

ANNUAL REPORT 2001



CORPORATE SPIRIT & GUIDING PRINCIPLES

CORPORATE SPIRIT

Creativity, Vitality, and Harmony

GUIDING PRINCIPLES

- 1. Develop creativity and originality for innovation.*
- 2. Build a corporate culture overflowing with vitality.*
- 3. Live in harmony with people, society, and the environment.*

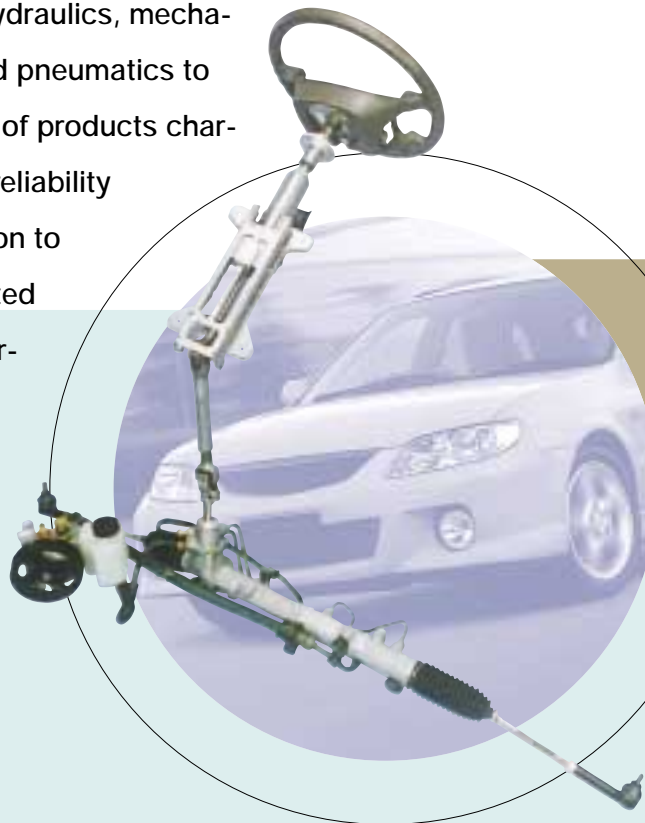
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Cover: Development of titanium-coated,
lightweight, high-performance front forks

Not Just the Top Japanese Manufacturer of Hydraulic Equipment

Kayaba Industry Co., Ltd., is the largest manufacturer of shock absorbers and hydraulic equipment in Japan. The Company has successfully combined its expertise in hydraulics, mechanics, electronics, and pneumatics to produce a broad range of products characterized by unrivaled reliability and durability. In addition to being widely incorporated into automobiles, motorcycles, construction machinery, forklifts, buildings, and ships,



Kayaba combined its latest hydraulic technologies to develop a compact and lightweight power steering system that is also energy efficient and quiet.

Kayaba's products are used in such sophisticated applications as the landing gear and flight control systems of aircraft and the new suspension systems of *Shinkansen* ("bullet trains"). The Company is also a leading supplier of such products as concrete mixer trucks and auditorium systems. Kayaba has overseas manufacturing facilities in Europe, Asia, and the United States and markets its products worldwide under the **KYB** brand name.

- *Promptly adapting to changes in business conditions and securing earnings*
- *Strictly adhering to established regulations regarding product quality, the environment, and safety*
- *Shortening lead times and enhancing productivity levels for the improvement of business results*



Kiyoshi Hosomi, President

During fiscal 2000, ended March 31, 2001, competition intensified on a global scale in the principal industries Kayaba Industry Co., Ltd., operates in. Such circumstances are rapidly creating a business environment in which those companies that fail to adapt to international price structures and the current speed of change face limited prospects for survival. To deal effectively with these market forces, the various Kayaba Group companies, both domestic and overseas, are acting in unison to implement measures designed to affirm Kayaba's position as a corporation that consistently wins the trust of its customers. We are working to create products that incorporate the superior levels of quality and cost-competitiveness that are required to prevail against today's international competition, strengthening our supply chain management on a global level, and combining systems and controls for the consistent supply of high-value-added products to our customers.

Furthermore, to achieve the objectives of an 8% or greater return on equity and a 3% or greater return on assets, as stated in the Kayaba Group's New Three-Year Plan, the Group will enhance capital efficiency by streamlining and making effective use of its managerial resources and exerting its combined energies into a range of initiatives aimed at configuring a strong operational structure with the capacity to adapt to changes.

STRATEGIES

In line with the strategies outlined above, Kayaba engaged itself during fiscal 2000 in such efforts as creating products that are superior to those of its competitors, networking its supply operations, establishing a break-even-point structure that enables prompt response to change, streamlining and enhancing the efficient use of invested assets, developing markets, expanding both domestic and overseas sales, accelerating the development of new technologies and products, and augmenting environmental protection efforts.

FINANCIAL HIGHLIGHTS

For the year ended March 31, 2001

For the year:

Net sales	¥192,052 million
Net income	¥636 million

At year-end:

Total shareholders' equity	¥54,309 million
Total assets	¥183,214 million

Per share data:

Net income	¥2.85
Cash dividends applicable to the year	¥6.00

In its automobile components business, for example, the Company concluded a strategic partnership contract in September 2000 with Visteon Corporation of the United States for the development, design, and worldwide supply of next-generation steering systems. This partnership will not only enable Kayaba to achieve joint development of steering systems and related products and reduced costs and times to market; it will also construct a global product supply framework through the synergistic fusion of Kayaba's established operations network in Japan and Southeast Asia and Visteon's prominence in Europe and North America.

Furthermore, in July 2000, a joint development contract was concluded between Bridgestone Corporation, Akebono Brake Industry Co., Ltd., and Kayaba, the recognized industry leaders in the fields of tires, brakes, and shock absorbers, respectively. Through this partnership, we will promote joint development for the modularization and systemization of automobile underbody related products, which will enhance the appeal of our development proposals to automakers.

Additionally, as a result of our Companywide environmental protection efforts, between February 2000 and January 2001 all of our domestic manufacturing plants attained ISO 14001 certification, the international standard for environmental management.

Regarding Arvin-Kayaba LLC, the automobile shock absorber production joint venture established by Kayaba and Arvin Industries, Inc., in November 1998 (and in which Kayaba held a 49.9% equity stake), Kayaba has decided to terminate joint operations in autumn of 2001 in the interest of accelerating decision-making processes and facilitating Kayaba production methods. We will reorganize our U.S. operations by entering the U.S. automobile shock absorber business through our wholly owned manufacturing subsidiary KYB Manufacturing North America, Inc. (KMNA), and by pursuing reforms in such areas as product quality and materials acquisition through Kayaba-style policy management and plant administration.

OUTLOOK

In fiscal 2001, conditions in the Japanese economy are expected to become increasingly severe. In addition to the limited prospects for recovery in consumer spending, corporate earnings and capital investment appear to be on a downtrend.

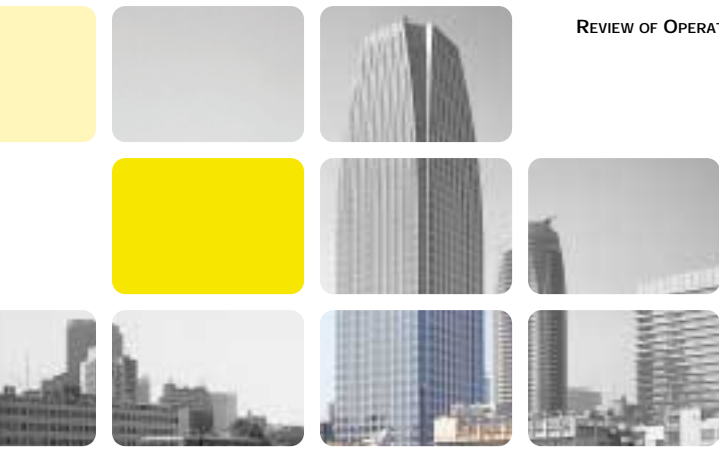
The U.S. economy is also displaying distinct signs of a slowdown, and concerns remain over sluggishness in Asian markets as a result of the lackluster U.S. and Japanese markets. Although EU markets are considered to be stable overall, they also appear to be entering a period of deceleration in economic growth.

Against this backdrop, Kayaba has placed top strategic priority on strengthening its corporate structure and securing earnings to propel itself into the next stage of growth. We are implementing all efforts necessary to achieve optimized procurement activities on a worldwide scale and cost reductions in response to international competition and to establish a flexible break-even-point structure emphasizing prompt strategic implementation of new product and technology development.

We are also thoroughly enforcing and observing all regulations for ensuring product quality and environmental protection as well as setting ISO 14001 standards firmly in place and promoting awareness of environmental issues. Furthermore, we are aggressively promoting initiatives to enhance efficiency and improve business performance, including the radical reform and rationalization of administrative divisions. Through these efforts, Kayaba will prevail against its formidable competition on a global scale and fulfill the expectations of its shareholders.



Kiyoshi Hosomi, President



- *Responding to the globalization of markets and the international restructuring and consolidation of industries*
- *Building a manufacturing system capable of flexible adaptation*
- *Establishing a solid base for operations as a supplier of controls and other systems*
- *Aggressively promoting resource conservation, environmental protection, and safety*



Kayaba's vibration control dampers and seismic isolation systems minimize shaking in high-rise buildings during earthquakes and strong winds.

MAJOR PRODUCTS

Shock Absorbers

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

Hydraulic Equipment

- For industrial use: Pumps, valves, motors, and cylinders
- For automobiles: Pumps and electric power steering

- and four-wheel steering machinery
- For aircraft: Equipment for landing systems, flight control systems, and pneumatic/hydraulic systems

- as well as space flight related equipment
- Others: Jacks, brake pads, and clutch disks for automobiles

During fiscal 2000, sales in the hydraulic products segment amounted to ¥177.7 billion (US\$1,433.1 million), up ¥4.6 billion, or 2.7%, from the previous fiscal year. Operating income for the segment increased 6.8%, or ¥0.8 billion, to ¥12.1 billion (US\$97.3 million).

Four-wheeled vehicle shock absorbers—Revenues increased in tandem with the increase in domestic vehicle production volumes.

Motorcycle shock absorbers—Net sales increased as a result of the expansion in motorcycle production volumes due to strong exports to Europe.

Other shock-absorbing devices—Net sales of ¥1.3 billion were recorded in seismic isolation systems and vibration control devices for high-rise buildings.

Industrial-use hydraulic devices—Revenues grew due to strong sales overseas of control valves and increased sales of new devices.

Four-wheeled vehicle steering devices—Despite declines in exports of knockdown kit components resulting from increased local production, an expansion in domestic sales resulted in revenue growth.

Sales of Hydraulic Products
(Million ¥)

'97	185,874
'98	182,969
'99	170,874
'00	173,110
'01	177,700

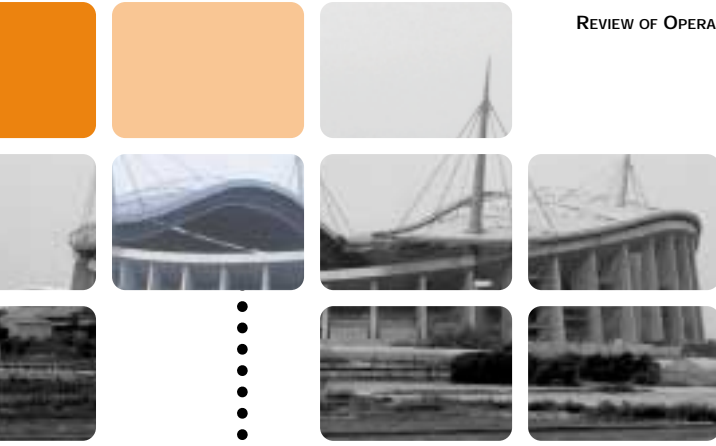
INTERNATIONAL ACTIVITIES

Although revenues declined for Kayaba's European subsidiaries—which comprise primarily sales of four-wheeled vehicle hydraulic shock absorbers—revenues grew at the Company's sales subsidiary in the United States and hydraulic shock absorber manufacturing subsidiary in Taiwan.

In September 2000, Kayaba concluded a strategic partnership contract with Visteon Corporation of the United States for the development, design, and mutual supply of steering-system products. This partnership has already begun to produce results, as Kayaba and Visteon jointly obtained purchase orders in June 2001 from General Motors Corporation (GM) in the United States for hydraulic power steering pumps.

We also succeeded in jointly obtaining purchase orders for shock absorbers from Nissan Motor Co., Ltd., and Renault SA for the automakers' next world compact cars as well as from GM for its new flagship pickup truck.

Furthermore, in China, Kayaba established Husco-Kayaba Hydraulics (Shanghai) Ltd., a hydraulic control-valve manufacturing joint venture with Husco International, Inc., of the United States, and Shanghai Sanxin Hydraulics Co., Ltd.



- *Promoting stable profitability by greatly reducing break-even points*
- *Quickly commercializing new products in response to anticipated changes in the operating environment and customer needs*
- *Increasing the sophistication and internal integration of control units for diverse products*
- *Proactively moving to conserve resources, protect the natural environment, and ensure safety*



Kayaba's retractable roof system, used in the Toyota Stadium

MAJOR PRODUCTS

Systems Products

- Special-purpose vehicles:
Concrete mixer trucks, granule carriers, absorbing/exhaust cars, and special function vehicles

- Devices:
Motion simulators, control systems, electrical hydraulic servos, electronic controllers, hydraulic systems, auditorium

and stage control systems, and hydraulic tunnel borers

Sales in the systems products segment during fiscal 2000 amounted to ¥15.2 billion (US\$122.2 million), down ¥0.6 billion, or 4.1%, from the previous fiscal year. The Company succeeded in recording operating income for the segment of ¥0.6 billion (US\$4.7 million), a surge of ¥1.4 billion compared with an operating loss of ¥0.8 billion in the previous fiscal term.

Special-purpose vehicles—Revenues increased, propelled by growing demand for concrete mixer trucks as a result of the advancing age of previously commissioned vehicles.

Systems devices—Although one of the Company's retractable roof systems was installed in the Toyota Stadium, revenues declined for the term due to the contraction of and postponement of orders in the auditorium and stage control system related market.

Sales of Systems Products
(Million ¥)

'97	21,789
'98	17,836
'99	16,255
'00	15,799
'01	15,150

ENVIRONMENT-FRIENDLY APPLICATIONS

Kayaba has been proactively engaged in efforts to reduce waste, prevent pollution, conserve energy, and halt global warming. Concurrently, the Company has systematically implemented other measures to protect the global environment. As a result of its untiring efforts, in February 2001, all of the Company's domestic manufacturing plants attained ISO 14001 certification, the international standard for environmental management.

We are further contributing to environmental protection by developing and producing such products as tree-pruning vehicles for use in the recycling of pruned tree branches that offer low noise level operation and high transport efficiency; a plastic container recycling system for PET bottles; and Biomixer, a high-speed fermentation processor of organic waste.



- *Developing competitive products with high performance-to-cost ratios*
- *Supplying appealing products tailored to customer needs in a timely fashion*
- *Developing products that address energy and global environment concerns*



Analyzing the motion characteristics and vibrations of automobile underbodies through the use of representation modules

Through its three principal R&D facilities—the Basic Technology R&D Center, the Hydraulics R&D Center, and the Production Technology R&D Center—Kayaba conducts highly innovative, cutting-edge technological research and development. These operations include the development of highly competitive cost-effective products and technical development in response to such demands as improved product functionality, systemization, and modularization.

The Company is also implementing joint research into the modularization and systemization of automotive underbodies, in line with its joint development contract with Bridgestone Corporation and Akebono Brake Industry Co., Ltd.

We are also proactively engaged in efforts to support the improvement of existing products by our affiliates, the formulation of systems for joint R&D operations with customers and manufacturers of related machinery, and the streamlining and shortening of required times for joint industrial and academic R&D operations.

Among the results of Kayaba’s R&D activities during fiscal 2000 were a new shock-absorbing system for four-wheeled vehicles that delivers both a comfortable ride and driving stability by adjoining the left- and right-side shock absorbers. In the field of motorcycle shock absorption, we developed a new high-performance front fork that incorporates such cutting-edge features as revolutionary handling achieved through substantial decreases in weight, internal structural enhancements for increased absorption of road surface impact, and a top-quality titanium coating.

Also, in hydraulic devices for construction machinery, the Company developed new hose rupture valves to comply with the new, more stringent safety standards for crane operations. In four-wheeled vehicle steering systems, we also developed the Kayaba Electronically Controlled Energy-Saving Powersteering System (KEEPS), which delivers both improved fuel economy and enhanced driver utility.

In the field of human-welfare devices, Kayaba developed Portée, a caster with a built-in shock absorber that increases comfort levels for wheelchair users, and Ecolifter, a device for raising and lowering physically challenged persons into swimming pools that operates on tap water alone.

In systems devices, we developed a retractable roof system that has been installed in the main stadium of Oita Sports Park as well as in the Toyota Stadium.

R&D Expenditures
(Million ¥)

'97	3,975
'98	4,086
'99	4,108
'00	3,760
'01	3,565

BOARD OF DIRECTORS

CHAIRMAN

Kazunori Abe

PRESIDENT

Kiyoshi Hosomi

EXECUTIVE MANAGING DIRECTORS

Kenji Hanado

Administration, Personnel, and Purchasing

Tadahiko Ozawa

Technology and Information Systems

MANAGING DIRECTORS

Nobuyuki Funatsu

General Manager, Hydraulic Equipment Div.

Yasumasa Shimizu

*General Manager, Motorcycle Parts Div.
and Gifu Plants Management Div.*

Yohichi Furugohri

Production, Quality Control, and Environment

Yoshitake Yonekubo

General Manager, Automotive Parts Div.

Katsuma Ohara

International Operations

DIRECTORS

Tomohiro Takeda

*General Manager, Sales Headquarters of
Automotive Parts Div.*

Katsuhisa Egawa

General Manager, Aircraft Components Div.

Masahito Kori

General Manager, Corporate Planning Dept.

Masato Kosaka

General Manager, Urawa Plant

Ken Mizumukai

General Manager, Gifu North Plant

Kenzo Noguchi

General Manager, Finance & Accounting Dept.

Koji Masuda

General Manager, Gifu South Plant

Satoru Yamamoto

General Manager, Sagami Plant

STANDING STATUTORY AUDITORS

Takashi Sanada

Katsuji Amano

Hidetsune Iseki

STATUTORY AUDITOR

Kenji Asai

(As of June 27, 2001)



Kazunori Abe



Kiyoshi Hosomi



Kenji Hanado



Tadahiko Ozawa



Nobuyuki Funatsu



Yasumasa Shimizu



Yohichi Furugohri



Yoshitake Yonekubo



Katsuma Ohara



Tomohiro Takeda



Katsuhisa Egawa



Masahito Kori



Masato Kosaka



Ken Mizumukai



Kenzo Noguchi



Koji Masuda



Satoru Yamamoto

CONSOLIDATED FIVE-YEAR SUMMARY

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

	Millions of yen (except per share amounts)					Thousands of U.S. dollars (except per share amounts)
	2001	2000	1999	1998	1997	2001
For the year:						
Net sales	¥192,052	¥187,522	¥185,405	¥198,602	¥205,753	\$1,548,806
Operating expenses	184,952	182,090	183,922	193,359	193,772	1,491,548
Net income (loss).....	636	(7,168)	(1,961)	1,738	5,615	5,129
Capital expenditures.....	6,979	6,210	11,096	11,543	10,245	56,282
Per share (yen and U.S. dollars):						
Net income (loss).....	¥ 2.85	¥ (32.09)	¥ (8.53)	¥ 7.52	¥ 24.30	\$ 0.02
Cash dividends applicable to the year	6.00	3.00	3.00	6.00	7.00	0.05
Net worth	243.56	251.27	280.94	290.62	291.20	1,964.19
At year-end:						
Working capital	¥ 17,770	¥ 33,063	¥ 28,945	¥ 30,791	¥ 24,178	\$ 143,306
Total shareholders' equity.....	54,309	56,029	63,463	67,141	67,277	437,976
Total assets.....	183,214	185,010	169,334	166,926	165,161	1,477,532
Number of employees	6,031	6,161	5,810	5,847	5,810	

Notes: 1. Unless otherwise indicated, all dollar amounts herein refer to U.S. currency. Yen amounts have been translated into U.S. dollars, for convenience only, at ¥124=US\$1, the approximate exchange rate prevailing on March 31, 2001. Billion is used in the American sense of one thousand million.
2. Per share amounts are based on the average number of shares outstanding each year.

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Net Sales

Kayaba's consolidated net sales for fiscal 2000, ended March 31, 2001, increased 2.4%, or ¥4,530 million, to ¥192,052 million (US\$1,549 million).

Revenues from sales of automobile shock absorbers grew due to an increase in domestic automobile production volumes. Sales of motorcycle shock absorbers also climbed, due to increased domestic motorcycle production resulting from strong exports to North America and Europe. While sales of industrial-use hydraulic products and hydraulic products for automobiles grew, sales of hydraulic products for aircraft were down. As a result, sales to outside customers in the hydraulic products business segment rose 2.9%, or ¥4,933 million, to ¥177,447 million (US\$1,431 million).

Kayaba increased its sales of concrete mixer trucks and other special-purpose vehicles, propelled by growing demand for vehicle replacement as a result of the advancing age of previously commissioned vehicles. However, in-system devices revenues declined for the term due to the contraction of and postponement of orders in the large-scale auditorium and stage control system related market. Consequently, sales to outside customers in the systems products business segment declined 2.7%, or ¥403 million, to ¥14,605 million (US\$118 million).

Overseas sales increased 2.2%, or ¥742 million, to ¥34,708 million (US\$280 million), and accounted for 18.1% of net sales. Sales in North America increased 10.4%, or ¥768 million, to ¥8,172 million (US\$66 million). In contrast, sales in Europe dropped 2.9%, or ¥486 million, to ¥16,022 million (US\$129 million), and sales in Southeast Asia advanced 3.3%, or ¥215 million, to ¥6,755 million (US\$54 million).

Costs, Expenses, and Earnings

Cost of sales increased 2.2%, or ¥3,467 million, to ¥158,466 million (US\$1,278 million). As the cost of sales ratio dropped 0.2 percentage point, to 82.5%, and net sales increased 2.4%, gross profit rose 3.3%,

or ¥1,063 million, to ¥33,586 million (US\$271 million), and the gross profit margin was 17.5%, up from 17.3% in the previous fiscal year.

Thanks to the Company's efforts to reduce expenses, selling, general and administrative (SG&A) expenses fell 2.2%, or ¥605 million, to ¥26,486 million (US\$214 million), and the ratio of SG&A expenses to net sales was 13.8%, compared with 14.4% in the previous fiscal year. Thus, operating income totaled ¥7,100 million (US\$57 million), up 30.7%, or ¥1,668 million, from the previous fiscal year.

As a result of the adoption of retirement benefit accounting standards, the Company recorded a gain on securities contributed to the employee retirement benefit trust of ¥10,370 million (US\$84 million) and severance and retirement benefit expenses of ¥12,374 million (US\$100 million). An extraordinary loss of ¥5,744 million (US\$46 million), resulting from the reorganization and restructuring costs of U.S. operations, was the primary factor contributing to net other expenses, which totaled ¥8,427 million (US\$68 million). Interest expense, net, decreased ¥153 million, to ¥814 million (US\$7 million).

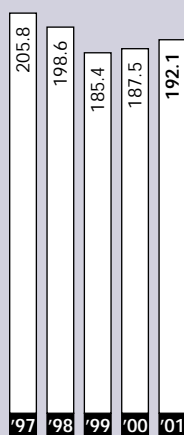
Consequently, the loss before income taxes and minority interests amounted to ¥1,327 million (US\$11 million), compared with a loss of ¥11,187 million in the previous fiscal year.

Income taxes resulted in income of ¥2,252 million (US\$18 million), as ¥4,563 million (US\$37 million) in income from deferred income taxes exceeded ¥2,311 million (US\$19 million) in expense from current income taxes. Thus, the Company's net income amounted to ¥636 million (US\$5 million), an increase of ¥7,804 million from the previous fiscal year's loss. Net income per share was ¥2.85 (US\$0.02) and cash dividends applicable to the fiscal year increased to ¥6.00 (US\$0.05).

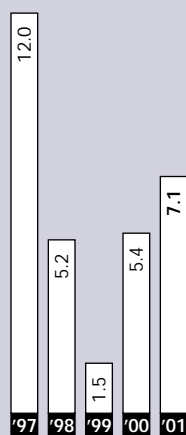
Financial Position

Total assets at the fiscal year-end amounted to ¥183,214 million (US\$1,478 million), down 1.0%, or ¥1,796 million, from the previous fiscal year-end.

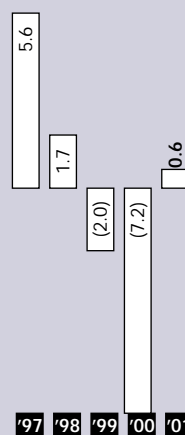
Net Sales
(Billion ¥)



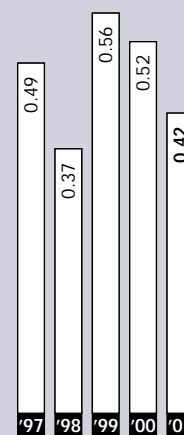
Operating Income
(Billion ¥)



Net Income (Loss)
(Billion ¥)



**Net Interest Expense/
Net Sales**
(%)



Total current assets were ¥101,009 million (US\$815 million), down ¥5,778 million. Regarding the introduction of market value accounting, marketable securities of ¥8,612 million (US\$69 million) were transferred to investment securities. As a result, liquid funds—comprising marketable securities and cash and time deposits—decreased ¥11,512 million, to ¥14,196 million (US\$114 million). Notes and accounts receivable grew ¥1,059 million, to ¥59,868 million (US\$483 million), and inventories grew ¥4,042 million, to ¥24,011 million (US\$194 million).

Total investments and other non-current assets rose ¥10,427 million, to ¥26,821 million (US\$216 million). This reflected an ¥11,709 million increase in investment securities, which was due mainly to the introduction of market value accounting.

A total of ¥6,979 million (US\$56 million) was invested in property, plant and equipment, up ¥769 million from the previous fiscal year, and ¥8,482 million (US\$68 million) was depreciated in property, plant and equipment, down ¥580 million from the previous fiscal year. Net property, plant and equipment declined ¥1,777 million, to ¥55,384 million (US\$447 million).

Total liabilities and minority interests in consolidated subsidiaries fell ¥76 million, to ¥128,905 million (US\$1,040 million). This principally reflected a ¥1,786 million decrease in retirement benefits, to ¥19,866 million (US\$160 million). Short- and long-term interest-bearing debt declined ¥193 million, to ¥48,921 million (US\$395 million). Trade payables, payables—other, and accrued expenses grew ¥2,879 million, to ¥53,176 million (US\$429 million), and income taxes payable and other current liabilities fell ¥823 million, to ¥3,908 million (US\$32 million).

Total shareholders' equity declined ¥1,720 million, to ¥54,309 million (US\$438 million), due to a decline in retained earnings and the reclassification of foreign currency translation adjustment to shareholders' equity. As a result, the shareholders' equity ratio declined 0.7 percentage point, to 29.6%. The debt-to-equity ratio (interest-bearing debt divided by the sum of interest-bearing debt and shareholders' equity) decreased from 47.6% to 48.2%, and the current ratio declined from 1.45 to 1.21.

Cash Flows

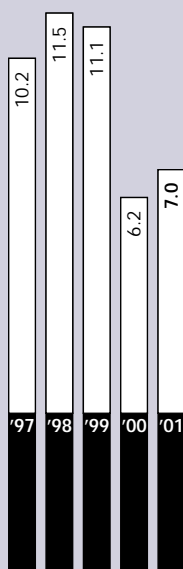
Net cash provided by operating activities during the fiscal year amounted to ¥5,691 million (US\$46 million), down ¥5,655 million from the previous fiscal term. The loss before income taxes and minority interests caused a cash outflow of ¥1,327 million (US\$11 million). The gain on securities contributed to the employee retirement benefit trust amounted to ¥10,370 million (US\$84 million), changes in inventories amounted to ¥3,355 million (US\$27 million), and changes in retirement benefits accounted for ¥1,718 million (US\$14 million) of the cash outflow. Cash inflow from severance and retirement benefit expenses totaled ¥11,358 million (US\$92 million), while ¥8,638 million (US\$70 million) of cash inflow stemmed from depreciation and amortization.

Net cash used in investing activities increased ¥3,409 million, to ¥6,769 million (US\$55 million). Net cash outflow due to sales and acquisition of investment securities totaled ¥1,123 million (US\$9 million), and net cash outflow due to sales and acquisition of property, plant and equipment was ¥5,606 million (US\$45 million).

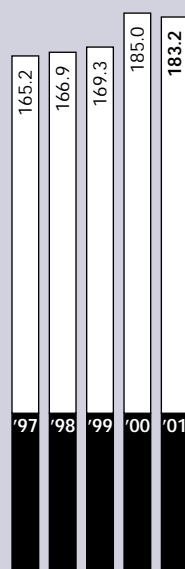
Net cash used in financing activities amounted to ¥1,705 million (US\$14 million), compared with ¥3,170 million in the previous fiscal year. Net cash outflow due to proceeds from and repayments of long-term debt amounted to ¥175 million (US\$1 million), net cash outflow due to changes in bank loans amounted to ¥158 million (US\$1 million), and cash dividends paid amounted to ¥1,338 million (US\$11 million).

As a result, cash and cash equivalents at the end of the fiscal year amounted to ¥13,591 million (US\$110 million), compared with ¥16,32 million in the previous fiscal year. This level of cash and cash equivalents corresponds to 0.849 times the average level of monthly net sales of ¥16,004 million (US\$129 million). Consequently, management is confident that it has maintained a sufficiently high level of liquidity.

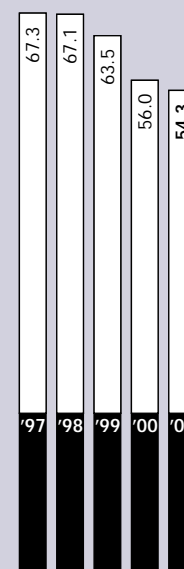
Capital Expenditures
(Billion ¥)



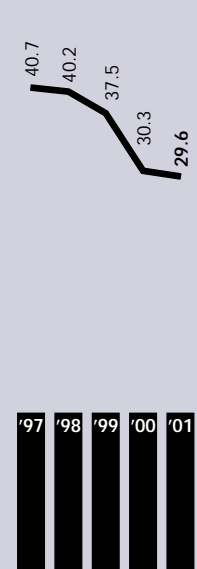
Total Assets
(Billion ¥)



Total Shareholders' Equity
(Billion ¥)



Total Shareholders' Equity Ratio
(%)



CONSOLIDATED BALANCE SHEETS

Kayaba Industry Co., Ltd. and Consolidated Subsidiaries March 31, 2001 and 2000

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2000	2001
Current assets:			
Cash and time deposits (Note 9).....	¥ 5,669	¥ 11,004	\$ 45,718
Marketable securities (Note 11).....	8,527	14,704	68,766
Trade receivables:			
Notes and accounts	59,868	58,809	482,806
Unconsolidated subsidiaries and affiliated companies.....	1,033	949	8,331
Allowance for doubtful receivables.....	(117)	(415)	(943)
Inventories (Note 3).....	24,011	19,969	193,637
Deferred tax assets (Note 6)	1,596	1,189	12,871
Prepaid expenses and other current assets	422	578	3,403
Total current assets.....	101,009	106,787	814,589
Investments and other non-current assets:			
Investments in and loans to unconsolidated subsidiaries and affiliated companies	2,880	6,699	23,226
Allowance for doubtful receivables.....	(48)	(357)	(387)
Investment securities (Note 11).....	12,003	294	96,798
Lease deposits, loans and other long-term receivables	1,699	2,261	13,702
Deferred tax assets (Note 6)	9,817	6,805	79,169
Other assets	470	692	3,790
Total investments and other non-current assets.....	26,821	16,394	216,298
Property, plant and equipment (Note 4):			
Land.....	11,084	11,058	89,387
Buildings.....	37,114	36,735	299,306
Machinery and equipment	140,594	138,849	1,133,823
Construction in progress.....	937	678	7,556
Total	189,729	187,320	1,530,072
Less accumulated depreciation	134,345	130,159	1,083,427
Net property, plant and equipment	55,384	57,161	446,645
Foreign currency translation adjustment.....			
	—	4,668	—
Total assets.....	¥183,214	¥185,010	\$1,477,532

See accompanying notes.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2000	2001
Current liabilities:			
Bank loans (Note 4)	¥ 14,996	¥ 15,017	\$ 120,936
Current maturities of long-term debt (Note 4)	11,159	3,679	89,992
Trade payables:			
Notes and accounts	41,654	39,969	335,919
Unconsolidated subsidiaries and affiliated companies	541	970	4,363
Payables—other	5,490	3,952	44,274
Accrued expenses	5,491	5,406	44,282
Income taxes payable	1,708	2,678	13,774
Other current liabilities	2,200	2,053	17,742
Total current liabilities	83,239	73,724	671,282
Long-term debt less current maturities (Note 4)	22,766	30,418	183,597
Retirement benefits (Note 5)	19,866	21,652	160,209
Other long-term liabilities	451	483	3,637
Minority interests in consolidated subsidiaries	2,583	2,704	20,831
Contingent liabilities (Note 8)			
Shareholders' equity (Note 7):			
Common stock, par value ¥50 per share;			
Authorized—491,955,000 shares			
Issued—222,984,315 shares	19,114	19,114	154,145
Additional paid-in capital	20,248	20,248	163,291
Retained earnings	15,892	16,667	128,161
Net unrealized holding gains on securities	1,645	—	13,266
Foreign currency translation adjustment	(2,590)	—	(20,887)
Total shareholders' equity	54,309	56,029	437,976
Total liabilities and shareholders' equity	¥183,214	¥185,010	\$1,477,532

CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

Kayaba Industry Co., Ltd. and Consolidated Subsidiaries Years ended March 31, 2001 and 2000

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2000	2001
Net sales (Note 15).....	¥192,052	¥187,522	\$1,548,806
Cost of sales (Notes 13 and 15)	158,466	154,999	1,277,951
Gross profit.....	33,586	32,523	270,855
Selling, general and administrative expenses (Notes 13 and 15)	26,486	27,091	213,597
Operating income (Note 15).....	7,100	5,432	57,258
Other income (expenses):			
Interest and dividend income	167	209	1,347
Interest expense	(981)	(1,176)	(7,911)
Provision for retirement benefits for prior service costs.....	—	(9,220)	—
Charge resulting from recognition of unamortized prior service costs.....	—	(5,302)	—
Gain on securities contributed to employee retirement benefit trust (Notes 5 and 11).....	10,370	—	83,629
Severance and retirement benefit expenses (Note 5)	(12,374)	—	(99,790)
Reorganization and restructuring costs of U.S. operations	(5,744)	—	(46,323)
Royalty income	451	635	3,637
Loss on disposal of property, plant and equipment.....	(504)	(591)	(4,065)
Equity in losses of unconsolidated subsidiaries and affiliated companies.....	(557)	(856)	(4,492)
Other, net (Note 14).....	745	(318)	6,008
Net other expenses	(8,427)	(16,619)	(67,960)
Loss before income taxes and minority interests.....	(1,327)	(11,187)	(10,702)
Income taxes (Note 6):			
Current	2,311	2,797	18,637
Deferred	(4,563)	(6,894)	(36,799)
Income (loss) before minority interests in consolidated subsidiaries.....	925	(7,090)	7,460
Minority interests	(289)	(78)	(2,331)
Net income (loss)	636	(7,168)	5,129
Retained earnings:			
Balance at beginning of year.....	16,667	24,101	134,411
Cumulative effect of adopting deferred income tax accounting	—	1,075	—
Deductions:			
Retirement of treasury stock	—	(639)	—
Cash dividends paid	(1,338)	(678)	(10,790)
Bonuses to directors and corporate auditors	(70)	(24)	(565)
Bonuses to employees	(3)	—	(24)
Balance at end of year	¥ 15,892	¥ 16,667	\$ 128,161
	Yen		U.S. dollars (Note 1)
Amounts per share of common stock:			
Net income (loss).....	¥2.85	¥(32.09)	\$0.02
Cash dividends applicable to the year.....	6.00	3.00	0.05

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Kayaba Industry Co., Ltd. and Consolidated Subsidiaries Years ended March 31, 2001 and 2000

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2000	2001
Cash flows from operating activities:			
Loss before income taxes and minority interests	¥ (1,327)	¥(11,187)	\$ (10,702)
Depreciation and amortization	8,638	9,228	69,661
Loss on disposal of property, plant and equipment	504	591	4,064
Amortization of consolidation goodwill	61	61	492
Changes in allowance for doubtful receivables	(241)	(67)	(1,944)
Changes in retirement benefits	(1,718)	14,729	(13,854)
Interest and dividend income	(167)	(209)	(1,347)
Interest expense	981	1,176	7,911
Equity in losses of unconsolidated subsidiaries and affiliated companies	557	856	4,492
Gain on sale of property, plant and equipment	(38)	(8)	(306)
Gain on securities contributed to employee retirement benefit trust	(10,370)	—	(83,629)
Severance and retirement benefit expenses	11,358	—	91,596
Reorganization and restructuring costs of U.S. operation	5,744	—	46,323
Changes in trade notes and accounts receivable	(1,076)	(3,786)	(8,677)
Changes in inventories	(3,355)	(1,155)	(27,056)
Changes in trade notes and accounts payable	514	2,629	4,145
Other, net	(394)	(119)	(3,177)
Subtotal	9,671	12,739	77,992
Interest and dividends received	229	209	1,847
Interest paid	(981)	(1,166)	(7,911)
Income taxes paid	(3,298)	(635)	(26,597)
Income taxes refunded	70	199	564
Net cash provided by operating activities	5,691	11,346	45,895
Cash flows from investing activities:			
Transfer to time deposits	(605)	(721)	(4,879)
Transfer from time deposits	680	651	5,484
Payments for acquisition of marketable securities	—	(669)	—
Proceeds from sale of marketable securities	—	2,053	—
Payments for acquisition of property, plant and equipment	(5,765)	(5,056)	(46,492)
Proceeds from sale of property, plant and equipment	159	119	1,282
Payments for acquisition of investment securities	(1,430)	(103)	(11,532)
Proceeds from sale of investment securities	307	206	2,476
Payments for loans	(65)	(105)	(524)
Proceeds from collection of loans	124	242	1,000
Other, net	(174)	23	(1,403)
Net cash used in investing activities	(6,769)	(3,360)	(54,588)
Cash flows from financing activities:			
Proceeds from bank loans	30,570	20,913	246,532
Repayments of bank loans	(30,728)	(21,207)	(247,807)
Proceeds from long-term debt	3,500	2,773	28,226
Repayments of long-term debt	(3,675)	(4,201)	(29,637)
Repayments of bonds	—	(100)	—
Payments for acquisition of treasury stock	(0)	(639)	(0)
Cash dividends paid	(1,338)	(678)	(10,790)
Cash dividends paid for minority interests	(34)	(31)	(274)
Net cash used in financing activities	(1,705)	(3,170)	(13,750)
Effect of exchange rate changes on cash and cash equivalents	52	(171)	419
Net (decrease) increase in cash and cash equivalents	(2,731)	4,645	(22,024)
Cash and cash equivalents at beginning of year	16,322	11,323	131,629
Increase in cash and cash equivalents resulting from increase in the number of consolidated subsidiaries	—	354	—
Cash and cash equivalents at end of year (Note 9)	¥13,591	¥16,322	\$109,605

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Kayaba Industry Co., Ltd. and Consolidated Subsidiaries Years ended March 31, 2001 and 2000

1. BASIS OF FINANCIAL STATEMENTS

The Company and its consolidated domestic subsidiaries maintain their accounts and records in accordance with the provisions set forth in the Japanese Commercial Code and the Securities and Exchange Law and in conformity with accounting principles and practices generally accepted in Japan ("Japanese GAAP"), which are different from the accounting and disclosure requirements of International Accounting Standards. The accounts of overseas consolidated subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries of domicile.

The accompanying consolidated financial statements are a translation of the audited consolidated financial statements of the Company which were prepared in accordance with Japanese

GAAP and were filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

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, 2001, which was ¥124 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 (16 in 2001 and 2000) 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, except that, in 2001, financial statements as of and for the fifteen months ended March 31, 2001 were used for a subsidiary which is scheduled to be dissolved.

Equity method

Investments in seven affiliated companies (20% to 50% owned and certain others 15% to 20% owned) are accounted for by the equity method and, accordingly, are stated at cost adjusted for equity in undistributed earnings and losses from the date of acquisition.

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

Foreign currency translation

Short-term receivables and payables denominated in foreign currencies are translated into Japanese yen at the year-end rates. Prior to April 1, 2000, long-term receivables and payables denominated in foreign currencies were translated at historical rates.

Effective April 1, 2000, the Company and its consolidated subsidiaries adopted the revised accounting standard for foreign currency translation, "Opinion Concerning Revision of Accounting Standard for Foreign Currency Translation," issued by the Business Accounting Deliberation Council on October 22, 1999 (the "Revised Accounting Standard"). Under the Revised Accounting Standard, long-term receivables and payables denominated in foreign currencies are also translated into Japanese yen at the year-end rates.

The effect on the consolidated income statement of adopting the Revised Accounting Standard was immaterial.

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. Income statements of consolidated overseas subsidiaries are translated at average rates.

Due to the adoption of the Revised Accounting Standard, the Company reports foreign currency translation adjustments in the shareholders' equity and minority interests. The prior year's amount, which is included in assets, has not been reclassified.

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 of 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 weighted-average method.

Securities

Prior to April 1, 2000, marketable securities and investment securities of the Company and its consolidated subsidiaries (the "Companies") listed on Japanese stock exchanges were stated at the lower of cost (moving-average method) or market value. The Companies recorded recoveries of write-downs of securities. The other securities were stated at moving-average cost.

Effective April 1, 2000, the Companies adopted the new Japanese accounting standard for financial instruments ("Opinion Concerning Establishment of Accounting Standard for Financial Instruments" issued by the Business Accounting Deliberation Council on January 22, 1999).

In accordance with the new accounting standard, 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) for 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 unrealized 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 the moving-average cost.

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

As a result of adopting the new accounting standard for financial instruments, income before income taxes and minority interests increased by ¥191 million (US\$1,540 thousand) and investment securities increased by ¥2,792 million (US\$22,516 thousand). Also, based on the examination of the intent of holding each security upon application of the new accounting standard on April 1, 2000, commercial paper is included in current assets and other securities are included in investments and other assets. As a result, at April 1, 2000, securities in current assets decreased by ¥8,706 million (US\$70,210 thousand) and investment securities increased by the same amount compared with what would have been reported under the previous accounting policy.

Derivative transactions and hedge accounting

The new accounting standard for financial instruments, effective from the year ended March 31, 2001, 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 gains or losses 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. 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.

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

At March 31, 2000, the Company and its certain domestic consolidated subsidiaries accrued liabilities for lump-sum severance and retirement payments at 100% of the amount required had all

eligible employees voluntarily terminated their employment at the balance sheet date. The Companies recognized pension expense based on the accrual method.

Effective April 1, 2000, the Companies adopted the new accounting standard, "Opinion on Setting Accounting Standard for Employees' Severance and Pension Benefits," issued by the Business Accounting Deliberation Council on June 16, 1998 (the "New Accounting Standard").

Under the New Accounting Standard, the liabilities and expenses for severance and retirement benefits are determined based on the amounts actuarially calculated using certain assumptions.

The Companies provided an allowance for employees' severance and retirement benefits at March 31, 2001 based on the amounts of projected benefit obligation and the fair value of the plan assets at that date.

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 (US\$132,597 thousand), of which ¥11,358 million (US\$91,596 thousand) was recognized as an expense as a result of the contribution of investment securities worth ¥11,358 million (US\$91,596 thousand) to the employee retirement benefit trust in June 2000. The remaining net transition obligation, amounting to ¥5,084 million (US\$41,000 thousand) will be recognized in expenses in equal amounts over five years commencing with the year ended March 31, 2001. Actuarial gains and losses are recognized in expenses in equal amounts over the average of the estimated remaining service lives commencing with the succeeding period.

As a result of the adoption of the New Accounting Standard, in the year ended March 31, 2001, severance and retirement benefit expenses decreased by ¥954 million (US\$7,694 thousand), operating income increased by ¥886 million (US\$7,145 thousand) and loss before income taxes and minority interests increased by ¥1,118 million (US\$9,016 thousand) compared with what would have been recorded under the previous accounting standard. The Companies included accrued prior service costs in retirement benefits in 2001. The prior year's accrued prior service costs amounting to ¥5,634 million has been reclassified to conform to the 2001 presentation.

(2) Severance and retirement allowance for directors

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

Amounts per share

Amounts per share of common stock are computed based on the weighted-average number of shares during each year.

Reclassifications

Certain prior year amounts have been reclassified to conform to the 2001 presentation. These changes had no impact on previously reported results of operations or shareholders' equity.

3. INVENTORIES

Inventories at March 31, 2001 and 2000 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Finished products	¥ 9,609	¥ 6,449	\$ 77,492
Work in process.....	12,535	11,658	101,089
Raw materials and supplies	1,867	1,862	15,056
	¥24,011	¥19,969	\$193,637

4. BANK LOANS AND LONG-TERM DEBT

Bank loans at March 31, 2001 and 2000 were represented by short-term notes, generally 90 days, bearing annual interest rates

ranging from 0.681% to 7.04% and from 0.5318% to 7.35%, respectively.

Long-term debt at March 31, 2001 and 2000 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
2.05% unsecured bonds, due in 2002	¥ 8,000	¥ 8,000	\$ 64,516
2.5% unsecured bonds, due in 2005	7,000	7,000	56,452
Loans from banks and others, due through 2008 with interest rates ranging from 1.08% to 8.5%:			
Secured	4,200	5,873	33,871
Unsecured	14,725	13,224	118,750
Total	33,925	34,097	273,589
Less current maturities.....	11,159	3,679	89,992
	¥22,766	¥30,418	\$183,597

As is customary in Japan, security may have to be given if requested by a lending bank, and such bank has the right to off-set 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.

At March 31, 2001, 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	¥6,476	\$52,226

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

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2002	¥11,159	\$ 89,992
2003	3,078	24,822
2004	7,326	59,081
2005	9,855	79,476
2006	2,257	18,202
Thereafter.....	250	2,016
	¥33,925	\$273,589

5. RETIREMENT BENEFITS

As explained in Note 2. Summary of Significant Accounting Policies, effective April 1, 2000, the Companies adopted the new accounting standard for employees' severance and retirement benefits, under which the liabilities and expenses for employees'

severance and retirement benefits are determined based on the amounts obtained by actuarial calculations.

The liabilities for employees' severance and retirement benefits included in the liability section of the consolidated balance sheet as of March 31, 2001 consists of the following:

	Millions of yen	Thousands of U.S. dollars
Projected benefit obligation	¥83,795	\$675,766
Unrecognized actuarial differences	(8,545)	(68,911)
Less fair value of plan assets	(51,932)	(418,807)
Less unrecognized net transition obligation	(4,067)	(32,798)
Prepaid pension expense	7	56
Liability for employees' severance and retirement benefits	19,258	155,306
Severance and retirement allowance for directors	608	4,903
Total retirement benefits	<u>¥19,866</u>	<u>\$160,209</u>

Included in the consolidated statement of operations and retained earnings for the year ended March 31, 2001 are employees' severance and retirement benefit expenses comprising the following:

	Millions of yen	Thousands of U.S. dollars
Service costs—benefits earned during the year	¥ 2,642	\$ 21,307
Interest cost on projected benefit obligation	2,824	22,774
Expected return on plan assets	(2,314)	(18,661)
Amortization of actuarial differences	12,374	99,790
Special payment of extra retirement benefits	35	282
Severance and retirement benefit expenses	<u>¥15,561</u>	<u>\$125,492</u>

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 Company are 3.5% and 3.5% to 6.13%, respectively. Actuarial differences are recognized as an expense in equal amounts over 14 to 15 years.

6. INCOME TAXES

Taxes on income applicable to the Company and its consolidated subsidiaries would have resulted in normal effective tax rates of approximately 41.1% in 2001 and 2000, respectively.

Significant components of the Company's deferred tax assets and liabilities as of March 31, 2001 and 2000 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Deferred tax assets:			
Provision for employees' severance and retirement benefits.....	¥10,599	¥4,148	\$ 85,476
Reorganization and restructuring costs of U.S. operation.....	4,260	—	34,355
Loss carried forward.....	3,378	2,392	27,242
Accrued prior service cost.....	—	2,294	—
Accrued bonuses.....	824	576	6,645
Elimination of unrealized gain.....	401	291	3,234
Provision for retirement benefits for directors.....	251	278	2,024
Accrued enterprise tax.....	151	236	1,218
Unrealized holding losses on securities.....	51	—	411
Other.....	453	453	3,653
Total deferred tax assets.....	20,368	10,668	164,258
Less: Valuation allowance.....	(3,385)	(2,232)	(27,298)
	16,983	8,436	136,960
Deferred tax liabilities:			
Securities contributed to employee retirement benefit trust.....	(4,274)	—	(34,468)
Unrealized holding gains on securities.....	(1,198)	—	(9,661)
Depreciation.....	(—)	(360)	(—)
Other.....	(100)	(82)	(807)
Total deferred tax liabilities.....	(5,572)	(442)	(44,936)
Net deferred tax assets.....	¥11,411	¥7,994	\$ 92,024

7. SHAREHOLDERS' EQUITY

Under the Commercial Code of Japan (the "Code"), at least 50% of the issue price of new shares, with a minimum of the par value thereof, 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.

Under the Code, certain amounts of retained earnings equal to at least 10% of cash dividends and bonuses to directors and corporate auditors must be set aside as a legal reserve until the reserve is equal to 25% of common stock. The reserve is not available for dividends but may be used to reduce a deficit by

resolution of the stockholders or may be capitalized by resolution of the Board of Directors. The legal reserve is included in the retained earnings.

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.

The shareholders approved, at the general meeting held on June 27, 2001, the payment of year-end cash dividends totaling ¥669 million (US\$5,395 thousand) and the related transfer from retained earnings to the legal reserve in the amount of ¥67 million (US\$540 thousand).

8. CONTINGENT LIABILITIES

At March 31, 2001, the Company and its consolidated subsidiaries were contingently liable for trade notes receivable discounted amounting to ¥979 million (US\$7,895 thousand) and trade notes receivable endorsed amounting to ¥671 million (US\$5,411 thousand).

At the same date, the Company was also contingently liable under guarantees of indebtedness of unconsolidated subsidiaries and affiliated companies amounting to ¥2,226 million (US\$17,952 thousand) and of employees' loans for their own houses amounting to ¥34 million (US\$274 thousand).

9. CASH AND CASH EQUIVALENTS

Reconciliations 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, 2001 and 2000 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Cash and time deposits	¥ 5,669	¥11,004	\$ 45,718
Less: Time deposits with maturities exceeding three months	(605)	(680)	(4,879)
Add: Commercial paper with maturity less than three months	8,527	5,998	68,766
Cash and cash equivalents	¥13,591	¥16,322	\$109,605

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 at March 31, 2001 and 2000 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Acquisition cost of machinery and equipment	¥4,551	¥5,240	\$36,702
Accumulated depreciation of machinery and equipment	2,867	2,941	23,121
Net book value of machinery and equipment	¥1,684	¥2,299	\$13,581

Future minimum lease payments at March 31, 2001 and 2000 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Due within one year	¥ 773	¥1,044	\$ 6,234
Due after one year	911	1,255	7,347
	¥1,684	¥2,299	\$13,581

Lease payments and assumed depreciation charge for the years ended March 31, 2001 and 2000 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Lease payments	¥1,046	¥1,269	\$8,435
Assumed depreciation charge.....	1,046	1,269	8,435

Assumed depreciation charges are 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

at March 31, 2001 and 2000, interest expense has been included in acquisition costs and depreciation expense.

11. SECURITIES

A. The following tables summarize acquisition costs, book values and fair value of securities with available fair values as of March 31, 2001:

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

	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥7,849	¥10,761	¥2,912	\$63,298	\$86,782	\$23,484

Available-for-sale securities: Other securities

	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥1,069	¥944	¥(125)	\$8,621	\$7,613	\$(1,008)

B. The following tables summarize book values of securities with no available fair values as of March 31, 2001:

Available-for-sale securities:

	Millions of yen	Thousands of U.S. dollars
Commercial paper.....	¥8,527	\$68,766
Non-listed equity securities.....	296	2,387
Others.....	2	16
Total.....	¥8,825	\$71,169

C. Total sales of available-for-sale securities sold in the year ended March 31, 2001 amounted to ¥307 million (US\$2,476 thousand) and the related gains and losses amounted to ¥110 million (US\$887 thousand) and ¥1 million (US\$8 thousand), respectively.

D. In June 2000, the Company contributed, receiving no cash, certain investment securities to its employee retirement benefit

trust as explained in Note 2. The market value of the contributed securities at the time of contribution was ¥11,358 million (US\$91,596 thousand). Upon contribution of these securities, a "gain on securities contributed to employee retirement benefit trust" amounting to ¥10,370 million (US\$83,629 thousand) was recognized.

At March 31, 2000, the book value, market value and net unrealized gains of the listed and quoted marketable securities held by the Company and consolidated subsidiaries were as follows:

	Millions of yen		
	Book value	Market value	Net unrealized gains
Current assets:			
Shares	¥8,706	¥24,597	¥15,891

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 its 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 hedging derivative financial instruments used by the Companies and items hedged:

Hedging instruments:

Forward foreign exchange contracts, interest rate swap contracts

Hedged items:

Foreign currency transaction, bank loan

Evaluating hedge effectiveness during the year ended March 31, 2001 is omitted as hedge accounting has been applied to derivative transactions.

At March 31, 2000, the outstanding contract amounts of derivative financial transactions and their market values are summarized as follows:

	Millions of yen
Contract amount:	
Forward exchange contracts:	
To sell U.S. dollars	¥ 18
Interest rate swap agreements	6,500
Market value:	
Forward exchange contracts:	
To sell U.S. dollars	¥ 18
Interest rate swap agreements	(80)
Unrealized gain (loss):	
Forward exchange contracts:	
To sell U.S. dollars	¥ 0
Interest rate swap agreements	(80)

13. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to the cost of sales and selling, general and administrative expenses for the year

ended March 31, 2001 and 2000 were ¥3,565 million (US\$28,750 thousand) and ¥3,762 million, respectively.

14. OTHER INCOME (EXPENSES)—OTHER, NET

Other, net, included in other income (expenses) for the years ended March 31, 2001 and 2000 comprises the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Life insurance received	¥ 34	¥ 4	\$ 274
Compensation received	94	111	758
Loss on disposal of inventories	(180)	(113)	(1,452)
Foreign exchange gain (loss)	413	(449)	3,331
Grants received	26	71	210
Reversal of allowance for doubtful receivables	233	9	1,879
Others	125	49	1,008
	¥745	¥(318)	\$6,008

15. SEGMENT INFORMATION

Business Segment

The Company and its consolidated subsidiaries operate primarily in the production and sale of hydraulic products and systems products. Business segment information for the years ended March 31, 2001 and 2000 is as follows:

Year ended March 31, 2001:	Millions of yen				
	Hydraulic products	Systems products	Total	Elimination or unallocation	Consolidated
Sales:					
Outside customers	¥177,447	¥14,605	¥192,052	¥ —	¥192,052
Intersegment	253	545	798	(798)	—
Total sales	177,700	15,150	192,850	(798)	192,052
Operating expenses	165,639	14,565	180,204	4,748	184,952
Operating income	¥ 12,061	¥ 585	¥ 12,646	¥ (5,546)	¥ 7,100
Identifiable assets	¥125,024	¥16,419	¥141,443	¥41,771	¥183,214
Depreciation and amortization	7,600	689	8,289	193	8,482
Capital expenditures	6,453	441	6,894	85	6,979

Year ended March 31, 2000:	Millions of yen				
	Hydraulic products	Systems products	Total	Elimination or unallocation	Consolidated
Sales:					
Outside customers	¥172,514	¥15,008	¥187,522	¥ —	¥187,522
Intersegment	596	791	1,387	(1,387)	—
Total sales	173,110	15,799	188,909	(1,387)	187,522
Operating expenses	161,821	16,645	178,466	3,624	182,090
Operating income (loss)	¥ 11,289	¥ (846)	¥ 10,443	¥ (5,011)	¥ 5,432
Identifiable assets	¥125,070	¥16,905	¥141,975	¥43,035	¥185,010
Depreciation and amortization	8,030	770	8,800	261	9,061
Capital expenditures	5,560	599	6,159	51	6,210

Year ended March 31, 2001:	Thousands of U.S. dollars				
	Hydraulic products	Systems products	Total	Elimination or unallocation	Consolidated
Sales:					
Outside customers	\$1,431,024	\$117,782	\$1,548,806	\$ —	\$1,548,806
Intersegment	2,040	4,395	6,435	(6,435)	—
Total sales	1,433,064	122,177	1,555,241	(6,435)	1,548,806
Operating expenses	1,335,798	117,459	1,453,257	38,291	1,491,548
Operating income	\$ 97,266	\$ 4,718	\$ 101,984	\$ (44,726)	\$ 57,258
Identifiable assets	\$1,008,258	\$132,411	\$1,140,669	\$336,863	\$1,477,532
Depreciation and amortization	61,290	5,557	66,847	1,556	68,403
Capital expenditures	52,040	3,557	55,597	685	56,282

The effects of adopting the new accounting standards on the business segment information were as follows.

As explained in Note 2, effective this fiscal year the Company and its domestic subsidiaries adopted the new accounting standard for employees' severance and retirement benefits.

The effects of the adoption were to increase operating income of "Hydraulic products" by ¥787 million (US\$6,347 thousand), operating income of "Systems products" by ¥58 million (US\$468 thousand) and operating income of "Elimination or unallocation" by ¥41 million (US\$330 thousand).

As explained in Note 2, effective this fiscal year the Company and its domestic subsidiaries adopted the new accounting standard for financial instruments.

The effects of the adoption were to increase assets of "Hydraulic products" by ¥24 million (US\$194 thousand), assets of "Systems products" by ¥1 million (US\$8 thousand) and assets of "Elimination or unallocation" by ¥1,619 million (US\$13,056 thousand).

As explained in Note 2, effective this fiscal year the Company and its domestic subsidiaries adopted the new accounting standard for foreign currency translation.

The effects of the adoption were to decrease assets of "Elimination or unallocation" by ¥2,955 million (US\$23,831 thousand).

Geographic Segment

Geographic segment information for the years ended March 31, 2001 and 2000 is as follows:

Year ended March 31, 2001:	Millions of yen				
	Japan	Other areas	Total	Elimination or unallocation	Consolidated
Sales:					
Outside customers	¥172,507	¥19,545	¥192,052	¥ —	¥192,052
Intersegment	10,040	109	10,149	(10,149)	—
Total sales	182,547	19,654	202,201	(10,149)	192,052
Operating expenses	170,699	18,885	189,584	(4,632)	184,952
Operating income	¥ 11,848	¥ 769	¥ 12,617	¥ (5,517)	¥ 7,100
Identifiable assets	¥142,807	¥15,116	¥157,923	¥25,291	¥183,214

Year ended March 31, 2000:	Millions of yen				
	Japan	Other areas	Total	Elimination or unallocation	Consolidated
Sales:					
Outside customers	¥168,693	¥18,829	¥187,522	¥ —	¥187,522
Intersegment	8,643	119	8,762	(8,762)	—
Total sales	177,336	18,948	196,284	(8,762)	187,522
Operating expenses.....	167,563	18,616	186,179	(4,089)	182,090
Operating income	¥ 9,773	¥ 332	¥ 10,105	¥ (4,673)	¥ 5,432
Identifiable assets	¥140,361	¥15,248	¥155,609	¥29,401	¥185,010

Year ended March 31, 2001:	Thousands of U.S. dollars				
	Japan	Other areas	Total	Elimination or unallocation	Consolidated
Sales:					
Outside customers.....	\$1,391,185	\$157,621	\$1,548,806	\$ —	\$1,548,806
Intersegment.....	80,968	879	81,847	(81,847)	—
Total sales	1,472,153	158,500	1,630,653	(81,847)	1,548,806
Operating expenses.....	1,376,605	152,298	1,528,903	(37,355)	1,491,548
Operating income	\$ 95,548	\$ 6,202	\$ 101,750	\$ (44,492)	\$ 57,258
Identifiable assets	\$1,151,669	\$121,903	\$1,273,572	\$203,960	\$1,477,532

The effects of adopting the new accounting standards on the geographic segment information were as follows.

As explained in Note 2, effective this fiscal year the Company and its domestic subsidiaries adopted the new accounting standard for employees' severance and retirement benefits.

The effects of these adoptions were to increase operating income of "Japan" by ¥845 million (US\$6,815 thousand) and operating income of "Elimination or unallocation" by ¥41 million (US\$330 thousand).

As explained in Note 2, effective this fiscal year the Company and its domestic subsidiaries adopted the new accounting standard for financial instruments.

The effects of the adoption were to increase assets of "Japan" by ¥25 million (US\$202 thousand) and assets of "Elimination or unallocation" by ¥1,619 million (US\$13,056 thousand).

As explained in Note 2, effective this fiscal year the Company and its domestic subsidiaries adopted the new accounting standard for foreign currency translation.

The effects of the adoption were to decrease assets of "Elimination or unallocation" by ¥2,955 million (US\$23,831 thousand).

Overseas Sales

Overseas sales by geographic area for the years ended March 31, 2001 and 2000 were as follows:

Year ended March 31, 2001:	Millions of yen				
	Europe	North America	Southeast Asia	Other areas	Total
I. Overseas sales	¥16,022	¥8,172	¥6,755	¥3,759	¥ 34,708
II. Consolidated sales	—	—	—	—	192,052
III. Ratio of overseas sales (%)	8.3%	4.3%	3.5%	2.0%	18.1%

Year ended March 31, 2000:	Millions of yen				
	Europe	North America	Southeast Asia	Other areas	Total
I. Overseas sales	¥16,508	¥7,404	¥6,540	¥3,514	¥ 33,966
II. Consolidated sales	—	—	—	—	187,552
III. Ratio of overseas sales (%)	8.8%	3.9%	3.5%	1.9%	18.1%

Year ended March 31, 2001:	Thousands of U.S. dollars				
	Europe	North America	Southeast Asia	Other areas	Total
I. Overseas sales	\$129,210	\$65,903	\$54,476	\$30,314	\$ 279,903
II. Consolidated sales	—	—	—	—	1,548,806
III. Ratio of overseas sales (%)	8.3%	4.3%	3.5%	2.0%	18.1%

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

To the Shareholders and the Board of Directors of KAYABA INDUSTRY CO., LTD.:

We have audited the accompanying consolidated balance sheets of KAYABA INDUSTRY CO., LTD. (a Japanese corporation) and subsidiaries as of March 31, 2001 and 2000, and the related consolidated statements of operations and retained earnings and cash flows for the years then ended, expressed in Japanese yen. Our audits were made in accordance with generally accepted auditing standards in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of KAYABA INDUSTRY CO., LTD. and subsidiaries as of March 31, 2001 and 2000, 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 applied on a consistent basis during the periods, except as noted in the following paragraph.

As explained in Note 2, in the year ended March 31, 2001, KAYABA INDUSTRY CO., LTD. and subsidiaries prospectively adopted new Japanese accounting standards for employees' severance and retirement benefits, financial instruments and foreign currency translation.

Also, in our opinion, the U.S. dollar amounts in the accompanying consolidated financial statements have been translated from Japanese yen on the basis set forth in Note 1.

Asahi & Co.

Tokyo, Japan
June 27, 2001

STATEMENT ON ACCOUNTING PRINCIPLES AND AUDITING STANDARDS

This statement is to remind users that accounting principles and auditing standards and their application in practice may vary among nations and therefore could affect, possibly materially, the reported financial position and results of operations. The accompanying financial statements are prepared based on accounting principles generally accepted in Japan, and the auditing standards and their application in practice are those generally accepted in Japan. Accordingly, the accompanying consolidated financial statements and auditors' report presented above are for users familiar with Japanese accounting principles, auditing standards and their application in practice.

Plants

Sagami, Urawa, Kumagaya,
Gifu North, Gifu South, Mie

R&D Centers

Basic Technology R&D Center
Hydraulics R&D Center
Production Technology R&D Center

Sales Branches

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

Major Domestic Subsidiaries

Nippon Power Steering Co., Ltd.
Kayaba Engineering & Service Co., Ltd.
Nihon Koki Co., Ltd.
Yanagisawa Seiki Seisakusho, Ltd.

Major Domestic Affiliates

MacGREGOR-Kayaba, Ltd.
Japan Analysts Co., Ltd.

Overseas Offices

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Fax: 49-2159-529880

Europe Motorcycle Parts Representative Office
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Tel: 39-51-6606010
Fax: 39-51-6606105

California Representative Office
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CA 90630, U.S.A.
Tel: 1-562-799-3862
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Seattle Representative Office
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Tel: 1-206-386-5625
Fax: 1-206-621-9448

Major Overseas Subsidiaries

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Fax: 49-2159-50139

Kayaba Arvin S.A.
Poligono Industrial
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Spain
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Fax: 34-948-321005

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Fax: 1-630-620-8133

KYB Manufacturing North America, Inc.
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Franklin, IN 46131, U.S.A.
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Fax: 1-317-736-4618

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Industrial Co., Ltd.
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Fax: 886-3-3683369

Thai Kayaba Industries Co., Ltd.
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Roh A. Muang,
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Fax: 66-3-821-5029

Major Overseas Affiliates

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Kayaba Hydraulics (Malaysia)
Sdn. Bhd.
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CORPORATE DATA

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

Date of Establishment

November 25, 1948

Paid-in Capital

¥19,114 million

Common Stock Issued

222,984,315 shares

Number of Shareholders

22,616

Number of Employees

6,031

(Consolidated basis)

Securities Traded

Tokyo Stock Exchange and other major
Japanese stock exchanges

Transfer Agent and Registrar

Mizuho Trust & Banking Co., Ltd.
6-2, Marunouchi, 1-chome,
Chiyoda-ku, Tokyo 100-0005, Japan

(As of March 31, 2001)

