public Relations, General Affairs, and Personal Administration
General Manager, Corporate Planning Division

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 Division and Quality Control Department

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 Division, 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 Department

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 Department,
Corporate Planning Division

Corporate Auditors

Standing Corporate Auditors

Hidetsune Iseki
Ichiro Akieda
Haruki Ubukata
Tatsuro Yoshida

Hydraulic Products

Major Products

Shock absorbers:

For automobiles, motorcycles, railway vehicles, and all-terrain vehicles

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

Segment sales increased 8.8% to ¥374,428 million (US$3,744,280 thousand) and operating income increased ¥4,078 million to ¥23,813 million (US$238,130 thousand).

Shock Absorbers

Sales of automotive shock absorbers for assembly use increased in Japan due to the large volume of exports of finished vehicles from Japan. In Europe, sales of both assembly and replacement shock absorbers increased. However, in the United States, a weakening economy caused sales of assembly and replacement shock absorbers to decline. The result was a 6.7% increase in automotive shock absorber sales to ¥146,323 million (US$1,463,230 thousand).

Sales of motorcycle shock absorbers increased 2.1% to ¥31,946 million (US$319,460 thousand) as higher motorcycle production in Southeast Asia offset a downturn in motorcycle exports from Japan to the United States.

Hydraulic Equipment

Sales were much higher in the industrial-use sector, which represents mainly hydraulic equipment for construction machinery. One reason was continuing growth in demand for hydraulic excavators, which is the primary market for KYB's hydraulic equipment, in China, Russia, India and other countries with emerging economies. Sales also benefited from higher production of very large mining shovels. Overall, industrial hydraulic equipment sales were up 15.4% to ¥117,187 million (US$1,171,870 thousand).

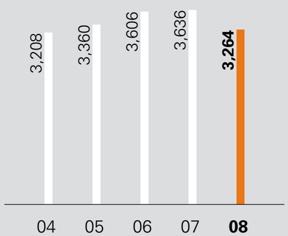
Sales of automotive hydraulic equipment, mainly power steering products, increased 6.0% to ¥47,300 million (US$473,000 thousand) because of higher automobile production in Europe and Asia.

In hydraulic equipment for aircraft, there was an increase in deliveries of hydraulic equipment to aircraft manufacturers. However, a cut in Japan's defense plan had a negative impact on performance. The result was sales of ¥6,103 million (US$61,030 thousand), about the same as one year earlier.

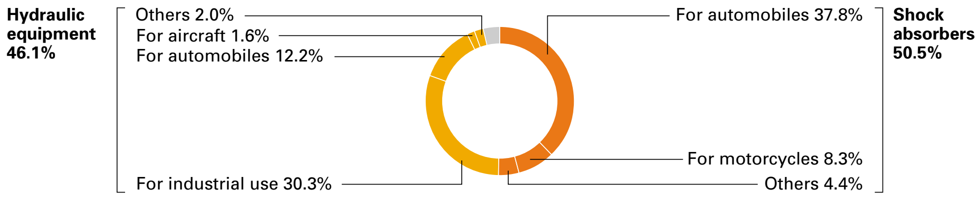
R&D Highlights of the Year

- Developed a center cylinder for an active height control (AHC) suspension system that uses X-shaped tubes to link the front and rear shock absorbers. This advance provides a smoother ride when driving over rough surfaces.
- Developed an electronically controlled rotary steering damper for motorcycles, which is about 40% lighter than conventional models.
- Developed a load-sensing control valve for compact power shovels that supplies precisely the required amount of fluid to the actuator based on lever movement.
- Developed electric power steering system with a new structure exclusively for horizontally opposed engines; this system is powered by a high-output brushless motor and pinion.
- Developed a new DRE-120 that adds an EMS compatible function to a drive recorder in order to analyze the causes of accidents and contribute to safe driving.
- Working on development of a green technology damper that uses a biodegradable oil, glycol solution and inert gas, both containing no mineral oils.

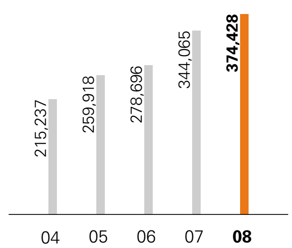
R&D Expenditures
(Millions of yen)



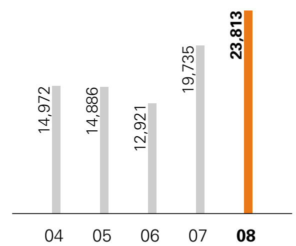
Sales Composition by Product



Sales
(Millions of yen)



Operating Income
(Millions of yen)



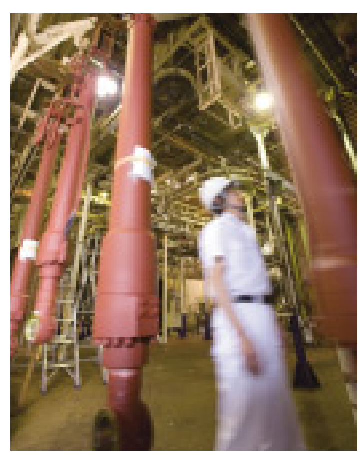

Shock absorbers


Front forks


Assembly line of X-reas


Painting line of shock absorbers


Bench test of front forks


Painting line of industrial hydraulic equipment

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, Seismic isolation systems and vibration control dampers, hydraulic tunnel borers, ship-based hydraulic equipment, and environment-friendly products

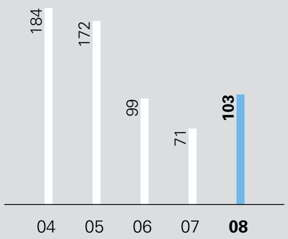
Special-Purpose Vehicles

Systems Devices

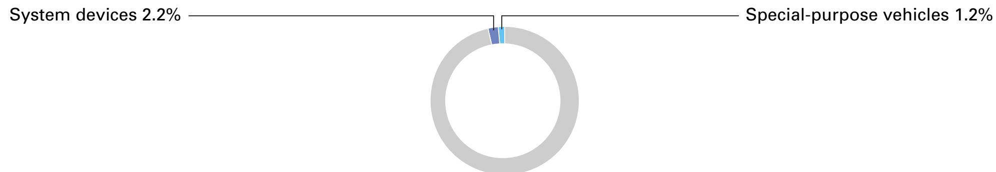
R&D Highlights of the Year

- Developed a vehicle for transporting powdered materials that has the highest capacity in the industry along with outstanding strength and low weight.
- Developed, with the cooperation of Takenaka Corporation, a compact active mass damper (AMD) that reduces swaying caused by strong winds, midsize earthquakes, highway traffic and other sources.

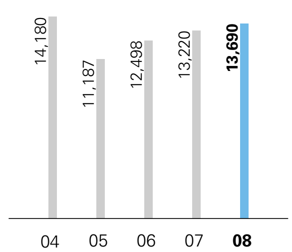
R&D Expenditures
(Millions of yen)



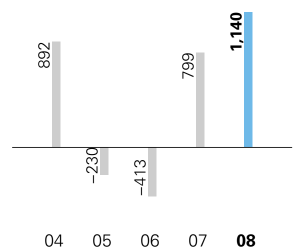
Sales Composition by Product

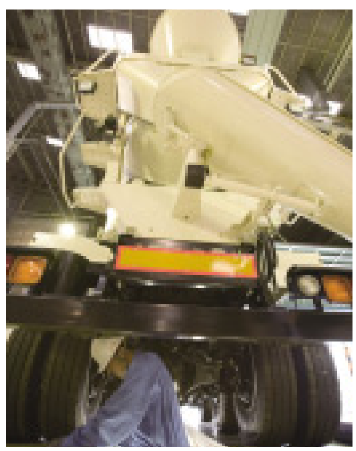


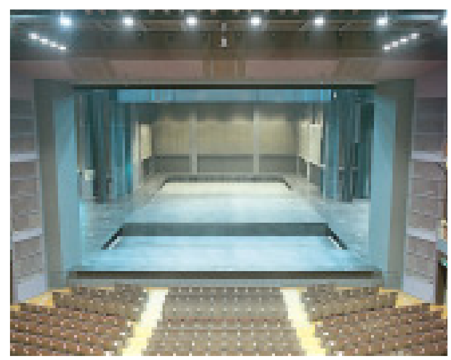
Sales
(Millions of yen)



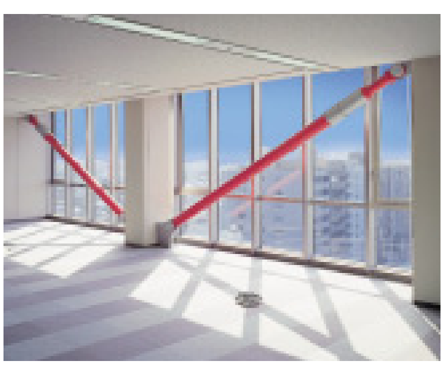
Operating Income
(Millions of yen)







Theater equipment



Vibration control dampers

Concrete mixer truck

Saidan, a vehicle for shredding sensitive documents

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 2007 are as indicated below.

Activity Results for 2007

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

Activities		Goal for 2007	Result for 2007	Activity Plan Goal for 2010
Prevention of global warming	CO_2 emissions	100,021 ton-CO_2/year or less (4.5% increase compared to 2004)	100,278 ton-CO_2/year (4.8% increase compared to 2004)	7% decrease in emissions (1990 comparison)
Energy savings	Energy usage (Basic unit)	247.6ℓ/million yen or less (3% decrease compared to 2004)	209.1ℓ/million yen (18.1% decrease compared to 2004)	6% decrease in basic unit (2004 comparison)
Improvement of recycling and recycling rate	Recycling	86.2% recycling rate (2% increase compared to 2006)	84.6% recycling rate (1.6% decrease compared to 2006)	Improvement in recycling and recycling rate
	Zero emissions	3% or less landfilled waste	4.0% landfilled waste	3% or less landfilled waste
Decrease in waste	General waste	867 tons/year or less (4% increase compared to 2004)	1,034 tons/year (24.0% increase compared to 2004)	Decrease in discharge to level of 2004 or less
	Industrial waste	4,531 tons/year or less (9% increase compared to 2004)	5,874 tons/year (41.3% increase compared to 2004)	Decrease in discharge to level of 2004 or less
	Metal scraps (Basic unit)	96.4 kg/million yen or less (3% decrease compared to 2004)	94.8 kg/million yen (4.7% decrease compared to 2004)	6% decrease in basic unit (2004 comparison)

Notes:
- In line with the changes following fiscal 2003 such as closure of plants and establishment of subsidiaries, the activity plan up to fiscal 2010 was reviewed based on fiscal 2004 for the activities started from fiscal 2005. Due to a further expected increase of production in the future, goals are set to keep general and industrial waste to the level of fiscal 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.

Environmental / Social Report 2008

http://www.kyb.co.jp/english/company/welfare/

Chipping vehicle for pruned branches

e-MIXER, an electronically controlled concrete mixer truck

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
	2008	2007	2006	2005	2004	**2008**
For the year:						
Net sales	**¥387,080**	¥356,083	¥290,456	¥270,329	¥228,525	**$3,870,800**
Costs and expenses	**368,809**	341,510	283,733	260,687	217,406	**3,688,090**
Net income	**8,398**	6,959	2,917	5,501	6,040	**83,980**
Capital expenditures	**24,114**	19,735	15,678	14,070	10,395	**241,140**
At year-end:						
Working capital	**¥ 29,120**	¥ 23,758	¥ 21,392	¥ 26,492	¥ 17,918	**$ 291,200**
Total net assets	**91,739**	87,817	80,681	74,037	69,690	**917,390**
Total assets	**289,739**	285,146	247,966	222,224	213,845	**2,897,390**
	Yen					U.S. dollars
Per share:						
Net income	**¥ 37.72**	¥ 31.33	¥ 12.63	¥ 24.15	¥ 26.55	**$ 0.38**
Cash dividends applicable to the year	**7.00**	7.00	6.00	6.00	6.00	**0.07**
Net worth	**387.45**	372.60	343.99	316.64	299.34	**3.87**
Number of employees	**11,546**	10,596	8,387	8,186	7,645	

Note: U.S. dollar amounts were translated from Japanese yen, for convenience only, at ¥100=U.S.$1, the approximate exchange rate prevailing on March 31, 2008.

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

Financial Review

Summary

Consolidated net sales increased ¥30,997 million, or 8.7%, to ¥387,080 million (US$3,870,800 thousand). As in the previous fiscal year, sales growth was attributable mainly to higher sales in the Hydraulic Products segment. There was a large increase in sales of industrial-use hydraulic equipment, mainly for construction machinery, and increases in overseas sales of automobile shock absorbers and hydraulic equipment.

Cost of sales increased ¥25,173 million, or 8.4%, to ¥324,401 million (US$3,244,010 thousand), but declined by 0.2 percentage point to 83.8% of sales. Gross profit increased ¥5,824 million to ¥62,679 million (US$626,790 thousand), resulting in a gross profit margin of 16.2%.

Operating income increased ¥3,698 million, or 25.4%, to ¥18,271 million (US$182,710 thousand), mainly because of the growth in sales and price revisions. Selling, general and administrative expenses increased ¥2,126 million to ¥44,408 million (US$444,080 thousand), which is 11.5% of net sales. The primary cause was growth in packing and freight expenses, IT expenses and other items associated with the increase in sales.

Net other income (expenses) was ¥1,961 million lower than in the previous fiscal year. This increase was mainly the result of a ¥1,308 million addition to the allowance for prior year product warranties, a foreign exchange loss, net of ¥667 million, and an increase in interest expenses due to growth in interest-bearing debt.

Income before income taxes and minority interests increased ¥1,737 million, or 12.9%, to ¥15,218 million (US$152,180 thousand) and net income increased ¥1,439 million to ¥8,398 million (US$83,980 thousand), which was 2.2% of net sales. Net income per share was ¥37.72 (US$0.38).

Performance by Segment

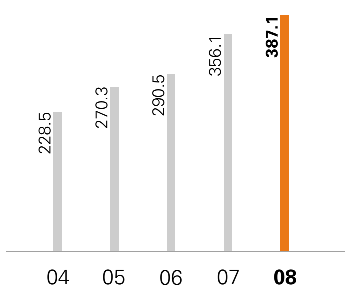
Hydraulic Products segment sales increased ¥30,363 million, or 8.8%, to ¥374,428 million (US$3,744,280 thousand). Growth was due mainly to the same factors that backed performance in the previous fiscal year. The first was higher sales of industrial-use hydraulic equipment associated with the rising sales of hydraulic excavators because of increasing demand in China, Russia, India and other nations with emerging economies. The second was an increase in sales of automobile shock absorbers for assembly use in Japan and Europe. Operating income increased ¥4,078 million, or 20.7%, to ¥23,813 million (US$238,130 thousand).

Systems Products segment sales increased ¥470 million, or 3.6%, to ¥13,690 million (US$136,900 thousand). Sales of special-purpose vehicles were lower as concrete mixer truck sales declined following the temporary upturn in demand prior to Japan's imposition of tighter exhaust gas restrictions. However, total segment sales increased because of higher sales of auditorium and stage control systems. Operating income improved significantly, rising ¥341 million, or 42.7%, to ¥1,140 million (US$11,400 thousand).

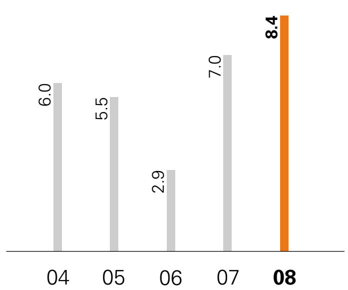
In Europe, sales increased ¥6,728 million, or 13.6%, to ¥56,019 million (US$560,190 thousand). One reason was the first full-year contribution to sales of a Czech subsidiary that started manufacturing automobile shock absorbers in the second half of the previous fiscal year. Another reason was an increase in orders at an automobile hydraulic equipment subsidiary that manufactures power steering pumps. Operating income was ¥479 million (US$4,790 thousand), about the same as one year earlier.

In North America, sales decreased ¥2,456 million, or 6.3%, to ¥36,289 million (US$362,890 thousand) as the subprime loan crisis caused the economy to weaken. However, there was a big improvement in operating income amounting to

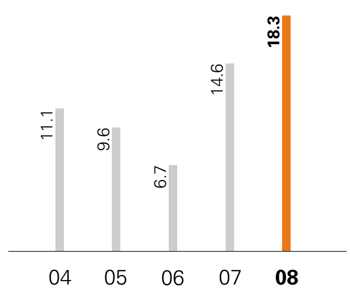
Net Sales
(Billions of yen)



Net Income
(Billions of yen)



Operating Income
(Billions of yen)



¥46 million (US$460 thousand) from an operating loss of ¥807 million in the previous fiscal year, due to many actions, notably cost reduction programs and price increases.

In other regions, sales increased ¥7,889 million, or 24.6%, to ¥40,015 million (US$400,150 thousand). This strong performance was attributable to big increases in sales at subsidiaries in China, Thailand and other countries. Operating income was up ¥1,485 million, or 62.3%, to ¥3,867 million (US$38,670 thousand).

Financial Condition

Total assets amounted to ¥289,739 million (US$2,897,390 thousand), an increase of ¥4,593 million, or 1.6%, compared with the previous fiscal year-end.

Current assets increased ¥3,468 million, or 2.1%, to ¥168,593 million (US$1,685,930 thousand). This was mainly the net result of a decline in trade notes and accounts receivable and an increase in short-term loans receivable as a short-term investment. Net property, plant and equipment increased ¥7,451 million, or 7.9%, to ¥101,795 million (US$1,017,950 thousand) because of the large volume of capital expenditures. Total investments and other non-current assets decreased ¥6,326 million, or 24.6%, to ¥19,351 million (US$193,510 thousand) because of a decline in investment securities resulting from lower market prices.

Total liabilities increased ¥671 million, or 0.3%, to ¥198,000 million (US$1,980,000 thousand). There were decreases in income taxes payable, trade notes and accounts payable and accrued expenses but increases in short-term and long-term bank loans.

Interest-bearing debt increased ¥5,329 million, or 8.1%, to ¥70,900 million (US$709,000 thousand). The debt-equity ratio (interest-bearing debt divided by net assets excluding minority interests) increased from 79.0% to 82.2% and the current ratio increased from 1.17 to 1.21.

Total net assets increased ¥3,922 million to ¥91,739 million (US$917,390 thousand). Although net unrealized holding gains on securities, net of taxes decreased, there was an increase in retained earnings. The equity ratio increased 0.7 percentage point to 29.8%.

Cash Flows

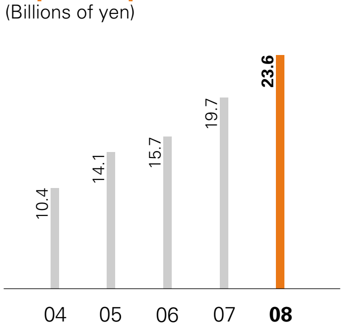
Net cash provided by operating activities amounted to ¥19,707 million (US$197,070 thousand). Major uses of cash were income taxes paid of ¥9,161 million (US$91,610 thousand) and changes in trade notes and accounts payable of ¥2,742 (US$27,420 thousand). The primary sources of cash were income before income taxes and minority interests of ¥15,218 million (US$152,180 thousand) and depreciation and amortization of ¥15,127 million (US$151,270 thousand).

Net cash used in investing activities was ¥20,166 million (US$201,660 thousand). Cash was used mainly for payments for acquisition of property, plant and equipment of ¥21,197 million (US$211,970 thousand). A major source of cash was proceeds from sale of investment securities of ¥1,519 (US$15,190 thousand).

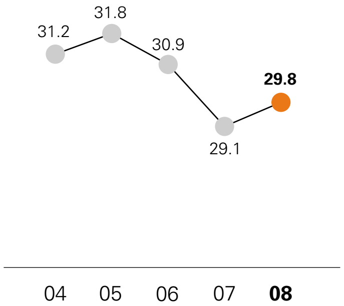
Net cash provided by financing activities amounted to ¥4,192 million (US$41,920 thousand), compared with net cash used by financing activities of ¥3,157 million in the previous fiscal year. There were repayments of long-term debt of ¥4,811 (US$48,110 thousand), cash dividends paid of ¥1,670 million (US$16,700 thousand), and proceeds from long-term debt of ¥9,982 (US$99,820 thousand).

Although cash was used for a payment for acquisition of property, plant and equipment and income taxes paid, increases in income before income taxes and minority interests, depreciation and amortization, and proceeds from long-term debt resulted in a net increase of ¥3,422 million, or 20.6%, in cash and cash equivalents at the end of year, to ¥20,073 million (US$200,730 thousand).

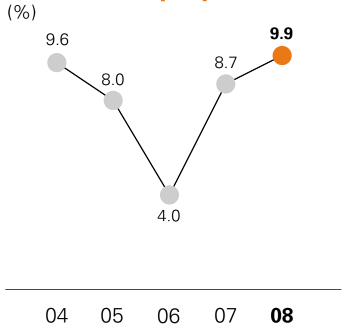
Capital Expenditures
(Billions of yen)



Equity Ratio
(%)



Return on Equity (ROE)*
(%)



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

Consolidated Balance Sheets

Kayaba Industry Co., Ltd. and its Consolidated Subsidiaries
As of March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	**2008**	2007	**2008**
Current assets:			
Cash and time deposits (Note 10)	**¥ 15,938**	¥ 16,407	**$ 159,380**
Trade receivables:			
Notes and accounts	**91,642**	93,510	**916,420**
Unconsolidated subsidiaries and affiliated companies	**3,276**	2,868	**32,760**
Allowance for doubtful accounts	**(952)**	(1,019)	**(9,520)**
Inventories (Note 3)	**43,818**	43,975	**438,180**
Deferred tax assets (Note 6)	**3,910**	3,736	**39,100**
Short-term loans receivable	**4,551**	11	**45,510**
Marketable securities (Note 12)	**734**	631	**7,340**
Other current assets	**5,676**	5,006	**56,760**
Total current assets	**168,593**	165,125	**1,685,930**
Property, plant and equipment (Note 4):			
Buildings and structures	**54,424**	50,735	**544,240**
Machinery, equipment and automobiles	**170,721**	161,872	**1,707,210**
Land	**19,173**	18,549	**191,730**
Construction in progress	**5,277**	2,905	**52,770**
Other property, plant and equipment	**39,326**	37,547	**393,260**
Total property, plant and equipment	**288,921**	271,608	**2,889,210**
Less: Accumulated depreciation	**(187,126)**	(177,264)	**(1,871,260)**
Net property, plant and equipment	**101,795**	94,344	**1,017,950**
Intangible assets:			
Goodwill	**325**	1,317	**3,250**
Software	**133**	108	**1,330**
Other non-current assets	**304**	283	**3,040**
Total non-current assets	**762**	1,708	**7,620**
Investments and other assets:			
Investment securities (Note 12)	**13,392**	19,879	**133,920**
Deferred tax assets (Note 6)	**3,396**	2,407	**33,960**
Other assets	**1,911**	1,818	**19,110**
Allowance for doubtful accounts	**(110)**	(135)	**(1,100)**
Total investments and other assets	**18,589**	23,969	**185,890**
Total assets	**¥ 289,739**	¥ 285,146	**$ 2,897,390**

See accompanying notes.

LIABILITIES AND NET ASSETS	Millions of yen 2008	Millions of yen 2007	Thousands of U.S. dollars (Note 1) 2008
Current liabilities:			
Trade payables:			
Notes and accounts	**¥ 77,949**	¥ 80,993	**$ 779,490**
Unconsolidated subsidiaries and affiliated companies	**632**	693	**6,320**
Bank loans and current maturities of long-term debt (Note 4)	**30,578**	30,143	**305,780**
Accrued payables	**10,256**	12,340	**102,560**
Income taxes payable	**1,826**	5,171	**18,260**
Notes payable—equipment	**3,440**	1,105	**34,400**
Allowance for product warranty expenses	**3,672**	—	**36,720**
Allowance for bonuses to directors and corporate auditors	**121**	121	**1,210**
Other current liabilities	**10,999**	10,801	**109,990**
Total current liabilities	**139,473**	141,367	**1,394,730**
Long-term liabilities:			
Long-term debt less current maturities (Note 4)	**39,785**	34,731	**397,850**
Deferred tax liabilities on land revaluation	**4,513**	4,513	**45,130**
Employees' severance and retirement benefits (Note 5)	**12,397**	14,202	**123,970**
Retirement benefits for directors and corporate auditors	**737**	843	**7,370**
Allowance for environmental expenses	**208**	196	**2,080**
Other long-term liabilities	**887**	1,477	**8,870**
Total long-term liabilities	**58,527**	55,962	**585,270**
Contingent liabilities (Note 8)			
Net assets (Note 7):			
Common stock:			
Authorized—491,955,000 shares			
Issued—222,984,315 shares	**19,114**	19,114	**191,140**
Capital surplus	**20,263**	20,263	**202,630**
Retained earnings	**39,078**	32,350	**390,780**
Less: Treasury stock, at cost	**(186)**	(162)	**(1,860)**
Net unrealized holding gains on securities, net of taxes	**2,825**	5,287	**28,250**
Unrealized gain from hedging instruments	**8**	—	**80**
Revaluation reserve for land, net of taxes	**4,761**	4,761	**47,610**
Foreign currency translation adjustments	**399**	1,358	**3,990**
Minority interests in consolidated subsidiaries	**5,477**	4,846	**54,770**
Total net assets	**91,739**	87,817	**917,390**
Total liabilities and net assets	**¥289,739**	¥285,146	**$2,897,390**

Consolidated Statements of Income

Kayaba Industry Co., Ltd. and its Consolidated Subsidiaries
Years ended March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	**2008**
Net sales (Note 15)	**¥387,080**	¥356,083	**$3,870,800**
Cost of sales (Note 15)	**324,401**	299,228	**3,244,010**
Gross profit	**62,679**	56,855	**626,790**
Selling, general and administrative expenses (Notes 14 and 15)	**44,408**	42,282	**444,080**
Operating income (Note 15)	**18,271**	14,573	**182,710**
Other income (expenses):			
Interest income	**225**	188	**2,250**
Dividend income	**232**	200	**2,320**
Royalty income	**781**	598	**7,810**
Equity in earnings of unconsolidated subsidiaries and affiliated companies	**612**	502	**6,120**
Interest expense	**(2,054)**	(1,725)	**(20,540)**
Loss on disposal of inventories	**(298)**	(202)	**(2,980)**
Foreign exchange gain (loss), net	**(667)**	335	**(6,670)**
Gain on sale of investment securities	**219**	103	**2,190**
Reversal of allowance for uncollectibles	**97**	10	**970**
Loss on sale and disposal of property, plant and equipment, net	**(683)**	(832)	**(6,830)**
Impairment loss on fixed assets (Note 9)	**(430)**	—	**(4,300)**
Valuation loss on investment securities	**(320)**	—	**(3,200)**
Prior period provision for product warranty expenses	**(1,308)**	—	**(13,080)**
Severance and retirement benefit expenses	**—**	(272)	**—**
Provision for environmental expenses	**—**	(196)	**—**
Patent settlement	**—**	(443)	**—**
Others, net	**541**	642	**5,410**
Income before income taxes and minority interests	**15,218**	13,481	**152,180**
Income taxes (Note 6):			
Current	**5,672**	7,089	**56,720**
Deferred	**456**	(1,033)	**4,560**
Income before minority interests	**9,090**	7,425	**90,900**
Minority interests	**692**	466	**6,920**
Net income	**¥ 8,398**	¥ 6,959	**$ 83,980**

	Yen		U.S. dollars (Note 1)
Amounts per share of common stock:			
Net income	**¥37.72**	¥31.33	**$0.38**
Cash dividends applicable to the year	**7.00**	7.00	**0.07**

See accompanying notes.

Consolidated Statements of Changes in Net Assets

Kayaba Industry Co., Ltd. and its Consolidated Subsidiaries
Years ended March 31, 2008 and 2007

	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	Unrealized gain from hedging instruments	Revaluation reserve for land, net of taxes	Foreign currency translation adjustments	Minority interests in consolidated subsidiaries	Total net assets
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 of treasury stock	—	—	14	—	1,978	—	—	—	—	—	1,992
Net change of items other than shareholder's 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
Cash dividends paid	**—**	**—**	**—**	**(1,670)**	**—**	**—**	**—**	**—**	**—**	**—**	**(1,670)**
Net income	**—**	**—**	**—**	**8,398**	**—**	**—**	**—**	**—**	**—**	**—**	**8,398**
Acquisition of treasury stock	**—**	**—**	**—**	**—**	**(26)**	**—**	**—**	**—**	**—**	**—**	**(26)**
Disposal of treasury stock	**—**	**—**	**0**	**—**	**2**	**—**	**—**	**—**	**—**	**—**	**2**
Net change of items other than shareholder's equity	**—**	**—**	**—**	**—**	**—**	**(2,462)**	**8**	**—**	**(959)**	**631**	**(2,782)**
Balance at March 31, 2008	**222,984**	**¥19,114**	**¥20,263**	**¥39,078**	**¥ (186)**	**¥ 2,825**	**¥ 8**	**¥4,761**	**¥ 399**	**¥5,477**	**¥91,739**

	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	Unrealized gain from hedging instruments	Revaluation reserve for land, net of taxes	Foreign currency translation adjustments	Minority interests in consolidated subsidiaries	Total net assets
Balance at March 31, 2007	$191,140	$202,630	$323,500	$(1,620)	$ 52,870	$—	$47,610	$13,580	$48,460	$878,170
Cash dividends paid	**—**	**—**	**(16,700)**	**—**	**—**	**—**	**—**	**—**	**—**	**(16,700)**
Net income	**—**	**—**	**83,980**	**—**	**—**	**—**	**—**	**—**	**—**	**83,980**
Acquisition of treasury stock	**—**	**—**	**—**	**(260)**	**—**	**—**	**—**	**—**	**—**	**(260)**
Disposal of treasury stock	**—**	**0**	**—**	**20**	**—**	**—**	**—**	**—**	**—**	**20**
Net change of items other than shareholder's equity	**—**	**—**	**—**	**—**	**(24,620)**	**80**	**—**	**(9,590)**	**6,310**	**(27,820)**
Balance at March 31, 2008	**$191,140**	**$202,630**	**$390,780**	**$(1,860)**	**$ 28,250**	**$80**	**$47,610**	**$ 3,990**	**$54,770**	**$917,390**

See accompanying notes.

Consolidated Statements of Cash Flows

Kayaba Industry Co., Ltd. and its Consolidated Subsidiaries
Years ended March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	**2008**
Cash flows from operating activities:			
Income before income taxes and minority interests	**¥15,218**	¥13,481	**$152,180**
Depreciation and amortization	**15,127**	12,461	**151,270**
Loss on sale and disposal of property, plant and equipment, net	**683**	832	**6,830**
Gain on sale of investment securities	**(219)**	(103)	**(2,190)**
Valuation loss on investment securities	**320**	—	**3,200**
Patent settlement	**—**	443	**—**
Impairment loss on fixed assets	**430**	—	**4,300**
Amortization of goodwill	**597**	668	**5,970**
Amortization of negative goodwill	**(36)**	(36)	**(360)**
Increase (decrease) in allowance for doubtful accounts	**(74)**	373	**(740)**
Decrease in retirement benefits	**(1,810)**	(675)	**(18,100)**
Increase in allowance for directors and corporate auditors	**1**	121	**10**
Increase in allowance for environmental expenses	**12**	196	**120**
Interest and dividend income	**(457)**	(388)	**(4,570)**
Interest expense	**2,054**	1,725	**20,540**
Equity in earnings of unconsolidated subsidiaries and affiliated companies	**(612)**	(502)	**(6,120)**
(Increase) decrease in trade notes and accounts receivable	**854**	(11,218)	**8,540**
Increase in inventories	**(424)**	(5,323)	**(4,240)**
Increase (decrease) in trade notes and accounts payable	**(2,742)**	10,141	**(27,420)**
Increase (decrease) in payables—other	**(406)**	2,313	**(4,060)**
Increase in allowance for product warranty expenses	**1,779**	—	**17,790**
Other, net	**(638)**	1,374	**(6,380)**
Subtotal	**29,657**	25,883	**296,570**
Interest and dividends received	**1,025**	689	**10,250**
Interest paid	**(1,935)**	(1,695)	**(19,350)**
Income taxes paid	**(9,161)**	(4,138)	**(91,610)**
Income taxes refunded	**121**	62	**1,210**
Payment for patent settlement	**—**	(443)	**—**
Net cash provided by operating activities	**19,707**	20,358	**197,070**
Cash flows from investing activities:			
Transfer to time deposits	**(2,048)**	(683)	**(20,480)**
Transfer from time deposits	**1,318**	964	**13,180**
Payment for acquisition of property, plant and equipment	**(21,197)**	(19,042)	**(211,970)**
Proceeds from sale of property, plant and equipment	**104**	1,697	**1,040**
Payment for acquisition of investment securities	**(277)**	(800)	**(2,770)**
Proceeds from sale of investment securities	**1,519**	169	**15,190**
Proceeds from redemption of investment securities	**1,000**	—	**10,000**
Payment for acquisition of subsidiaries' stock	**—**	(452)	**—**
Payment for loans	**(384)**	(87)	**(3,840)**
Proceeds from collection of loans	**268**	361	**2,680**
Other, net	**(469)**	(450)	**(4,690)**
Net cash used in investing activities	**(20,166)**	(18,323)	**(201,660)**
Cash flows from financing activities:			
Increase in bank loans, net	**983**	2,300	**9,830**
Proceeds from long-term debt	**9,982**	8,151	**99,820**
Repayments of long-term debt	**(4,811)**	(10,011)	**(48,110)**
Payment for bond redemption	**(100)**	(70)	**(1,000)**
Acquisition and disposal of treasury stock, net	**(24)**	(2,052)	**(240)**
Cash dividends paid	**(1,670)**	(1,325)	**(16,700)**
Cash dividends paid for minority interests	**(168)**	(150)	**(1,680)**
Net cash provided by (used in) financing activities	**4,192**	(3,157)	**41,920**
Effect of exchange rate changes on cash and cash equivalents	**(311)**	481	**(3,110)**
Net increase (decrease) in cash and cash equivalents	**3,422**	(641)	**34,220**
Cash and cash equivalents at beginning of year	**16,651**	14,963	**166,510**
Increase in cash and cash equivalents due to change of consolidation scope	**—**	2,329	**—**
Cash and cash equivalents at end of year (Note 10)	**¥20,073**	¥16,651	**$200,730**

See accompanying notes.

Notes to Consolidated Financial Statements

Kayaba Industry Co., Ltd. and its Consolidated Subsidiaries
Years ended March 31, 2008 and 2007

1. Basis of Presenting Consolidated Financial Statements

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

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

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2008, which was ¥100 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 2008 and 2007), 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 statements of income of consolidated overseas subsidiaries are translated at average rates.

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

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.

In accordance with the amendment of the Corporation Tax Law of Japan, effective from the year ended March 31, 2008, the Company and its domestic consolidated subsidiaries changed the depreciation method for those property, plant and equipment acquired on or after April 1, 2007 to the method based on the amended Corporation Tax Law. As a result, operating income and income before income taxes and minority interests decreased by ¥520 million (US$5,200 thousand).

Effective from the year ended March 31, 2008, property, plant and equipment acquired before April 1, 2007 for which the allowable limit on the depreciable amount has been reached are to be depreciated evenly over five years from the following fiscal year. As a result, operating income and income before income taxes and minority interests decreased by ¥792 million (US$7,920 thousand).

Intangible assets
Intangible assets are amortized using the straight-line method. Software for internal use is amortized using the straight-line method over an estimated useful life of five years.

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 ¥5,633 million (US$56,330 thousand) as of March 31, 2008.

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

Certain lease transactions
Finance lease transactions which do not transfer ownership of leased assets to lessees are mainly accounted for in the same manner 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.

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.

Retirement benefits 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.

Allowance for product warranty expenses
Allowance for product warranty expenses is provided for the aggregate amount of the estimated cost of certain identified claims from customers and an amount calculated using the historical rate of sales to warranty expenses. From the year ended March 31, 2008, the Companies changed the accounting method of product warranty expenses to calculate period earnings more appropriately because the Companies have become able to estimate warranty expenses reasonably resulting from the improvement of the historical data capture.

As a result, for the year ended March 31, 2008, operating income decreased by ¥356 million (US$3,560 thousand) and income before income taxes and minority interests decreased by ¥1,664 million (US$16,640 thousand), respectively, compared to the previous method.

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 Standards 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 shareholder's 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 shareholder's equity sections.

The adoption of the New Accounting Standards had no impact on the consolidated statement of income for the year ended March 31, 2007.

Accounting Standards 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 from the year ended March 31, 2007 in accordance with the Additional New Accounting Standards.

Reclassifications

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

3. Inventories

Inventories as of March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Finished products	**¥19,371**	¥19,476	**$193,710**
Work in process	**17,546**	16,228	**175,460**
Raw materials and supplies	**6,901**	8,271	**69,010**
	¥43,818	¥43,975	**$438,180**

4. Bank Loans and Long-term Debt

Bank loans as of March 31, 2008 and 2007 were represented by short-term notes, generally 90 days, bearing annual interest rates ranging from 0.55% to 6.00% and from 0.55% to 6.09%, respectively.

Long-term debt as of March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Loans from banks and others, due through 2017 with interest rates ranging from 0.55% to 6.00%:			
Secured	**¥ 2,193**	¥ 1,136	**$ 21,930**
Unsecured	**41,925**	38,023	**419,250**
Total	**44,118**	39,159	**441,180**
Less: Current maturities	**(4,333)**	(4,428)	**(43,330)**
	¥39,785	¥34,731	**$397,850**

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, 2008 and 2007, the following assets were pledged as collateral for notes and long-term bank loans:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Book value of property, plant and equipment	**¥2,614**	¥13,042	**$26,140**

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

Fiscal years ending March 31,	Millions ot yen	Thousands of U.S. dollars
2009	¥ 4,333	$ 43,330
2010	2,236	22,360
2011	3,235	32,350
2012	16,408	164,080
2013	7,470	74,700
Thereafter	10,436	104,360
	¥44,118	$441,180

5. Retirement Benefits for Employees

Retirement benefits included in the liabilities section of the consolidated balance sheets as of March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Projected benefit obligation	**¥ 36,621**	¥ 37,301	**$ 366,210**
Unrecognized actuarial differences	**(100)**	8,016	**(1,000)**
Less: Fair value of plan assets	**(24,124)**	(31,115)	**(241,240)**
Employees' severance and retirement benefits	**¥ 12,397**	¥ 14,202	**$ 123,970**

Included in the consolidated statements of income for the years ended March 31, 2008 and 2007 were employees' severance and retirement benefit expenses comprising the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Service costs—benefits earned during the year	**¥2,081**	¥1,961	**$20,810**
Interest cost on projected benefit obligation	**726**	748	**7,260**
Expected return on plan assets	**(704)**	(526)	**(7,040)**
Amortization of actuarial differences	**(446)**	(265)	**(4,460)**
Special payment of extra retirement benefits	**50**	23	**500**
Severance and retirement benefit expenses	**¥1,707**	¥1,941	**$17,070**

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, 2008 and 2007. The rates of expected return on plan assets used by the Company and certain consolidated subsidiaries were 2.5% to 4.0% and 2.5% to 3.0% for the years ended March 31, 2008 and 2007, respectively.

6. 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, 2008 and 2007 was 39.8%.

Differences between the statutory tax rate and the effective tax rate for the year ended March 31, 2008 were not disclosed as differences were immaterial.

Significant components of the deferred tax assets and liabilities as of March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Deferred tax assets:			
Employees' severance and retirement benefits	**¥ 9,360**	¥10,106	**$ 93,600**
Tax loss carried forward	**4,089**	4,085	**40,890**
Accrued bonuses	**1,663**	1,662	**16,630**
Allowance for product warranty expenses	**1,187**	—	**11,870**
Software	**601**	375	**6,010**
Tax effect of unrealized gains on inventories	**520**	703	**5,200**
Allowance for doubtful accounts	**392**	434	**3,920**
Retirement benefits for directors and corporate auditors	**296**	338	**2,960**
Depreciation and amortization	**245**	83	**2,450**
Accrued expenses	**201**	850	**2,010**
Valuation loss on inventories	**184**	36	**1,840**
Enterprise taxes	**177**	381	**1,770**
Other	**844**	855	**8,440**
Total deferred tax assets	**19,759**	19,908	**197,590**
Less: Valuation allowance	**(5,669)**	(5,483)	**(56,690)**
	14,090	14,425	**140,900**
Deferred tax liabilities:			
Securities contributed to employees' retirement benefit trust	**(3,723)**	(3,833)	**(37,230)**
Unrealized holding gains on securities	**(1,882)**	(3,520)	**(18,820)**
Undistributed earnings of overseas subsidiaries	**(708)**	(356)	**(7,080)**
Tax allowable reserves for deduction of fixed assets	**(356)**	(429)	**(3,560)**
Other	**(115)**	(191)	**(1,150)**
Total deferred tax liabilities	**(6,784)**	(8,329)	**(67,840)**
Net deferred tax assets	**¥ 7,306**	¥ 6,096	**$ 73,060**

7. 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 stocks, 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 25, 2008, the shareholders approved cash dividends amounting to ¥779 million ($7,790 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2008. Such appropriations are recognized in the period in which they are approved by the shareholders.

8. Contingent Liabilities

As of March 31, 2008, the Companies were contingently liable for trade notes receivable discounted amounting to ¥76 million (US$760 thousand) and trade notes receivable endorsed amounting to ¥546 million (US$5,460 thousand).

The Company was also contingently liable under guarantees of indebtedness of unconsolidated subsidiaries and affiliated companies amounting to ¥300 million (US$3,000 thousand) and of employees' loans for their own houses amounting to ¥10 million (US$100 thousand) as of March 31, 2008.

9. Impairment of Fixed Assets

For the year ended March 31, 2008, the Companies recognized impairment losses.

The companies have classified fixed assets into groups by plant. Each of the idle assets that are not expected to generate cash flow in the future were treated as an individual asset.

The recoverable amounts are calculated based on net selling price. As for goodwill, its net value was calculated as zero because goodwill was not able to earn the profit that the Companies estimated at first.

As a result, impairment losses were recognized as ¥35 million (US$350 thousand) on fixed assets and ¥395 million (US$3,950 thousand) on goodwill.

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, 2008 and 2007 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Cash and time deposits	**¥15,938**	¥16,407	**$159,380**
Less: Time deposits with maturities exceeding three months	**(1,095)**	(387)	**(10,950)**
Add: Commercial paper with maturity less than three months	**4,496**	—	**44,960**
Money management fund	**734**	631	**7,340**
Cash and cash equivalents	**¥20,073**	¥16,651	**$200,730**

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, 2008 and 2007 is as follows:

	Millions of yen						Thousands of U.S. dollars		
	2008			2007			**2008**		
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
Buildings	**¥1,347**	**¥ 736**	**¥ 611**	¥1,581	¥ 675	¥ 906	**$13,470**	**$ 7,360**	**$ 6,110**
Machinery and equipment	**1,991**	**555**	**1,436**	1,580	464	1,116	**19,910**	**5,550**	**14,360**
Other assets	**3,812**	**1,975**	**1,837**	3,613	1,664	1,949	**38,120**	**19,750**	**18,370**
Total	**¥7,150**	**¥3,266**	**¥3,884**	¥6,774	¥2,803	¥3,971	**$71,500**	**$32,660**	**$38,840**

Future minimum lease payments as of March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Due within one year	**¥1,265**	¥1,174	**$12,650**
Due after one year	**2,619**	2,797	**26,190**
	¥3,884	¥3,971	**$38,840**

Lease payments and the assumed depreciation charge for the years ended March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Lease payments	**¥1,196**	¥1,184	**$11,960**
Assumed depreciation charge	**1,196**	1,184	**11,960**

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, 2008 and 2007, interest expense has been included in the assumend amount of acquisition costs and depreciation expense.

Future minimum lease payments under operating leases, inclusive of interest, as of March 31, 2008 and 2007 were ¥1,154 million (US$11,540 thousand) and ¥170 million, respectively, including ¥346 million (US$3,460 thousand) and ¥98 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, 2008 and 2007:

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

	Millions of yen						Thousands of U.S. dollars		
	2008			2007			**2008**		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	**¥3,524**	**¥8,451**	**¥4,927**	¥4,492	¥13,564	¥9,072	**$35,240**	**$84,510**	**$49,270**

Available-for-sale securities: Other securities

	Millions of yen						Thousands of U.S. dollars		
	2008			2007			**2008**		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	**¥1,455**	**¥1,260**	**¥(195)**	¥524	¥303	¥(221)	**$14,550**	**$12,600**	**$(1,950)**

The Companies recorded a valuation loss of ¥280 million (US$2,800 thousand) on securities with available fair values.

B. The following table summarizes the book values of securities with no available fair values as of March 31, 2008 and 2007:

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

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Non-listed equity securities	**¥ 96**	¥2,436	**$ 960**
Money management fund	**734**	631	**7,340**
Unconsolidated subsidiaries and affiliated companies' equity securities	**3,585**	3,576	**35,850**

The Companies recorded a valuation loss of ¥40 million (US$400 thousand) on securities with no available fair values.

C. Proceeds from sales of available-for-sale securities in the year ended March 31, 2008 amounted to ¥1,519 million (US$15,190 thousand) and the related gains amounted to ¥219 million (US$12,190 thousand).

Proceeds from sales of available-for-sale securities in the year ended March 31, 2007 amounted to ¥170 million and the related gains amounted to ¥103 million.

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.The Companies do not hold derivative instruments for trading or speculative purposes.

Forward foreign exchange contracts and interest rate swap contracts include the market risk of fluctuations in foreign currency exchange rates and interest rates, respectively. The credit risk is considered to be low as the contracts are entered into with prestigious financial institutions. The Companies do not hold the highly-leveraged derivative transactions.

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, 2008 and 2007 were ¥3,368 million (US$33,680 thousand) and ¥3,708 million, respectively.

15. 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, 2008 and 2007 was as follows:

	Millions of yen				
Year ended March 31, 2008:	Hydraulic products	System products	Total	Elimination and/or Corporate	Consolidated
Sales:					
Outside customers	**¥373,868**	**¥13,212**	**¥387,080**	**¥ —**	**¥387,080**
Intersegment	**560**	**478**	**1,038**	**(1,038)**	**—**
Total sales	**374,428**	**13,690**	**388,118**	**(1,038)**	**387,080**
Operating expenses	**350,615**	**12,550**	**363,165**	**5,644**	**368,809**
Operating income	**¥ 23,813**	**¥ 1,140**	**¥ 24,953**	**¥ (6,682)**	**¥ 18,271**
Identifiable assets	**¥247,298**	**¥11,004**	**¥258,302**	**¥31,437**	**¥289,739**
Depreciation and amortization	**14,513**	**348**	**14,861**	**112**	**14,973**
Impairment loss fixed assets	**430**	**—**	**430**	**—**	**430**
Capital expenditures	**23,243**	**289**	**23,532**	**32**	**23,564**

	Millions of yen				
Year ended March 31, 2007:	Hydraulic products	System products	Total	Elimination and/or Corporate	Consolidated
Sales:					
Outside customers	¥343,526	¥12,557	¥356,083	¥ —	¥356,083
Intersegment	539	663	1,202	(1,202)	—
Total sales	344,065	13,220	357,280	(1,202)	356,083
Operating expenses	324,330	12,421	336,751	4,759	341,510
Operating income	¥ 19,735	¥ 799	¥ 20,534	¥ (5,961)	¥ 14,573
Identifiable assets	¥242,130	¥11,642	¥253,772	¥31,374	¥285,146
Depreciation and amortization	11,868	336	12,204	85	12,289
Capital expenditures	19,325	325	19,650	85	19,735

	Thousands of U.S. dollars				
Year ended March 31, 2008:	Hydraulic products	System products	Total	Elimination and/or Corporate	Consolidated
Sales:					
Outside customers	**$3,738,680**	**$132,120**	**$3,870,800**	**$ —**	**$3,870,800**
Intersegment	**5,600**	**4,780**	**10,380**	**(10,380)**	**—**
Total sales	**3,744,280**	**136,900**	**3,881,180**	**(10,380)**	**3,870,800**
Operating expenses	**3,506,150**	**125,500**	**3,631,650**	**56,440**	**3,688,090**
Operating income	**$ 238,130**	**$ 11,400**	**$ 249,530**	**$ (66,820)**	**$ 182,710**
Identifiable assets	**$2,472,980**	**$110,040**	**$2,583,020**	**$314,370**	**$2,897,390**
Depreciation and amortization	**145,130**	**3,480**	**148,610**	**1,120**	**149,730**
Impairment loss on fixed assets	**4,300**	**—**	**4,300**	**—**	**4,300**
Capital expenditures	**232,430**	**2,890**	**235,320**	**320**	**235,640**

As described in Note 2 "Property, plant and equipment", effective from the year ended March 31, 2008, the Company and its domestic consolidated subsidiaries changed the depreciation method for those property, plant and equipment acquired on or after April 1, 2007 to the method based on the amended Corporation Tax Law. As a result, operating income of "Hydraulic products" segment, "System products" segment and "Elimination and/or corporate" decreased by ¥509 million (US$5,090 thousand), ¥10 million (US$100 thousand) and ¥1 million (US$10 thousand), respectively.

Also, effective from the year ended March 31, 2008, property, plant and equipment acquired on or before March 31, 2007 for which the allowable limit on the depreciable amount has been reached are to be depreciated evenly over five years from following fiscal year. As a result, operating income of "Hydraulic products" segment, "System products" segment and "Elimination and/or corporate" decreased by ¥743 million (US$7,430 thousand), ¥37 million (US$370 thousand) and ¥12 million (US$120 thousand), respectively.

As described in Note 2 "Allowance for product warranty expenses", from the year ended March 31, 2008, the Companies changed the accounting method of product warranty expenses. As a result, for the year ended March 31, 2008, operating income of "Hydraulic products" segment and "System products" segment decreased by ¥348 million (US$3,480 thousand) and ¥8 million (US$80 thousand), respectively, compared to the previous method.

Geographic segments

Geographic segment information for the years ended March 31, 2008 and 2007 was as follows:

	Millions of yen						
Year ended March 31, 2008:	Japan	Europe	North America	Other areas	Total	Elimination and/or Corporate	Consolidated
Sales:							
Outside customers	**¥258,490**	**¥55,021**	**¥36,256**	**¥37,313**	**¥387,080**	**¥ —**	**¥387,080**
Intersegment	**23,441**	**998**	**33**	**2,702**	**27,174**	**(27,174)**	**—**
Total sales	**281,931**	**56,019**	**36,289**	**40,015**	**414,254**	**(27,174)**	**387,080**
Operating expenses	**263,137**	**55,540**	**36,243**	**36,148**	**391,068**	**(22,259)**	**368,809**
Operating income	**¥ 18,794**	**¥ 479**	**¥ 46**	**¥ 3,867**	**¥ 23,186**	**¥ (4,915)**	**¥ 18,271**
Identifiable assets	**¥203,210**	**¥36,961**	**¥18,311**	**¥35,732**	**¥294,214**	**¥ (4,475)**	**¥289,739**

	Millions of yen						
Year ended March 31, 2007:	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

	Thousands of U.S. dollars						
Year ended March 31, 2008:	Japan	Europe	North America	Other areas	Total	Elimination and/or Corporate	Consolidated
Sales:							
Outside customers	**$2,584,900**	**$550,210**	**$362,560**	**$373,130**	**$3,870,800**	**$ —**	**$3,870,800**
Intersegment	**234,410**	**9,980**	**330**	**27,020**	**271,740**	**(271,740)**	**—**
Total sales	**2,819,310**	**560,190**	**362,890**	**400,150**	**4,142,540**	**(271,740)**	**3,870,800**
Operating expenses	**2,631,370**	**555,400**	**362,430**	**361,480**	**3,910,680**	**(222,590)**	**3,688,090**
Operating income	**$ 187,940**	**$ 4,790**	**$ 460**	**$ 38,670**	**$ 231,860**	**$ (49,150)**	**$ 182,710**
Identifiable assets	**$2,032,100**	**$369,610**	**$183,110**	**$357,320**	**$2,942,140**	**$ (44,750)**	**$2,897,390**

As described in Note 2 "Property, plant and equipment", effective from the year ended March 31, 2008, the Company and its domestic consolidated subsidiaries changed the depreciation method for those property, plant and equipment acquired on or after April 1, 2007 to the method based on the amended Corporation Tax Law. As a result, operating income of "Japan" segment and "Elimination and/or corporate" decreased by ¥519 million (US$5,190 thousand) and ¥1 million (US$10 thousand), respectively.

Also, effective from the year ended March 31, 2008, property, plant and equipment acquired on or before March 31, 2007 for which the allowable limit on the depreciable amount has been reached are to be depreciated evenly over five years from following fiscal year. As a result, operating income of "Japan" segment and "Elimination and/or corporate" decreased by ¥780 million (US$7,800 thousand) and ¥12 million (US$120 thousand), respectively.

As described in Note 2 "Allowance for product warranty expenses", from the year ended March 31, 2008, the Companies changed the accounting method of product warranty expenses. As a result, for the year ended March 31, 2008, operating income of "Japan" segment decreased by ¥356 million (US$3,560 thousand) compared to the previous method.

Overseas sales

Overseas sales, including those of the Companies, by geographic area for the years ended March 31, 2008 and 2007 were as follows:

	Millions of yen					
Year ended March 31, 2008:	Europe	North America	East Asia	Southeast Asia	Other areas	Total
I. Overseas sales	**¥62,204**	**¥47,138**	**¥25,751**	**¥19,385**	**¥14,875**	**¥169,353**
II. Consolidated sales	**—**	**—**	**—**	**—**	**—**	**387,080**
III. Ratio of overseas sales (%)	**16.1%**	**12.2%**	**6.7%**	**5.0%**	**3.8%**	**43.8%**

	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%

	Thousands of U.S. dollars					
Year ended March 31, 2008:	Europe	North America	East Asia	Southeast Asia	Other areas	Total
I. Overseas sales	**$622,040**	**$471,380**	**$257,510**	**$193,850**	**$148,750**	**$1,693,530**
II. Consolidated sales	**—**	**—**	**—**	**—**	**—**	**3,870,800**
III. Ratio of overseas sales (%)	**16.1%**	**12.2%**	**6.7%**	**5.0%**	**3.8%**	**43.8%**

16. Subsequent Event

On June 25, 2008, the shareholders of the Company authorized the following appropriations of retained earnings as of March 31, 2008:

	Millions of yen	Thousands of U.S. dollars
Cash dividends, ¥3.5 (US$0.035) per share	¥779	$7,790

Independent Auditors' Report

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, 2008 and 2007, 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 consolidated subsidiaries as of March 31, 2008 and 2007, 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.

Without qualifying our opinion, we draw attention to the following:
As discussed in Note 2 to the consolidated financial statements, effective from the year ended March 31, 2008, Kayaba Industry Co., Ltd. changed the method of accounting to provide allowance for product warranty expenses.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 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 25, 2008

Major Subsidiaries and Affiliates
(As of July 1, 2008)

Japan

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 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

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

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 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

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

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

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

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

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 Suspensions Europe, S.A.
—Manufacturing and sales of shock absorbers
Ctra. de Irurzun s/n-31171, Ororbia (Navarra), Spain
Tel: 34-948-421700 Fax: 34-948-322165

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 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

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: 420-466-812-861

Asia

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 (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: 66-2-323-9035 Fax: 66-2-323-9037

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 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 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 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 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 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

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

P.T. Kayaba Indonesia
—Manufacturing and sales of shock absorbers
JL, Jawa Blok II No. 4, Kawasan MM 2100,
Cikarang Barat 17520, Indonesia
Tel: 62-21-8981456 Fax: 62-21-8980713

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

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

Corporate Information

(As of March 31, 2008)

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: 11,546 (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

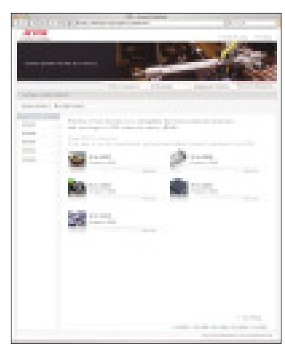
Overseas Offices:

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

KYB website:
http://www.kyb.co.jp/english/

Corporate Profile



Investor Relations

Shareholder Information
(As of March 31, 2008)

Common Stock Issued: 222,984,315 shares

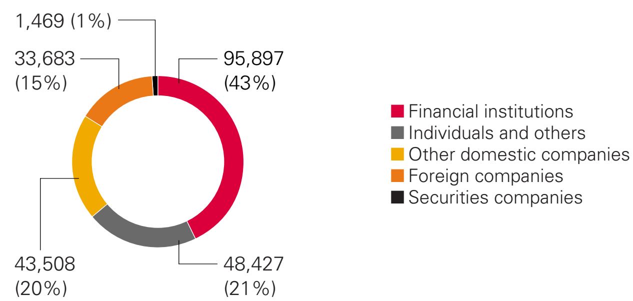
Number of Shareholders: 15,671

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)	16,588	7.44
The Master Trust Bank of Japan, Ltd. (Trust Account)	13,664	6.13
UBS AG London A/C IPB Segregated Client Account	10,930	4.90
Meiji Yasuda Life Insurance Company	10,046	4.51
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.)	7,192	3.23
Mizuho Corporate Bank, Ltd.	7,163	3.21
Sompo Japan Insurance Inc.	6,744	3.02
Mizuho Trust & Banking Co., Ltd. Retirement Benefit Trust Account for Mizuho Bank, Ltd. Asset Management Re-entrust Services	6,115	2.74
Total	106,048	47.56

Composition of Shareholders:
(Thousands)



Monthly Stock Price Range
(Tokyo Stock Exchange)