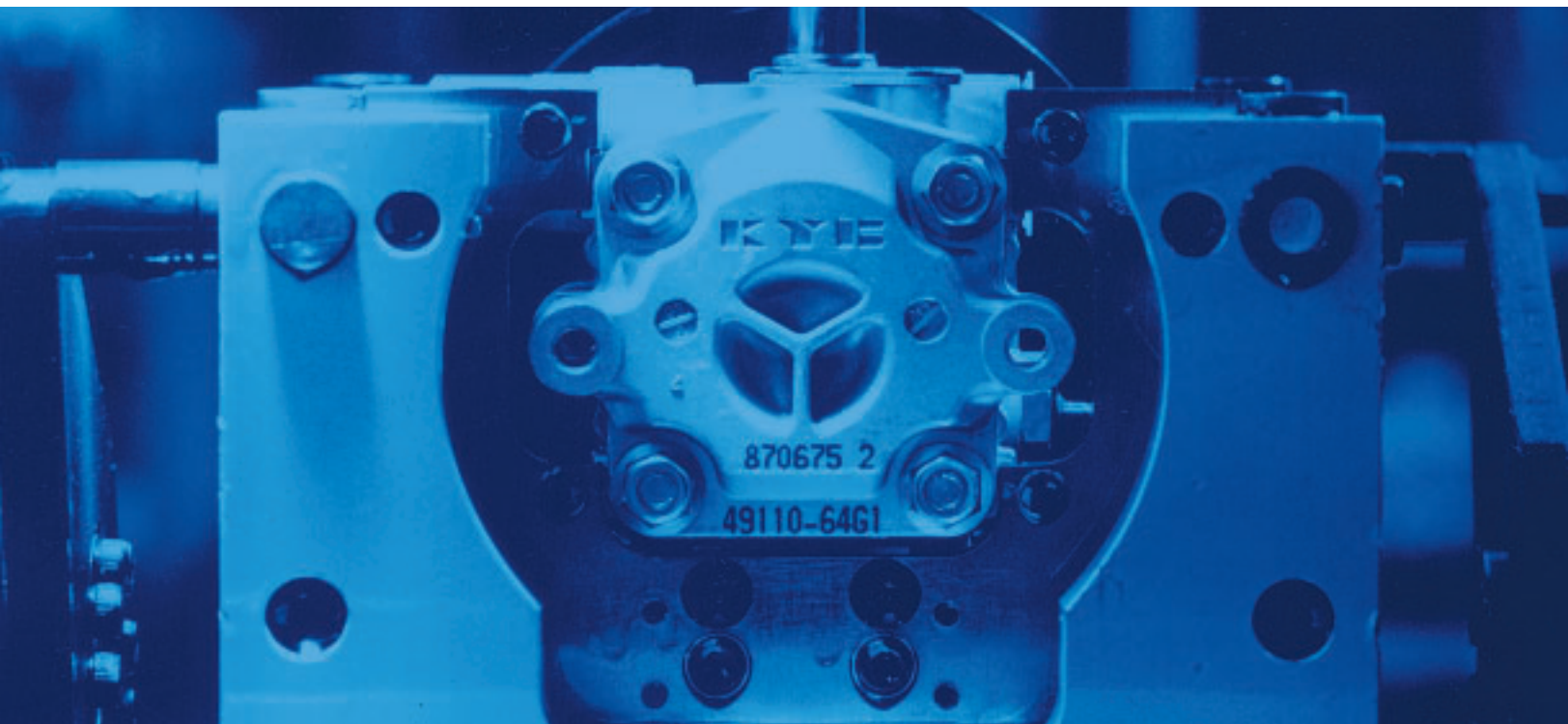


**KYB**

*Our Precision,  
Your Advantage*





Note: Effective from October 1, 2005, Kayaba Industry Co., Ltd., will use KYB Corporation as its popular name but the official name of the company remains Kayaba Industry Co., Ltd. We have, however, started using our new popular name in advance with the publication of this annual report in order to increase its recognition and realize a smooth switch to the new popular name.



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

# KYB takes on its next challenges with speed and enthusiasm

The challenge of *monozukuri* (manufacturing expertise).

An uncompromising commitment to excellence.

Since its inception, KYB Corporation, has constantly refined technologies and quality to supply customers with better products. Today, we are reaffirming our dedication to “supplying technologies and products that make our lives safer and more comfortable, contributing to society, and reliably carrying through on promises.”

Upon our 70th anniversary, we are pursuing a revised management philosophy and management vision, moving toward our goals with speed and enthusiasm. By reinvigorating our corporate culture and improving our operating framework, we will build a new KYB brand that reflects the demands of the times.



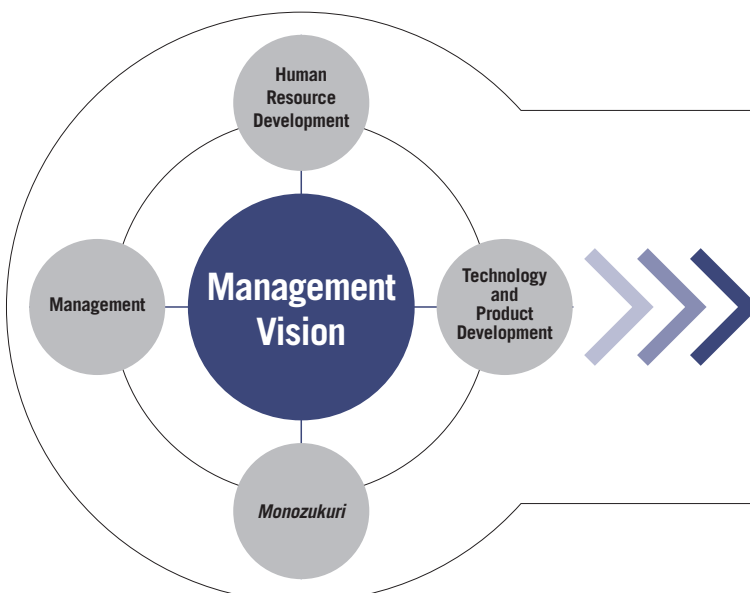
## Our New Corporate Spirit

By developing technologies and products that make people's lives safer and more comfortable, the KYB Group is dedicated to the betterment of society.

### Guiding Principles

1. We shall build a spirited corporate culture and hold high goals.
2. We shall value sincerity, cherish nature, and care for the environment.
3. We shall constantly pursue creativity and contribute to the prosperity of customers, shareholders, suppliers, and society as a whole.

## Our New Management Vision



### Human Resource Development

Ensure that our employees have a thorough understanding of our policies and strategies and can accomplish our goals with enthusiasm.

### Technology and Product Development

Provide products that fully satisfy and gain the admiration of our customers throughout the world.

### *Monozukuri* (Manufacturing Expertise)

Operate plants filled with the creative inspiration of committed *monozukuri*, energy, and the joy of creating products that satisfy our customers.

### Management

Stay committed to our corporate social responsibilities and pursue efficient group management.



*Tadahiko Ozawa*

Tadahiko Ozawa,  
President and Representative Director

**What is your view of KYB's performance in fiscal 2004, ended March 31, 2005, and the "Change & Speed" medium-term plan, which ended in fiscal 2004?**

The most significant event was the recent spike in the price of steel. This showed us the negative side of China's strong economic growth and construction boom. Our inability to raise prices to fully reflect the higher cost of steel was the biggest reason that net income fell 8.9% in fiscal 2004 even though sales rose 18.3%.

Looking at our global operations, I am pleased that we raised our ownership in joint ventures in Spain and Thailand, making both companies consolidated subsidiaries. In other regions where we are active as a minority shareholder, I want to take actions to establish a stronger presence.

When we prepared the "Change & Speed" plan three years ago, we viewed China as both an important manufacturing base and a market with much potential. However, the magnitude of changes in China during the past three years far surpassed our expectations. We responded by acting quickly to expand operations in China.

Looking back on the "Change & Speed" plan, we succeeded in reaching our sales and ROE targets. We also made progress in enlarging and strengthening the KYB Group largely as planned. Only our ordinary profit margin goal remains, and that is because of the recent increase in the cost of steel. Overall, I think we deserve a passing grade.

**CONSOLIDATED FINANCIAL HIGHLIGHTS**

KYB Corporation and Consolidated Subsidiaries  
Years Ended March 31

	Millions of yen		Change	
	2005	2004	Amount	%
<b>For the year:</b>				
Net sales.....	<b>¥270,329</b>	¥228,525	¥41,804	18.3
Costs and expenses.....	<b>260,687</b>	217,406	43,281	19.9
Net income.....	<b>5,501</b>	6,040	(539)	(8.9)
<b>At year-end:</b>				
Total shareholders' equity.....	<b>¥ 70,656</b>	¥ 66,819	¥ 3,837	5.7
Total assets.....	<b>222,224</b>	213,845	8,379	3.9
<b>Per share data</b> (in yen and dollars):				
Net income.....	<b>¥ 24.15</b>	¥ 26.55		
Cash dividends applicable to the year.....	<b>6.00</b>	6.00		

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

**Please explain the events that led to the establishment of the guiding principles and the new management vision.**

Our previous guiding principles were a message that mainly targeted employees. We decided to revise these principles because we have entered a new operating environment, one that demands a message for shareholders and other investors, customers, the public, and employees that is expressed in plain language.

Our new management vision defines specific goals that the KYB Group must strive to translate into reality. There are four elements: human resource development, technology and product development, *monozukuri* (manufacturing expertise), and management. I believe that carrying through with this vision will contribute directly to the future growth of the KYB Group.

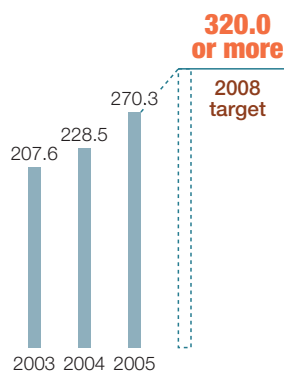
**What are the key elements of “Change & Accomplish V10 (C&A V10),” your new medium-term management plan?**

Formulating a reliable outlook is virtually impossible due to constant and rapid changes in our markets. As president, I must adopt an active rather than passive stance in setting a strategic course for KYB. Our employees must then execute that strategy.

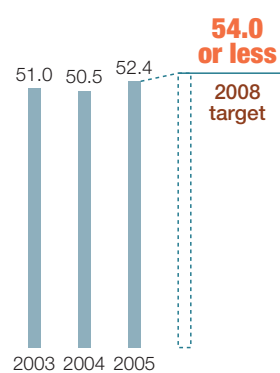
Accomplishing this means we need to discard old ways of thinking. That is why the plan name includes the word “Change.” The plan also sets the goal of raising the performance of our factories worldwide to a uniform level in terms of production technology, quality assurance, and other parameters. “Accomplish” expresses this.

**Targets Under “C&A V10”**

**Net Sales**  
(Billions of yen)



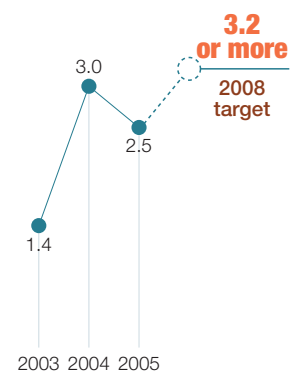
**Interest-Bearing Debt**  
(Billions of yen)



**ROE**  
(%)



**ROA**  
(%)



Group management means more than just combining financial statements. We need to work together on a higher level. Senior management and employees alike need to regard Group companies as an integrated organization. For example, our Group companies must have identical quality standards. Until recently, we responded swiftly to quality problems in Japan, but tended to view overseas quality issues with less urgency. We must put an end to this mindset. It is vital that the global KYB Group becomes a cohe-

sive unit based on shared guiding principles and management vision.

We have established numerical targets for the final year of "Change & Accomplish V10," which is the fiscal year ending in March 2008. We plan to raise net sales to ¥320 billion and ordinary income to ¥16 billion. This will give us an ordinary profit margin of 5.0%, an ROE of 10.0%, and an ROA of 3.2%. In reality, we are determined to exceed all of these targets.

## *The KYB Group manufactures shock absorbers in four areas of the world. What are the major issues and actions you are taking in each region?*

In North America, I expect to achieve a big increase in output. This will make our North American plant the KYB Group's third largest in the world in terms of volume. So we need to work even harder on improving quality.

In China, we have not started full-scale production yet, but there is a lot of interest among prospective customers, so we need to establish a sound manufacturing system as soon as possible.

In Japan and Europe, there are no issues in particular. However, we must place even greater priority on standardization in order to make products with the same quality worldwide, including in North America and China. In the past, standardization referred merely to designs. Now, this process must extend to how we train employees and the production machinery we use. Everyone is aware of the difficulty of standardizing training programs. What many people do not realize is that standardizing machinery is at least as difficult. That is because technology is constantly being refined. In every case, though, raising quality worldwide means never accepting compromises.

### **Key Strategies for "C&A V10"**

#### **1. Production and sales**

- Quickly move new production bases into the black
- Build an optimal global supply network

#### **2. Financial position**

- Bring down interest-bearing debt
- Reduce costs

#### **3. Management reform**

- Achieve optimal allocation of management resources
- Develop a sound corporate governance system

**Human resources are the highest priority of the medium-term plan.  
What specific actions do you have planned for employees?**

People are the foundation of any company. In Japanese, KYB writes “human resources” using a character normally used for assets, thus expressing the importance we place on people. Since the KYB Group operates worldwide, we must work hard everywhere to foster the development of people who are dedicated to excellence in the art of manufacturing, a skill called *monozukuri* in Japanese.

I believe that enhancing training systems is of particular importance. That is why we are building a global training center for trainees from around the world. At the same

time, we are reviewing our factory-floor training program. In addition, we are taking many actions to provide financial training, hands-on *monozukuri* training, and other training to managers at the level of division manager and above.

Manuals are another important tool for achieving uniform quality worldwide. We have produced manuals in Japanese, English, Portuguese, and Spanish to cover three areas: tests performed during production processes, post-production tests, and all processes required to manufacture hydraulic products. We also have photos and other visual materials to increase the impact of these manuals.

**Would you explain your thinking with regard to KYB’s brand value?**

I believe that the first responsibility of everyone at the KYB Group is to become more aware of our brand, and to take steps that enhance our brand value. Currently, consumers do not select the shock absorbers used in the cars they buy. However, a number of European and U.S. shock

absorber suppliers display their brand names on their products to raise brand value. Many of our employees have not placed emphasis on this in past years. That means we must take the first step, which is making our people think about the value of the KYB brand.

**What are your plans for the Systems Products business?**

This business covers many products, such as concrete mixer trucks and other special-purpose vehicles, vibration control dampers and seismic isolation systems for buildings and structures, and auditorium and stage control systems. Despite the diversity, most of these businesses are closely linked to public-works spending. Furthermore, we have high market shares in each category, making us highly vulnerable to market ups

and downs. Past actions to improve the Systems Products business may not have gone far enough. This time, we have shut down and combined Group companies and business units while cutting administrative expenses. I am confident that we will soon see the benefits of these actions. We also need to develop new markets. I think environmental businesses present very attractive opportunities for us.

Q

***What kind of company will KYB be one or two decades from now?***

**K**YB needs to become one of the world's top five manufacturers of hydraulic products. A top-five position would give us about a 30% share of the global shock absorber market. Shooting for an ambitious goal like this is essential to competing and winning in today's markets. Becoming one of the top five is also essential to working together with customers. Another

important point is that we cannot fulfill our obligations as a corporate citizen unless we maintain a suitable level of profitability. We need to make customers more aware of the outstanding performance and quality of our products. That will allow us to set prices that accurately reflect the value we supply.

Q

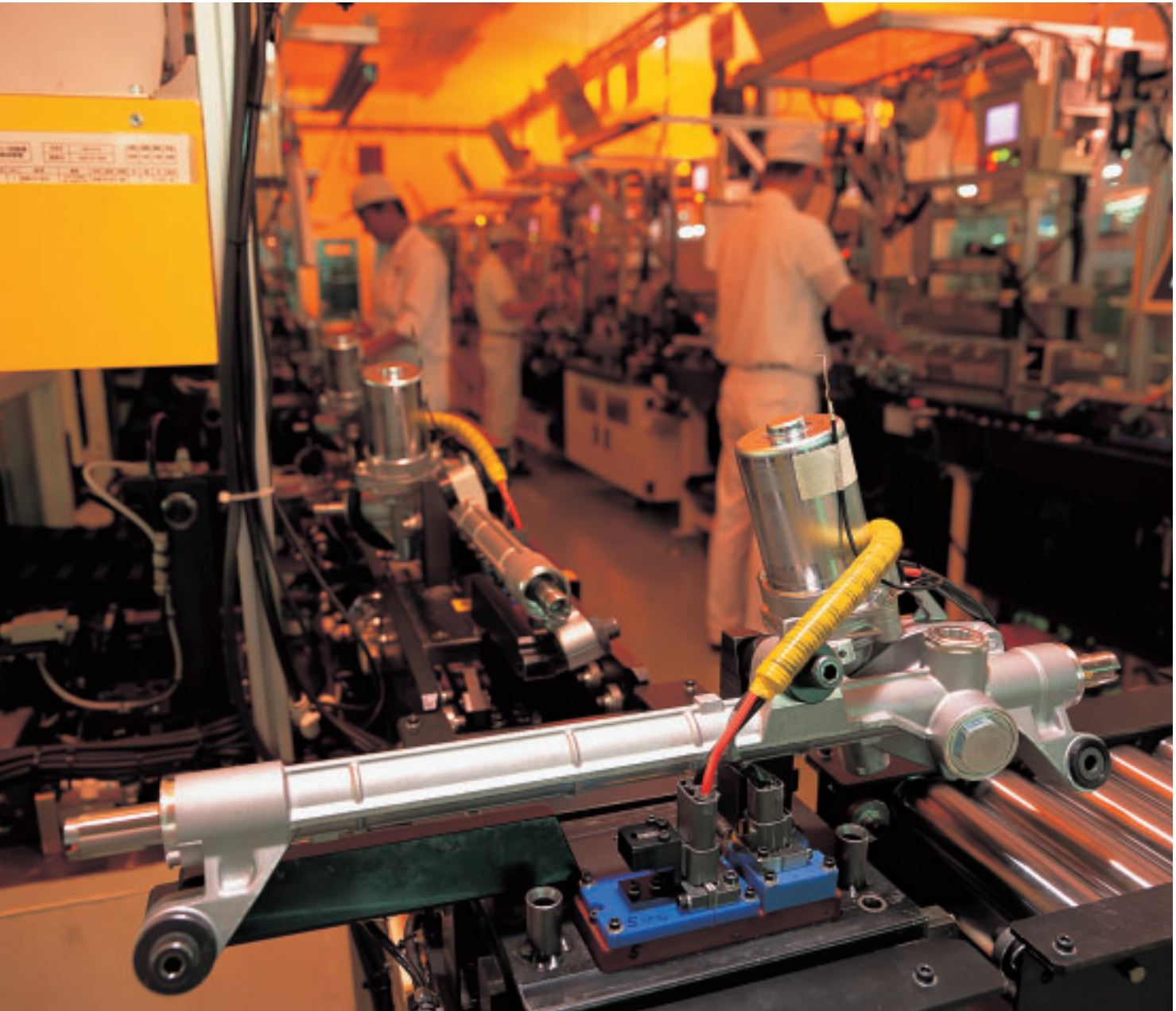
***Finally, would you summarize your position concerning corporate social responsibility?***

I believe that sustaining operations over the long term is our greatest social responsibility. The KYB Group has about 8,200 employees. These people and their families depend on us. Only by meeting our obligations to these people can we return earnings to shareholders and contribute to communities and environmental protection. Serving employees is also essential to meeting our responsibilities to other stakeholders. Naturally, our activities must also strictly comply with laws and regulations.

KYB is dedicated to meeting the expectations of our shareholders by achieving the goals of the new medium-term plan. Management will remain focused on these goals as it guides the Company in the years ahead. The continued support and understanding of our shareholders will be instrumental to this process.



## Hydraulic Products



### Major Products

#### Shock Absorbers

For automobiles, motorcycles, railway vehicles, and industrial-use products  
Seismic isolation systems and vibration control dampers

#### Hydraulic Equipment

For industrial use: Pumps, valves, motors, and cylinders

For automobiles: Pumps, electric power steering, and four-wheel steering machinery

For aircraft: Equipment for landing systems, flight control systems, pneumatic/hydraulic systems, and space flight-related equipment



Sales in the Hydraulic Products segment increased 20.8%, to ¥259,918 million (US\$2,429,140 thousand). Operating income was down ¥86 million, to ¥14,886 million (US\$139,121 thousand), mainly due to the higher cost of steel. Research and development expenses in this segment totaled ¥3,360 million (US\$31,402 thousand).

### Shock Absorbers

Sales of automobile shock absorbers jumped 39.8%, mainly due to the inclusion of a newly consolidated subsidiary, a change in fiscal year-end. In addition, a 2.5% rise in the production of automobiles in Japan and growth in sales of shock absorbers for assembly use in overseas markets contributed to the increase in sales.

Motorcycle shock absorber sales increased 8.4% due to the inclusion of the newly consolidated subsidiary.

### Hydraulic Equipment

Sales of industrial-use hydraulic equipment increased 12.9%, mainly for construction machinery. There was a temporary downturn in demand due to China's financial tightening, but results benefited from strong demand in North America and Southeast Asia. Sales of automobile power steering products decreased 2.3%. Although there was an increase in sales resulting from a change in the fiscal year-end of an overseas subsidiary, total sales of this equipment were brought down by a big reduction in output by a major customer of the KYB Group. In hydraulic equipment for aircraft, sales increased only 2.9%, as the large aircraft for the Japan Defense Agency is still in the development phase.

### R&D Highlights of the Year

- Real Sports Damper, an automobile shock absorber that uses piston rods coated with Diamond-Like Carbon (DLC) to reduce low-velocity friction, thereby improving steering stability and overall comfort
- Front fork (motorcycle shock absorber) that completely separates air and oil to prevent aeration and thus enhance responsiveness
- Center lock damper (railway hydraulic equipment) steering mechanism for railway car bogies that locks the bogie with the car body on curves
- Seismic damper for ship loading cranes that is activated when an earthquake tremor is detected to prevent the crane from falling over
- Hydraulic pump with electromagnetic proportional pressure-reducing valve and two-speed hydraulic motor for electronically controlled concrete mixer trucks
- Vane pump for continuously variable transmission that is compact, more efficient, provides higher pressure, and has a lower noise level

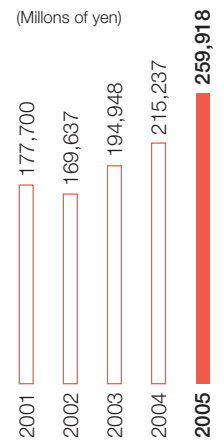
### Medium-Term Growth Strategy

**Shock absorbers:** Establish a global sales, supply, and development network, including overseas factories, to become more competitive

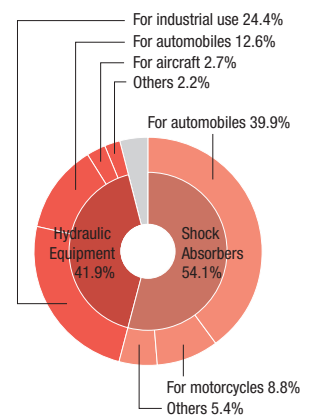
**Automobile hydraulic equipment:** Strengthen the KYB brand and increase the scale of operations

**Industrial-use hydraulic equipment:** Increase global market share by establishing a global production network and further enhance expertise in technology and new product development

### Sales of Hydraulic Products



### Sales Composition by Product



# Systems Products



Sales in the Systems Products segment decreased 21.1%, to ¥11,187 million (US\$104,551 thousand). There was an operating loss of ¥230 million (US\$2,150 thousand), compared with operating income of ¥892 million in the previous fiscal year, due to lower sales. Research and development costs in this segment totaled ¥172 million (US\$1,607 thousand).

### Special-Purpose Vehicles

Sales were down 24.8% because of a drop in replacement demand for concrete mixer trucks, the main product in this category, following the negative effect of the enforcement in the previous fiscal year of stricter exhaust emissions regulations in the Tokyo area as well as a reduction in public works spending.

### Systems Devices

Sales fell 20.7% because of a downturn in large orders for auditorium and stage control systems, mainly due to the decline in large-scale projects by local governments and others.

### R&D Highlights of the Year

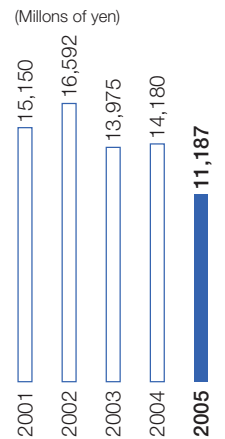
- The e MIXER, an electronically controlled concrete mixer truck, which has half the noise of conventional models and cuts fuel consumption during operation by more than 10%
- Pressure-driven secondary pulverizer, which converts wood chips into a fibrous consistency for recycling as compost and mulch
- The Mobile Keeper 3000, which adds the ability to view moving images to the Mobile Keeper, a camera for crime prevention and other applications that allows users to view its images via the Internet

### Medium-Term Growth Strategy

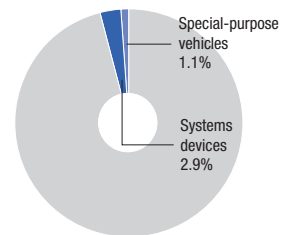
**Systems devices:** Increase orders for auditorium and stage control equipment as well as control systems; increase sales activities for environmental equipment and motion simulators

**Special-purpose vehicles:** Increase market share by developing and introducing products that anticipate emerging market needs; enter new markets by using recycled products and other environment-friendly products

### Sales of Systems Products



### Sales Composition by Product



### Major Products

**Special-purpose vehicles:** Concrete mixer trucks, granule carriers, earthquake simulators, and special-function vehicles  
**Systems devices:** Motion simulators, control systems, hydraulic systems, auditorium and stage control systems, and hydraulic tunnel borers



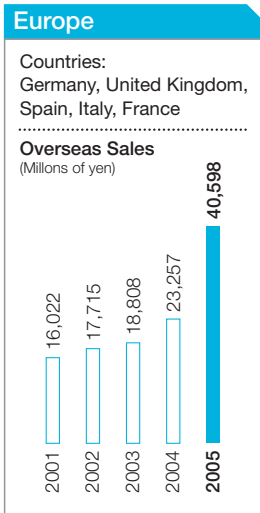
# KYB's International Activities



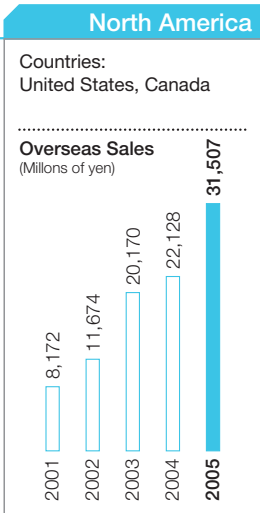
The KYB Group has manufacturing bases in North America, South America, Europe, and Southeast Asia to supply parts to the manufacturers of automobiles, construction machinery, and industrial vehicles. In China, KYB is increasing the production of automobile shock absorbers and construction machinery.

In the fiscal year under review, overseas sales increased ¥36,395 million, or 56.9%, to ¥100,309 million (US\$937,467 thousand). This raised overseas sales to 37.1% of total sales, making international activities an increasingly important part of KYB's operations. KYB plans to continue to enlarge its global manufacturing network to establish a system where products are manufactured and parts and materials are procured in the optimum locations from a global perspective.

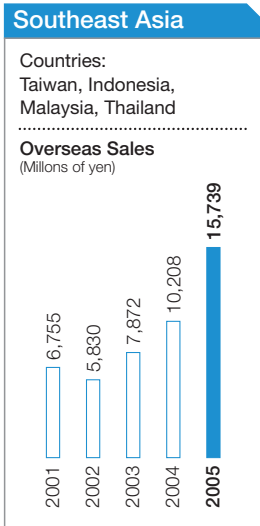
KYB's new medium-term management plan "C&A V10" sets the goals of increasing overseas output, building new production bases, and taking other actions to grow outside Japan. During the plan's three years, KYB aims to make overseas investments totaling ¥16.0 billion, about twice the amount in the previous three-year period.



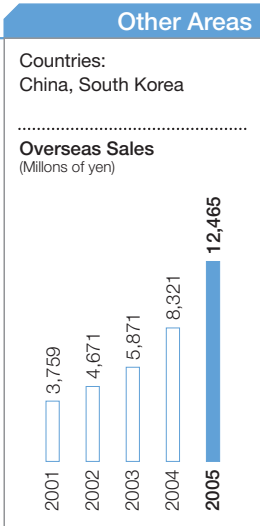
15.0% of total consolidated sales



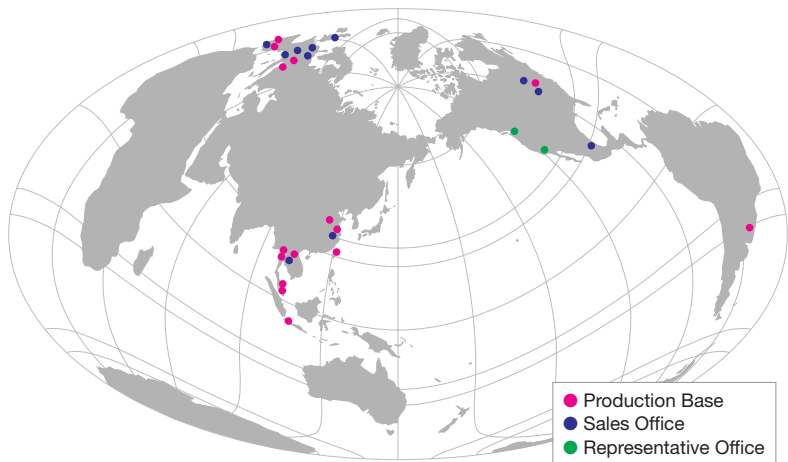
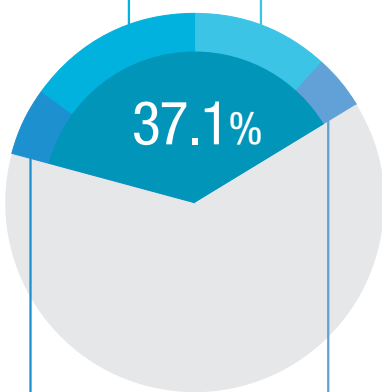
11.7% of total consolidated sales



5.8% of total consolidated sales



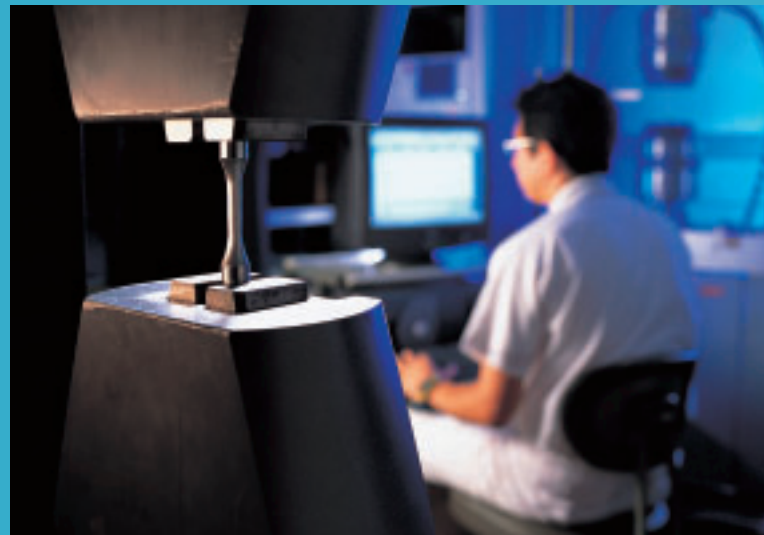
4.6% of total consolidated sales



## KYB's R&D Activities

KYB conducts a wide range of R&D programs for a number of purposes. One objective is to enhance the performance of specific products to develop competitive products with outstanding performance relative to their costs and to supply products that meet customers' needs in a timely manner. Activities also target technologies required to systematize products and create modules, and the development of products that contribute to energy conservation, environmental protection, and other social needs.

By business segment, research and development expenditures were ¥3,360 million (US\$31,402 thousand) for Hydraulic Products and ¥172 million (US\$1,607 thousand) for Systems Products.



Major new products associated with energy conservation, environmental protection, and other social themes are as follows:



### e MIXER

KYB combined exclusive hydraulic technology with newly developed electronic control technology for Japan's first electronically controlled concrete mixer truck. This next-generation vehicle has a low environmental profile, featuring low noise and reduced exhaust emissions. The truck incorporates KYB's electronically controlled pump and motor to rotate the drum at a high speed at a low engine level, enabling quieter operation and cutting emissions. In addition, the easier-to-wash e MIXER reduces the operator's workload. It is also significantly simpler to operate than conventional concrete mixer trucks.



### Center Lock Damper Steering Mechanism for Railway Car Bogies

A new limited express train of a major Japanese railway company incorporates advanced technology for environmental compatibility and passenger comfort. To eliminate screeching noises and rail abrasion as trains negotiate a curve, KYB added a steering mechanism consisting of a damper on either side of the conventional linked railway car bogie. This locks the bogie when it moves away from the center line of the dampers. The bogie is guided, or steered, through the curve as a result. After the curve, this system returns by itself to the neutral position. This is the first time that technology has been developed to steer the bogies.

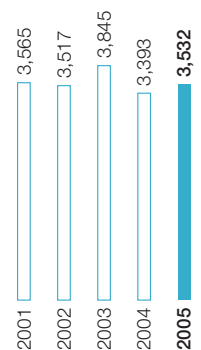


### Joint Development of CVT Vane Pump

In hydraulic equipment for steering systems, KYB developed a continuously variable transmission (CVT) with a built-in vane pump jointly with JATCO Ltd. The new pump is compact, more efficient, provides higher pressure, has a lower noise level, and has won acclaim in the market.

### R&D Expenditures

(Millions of yen)



## Board of Directors and Corporate Auditors

### Board of Directors

#### PRESIDENT AND REPRESENTATIVE DIRECTOR

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Tadahiko Ozawa

#### REPRESENTATIVE DIRECTOR AND EXECUTIVE MANAGING DIRECTOR

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

#### EXECUTIVE MANAGING DIRECTORS

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Katsuma Ohara  
General Manager, Automotive Components  
Operations



Yohichi Furugohri  
*Legal, Audit, Corporate Planning, CSR,  
General Affairs, and Personnel Administration*  
General Manager, Corporate Planning Div.

### Corporate Auditors

#### STANDING CORPORATE AUDITORS

---

Hidetsune Iseki  
Katsuhisa Egawa  
Ichiro Akieda

#### MANAGING DIRECTORS

---

Masahito Kori  
*Purchasing, Gifu Area Liaison Officer*  
Deputy-General Manager, Automotive Components Operations

Kenzo Noguchi  
*Finance and Accounting*  
Deputy-General Manager, Automotive Components Operations

Satoru Yamamoto  
General Manager, Hydraulic Components Operations

Toshio Watanabe  
General Manager, Automobile Sales & Marketing Headquarters,  
Automotive Components Operations

#### DIRECTORS

---

Masato Kosaka  
*Quality Control, Environment and Safety Control*  
General Manager, Quality Control Div., and General Manager,  
Quality Control Dept.

Ken Mizumukai  
*Gifu Area Assistant Liaison Officer*  
General Manager, Gifu North Plant

Koji Masuda  
General Manager, Gifu South Plant, and Deputy-General Manager,  
Gifu North Plant

Tatsuji Hayashi  
General Manager, General Affairs & Personnel Administration Dept.

Kiyoshi Inoue  
General Manager, Basic Technology R&D Center, Engineering &  
Production Div.

Masao Usui  
General Manager, Sagami Plant

Kazuhisa Ikenoya  
General Manager, Engineering Planning Dept.,  
General Manager, New Business Development Dept.,  
Deputy-General Manager, Affiliated Business Operations,  
and General Manager, Engineering Administration Dept.

Akiyoshi Tanaka  
General Manager, Corporate Planning Dept., Corporate Planning Div.

Keiichi Handa  
General Manager, Aftermarket Sales Dept., Automotive Components  
Operations

Shigeki Hirokado  
Deputy-General Manager, Gifu South Plant

Takafumi Shoji  
General Manager, Finance & Accounting Dept.

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

#### CORPORATE AUDITOR

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Hitoshi Fukushima

(As of August 1, 2005)



## Summary

In fiscal 2004, ended March 31, 2005, consolidated net sales increased ¥41,804 million, or 18.3%, to ¥270,329 million (US\$2,526,439 thousand). This growth was primarily the result of the inclusion of a newly consolidated subsidiary, changes in fiscal year-end, and higher sales of automobile shock absorbers and industrial-use hydraulic equipment in the Hydraulic Products segment. Cost of sales increased ¥40,250 million, or 21.6%, to ¥226,166 million (US\$2,113,701 thousand), and rose 2.3 percentage points, to 83.7% of sales. Gross profit increased ¥1,554 million, or 3.6%, to ¥44,163 million (US\$412,738 thousand), but the gross profit margin declined from 18.6% to 16.3%.

Although sales increased, operating income decreased ¥1,477 million, or 13.3%, to ¥9,642 million (US\$90,112 thousand), because of lower earnings in the Systems Products segment and the higher cost of steel and other materials. Selling, general and administrative (SG&A) expenses increased ¥3,031 million, or 9.6%, to ¥34,521 million (US\$322,626 thousand), due to newly consolidated subsidiaries and a change in the fiscal year-end of certain subsidiaries. SG&A expenses as a percentage of consolidated net sales declined from 13.8% to 12.8%, a 1.0 percentage point decline from the previous fiscal year.

In other income and expenses, there was a decrease in royalty income and a ¥137 million increase in interest expenses, mainly due to newly consolidated subsidiaries. However, foreign exchange improved to a net gain of ¥968 million. The KYB Group also recorded an extraordinary profit of ¥1,515 million on the sale of investment securities and an extraordinary loss of ¥897 million for severance and retirement benefit expenses. Due to these and other items, net other expenses totaled ¥496 million (US\$4,636 thousand), an improvement of ¥759 million over the previous fiscal year.

Income before income taxes and minority interests decreased ¥718 million, or 6.6%, to ¥10,138 million (US\$94,748 thousand), and net income was ¥5,501 million (US\$51,411 thousand), ¥539 million less than the previous fiscal year. Net income was 2.0% of sales. Net income per share was ¥24.15 (US\$0.23).

## Performance by Segment

Hydraulic Products segment sales increased ¥44,681 million, or 20.8%, to ¥259,918 million (US\$2,429,140 thousand). This was mainly the result of growth in sales of shock absorbers and of industrial-use hydraulic equipment for construction machinery. Segment operating income decreased ¥86 million, or 0.6%, to ¥14,886 million (US\$139,121 thousand).

Systems Products segment sales decreased ¥2,993 million, or 21.1%, to ¥11,187 million (US\$104,551 thousand), as the result of weak performances by both special-purpose vehicles and systems devices. There was an operating loss of ¥230 million (US\$2,150 thousand) compared with operating income of ¥892 million for the previous fiscal year.

In Japan, sales increased ¥8,182 million, or 4.1%, to ¥207,167 million (US\$1,936,140 thousand). There were large increases in sales of industrial-use hydraulic equipment and automobile shock absorbers. In addition, a company that manufactures and sells electronic components became a consolidated subsidiary. Operating income decreased ¥845 million, or 5.6%, to ¥14,310 million (US\$133,738 thousand), mainly a reflection of poor performances by systems devices and special-purpose vehicles and the higher cost of steel and other materials.

In Europe, the inclusion of a newly consolidated subsidiary in Spain that manufactures shock absorbers was mainly responsible for an increase of ¥22,093 million, or 139.9%, to ¥37,889 million (US\$354,103 thousand). The operating loss increased ¥309 million, or 77.6%, to ¥707 million (US\$6,607 thousand), because of the higher cost of steel and other materials at the newly consolidated subsidiary.

In other areas, sales increased ¥13,927 million, or 48.2%, to ¥42,795 million (US\$399,953 thousand), because of changes in the fiscal year-ends of certain subsidiaries and the contribution to sales of a newly consolidated company in Thailand that manufactures shock absorbers. Operating income decreased ¥444 million, or 47.3%, to ¥495 million (US\$4,626 thousand). This was primarily the result of the higher cost of steel and other materials at a U.S. subsidiary that manufactures shock absorbers and of start-up expenses at a subsidiary in China that manufactures shock absorbers.

## Financial Condition

Total assets amounted to ¥222,224 million (US\$2,076,860 thousand), an increase of ¥8,379 million, or 3.9%, compared with the previous fiscal year.

Total current assets increased ¥2,416 million, or 2.0%, to ¥123,725 million (US\$1,156,309 thousand), due to growth in trade notes and accounts receivable and inventories in line with the growth in sales. Net property, plant and equipment increased ¥4,409 million, or 6.4%, to ¥73,328 million (US\$685,308 thousand), mainly the result of newly acquired machinery and equipment. Total investments and other non-current assets increased ¥1,554 million, or 6.6%, to ¥25,171 million (US\$235,243 thousand), due mostly to growth in investments in and loans to unconsolidated subsidiaries and affiliated companies.

Total liabilities increased ¥4,031 million, or 2.8%, to ¥148,187 million (US\$1,384,926 thousand). This was mainly attributable to an increase of ¥6,044 million in trade notes and accounts payable because of growth in procurement activities to support the higher volume of manufacturing activities. Interest-bearing debt increased ¥1,929 million, or 3.8%, to ¥52,398 million (US\$489,691 thousand), resulting in a decrease in the debt-to-equity ratio (interest-bearing debt divided by the sum of interest-bearing debt and shareholders' equity) to 42.6% from 43.0% of the previous fiscal year. The current ratio increased from 1.17 to 1.27.

Total shareholders' equity increased ¥3,837 million, or 5.7%, to ¥70,656 million (US\$660,336 thousand), mainly because of growth in retained earnings. As a result, the shareholders' equity ratio improved 0.6 percentage point, to 31.8%.

### Cash Flows

Net cash provided by operating activities was ¥9,000 million (US\$84,112 thousand), ¥3,571 million less than the previous fiscal year. Major sources of cash were income before income taxes and minority interests of ¥10,138 million, depreciation and amortization of ¥9,997 million, an adjustment of ¥1,515 million for a gain on sale of investment securities, and an increase of ¥5,073 million in trade notes and accounts payable. Major uses of cash were a ¥4,965 million increase in trade notes and accounts receivable, income taxes paid of ¥4,353 million, a decrease of ¥4,173 million in payables—other, and a ¥3,513 million increase in inventories.

Net cash used in investing activities was ¥14,778 million (US\$138,112 thousand), ¥3,244 million more than the previous fiscal year. Cash was used mainly for payments of ¥13,492 million for acquisition of property, plant and equipment. As a result, free cash flow was a negative ¥5,778 million, a net difference of ¥6,815 million compared with the positive free cash flow recorded in the previous fiscal year.

Net cash provided by financing activities was ¥192 million (US\$1,794 thousand), compared with net cash used of ¥2,311 million in the previous fiscal year. There were proceeds of ¥13,000 million from long-term debt, payments of ¥7,000 million for bond redemption, and repayments of ¥3,529 million for long-term debt.

The net result of the above items was a net decrease of ¥4,942 million in cash and cash equivalents at end of year, to ¥13,960 million (US\$130,467 thousand).

### Business and Other Risks

Hydraulic Products, which account for more than 90% of total consolidated sales, are sold almost entirely to manufacturers of automobiles, construction machinery, and industrial vehicles (finished vehicles) as components for assembly use in those vehicles.

The KYB Group is currently concentrating on building a global manufacturing network to respond to changes in its markets. The Group is also placing priority on supplying products that are superior to those of competitors in terms of quality and cost. Due to intense price-based competition associated with the volume of global automobile and construction machinery production, finished vehicle manufacturers may exert pressure on the Group for cost reductions, price discounts, the payment of damages caused by defective products, and other concessions that could have an impact on KYB's operating results. In addition, as KYB's operations become more global, operating results are becoming vulnerable to changes in demand caused by economic trends in overseas markets, new restrictions and other political uncertainty involving foreign governments, other companies becoming more competitive, losses resulting from foreign exchange rate movements, higher interest rates, and other potential risks. Regarding the procurement of raw materials and parts, operating results are highly susceptible to movements in international commodity markets because the Group may not be able to fully reflect the higher cost of raw materials and other items in the selling prices of its products.

In the Systems Products segment, which sells special-purpose vehicles and stage control systems, operating results are vulnerable to risks associated with external factors such as changes in the volume of construction, revisions to regulations—such as motor vehicle exhaust emission regulations—the financial condition of local governments, and other items.

In addition, the Group may have to temporarily suspend production activities in the event of a fire, leak of hazardous materials, or other accident at a Group factory.

The KYB Group is aware of these risks and is taking adequate steps to avoid the occurrence of these risks.

## CONSOLIDATED BALANCE SHEETS

Kayaba Industry Co., Ltd. and Consolidated Subsidiaries As of March 31, 2005 and 2004

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
<b>Current assets:</b>			
Cash and time deposits (Note 9)	¥ 11,078	¥ 10,814	\$ 103,533
Trade receivables:			
Notes and accounts	72,774	69,737	680,131
Unconsolidated subsidiaries and affiliated companies	1,922	624	17,963
Allowance for doubtful receivables	(197)	(239)	(1,841)
Inventories (Note 3)	30,863	26,522	288,439
Deferred tax assets (Note 6)	2,516	4,375	23,514
Short-term loans receivable	4,008	9,008	37,458
Prepaid expenses and other current assets	761	468	7,112
Total current assets	123,725	121,309	1,156,309
<b>Property, plant and equipment (Note 4):</b>			
Land	19,001	18,895	177,579
Buildings	41,176	40,122	384,822
Machinery and equipment	167,609	160,195	1,566,439
Construction in progress	3,411	1,366	31,879
Total	231,197	220,578	2,160,719
Less accumulated depreciation	157,869	151,659	1,475,411
Net property, plant and equipment	73,328	68,919	685,308
<b>Investments and other non-current assets:</b>			
Investments in and loans to unconsolidated subsidiaries and affiliated companies	5,747	3,548	53,710
Investment securities (Note 11)	11,620	13,459	108,598
Lease deposits, loans and other long-term receivables	1,399	1,419	13,075
Deferred tax assets (Note 6)	3,781	2,397	35,336
Other assets	2,717	2,986	25,393
Allowance for doubtful receivables	(93)	(192)	(869)
Total investments and other non-current assets	25,171	23,617	235,243
Total assets	¥222,224	¥213,845	\$2,076,860

See accompanying notes.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
<b>Current liabilities:</b>			
Bank loans (Note 4)	¥ 17,411	¥ 17,993	\$ 162,720
Current maturities of long-term debt (Note 4)	4,026	10,519	37,626
Trade payables:			
Notes and accounts	54,641	48,699	510,664
Unconsolidated subsidiaries and affiliated companies	571	469	5,336
Payables—other	11,053	14,580	103,299
Accrued expenses	6,578	6,789	61,477
Income taxes payable	2,316	3,801	21,645
Other current liabilities	637	541	5,953
Total current liabilities	97,233	103,391	908,720
<b>Long-term liabilities:</b>			
Long-term debt less current maturities (Note 4)	30,961	21,957	289,355
Retirement benefits (Note 5)	15,720	14,427	146,916
Deferred tax liabilities on land revaluation	3,785	3,786	35,374
Other long-term liabilities	488	595	4,561
Total long-term liabilities	50,954	40,765	476,206
<b>Minority interests in consolidated subsidiaries</b>	3,381	2,870	31,598
<b>Contingent liabilities</b> (Note 8)			
<b>Shareholders' equity</b> (Note 7):			
Common stock:			
Authorized—491,955,000 shares			
Issued—222,984,315 shares	19,114	19,114	178,635
Capital surplus	20,249	20,248	189,243
Retained earnings	26,713	22,671	249,654
Revaluation reserve for land, net of tax	3,658	3,660	34,187
Net unrealized holding gains on securities	3,591	4,195	33,561
Foreign currency translation adjustments	(2,608)	(3,024)	(24,374)
Less: Treasury stock	(61)	(45)	(570)
Total shareholders' equity	70,656	66,819	660,336
Total liabilities and shareholders' equity	¥222,224	¥213,845	\$2,076,860

## CONSOLIDATED STATEMENTS OF INCOME

Kayaba Industry Co., Ltd. and Consolidated Subsidiaries Years Ended March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
<b>Net sales</b> (Note 15)	<b>¥270,329</b>	¥228,525	<b>\$2,526,439</b>
<b>Cost of sales</b> (Notes 13 and 15)	<b>226,166</b>	185,916	<b>2,113,701</b>
Gross profit	<b>44,163</b>	42,609	<b>412,738</b>
<b>Selling, general and administrative expenses</b> (Notes 13 and 15)	<b>34,521</b>	31,490	<b>322,626</b>
Operating income (Note 15)	<b>9,642</b>	11,119	<b>90,112</b>
<b>Other income (expenses):</b>			
Interest and dividend income	<b>221</b>	167	<b>2,066</b>
Interest expense	<b>(1,017)</b>	(880)	<b>(9,505)</b>
Other, net (Note 14)	<b>1,292</b>	450	<b>12,075</b>
Net other income (expenses)	<b>496</b>	(263)	<b>4,636</b>
Income before income taxes and minority interests	<b>10,138</b>	10,856	<b>94,748</b>
Income taxes (Note 6):			
Current	<b>3,156</b>	3,808	<b>29,495</b>
Deferred	<b>883</b>	496	<b>8,253</b>
Income before minority interests	<b>6,099</b>	6,552	<b>57,000</b>
Minority interests	<b>(598)</b>	(512)	<b>(5,589)</b>
Net income	<b>¥ 5,501</b>	¥ 6,040	<b>\$ 51,411</b>
		Yen	U.S. dollars (Note 1)
<b>Amounts per share of common stock:</b>			
Net income	<b>¥ 24.15</b>	¥ 26.55	<b>\$ 0.23</b>
Cash dividends applicable to the year	<b>6.00</b>	6.00	<b>0.06</b>

See accompanying notes.

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Kayaba Industry Co., Ltd. and Consolidated Subsidiaries Years Ended March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
<b>Common stock</b>			
Beginning and end of year	¥19,114	¥19,114	\$178,635
<b>Capital surplus</b>			
Beginning of year	¥20,248	¥20,248	\$189,234
Gain on disposal of treasury stock	1	0	9
End of year	¥20,249	¥20,248	\$189,243
<b>Retained earnings</b>			
Beginning of year	¥22,671	¥16,506	\$211,878
Net income	5,501	6,040	51,411
Reversal of revaluation reserve for land, net of tax	2	1,571	19
Cash dividends paid	(1,337)	(1,337)	(12,495)
Bonuses to directors and corporate auditors	(124)	(109)	(1,159)
End of year	¥26,713	¥22,671	\$249,654
<b>Revaluation reserve for land, net of tax</b>			
Beginning of year	¥ 3,660	¥ 5,231	\$ 34,206
Reversal of revaluation reserve for land, net of tax	(2)	(1,571)	(19)
End of year	¥ 3,658	¥ 3,660	\$ 34,187
<b>Net unrealized holding gains on securities</b>			
Beginning of year	¥ 4,195	¥ 982	\$ 39,206
Net change during the year	(604)	3,213	(5,645)
End of year	¥ 3,591	¥ 4,195	\$ 33,561
<b>Foreign currency translation adjustments</b>			
Beginning of year	¥ (3,024)	¥ (2,531)	\$ (28,262)
Net change during the year	416	(493)	3,888
End of year	¥ (2,608)	¥ (3,024)	\$ (24,374)
<b>Treasury stock</b>			
Beginning of year	¥ (45)	¥ (29)	\$ (421)
Net change during the year	(16)	(16)	(149)
End of year	¥ (61)	¥ (45)	\$ (570)

See accompanying notes.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Kayaba Industry Co., Ltd. and Consolidated Subsidiaries Years Ended March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
<b>Cash flows from operating activities:</b>			
Income before income taxes and minority interests	¥10,138	¥10,856	\$ 94,748
Depreciation and amortization	9,997	8,354	93,430
(Gain) loss on sale and disposal of property, plant and equipment, net	640	(105)	5,981
Gain on sale of investment securities	(1,515)	(1,132)	(14,159)
Amortization of consolidation goodwill	649	141	6,065
Changes in allowance for doubtful receivables	(147)	(87)	(1,374)
Changes in retirement benefits	1,432	(4,751)	13,383
Interest and dividend income	(221)	(167)	(2,065)
Interest expense	1,017	880	9,505
Equity in earnings of unconsolidated subsidiaries and affiliated companies	(481)	(526)	(4,495)
Reorganization and restructuring costs of Hydraulic Equipment Division	—	1,237	—
Changes in trade notes and accounts receivable	(4,965)	(5,738)	(46,402)
Changes in inventories	(3,513)	(1,979)	(32,832)
Changes in trade notes and accounts payable	5,073	2,049	47,411
Changes in payables—other	(4,173)	7,004	(39,000)
Other, net	(32)	(1,810)	(299)
Subtotal	13,899	14,226	129,897
Interest and dividends received	435	532	4,065
Interest paid	(1,023)	(874)	(9,561)
Income taxes paid	(4,353)	(1,291)	(40,682)
Income taxes refunded	42	256	393
Payments for reorganization and restructuring costs of Hydraulic Equipment Division	—	(278)	—
Net cash provided by operating activities	9,000	12,571	84,112
<b>Cash flows from investing activities:</b>			
Transfer to time deposits	(993)	(914)	(9,280)
Transfer from time deposits	831	539	7,766
Payments for acquisition of property, plant and equipment	(13,492)	(9,967)	(126,093)
Proceeds from sale of property, plant and equipment	127	3,939	1,187
Payments for acquisition of subsidiaries' stock	(625)	(5,960)	(5,841)
Payments for acquisition of investment securities	(229)	(824)	(2,140)
Proceeds from sale of investment securities	2,311	2,046	21,598
Payments for loans	(99)	(42)	(925)
Proceeds from collection of loans	50	67	467
Other, net	(2,659)	(418)	(24,851)
Net cash used in investing activities	(14,778)	(11,534)	(138,112)
<b>Cash flows from financing activities:</b>			
Increase (decrease) in bank loans, net	(806)	659	(7,533)
Proceeds from long-term debt	13,000	6,000	121,495
Repayments of long-term debt	(3,529)	(7,580)	(32,981)
Payments for bond redemption	(7,000)	—	(65,421)
Payments for acquisition of treasury stock	(15)	(17)	(140)
Cash dividends paid	(1,337)	(1,337)	(12,495)
Cash dividends paid for minority interests	(121)	(36)	(1,131)
Net cash provided by (used in) financing activities	192	(2,311)	1,794
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>159</b>	<b>(76)</b>	<b>1,486</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(5,427)</b>	<b>(1,350)</b>	<b>(50,720)</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>18,902</b>	<b>20,252</b>	<b>176,654</b>
<b>Increase in cash and cash equivalents due to change of consolidation scope</b>	<b>485</b>	<b>—</b>	<b>4,533</b>
<b>Cash and cash equivalents at end of year (Note 9)</b>	<b>¥13,960</b>	<b>¥18,902</b>	<b>\$130,467</b>

See accompanying notes.

## 1. Basis of Presenting Consolidated Financial Statements

Kayaba Industry Co., Ltd. (the "Company") and its consolidated domestic subsidiaries (together the "Companies") maintain their official accounting records in Japanese yen, and in accordance with the provisions set forth in the Commercial Code of Japan and accounting principles and practices generally accepted in Japan ("Japanese GAAP"). The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries of domicile. Certain accounting principles and practices generally accepted in Japan are different from International Financial Reporting Standards and standards in other countries in certain respects as to application and disclosure requirements.

The accompanying financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of the statements of shareholders'

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

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers, using the prevailing exchange rate at March 31, 2005, which was ¥107 to US\$1. The convenience translations should not be construed as representations 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 (19 in 2005 and 2004), which are controlled through substantial ownership of majority voting rights or the existence of certain conditions.

Financial statements of certain consolidated subsidiaries which have the fiscal year ending December 31 were consolidated with adjustments made for material transactions which took place in the three-month period between the balance sheet date of such subsidiaries and that of the Company. Certain consolidated subsidiaries changed their fiscal year-ends from December 31 or February 28 to March 31. Accordingly, the 15 months' or 13 months' results of operations and cash flows of these subsidiaries were consolidated in the year ended March 31, 2005.

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 consolidation goodwill 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 2005 and 2004 (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.

### Impairment of fixed assets

In August 2002, the Business Accounting Deliberation Council issued "Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets," and, in October 2003, the Accounting Standards Board of Japan issued the implementation guidance for the accounting standard for impairment of fixed assets (the Financial Accounting Standard Implementation Guidance No. 6). The accounting standard and the implementation guidance address the financial accounting and reporting requirements for impairment of fixed assets. The new accounting standard is required to be adopted effective April 1, 2005, but early adoption is permitted from the fiscal year ended March 31, 2004.

In the year ended March 31, 2005, the Company did not adopt early the new accounting standard for impairment of fixed assets. The Company plans to adopt this standard effective April 1, 2005. The Company does not believe that adoption of this new accounting standard will have a material impact on its consolidated financial statements.

### Foreign currency translation

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

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

The resulting foreign currency translation adjustments are presented in shareholders' equity and minority interests 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.

#### **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 which 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 shareholders' equity. Realized gains and losses on sales of such securities are computed using moving-average cost.

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

#### **Derivative transactions and hedge accounting**

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

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Companies defer recognition

of gains or losses resulting from changes in the fair value of derivative financial instruments until the related losses or gains on the hedged items are recognized.

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

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

#### **Property, plant and equipment**

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

#### **Land revaluation**

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

According to the revised law, the Company is not permitted to revalue the land at any time, even if the fair value of the land declines. Such unrecorded revaluation loss amounted to ¥4,668 million (\$43,626 thousand) as of March 31, 2005.

#### **Research and development**

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

#### **Certain lease transactions**

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

## **Retirement benefits**

### ***(1) Employees' severance and retirement benefits***

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

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

The Companies 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.

Based on the newly enacted Defined Benefit Corporate Pension Law, the Companies decided to wind up their Employees' Pension Fund, which meets certain legal requirements, and received approval from the Minister of Health, Labour and Welfare for its windup on April 24, 2003. Under this condition, the Companies recognized a gain of ¥720 million on the windup of their employees' pension plans in the consolidated statements of income for the year ended March 31, 2004, resulting from a net reversal of liabilities for employees' severance and retirement benefits, the corresponding amortization of unrecognized actuarial differences and final contribution for dissolution.

The excess of the projected benefit obligation over the total of the fair value of pension assets as of April 1, 2000 and the balances of retirement benefits and accrued prior service costs recorded as of April 1, 2000 (the "net transition obligation") amounted to ¥16,442 million, of which ¥11,358 million was recognized as an expense as a result of the contribution of investment securities worth ¥11,358 million to the employee retirement benefit trust in June 2000.

An amount of ¥1,016 million, which was one-fifth of the remaining net transition obligation of ¥5,084 million, was amortized each year from the year ended March 31, 2001 through the year ended March 31, 2003. As a result of the dissolution of the Employees' Pension Fund, the amortization of the net transition obligation decreased to ¥863 million (\$8,065 thousand) and ¥854 million for the years ended March 31, 2005 and 2004, respectively. Actuarial gains and losses are recognized in the consolidated statements of income in equal

amounts over the average of the estimated remaining service lives (14 to 15 years), commencing with the succeeding period.

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

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

## **Income taxes**

Income taxes comprise corporation, enterprise and inhabitant taxes.

The Company and its consolidated subsidiaries 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.

## **Reclassifications**

Certain prior year amounts have been reclassified to conform to the 2005 presentation. These changes had no impact on previously reported results of operations or shareholders' equity.

### 3. Inventories

Inventories as of March 31, 2005 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Finished products	¥12,644	¥11,793	\$118,168
Work in process	13,163	10,949	123,019
Raw materials and supplies	5,056	3,780	47,252
	¥30,863	¥26,522	\$288,439

### 4. Bank Loans and Long-Term Debt

Bank loans as of March 31, 2005 and 2004 were represented by short-term notes, generally 90 days, bearing annual interest rates ranging from 0.50% to 5.22% and from 0.49% to 3.88%, respectively.

Long-term debt as of March 31, 2005 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
2.5% unsecured bonds, due in 2005	¥ —	¥ 7,000	\$ —
Loans from banks and others, due through 2012 with interest rates ranging from 0.95% to 2.70%:			
Secured	757	2,813	7,075
Unsecured	34,230	22,663	319,906
Total	34,987	32,476	326,981
Less current maturities	4,026	10,519	37,626
	¥30,961	¥21,957	\$289,355

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, 2005, the following assets were pledged as collateral for notes and long-term bank loans:

	Millions of yen	Thousands of U.S. dollars
Property, plant and equipment less accumulated depreciation	¥13,419	\$125,411

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

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2006	¥ 4,026	\$ 37,626
2007	8,903	83,206
2008	2,776	25,944
2009	3,087	28,850
2010	1,106	10,336
Thereafter	15,089	141,019
	¥34,987	\$326,981

## 5. Retirement Benefits

Retirement benefits included in the liabilities section of the consolidated balance sheets as of March 31, 2005 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Projected benefit obligation	¥38,593	¥41,409	\$360,682
Unrecognized actuarial differences	(1,561)	(5,929)	(14,588)
Less fair value of plan assets	(21,882)	(20,898)	(204,505)
Less unrecognized net transition obligation	—	(863)	—
Prepaid pension expense	—	78	—
Liability for employees' severance and retirement benefits	15,150	13,797	141,589
Severance and retirement allowance for directors and corporate auditors	570	630	5,327
Total retirement benefits	¥15,720	¥14,427	\$146,916

Included in the consolidated statements of income for the years ended March 31, 2005 and 2004 were employees' severance and retirement benefit expenses comprising the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Service costs—benefits earned during the year	¥1,850	¥1,811	\$17,290
Interest cost on projected benefit obligation	820	906	7,664
Expected return on plan assets	(203)	(177)	(1,897)
Amortization of net transition obligation	863	855	8,065
Amortization of actuarial differences	462	607	4,318
Special payment of extra retirement benefits	24	10	224
Severance and retirement benefit expenses	¥3,816	¥4,012	\$35,664

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 rate and the rate of expected return on plan assets used by the Companies were 2.0% and 1.0% to 2.5%, respectively, for the years ended March 31, 2005 and 2004.

Based on the enforcement of the Defined Benefit Enterprise Pension Law, the Company and some consolidated subsidiaries received approval from the Minister of Health, Labour and Welfare for winding up their own Employees' Pension Fund under the government permission and exemption from payment of future benefits on April 24, 2003.

## 6. Income Taxes

Reconciliation of the statutory tax rate and the Company's effective tax rate for the years ended March 31, 2005 and 2004 were not required due to the small difference.

Significant components of the deferred tax assets and liabilities as of March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Deferred tax assets:			
Provision for employees' severance and retirement benefits	¥10,257	¥ 9,520	\$ 95,860
Loss carried forward	2,676	3,126	25,009
Contribution for pension union	—	1,603	—
Accrued bonuses	1,342	1,403	12,542
Inventories	599	529	5,598
Enterprise taxes	212	298	1,981
Provision for retirement benefits for directors and corporate auditors	218	252	2,038
Unrealized holding losses on securities	—	2	—
Software	265	200	2,477
Other	957	1,293	8,944
Total deferred tax assets	16,526	18,226	154,449
Less valuation allowance	(3,007)	(3,442)	(28,103)
	13,519	14,784	126,346
Deferred tax liabilities:			
Securities contributed to employees' retirement benefit trust	(3,979)	(4,127)	(37,187)
Unrealized holding gains on securities	(2,391)	(2,790)	(22,346)
Tax allowable reserves for deduction of fixed assets	(636)	(849)	(5,944)
Undistributed earnings of overseas subsidiaries	(185)	(167)	(1,729)
Other	(31)	(79)	(290)
Total deferred tax liabilities	(7,222)	(8,012)	(67,496)
Net deferred tax assets	¥ 6,297	¥ 6,772	\$ 58,850

## 7. Shareholders' Equity

Under the Commercial Code of Japan (the "Code"), at least 50% of the issue price of new shares is required to be credited to common stock. The portion which is to be credited to common stock is determined by resolution of the Board of Directors. Proceeds in excess of the amounts credited to common stock are credited to additional paid-in capital, which is included in capital surplus.

The Code provides that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other cash payments which are made as an appropriation of retained earnings applicable to each fiscal period shall be appropriated and set aside as a legal earnings reserve until the total of the legal earnings reserve and additional paid-in capital equals 25% of stated capital. If the total of the legal earnings reserve and additional paid-in capital exceeds 25% of stated capital, the excess can be transferred to retained earnings by resolution of the shareholders.

The Code permits the Company to transfer a portion of additional paid-in capital and legal earnings reserve to stated capital by resolution of the Board of Directors. The Code also permits the Company to transfer portions of unappropriated retained earnings, available for dividends, to stated capital by resolution of the shareholders. The legal earnings reserve is included in retained earnings in the accompanying financial statements.

Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. Semiannual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

The maximum amount that the Company can distribute as dividends is calculated based on the unconsolidated financial statements of the Company and in accordance with the Code.

## 8. Contingent Liabilities

As of March 31, 2005, the Company and its consolidated subsidiaries were contingently liable for trade notes receivable discounted amounting to ¥171 million (US\$1,598 thousand) and trade notes receivable endorsed amounting to ¥487 million (US\$4,551 thousand).

The Company was also contingently liable under guarantees of indebtedness of unconsolidated subsidiaries and affiliated companies amounting to ¥1,199 million (US\$11,206 thousand) and of employees' loans for their own houses amounting to ¥27 million (US\$252 thousand) as of March 31, 2005.

## 9. 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, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Cash and time deposits	¥11,078	¥10,814	\$103,533
Less time deposits with maturities exceeding three months	(1,117)	(911)	(10,440)
Add commercial paper with maturity less than three months	3,999	8,999	37,374
Cash and cash equivalents	¥13,960	¥18,902	\$130,467

## 10. Lease Information

Finance leases which 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, 2005 and 2004 is as follows:

	Millions of yen						Thousands of U.S. dollars		
	2005			2004			2005		
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
Buildings	<b>¥1,170</b>	<b>¥ 402</b>	<b>¥ 768</b>	¥1,184	¥ 498	¥ 686	<b>\$10,935</b>	<b>\$ 3,757</b>	<b>\$ 7,178</b>
Machinery and equipment	<b>856</b>	<b>472</b>	<b>384</b>	424	237	187	<b>8,000</b>	<b>4,411</b>	<b>3,589</b>
Other assets	<b>3,298</b>	<b>1,760</b>	<b>1,538</b>	3,402	1,575	1,827	<b>30,822</b>	<b>16,449</b>	<b>14,373</b>
Total	<b>¥5,324</b>	<b>¥2,634</b>	<b>¥2,690</b>	¥5,010	¥2,310	¥2,700	<b>\$49,757</b>	<b>\$24,617</b>	<b>\$25,140</b>

Future minimum lease payments as of March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Due within one year	<b>¥ 850</b>	¥ 876	<b>\$ 7,944</b>
Due after one year	<b>1,840</b>	1,824	<b>17,196</b>
	<b>¥2,690</b>	¥2,700	<b>\$25,140</b>

Lease payments and the assumed depreciation charge for the years ended March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Lease payments	<b>¥997</b>	¥872	<b>\$9,318</b>
Assumed depreciation charge	<b>997</b>	872	<b>9,318</b>

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, 2005 and 2004, interest expense has

been included in acquisition costs and depreciation expense.

Future minimum lease payments under operating lease, inclusive of interest, as of March 31, 2005 and 2004 were ¥93 million (US\$869 thousand) and ¥188 million, respectively, including ¥44 million (US\$411 thousand) and ¥66 million, respectively, due within one year.

## 11. Securities

A. The following tables summarize acquisition costs, book values and the fair value of securities with available fair values as of March 31, 2005 and 2004.

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

	Millions of yen						Thousands of U.S. dollars		
	2005			2004			2005		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	<b>¥3,335</b>	<b>¥9,343</b>	<b>¥6,008</b>	¥4,135	¥11,150	¥7,015	<b>\$31,168</b>	<b>\$87,318</b>	<b>\$56,150</b>

*Available-for-sale securities: Other securities*

	Millions of yen						Thousands of U.S. dollars		
	2005			2004			2005		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	<b>¥32</b>	<b>¥27</b>	<b>¥(5)</b>	¥22	¥20	¥(2)	<b>\$299</b>	<b>\$252</b>	<b>\$(47)</b>

B. The following table summarizes the book values of securities with no available fair values as of March 31, 2005 and 2004.

*Available-for-sale securities:*

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Non-listed equity securities	<b>¥2,250</b>	¥2,289	<b>\$21,028</b>
Unconsolidated subsidiaries and affiliated companies' equity securities	<b>2,580</b>	3,406	<b>24,112</b>

C. Proceeds from sales of available-for-sale securities in the year ended March 31, 2005 amounted to ¥2,315 million (US\$21,636 thousand) and the related gains amounted to ¥1,515 million (US\$14,159 thousand).

Proceeds from sales of available-for-sale securities in the year ended March 31, 2004 amounted to ¥2,050 million and the related gains and losses amounted to ¥1,132 million and ¥1 million, respectively.

## 12. Derivative Financial Instruments

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

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

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

Hedging instruments:

Forward foreign exchange contracts, interest rate swap contracts

Hedged items:

Foreign currency transactions, bank loans

An evaluation of hedge effectiveness during the years ended March 31, 2005 and 2004 was omitted as hedge accounting has been applied to derivative transactions.

## 13. 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, 2005 and 2004 were ¥3,533 million (US\$33,019 thousand) and ¥3,393 million, respectively.

## 14. Other Income (Expenses)—Other, Net

Other, net, included in other income (expenses) for the years ended March 31, 2005 and 2004 comprises the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Royalty income	¥ 476	¥ 689	\$ 4,449
Equity in earnings of unconsolidated subsidiaries and affiliated companies	481	526	4,495
Loss on disposal of inventories	(326)	(281)	(3,047)
Foreign exchange gain (loss), net	217	(751)	2,028
Gain (loss) on sale and disposal of property, plant and equipment, net	(640)	105	(5,981)
Gain on sale of investment securities	1,515	1,132	14,159
Reversal of allowance for uncollectibles	85	72	794
Gain on windup of Employees' Pension Fund	—	720	—
Severance and retirement benefit expenses	(897)	(855)	(8,383)
Reorganization and restructuring costs of Hydraulic Equipment Division	—	(1,237)	—
Others	381	330	3,561
	¥1,292	¥ 450	\$12,075

## 15. Segment Information

### Business segment

The Company and its consolidated subsidiaries operate primarily in the production and sale of hydraulic products and systems 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, 2005 and 2004 is as follows:

Year ended March 31, 2005:	Millions of yen				
	Hydraulic products	Systems products	Total	Elimination or unallocation	Consolidated
Sales:					
Outside customers	¥259,639	¥10,690	¥270,329	¥ —	¥270,329
Intersegment	279	497	776	(776)	—
Total sales	259,918	11,187	271,105	(776)	270,329
Operating expenses	245,032	11,417	256,449	4,238	260,687
Operating income	¥ 14,886	¥ (230)	¥ 14,656	¥ (5,014)	¥ 9,642
Identifiable assets	¥180,398	¥13,853	¥194,251	¥27,973	¥222,224
Depreciation and amortization	9,454	284	9,738	42	9,780
Capital expenditures	13,893	137	14,030	40	14,070

Year ended March 31, 2004:	Millions of yen				
	Hydraulic products	Systems products	Total	Elimination or unallocation	Consolidated
Sales:					
Outside customers	¥214,832	¥13,693	¥228,525	¥ —	¥228,525
Intersegment	405	487	892	(892)	—
Total sales	215,237	14,180	229,417	(892)	228,525
Operating expenses	200,265	13,288	213,553	3,853	217,406
Operating income	¥ 14,972	¥ 892	¥ 15,864	¥ (4,745)	¥ 11,119
Identifiable assets	¥163,177	¥12,926	¥176,103	¥37,742	¥213,845
Depreciation and amortization	7,875	357	8,232	36	8,268
Capital expenditures	9,723	325	10,048	347	10,395

Year ended March 31, 2005:	Thousands of U.S. dollars				
	Hydraulic products	Systems products	Total	Elimination or unallocation	Consolidated
Sales:					
Outside customers	\$2,426,533	\$ 99,906	\$2,526,439	\$ —	\$2,526,439
Intersegment	2,607	4,645	7,252	(7,252)	—
Total sales	2,429,140	104,551	2,533,691	(7,252)	2,526,439
Operating expenses	2,290,019	106,701	2,396,720	39,607	2,436,327
Operating income	\$ 139,121	\$ (2,150)	\$ 136,971	\$ (46,859)	\$ 90,112
Identifiable assets	\$1,685,963	\$129,467	\$1,815,430	\$261,430	\$2,076,860
Depreciation and amortization	88,355	2,654	91,009	393	91,402
Capital expenditures	129,841	1,280	131,121	374	131,495

## Geographic segment

Geographic segment information for the years ended March 31, 2005 and 2004 is as follows:

Year ended March 31, 2005:	Millions of yen					
	Japan	Europe	Other areas	Total	Elimination or unallocation	Consolidated
Sales:						
Outside customers	¥190,647	¥37,620	¥42,062	¥270,329	¥ —	¥270,329
Intersegment	16,520	269	733	17,522	(17,522)	—
Total sales	207,167	37,889	42,795	287,851	(17,522)	270,329
Operating expenses	192,857	38,596	42,300	273,753	(13,066)	260,687
Operating income	¥ 14,310	¥ (707)	¥ 495	¥ 14,098	¥ (4,456)	¥ 9,642
Identifiable assets	¥169,631	¥22,650	¥28,018	¥220,299	¥ 1,925	¥222,224

Year ended March 31, 2004:	Millions of yen					
	Japan	Europe	Other areas	Total	Elimination or unallocation	Consolidated
Sales:						
Outside customers	¥184,143	¥15,691	¥28,691	¥228,525	¥ —	¥228,525
Intersegment	14,842	105	177	15,124	(15,124)	—
Total sales	198,985	15,796	28,868	243,649	(15,124)	228,525
Operating expenses	183,830	16,194	27,929	227,953	(10,547)	217,406
Operating income	¥ 15,155	¥ (398)	¥ 939	¥ 15,696	¥ (4,577)	¥ 11,119
Identifiable assets	¥156,002	¥22,423	¥19,683	¥198,108	¥ 15,737	¥213,845

Year ended March 31, 2005:	Thousands of U.S. dollars					
	Japan	Europe	Other areas	Total	Elimination or unallocation	Consolidated
Sales:						
Outside customers	\$1,781,747	\$351,589	\$393,103	\$2,526,439	\$ —	\$2,526,439
Intersegment	154,393	2,514	6,850	163,757	(163,757)	—
Total sales	1,936,140	354,103	399,953	2,690,196	(163,757)	2,526,439
Operating expenses	1,802,402	360,710	395,327	2,558,439	(122,112)	2,436,327
Operating income	\$ 133,738	\$ (6,607)	\$ 4,626	\$ 131,757	\$ (41,645)	\$ 90,112
Identifiable assets	\$1,585,336	\$211,682	\$261,851	\$2,058,869	\$ 17,991	\$2,076,860

## Overseas sales

Overseas sales by geographic area for the years ended March 31, 2005 and 2004 were as follows:

Year ended March 31, 2005:	Millions of yen				
	Europe	North America	Southeast Asia	Other areas	Total
I. Overseas sales	¥40,598	¥31,507	¥15,739	¥12,465	¥100,309
II. Consolidated sales	—	—	—	—	270,329
III. Ratio of overseas sales (%)	15.0%	11.7%	5.8%	4.6%	37.1%

Year ended March 31, 2004:	Millions of yen				
	Europe	North America	Southeast Asia	Other areas	Total
I. Overseas sales	¥23,257	¥22,128	¥10,208	¥8,321	¥ 63,914
II. Consolidated sales	—	—	—	—	228,525
III. Ratio of overseas sales (%)	10.2%	9.7%	4.5%	3.6%	28.0%

Year ended March 31, 2005:	Thousands of U.S. dollars				
	Europe	North America	Southeast Asia	Other areas	Total
I. Overseas sales	\$379,421	\$294,458	\$147,093	\$116,495	\$ 937,467
II. Consolidated sales	—	—	—	—	2,526,439
III. Ratio of overseas sales (%)	15.0%	11.7%	5.8%	4.6%	37.1%

Overseas sales included those of the Company and its consolidated subsidiaries.

## 16. Subsequent Events

On June 28, 2005, the shareholders of the Company authorized the following appropriations of retained earnings as of March 31, 2005:

	Millions of yen	Thousands of U.S. dollars
Cash dividends, ¥3 (\$0.03) per share	¥668	\$6,243
Bonuses to directors and corporate auditors	74	692

## 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, 2005 and 2004, and the related consolidated statements of income, shareholders' equity 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, 2005 and 2004, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2005 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 28, 2005

## Major Subsidiaries and Affiliates

### Japan

#### **Kayaba System Machinery Co., Ltd.**

—Manufacturing and sales of system products  
Sumitomo-Fudosan Shiba Daimon Bldg., 5-5, Shibadaimon  
2-chome, Minato-ku, Tokyo 105-0012, Japan  
Tel: 81-3-5733-9441 Fax: 81-3-5733-9504

#### **Kayaba Engineering and Service Co., Ltd.**

—Sales of shock absorbers and hydraulic equipment  
Shuwa Shiba Park Bldg., A, 8F, 4-1, 2-chome, Shiba Kouen,  
Minato-ku, Tokyo 105-0011, Japan  
Tel: 81-3-5777-7501 Fax: 81-3-5401-3362

#### **Trondule Co., Ltd.**

—Manufacturing and sales of electronic equipment  
3909 Koshijichou-ura, Santou-gun, Niigata 949-5406, Japan  
Tel: 81-258-92-6903 Fax: 81-258-92-6921

#### **Japan Analysts Co., Ltd.**

—Analysis and evaluation of lubricating oil  
Matsunaga Bldg., 1-17, Hamamatsu-cho 2-chome, Minato-ku,  
Tokyo 105-0013, Japan  
Tel: 81-3-3436-5660 Fax: 81-3-3436-1077

#### **KK Hydraulics Co., Ltd.**

—Sales and after-service of hydraulic equipment  
World Trade Center Bldg., 4-1, Hamamatsu-cho  
2-chome, Minato-ku, Tokyo 105-6111, Japan  
Tel: 81-3-3578-1197 Fax: 81-3-3578-1198

#### **Yanagisawa Seiki MFG Co., Ltd.**

—Manufacturing and sales of shock absorbers and  
hydraulic equipment  
7001 Oaza-Sakaki, Sakaki-machi, Hanishina-gun,  
Nagano 389-0601, Japan  
Tel: 81-268-82-2850 Fax: 81-268-82-2857

#### **Kanayama Kayaba Seisakusho, Ltd.**

—Manufacturing of shock absorbers and hydraulic equipment  
4350-130 Tobe, Kanayama-cho, Gero-city, Gifu 509-1605, Japan  
Tel: 81-576-35-2201 Fax: 81-576-35-2877

#### **MacGREGOR-Kayaba Co., Ltd.**

—Manufacturing and sales of hatch covers for ships  
Suzue Baydium, 15-1, Kaigan 1-chome, Minato-ku,  
Tokyo 105-0022, Japan  
Tel: 81-3-5403-1951 Fax: 81-3-5403-1953

### Europe

#### **Kayaba Europe GmbH**

—Sales of shock absorbers  
Kimpler Strasse 336, D-47807 Krefeld, Germany  
Tel: 49-2151-931430 Fax: 49-2151-9314320

#### **Kayaba Spain S.A.**

—Manufacturing and sales of hydraulic equipment  
Poligono Industrial de Ipertergui No. 2, nave12, 31160,  
Orcoyen Navarra, Spain  
Tel: 34-948-321004 Fax: 34-948-321005

#### **AP Amortiguadores, S.A.**

—Manufacturing and sales of shock absorbers  
Ctra. Irurzun S/No, 31171 Ororbia Navarra, Spain  
Tel: 34-948-421700 Fax: 34-948-322338

#### **KYB Manufacturing Czech s.r.o.**

—Manufacturing and sales of shock absorbers  
U Panasonicu 277, Stare Covice, 53006 Pardubice,  
Czech Republic

#### **KYB Middle East FZE**

—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

### 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  
Francisco Ferreira da Cruz 3000, Fazenda Rio Grande Parana,  
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  
Paseo de Las Palmas 731, Piso 14 Col. Lomas de Chapultepec,  
Mexico D.F. C.P. 11000  
Tel: 52-55-5282-5770 Fax: 52-55-5282-5661



**Thai Kayaba Industries Co., Ltd.**

—Manufacturing and sales of hydraulic equipment  
700/460 Moo 7, Tambol Don Hua Roh, Amphur Muang,  
Chonburi 20000, Thailand  
Tel: 66-38-454-315 Fax: 66-38-454-313

**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: 86-511-889-1008 Fax: 86-511-888-6848

**KYB Hydraulics Industry (Zhenjiang) Ltd.**

—Manufacturing and sales of hydraulic equipment  
Jing 12 Lu, Zhenjiang New Zone, New & High-Tech Industry  
Development Park, Zhenjiang, Jiangsu 212009,  
People's Republic of China  
Tel: 86-511-889-7200 Fax: 86-511-889-7222

**KYB Trading (Shanghai) Co., Ltd.**

—Sales of shock absorbers  
Huamin Empire Plaza 5-L, 728 Yanan Road West, Shanghai 20050,  
People's Republic of China  
Tel: 86-21-6211-9299 Fax: 86-21-5237-9001

**KYB Technical Center Thailand Co., Ltd.**

—Engineering services  
700/363 Moo 6, Amata Nakorn Industrial Estate, Bangna-Trad  
Road, K.M. 57, Tambol Don Hua Roh, Amphur Muang,  
Chonburi 20000, Thailand  
Tel: 66-38-468-251 Fax: 66-38-468-252

**KYB Asia Co., Ltd.**

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

**Kayaba Vietnam Co., Ltd.**

—Manufacturing and sales of shock absorbers  
Plot D4b, Thang Long Industrial Park, Dong Anh District,  
Hanoi, Vietnam  
Tel: 84-4-8812773 Fax: 84-4-8812774

**Siam Kayaba Co., Ltd.**

—Manufacturing and sales of shock absorbers  
380 Moo 2, Sukhumvit Road, T. Bangpoo Mai, Amphur Muang,  
Samutprakarn 10280, Thailand  
Tel: 66-2-323-9035 Fax: 66-2-323-9037

**Yung Hwa Machinery Industrial Co., Ltd.**

—Manufacturing and sales of shock absorbers  
and hydraulic equipment  
No. 493, Kuang Hsing Road, Pa-Teh City,  
Tao Yuan Hsien, Taiwan  
Tel: 886-3-368-3123 Fax: 886-3-368-3369

**Kayaba (Malaysia) Sdn. Bhd.**

**Kayaba Hydraulics (Malaysia) Sdn. Bhd.**

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

**P.T. Kayaba Indonesia**

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

**Husco-Kayaba Hydraulics (Shanghai), Ltd.**

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

**KK Hydraulics Sales (Shanghai) Co., Ltd.**

—Sales and after-service of hydraulic equipment  
B-908 Far East International Plaza, 317 Xianxia Road,  
Shanghai 200051, People's Republic of China  
Tel: 86-021-6235-1606 Fax: 86-021-6295-7080

## Corporate Information

(As of March 31, 2005)

### Company Data

#### Head Office:

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

#### Date of Establishment:

November 25, 1948

#### Fiscal Year:

April 1 to March 31

#### Paid-in Capital:

¥19,114 million

#### Number of Employees:

8,186 (Consolidated basis)

#### Securities Traded:

Tokyo Stock Exchange (First Section)

#### Plants:

Sagami, Kumagaya,  
Gifu North, Gifu South

#### R&D Centers:

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

#### Sales Branches:

Nagoya, Osaka, Fukuoka, Sapporo,  
Sendai, Hamamatsu, Hiroshima

#### Overseas Offices:

##### Europe Branch

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

##### California Representative Office

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

##### Seattle Representative Office

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

### Shareholders Information

#### Common Stock Issued:

222,984,315 shares

#### Number of Shareholders:

21,885

#### Transfer Agent and Registrar:

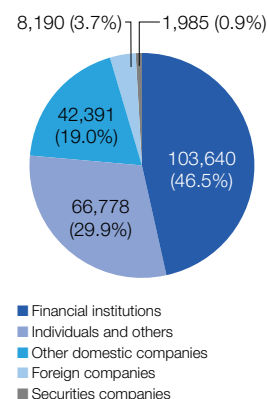
Mizuho Trust & Banking Co., Ltd.  
2-1, Yaesu 1-chome, Chuo-ku,  
Tokyo 100-0005, Japan

#### Major Shareholders:

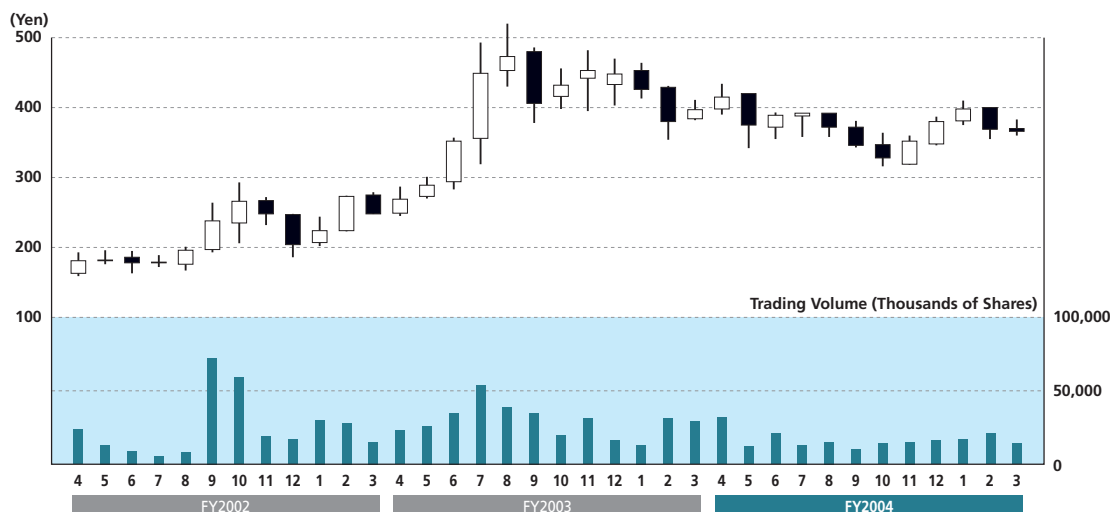
Name	Shareholdings	Percent of Total Shares Issued
Toyota Motor Corporation	19,654	8.81
Japan Trustee Services Bank, Ltd. (Trust Account)	19,350	8.68
The Master Trust Bank of Japan, Ltd. (Trust Account)	12,331	5.53
Meiji Yasuda Life Insurance Company	10,046	4.51
Sompo Japan Insurance Inc.	8,430	3.78
Mizuho Corporate Bank, Ltd.	7,091	3.18
Bridgestone Corporation	6,700	3.00
Aozora Bank, Ltd.	6,489	2.91
Trust & Custody Services Bank, Ltd. (Mizuho Corporate Bank, Ltd., Retirement Benefit Trust Account re-entrusted by Mizuho Trust and Banking Co., Ltd.)	6,115	2.74
KYB Employee Holding Association	5,953	2.67
Total	102,160	45.81

#### Composition of Shareholders:

(Thousands)



#### Monthly Stock Price Range (Tokyo Stock Exchange)



# **KYB Corporation**