

BRIDGE REPORT



Representative Director, President
Executive Officer
Masao Ono

KYB Corporation (7242)



Our Precision, Your Advantage

Company Information

Market	TSE 1st Section
Industry	Equipment for transportation
Representative Director, President Executive Officer	Masao Ono
HQ Address	World Trade Center Bldg., 4-1, Hamamatsu-cho 2-chome, Minato-ku, Tokyo
Year-end	End of March
HOMEPAGE	http://www.kyb.co.jp/english/

Stock Information

Share Price	Number of shares issued		Total market cap	ROE Act.	Trading Unit
¥2,928	25,748,431 shares		¥75,391million	-15.0%	100 shares
DPS Est.	Dividend yield Est.	EPS Est.	PER Est.	BPS Act.	PBR Act.
undecided	-	¥548.08	5.3x	¥5,846.39	0.5x

*Share price as of closing on June 13, 2019. ROE and BPS are from the last year-end.

Earnings Trends

Fiscal Year	Net Sales	Operating Income	Pretax Income	Net Income	EPS	DPS
March 2014 (results)	352,710	18,170	21,032	12,761	55.26	9.00
March 2015 (results)	370,327	14,461	14,892	8,354	31.45	12.00
March 2016 (results)	355,320	4,327	2,825	-3,161	-12.37	11.00
March 2017 (results)	355,316	19,247	18,852	14,544	56.93	12.00
March 2018 (results)	393,743	20,885	20,881	15,202	595.09	150.00
March 2019 (results)	412,214	-28,496	-29,510	-24,757	-969.18	0.00
March 2020 (estimate)	410,000	19,400	18,500	14,000	548.08	undecided

* Unit: Million yen or yen

*The forecast is from the company. From the term ended March, 2016, the IFRS has been used. The amounts in the term ended March, 2015 are those after the IFRS adjustment. From the term ended March 2016, net income is profit attributable to owners of the parent.

*The company conducted 1-for-10 reverse share split on October 1, 2017. DPS for the term ending March, 2018 represent the amounts taking the 1-for-10 reverse split into account. EPS and DPS are not adjusted. The dividend of the term ending March 2020 has not been determined yet.

This report outlines the financial results of KYB corporation for the fiscal year ended March 2019, 2017 Mid-term Management Plan and etc.

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Key Points

- The sales for the term ended Mar. 2019 were 412.2 billion yen, up 4.7% year on year. Both the AC and HC businesses saw growth in quantity sold and sales. Especially, the sales of the HC business increased as the construction machinery market was thriving. The segment profit dropped 4.1% year on year to 22 billion yen. The profit of the AC business declined due to the deficit in Brazil, and the profit growth of the HC business was slight due to the cost augmentation caused by the increase in production output. Operating profit, profit before taxes, and net income became negative due to the posting of a provision for product warranties, a loss related to the U.S. antitrust law, an impairment loss, etc.
- The sales for the term ending Mar. 2020 are expected to be unchanged from the previous term, standing at 410 billion yen. While the sales of the HC business are expected to grow, the sales of the AC business are projected to drop. The segment profit is forecast to decrease by 6.4% year on year to 20.6 billion yen. Profits of both the AC and HC businesses are expected to drop. As there is no longer provision for product warranties or impairment loss for this term like the previous one, operating profit is expected to be 19.4 billion yen. The yen appreciation is expected and the assumed exchange rates (average rates) are 1 US dollar = 105 yen, while 1 US dollar = 110.91 yen in the previous term. With regard to euro, the assumed exchange rates are 1 euro = 122 yen, while 1 euro = 128.40 yen in the previous term.
- As for achievements in the past two years relating to the 2017 mid-term management plan, the company insisted that they have successfully released products with high added value for automobiles to the market of the AC business, and have also seen the prospect of the transfer and integration of product lines for construction machinery in the HC business. On the other hand, with regard to points that require improvement, the company acknowledges the fact that the restructuring of unprofitable businesses has been delayed and profitability has not yet improved, and the delay in production in response to the growing demand for construction machinery which has far exceeded expectations. In addition, nonconforming acts related to the seismic isolation/mitigation oil dampers for buildings, which were revealed last year, have caused a significant impact on corporate activities. Sales for this term, which is the final fiscal year for the plan, are expected to exceed the goal, while segment profit is not projected to reach it. As for ROE, the estimated value is 8.4%, while the goal for the term ending Mar. 2020 is 10%. Improvement of profitability and capital efficiency remains to be achieved. The company considers this term, which is the final fiscal year for the 2017 mid-term management plan, to be a year to “overcome the painful reforms and realize a profitable structure.”
- As the problem related to the Ministry of Defense emerged in addition to the matter regarding the seismic isolation/mitigation oil dampers, the company cannot deny that cost may increase further, and investors probably have no choice but to just keep an eye on the situation. However, the segment profit which indicates earnings of the mainstay business has been consistently over 20 billion yen since fiscal 2017. As the transfer of the manufacturing lines for control valves for medium-sized shovels in the HC business is scheduled to be finished this term and the integration and restructuring of motor products are also scheduled to be finished next term, profitability is expected to increase steadily from now on. As the yen is expected to get stronger, sales and profits are forecast to decrease this term. However, it is noteworthy how the company accumulates results in the one year before the next mid-term management plan.

1.Regarding nonconforming acts in the inspection process for seismic isolation/mitigation oil dampers for buildings, and reporting improper man-hour figures to the Ministry of Defense

(Overview)

In October 2018, it was revealed that the performance inspection records for seismic isolation/mitigation oil dampers products, which are manufactured and sold by KYB and its subsidiary named Kayaba System Machinery Co., Ltd., were falsified and then the products that do not comply with the criteria approved by the Ministry of Land, Infrastructure, Transport and Tourism (MLIT) or clients' specs were attached to buildings. In addition, it was announced in Jan. 2019 that the company falsified work time and reported improper man-hour figures in the past on the contract regarding defense equipment between the company and the Ministry of Defense.

(The number of target objects for unknown products and non-conforming products, and the number of products; as of 2019 Mar. 15)

◎ Regarding the seismic isolation/mitigation oil dampers for buildings

As a result of investigation, 998 non-conforming products and 12,353 unknown products are found.

	Nonconforming products *1		(3) Unknown	(1)-(3) Total
	(1) Nonconforming to certification by Minister	(2) Out of customer standards		
Seismic isolation oil damper	246 buildings	371 buildings	241 buildings	858 buildings
	1,058 units	3,056 units	3,426 units	7,540 units
Seismic mitigation oil damper	—	30 buildings	110 buildings	140 buildings
	—	244 units	4,569 units	4,813 units
Total	246 buildings	401 buildings	351 buildings	998 buildings
	1,058 units	3,300 units	7,995 units	12,353 units

*1 There is no minister certification system for seismic mitigation oil dampers.

(Correspondence and Progress)

◎ Regarding the seismic isolation/mitigation oil dampers for buildings

Response progress (As of May 15)

	Number of affected buildings	Progress
Explanation to owners	998 buildings	950 buildings (95% complete)
Confirmed structure safety	809 buildings	731 buildings (90% complete) confirmed by third-party agency
Brought up to conformity	998 buildings	60 buildings (6%) conformity work completed 129 buildings (13%) conformity work underway

Explanations to owners and verification of structural safety have been 90% completed. Although adaption just has started, production of compliant products was initiated in Apr. 2019, which is one month earlier than originally planned.

The company plans to maximize production capacity in June. Production of compliant products is scheduled to be finished by Sept. 2020.

◎ Regarding the Ministry of Defense

The company is currently investigating details with an inspection team the company assembled from experts outside the company such as lawyers and accountants. In addition, special investigation has been conducted by the Ministry of Defense since Mar. 14th, 2019.

(Management responsibility and measures to prevent recurrence)**◎ Regarding the seismic isolation/mitigation oil dampers for buildings**

As the company asked the external investigation committee to investigate causes of the incident and propose measures to prevent recurrence in Sept. 2018, the company received the final version of the investigative report on Feb. 4th, 2019, and submitted measures to prevent recurrence to the Ministry of Land, Infrastructure, Transport and Tourism (MLIT) on Feb. 13th.

In the report, 9 causes including “lack of awareness of the rules,” “corporate culture in which staff avoid facing the truth,” and “factories which are operated assuming that orders are received,” are stated, and “enhancing the awareness of the rules and reforming corporate culture,” “Evaluation of business feasibility and review of business operation and information sharing systems,” “improvement of inspection system and method,” and “fortification of internal audit and control systems” are listed as starting points for the measures to prevent recurrence.

Following the submission of the report, the company took the impact of this incident and social responsibility seriously, and on Mar. 7th, 2019, the company announced the resignation of President Nakajima, partial return of compensation for directors and executive officers, non-payment of bonuses (performance-linked compensation) for directors, etc.

Mr. Masao Ono was appointed as representative director, president, and executive officer.

The company sincerely admits the incident, and plans to reform corporate culture and transform into a sturdy and tenacious company, while aiming to solve and settle the incident as soon as possible.

(Effects on business performance)**◎ Regarding the seismic isolation/mitigation oil dampers for buildings**

As for a provision for product warranties related to the matter, 35,146 million yen was posted as an expense in fiscal 2018, and the balance of a provision for product warranties regarding the incident as of the end of Mar. 2019 was 35,146 million yen.

The company acknowledges that if additional provisions are posted according to future progress, it may cause a significant impact on performance.

◎ Regarding the Ministry of Defense

7,618 million yen, including the refund which is expected in the future, was posted in current liabilities as a provision for loss related to defense equipment in fiscal 2019, and the same amount was posted in “other expenses.”

This amount is an estimate that can be reasonably calculated as of now, and the company recognizes that it may change depending on the progress of special investigation.

2.Company Overview

The largest manufacturer of independent hydraulic equipment in Japan. Based on hydraulic technology, the company offers products and technologies in a wide range of fields such as "automobiles", "motorcycles", "construction machinery", "industrial vehicles", "aircraft", "railroads" and “special purpose vehicles”.

KYB has a high market share with many products. For instance, shock absorbers for automobiles account for 46% of the domestic market and 14% of the global market.

【2-1 Corporate history】

The roots come from “Kayaba Research Center”, which was established by Shiro Kayaba, who is an inventor and a founder, in November 1919.

In January 1927, a self-employed enterprise, Kayaba Seisakusho, was established for manufacturing hydraulic dampers, catapults, etc. for aircraft.

In March 1935, Kayaba Manufacturing Co., Ltd. was established.

After the end of World War II, in June 1956, Kayaba Auto Service Co., Ltd. was established for offering products and services.

In October 1959, company’s stocks were listed on the Tokyo Stock Exchange.

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In July 1974, KYB Corporation of America was established in the United States in order to enter the North American commercial market. Then, the company actively entered foreign markets such as Asia and Europe.

In October 1985, the company name “Kayaba” was changed from kanji (Chinese characters) to katakana (Japanese Characters).

In October 2015, the trade name was changed from Kayaba Manufacturing Co., Ltd. to KYB Corporation in order to further strengthen the brand image.

【2-2 Corporate Philosophy / Management Philosophy】

◎KYB Corporate Symbol

As they changed the corporate name from "Kayaba Manufacturing Co., Ltd." to "KYB Corporation" in 2015, they aim to popularize the KYB brand on a global basis.

Therefore, as shown below, the logo “KYB” has the meaning and spirit



(Logo Meaning)

Slanted slits in each letter represent comfortable sunlight cast through the trees and sunbeams illuminating the road ahead. The logo represents an image of unconstrained growth and flexible response to the trends of the era. The right side of the letter “B” represents liquid pressure indicating the origin of KYB. Using italic letters expresses a sense of speedy movement, progressiveness, growth potential, innovativeness.

(What the corporate color means)

The corporate color, red stands for love, enthusiasm and passion, etc. and it gives the image of a sun’s warmth, heat and power to grow life that realize an epoch-making society. Red is also a positive color, and represents manufacturing that goes the extra mile.

(Taken from KYB’s website)

◎Corporate Statements

Our Precision, Your Advantage

The characteristics of products such as precise quality and reliable technology are expressed with the statement.

It means that not only providing reliable quality to general consumers and business partners leads to stakeholders’ “advantage (superiority)”, but also the joy of manufacturing, which enables each employee to realize that they can change the world with sure quality, becomes “advantage (merit).”

◎Corporate Spirit

As a KYB group that contributes to society by providing technologies and products that make people's lives safe and comfortable, they have the following management philosophy and management vision.

(Corporate Spirit)

We shall build a corporate culture full of vitality, and hold high goals.
We shall value sincerity, cherish nature, care for the environment.
We shall constantly pursue creativity, contribute to the prosperity of customers, shareholders, suppliers and society.

(Management Vision)

Human Resources Development	To cultivate the talent to achieve the objectives with a thorough understanding of the principles and the strategy.
Technology and product development	To provide products that are impressive, comfortable and reliable to customers throughout the world.
Monozukuri (Manufacturing expertise)	To make our plants enjoyable, dynamic places to work, and at the same time full of discipline based on the field priority doctrine, in order to produce products satisfactory to the customer.
Management	Always keep social responsibilities of the corporation in mind and provide efficient group management.

【2-3 Environment Surrounding the Company】**(1) Market Environment**

The automobile market and the construction machinery market have a great effect on KYB's performance.

KYB recognizes the current and future situations of the two markets as follows.

①Automobile Market

* Although the global demand for automobiles is uncertain due to the intensifying trade war of the U.S. and the Brexit negotiations, the global economy is expected to grow further due to growth prospects.

* Domestic car sales may experience a rapid increase in demand before the consumption tax hike.

* The commercial market is expected to expand mainly in emerging countries.

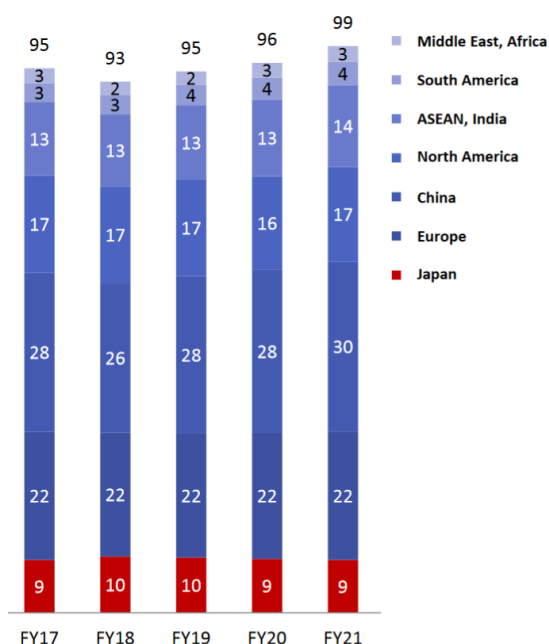
KYB supplies shock absorbers (SA) for new vehicles directly to automobile manufacturers as Tier 1, and also supplies them to auto parts stores, repair shops, etc. through agencies for aftermarket as well.

The company calls the former "OEM" and the latter "marketed".

Japanese cars are popular in Asia, the Middle East and others, and the commercial market is important for KYB.

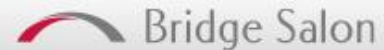
Automobile Production Forecast

(Million units)



(Taken from the reference material of KYB)

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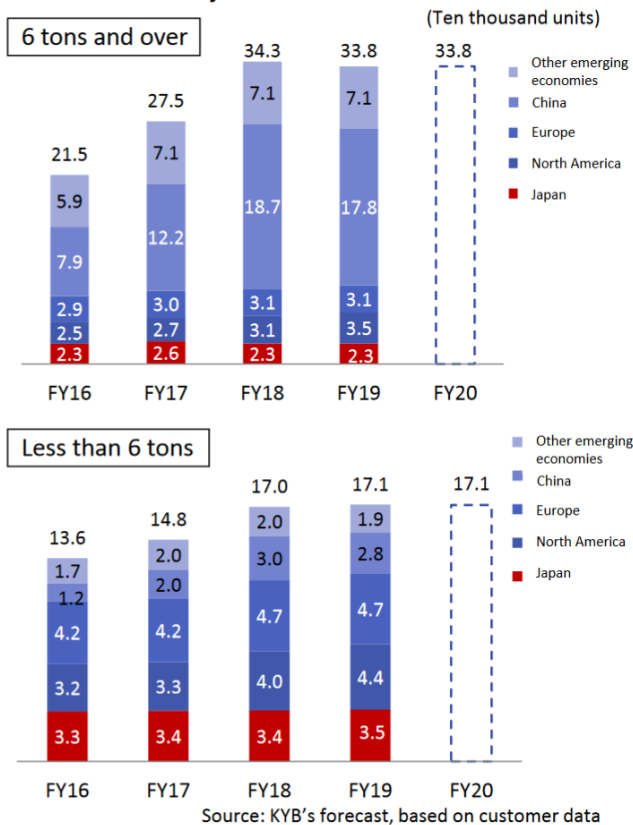


②Construction Machinery Market

- ◇The Chinese market is projected to be unchanged from the previous year.
- ◇In the European and U.S. markets, the demand for small-sized excavators as urban construction machinery is strong.
- ◇The Indian market is growing, thanks to the active investment in infrastructure

The company expects that the demand for excavators weighing 6 tons or more will remain strong and the market of excavators weighing less than 6 tons will keep growing healthily.

Demand for Hydraulic Excavators Forecast



(Taken from the reference material of KYB)

(2) Competitors

①AC Business

KYB's domestic competitors include Showa Corporation (7274, TSE 1st section), 33.4% of whose shares are held by Honda, and Hitachi Automotive Systems, Ltd. (unlisted), a group company of Hitachi.

Its global competitors consist of ZF in Germany, Tenneco in the U.S., and so on. ZF has a long history and intimate relationships with European automobile manufacturers.

The company's share in the commercial product market is slightly less than 20%. Tokico (which was acquired through M&A by Hitachi and is unlisted; today it is one of the brands of Hitachi Automotive Systems) and Monroe (a commercial brand of Tenneco) have earned a large market share in Japan and globally, respectively.

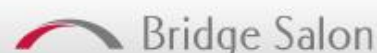
KYB competes with Showa, which is closely related to Honda, in the market of shock absorbers for motorcycles, and with JTEKT Corporation (6473, TSE 1st section) and NSK Ltd. (6471, TSE 1st section) in the steering market.

②HC Business

In the market of cylinders, which are the parts with the highest sales ratio in KYB, Chinese manufacturers and the like are extending their influences.

KYB's competitors include Nabtesco (6268, TSE 1st section) in the market of control valves for which KYB has the advanced

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technology, and Nabtesco and Nachi-Fujikoshi (6474, TSE 1st section) in the market of travel motors.

In addition, the largest construction machinery manufacturer in Japan manufactures a number of parts internally.

Code	Corporate name	Sales	Growth rate	Operating income	Growth rate	Operating income rate	ROE	Market cap	PER	PBR
5994	Fine Sinter	41,000	+1.2%	2,300	+34.0%	5.6%	4.9%	9,666	8.8	0.6
6268	Nabtesco	313,000	+6.2%	30,000	+37.1%	9.6%	12.1%	354,128	15.3	2.0
6471	NSK	945,000	-4.7%	63,000	-20.5%	6.7%	10.4%	502,756	10.4	0.9
6473	JTEKT	1,530,000	+0.6%	70,000	+5.1%	4.6%	4.6%	419,495	10.5	0.8
7212	F-Tech	218,000	-7.4%	6,000	-8.8%	2.8%	6.9%	14,090	5.6	0.3
7242	KYB	410,000	-0.5%	20,600	-6.4%	5.0%	-15.0%	73,846	5.2	0.5
7274	SHOWA	276,000	-3.7%	27,000	-10.4%	9.8%	18.2%	106,656	6.3	0.9

*The sales and growth rates are forecasts for this term estimated by the company with the unit being million yen. ROE is the results from the previous term.

The aggregate market capitals are the closing price on June 5 with the unit being million yen. PER (estimates) and PBR (results) are based on the closing price on June 5 with the unit being times.

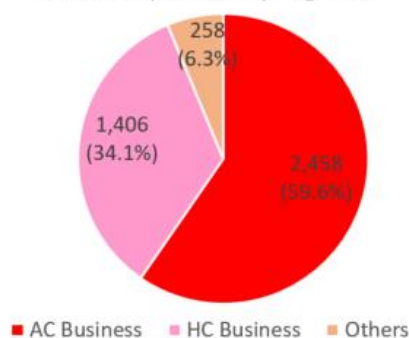
The operating income of KYB is segment profit (calculated by subtracting cost of sales and SG&A from sales.)

【2-4 Business contents】

(1) Segments

KYB's business segments are composed of the following three segments: the "AC Business" consisting of hydraulic shock absorbers for automobiles and motorcycles, power steering, etc., the "HC Business" including hydraulic equipment for industrial use mainly for construction machinery, and the "Others" segment which handles special purpose vehicles such as concrete mixer trucks, aircraft components, seismic isolation/mitigation oil dampers for buildings, electronics, and the like.

Sales Composition by Segment



*FY Mar. 2019.

Sales to external customers. Unit: 100 million yen.

①AC (Automotive Component) Business

This segment consists of shock absorbers for automobiles and motorcycles, hydraulic equipment for automobiles, and other products.

Composition ratio for the term ended Mar. 2019

Product	Sales	Composition ratio	Major products
Shock absorbers for automobiles	1,697	69.0%	Shock absorbers
Shock absorbers for motorcycles	291	11.8%	Front forks, rear cushion units
Hydraulic equipment for automobiles	421	17.1%	Vane pumps, CVT pumps, EPS
Others	50	2.0%	Shock absorbers for ATVs, Stay dumpers
Total	2,458	100.0%	-

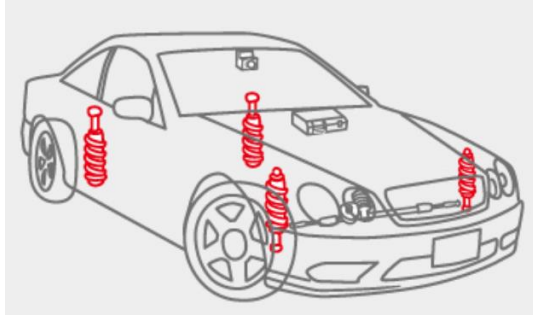
*unit: 100 million yen

<Major Products>

◎ Automobiles

(Shock absorbers)

A shock absorber is a device that absorbs vibration of the car body, being mounted between the body and the tires together with a spring.



(Taken from KYB's website)

Each automobile is equipped with a “suspension” which is the system that improves riding comfort and operational stability.

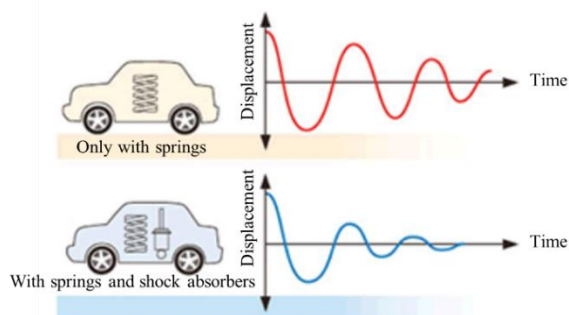
Suspensions have two main functions; one is, as buffers, to prevent transmission of rough road profiles to the car body and another is to set the position of the wheels and axles and press the wheels down on the roads.

Basically, a suspension is composed of a suspension arm which fixes the wheel position, a spring which supports the car weight and absorbs vibration, and a shock absorber (damper) which dampens vibration of the spring

Automobiles absorb shock caused by uneven road profiles by contracting the springs, but due to their characteristics, the springs rebound to get back to their original position after the contraction.

The top of a spring is connected to the car body and the bottom is coupled with a suspension that includes the heavy tires and brake, which results in, due to inertia, repetition of expansion and contraction of a spring in a range wider than one necessary for returning to its original position.

The role of shock absorbers is to reduce the above-mentioned excess vibration as soon as possible in order to stabilize the car body.



(Taken from KYB's website)

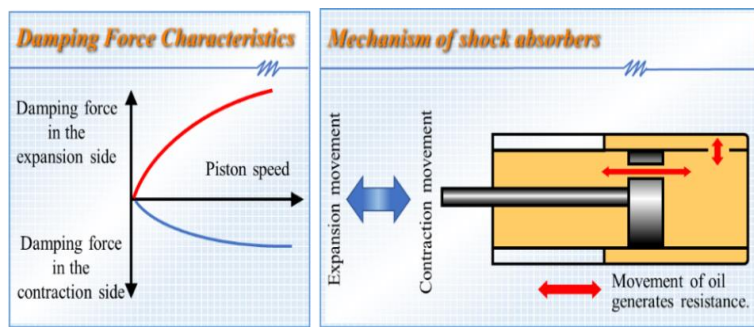
The vehicle in which the shock absorber is functioning properly achieves the following:

- Reduction in unnecessary movement of springs to secure riding comfort
- Improvement of the brake performance
- Smoothness in taking corners

The force that controls expansion and contraction of springs and reduce vibration is called “damping force.” The “hydraulic technology,” which KYB has cultivated and improved since its inauguration, plays a significant role in generating “damping force.”

The tube of a shock absorber contains oil with a piston moving in it.

A piston has holes through which oil passes when the piston moves following vibration, and the resistance of the oil generates “damping force.” In addition, the moving speed of pistons varies with the degree and velocity of vibration from the car body, and the faster a piston moves, the larger “damping force” becomes. This is called “damping force characteristics.”



(Taken from KYB's website)

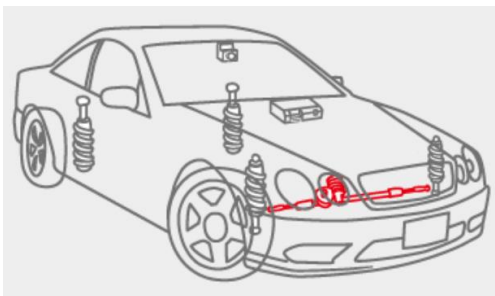
KYB's shock absorbers developed based on its sophisticated technology has earned reputation from a number of automobile manufacturers worldwide, leading to the large market share as mentioned below.

Furthermore, it is said that shock absorbers usually need to be replaced after 5 years from the date of first registration or when the travel distance reached 100,000 km as they deteriorate due to various factors including travel distance and lapse of time and the function decreases.

This replacement demand, which in other words is the commercial product market, is one of the greatest business opportunities for the company.

(Steering)

It is the steering system that provides "the function of taking curves," one of the three basic functions of automobiles including "driving," "taking curves," and "stopping."



(Taken from KYB's website)

KYB's steering components include the "hydraulic power steering (PS)" that uses the hydraulic power assist unit to support turning of the steering wheel done by drivers and steer the tires, and the "electric power steering (EPS)" that uses the electric power assist unit composed of a motor, a controller, a torque sensor, etc. to support turning of the steering wheel and steer the tires.

The "PS" enables steering operation by a mere movement thanks to hydraulic force and is an indispensable component for safe driving because of its ability to expeditiously avert risks, whereas the "EPS" whose power source is a battery improves fuel efficiency compared to the "PS" whose power source is the engine of a car.

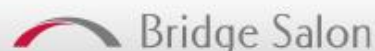
*High-performance EPS actuator



*Hydraulic power steering vane pump for passenger vehicles



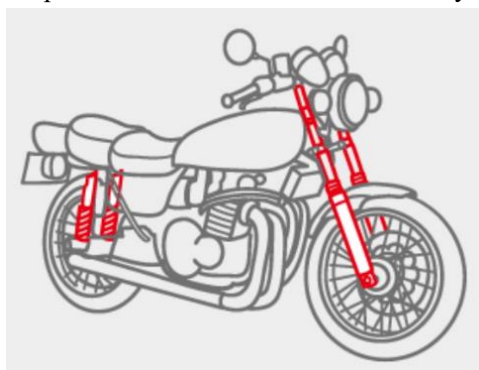
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◎ Motorcycles

(Suspensions)

Suspensions minimize shock to the car body regardless of road surface conditions, pursuing comfort.



(Taken from KYB's website)

*Rear cushion unit (RCU)

The company's RCUs boost riding comfort by maintaining the posture of vehicles and absorbing vibration and shock from the road surfaces.



(Taken from KYB's website)

② HC (Hydraulic Components) Business

The HC Business consists of hydraulic equipment for industrial use and other products.

Composition ratio for the term ended Mar.2019

Products	Sales	Composition ratio	Major products
Hydraulic equipment for industrial use	1,323	94.1%	Cylinders, valves, pumps, motors
Others	83	5.9%	Railroad dampers, railroad brakes
Total	1,406	100.0%	-

* unit: 100 million yen

<Major Products>

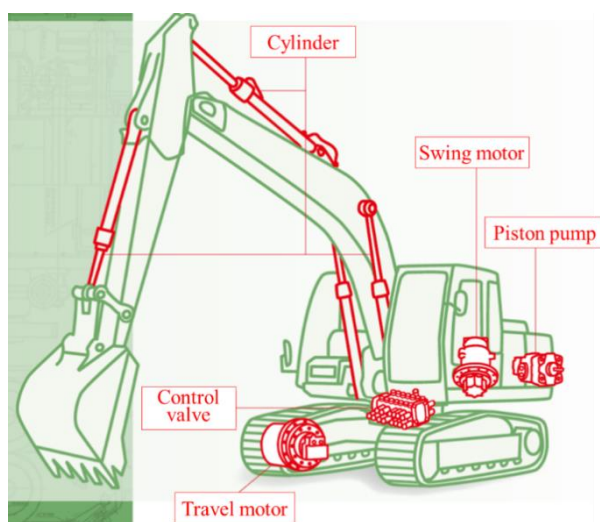
The mechanism of the drive system of construction machinery such as shovels consists of various parts as shown below, including control valves, piston pumps, travel motors, swing motors, and cylinders; it is the control valve, which is the "brain" of construction machinery, that controls a variety of actuators (a drive unit which converts energy to translational or rotary motion through hydraulic pressure and electric motors) to enable smooth movement of driving, turning, and bending and stretching of the arms.

KYB's control valves have realized more advanced control by combining electric control with its special hydraulic technology.

In addition, KYB is one of the few manufacturers that manufacture all of the above-mentioned parts.

KYB's competitive edge is that it can make suggestion to construction machinery manufacturers because it manufactures all kinds of parts as just mentioned.

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*Control valve for shovels

*Travel motor

*Hydraulic cylinder



(Taken from KYB's website)

③Special purpose system, etc. (System products and others)

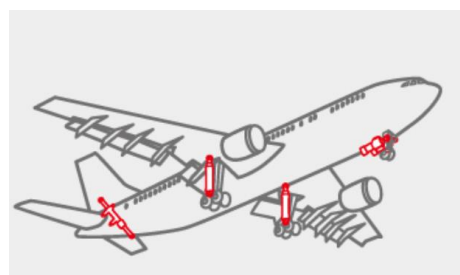
This is composed of special purpose vehicles, hydraulic equipment for aircraft, system products, electronics, and such.

Composition ratio for the first half of the term ending Mar. 2019

Products	Sales	Composition ratio	Major products
Special purpose vehicles	91	35.4%	Concrete mixer trucks
Hydraulic equipment for aircraft	56	21.8%	Actuators, wheels, brakes
System products and electronic components, etc.	110	42.8%	Oil dampers for seismic isolation and vibration suppression, stage equipment, communication terminals
Total	258	100.0%	-

* unit: 100 million yen

KYB's concrete mixer trucks have high mixing and emission performance, accounting for about 80% of the domestic market share. It offers highly-reliable products for aircraft, including various actuators, weight-saving accumulators, and wheel brakes.



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**(2) Clients and sales channels****◎Clients**

The following is a list of KYB's major clients.

Its shock absorbers are mounted on about 60% of automobiles manufactured by Toyota globally. They are also adopted to about 30% and about 10% of automobiles manufactured by Nissan and Honda, respectively, contributing to KYB's large market share.

	Japanese company	Non-Japanese company
AC Business	Toyota Motor Nissan Motor JATCO Yamaha Motor SUBARU Suzuki Motor Mitsubishi Motors Isuzu Motors Honda Motor Daihatsu Motor Hino Motors	PSA Renault Volkswagen Daimler Chrysler
HC Business	Hitachi Construction Machinery Sumitomo Construction Machinery Kubota Kobelco Construction Machinery Takeuchi Mfg Yanmar Komatsu Forklift	Caterpillar Trasmital Bonfiglioli Doosan Sany

◎Sales channels

As previously mentioned, KYB supplies its shock absorbers through 2 sales channels including the OEM production system for new vehicles and sale on the market for used vehicles.

Although sales of OEM products are higher, its commercially-available products sold as its private brand show great profitability and thus the company will expand the business to the global markets.

KYB's commercially-available shock absorbers can be mounted on about 90% of Japanese, American, and European automobiles used worldwide today. What is behind such a high coverage rate is the strong relationships KYB has with major automobile manufacturers including Toyota.

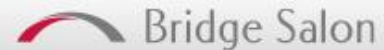
(3) Global network

In 24 countries worldwide including Japan, KYB has 48 group companies, establishing strong global networks.

	No. of Countries	No. of group companies
Japan	1	13
Asia	7	18
Europe	12	8
America	3	7
Total	23	46

(As of the end of Mar.2019).

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(4) Research and Development

(Structure)

KYB has established a global and optimum research and development (R&D) structure by setting R&D bases in 5 regions including Japan, North America, Europe, China, and Thailand.

While the R&D bases in regions other than Japan basically engage in development of model products and development for enhancing product appeal such as performance improvement and cost reduction, R&D from the long-term perspectives are carried out mainly in Basic Technology R&D Center (Sagamihara-shi, Kanagawa) and Production Technology R&D Center (Kani-shi, Gifu) in Japan and R&D of highly unique prior art, etc are performed.

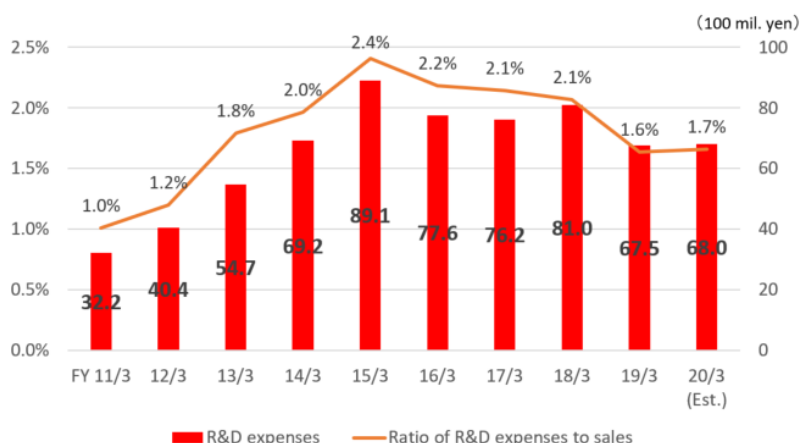
In addition, the know-how about production equipment designing which has been cultivated in Production Technology R&D Center and each plant is gathered in Machine Tools Center (Kani-shi, Gifu) in order to strengthen and propel internal manufacturing of equipment, jigs, and tools for which KYB has strived to boost innovative spirit and reliability.

In Electronics Technology Center (Sagamihara-shi, Kanagawa), a system that collects technologies for designing and evaluating electronics, increases development capabilities, and conducts a series of processes ranging from product development to prototype evaluation and mass production in a smooth and prompt manner has been established.

Regarding high-functionality and systematization of its products, KYB, in addition to independent development, propels joint research and development with its clients or related equipment manufacturers. The company is also endeavoring proactively to developing advanced technology through industry-academia collaboration.

(Variation in R&D expenses)

Since the term ended Mar. 2013, the company has raised its awareness about the ratio of R&D expenses to sales, maintaining the ratio at about 2%.



(Area of focus)

KYB is propelling the development of products by dealing with performance improvement, high functionality, and systematization and considering eco-friendliness with respect to energy and environmental issues through weight saving, energy saving, reduction in environmentally hazardous substances. At the same time, it is striving to strengthen its production technology capabilities.

In addition, following the accelerated globalization, it aims to set up a strategic and global production, sales, and technological structure, including development of human resources with global outlooks and establishment of a standardized management system.

Lately, the company has focused on product development related to autonomous driving systems.

One example is the technology that integrates EPS (electronic steering) and shock absorbers.

KYB considers that the technology, which enables more comfortable and smoother driving in any road surface conditions independently of the drivers' skills and judgment, is definitely indispensable for automobiles with the autonomous driving system.

Furthermore, KYB deems the "steering by wire" system is another technology whose importance will grow in the future.

In the conventional steering operation, movement is transmitted to the steering gear box and tires through the steering shaft, whereas the "steering by wire" system conveys steering movement via electronic signals.

Some of the system's advantages include the capability of relieving drivers' fatigue due to less vibration from the tires, and the capability of automatically adjusting sideslips of the car body due to strong winds which conventionally needed to be adjusted through an intentional steering operation by drivers. In addition, thanks to the "steering by wire" system, the steering wheel may not necessarily be mounted on the right front of a car, and therefore, the system's potential for considerably changing the way automobiles are, including the design and functions, has attracted much attention.

Although several issues still exist, KYB is further brushing up the system as its unique EPS technology.

【2-5 Characteristics and strengths】**◎ Large shares in various product markets**

KYB has earned a large market share of multifarious products, with the domestic share of OEM shock absorbers for automobiles being 40% and its global share being 15%, the global share of hydraulic cylinders for construction machinery being 31%, the domestic share of concrete mixer trucks being 79%

◎ Superior core technology

Such large market shares are attributed to the great trust in its products from clients as indicated by the fact that KYB has about 60% share on a global basis in Toyota Motor which vies with Volkswagen and GM for the position of the world's largest automobile manufacturer. The basis of the clients' trust is nothing else but the superior "hydraulic" technology that KYB has cultivated and enhanced for the past 100 years since its foundation.

KYB's two core technologies, the "vibration control technology" represented by its shock absorbers and oil dampers for seismic isolation and vibration suppression and the "power control technology" typified by its control valves for shovels and electric power steering, have gained high reputation from clients and thus are used in diverse circumstances.

【2-6 Shareholder return】

Aiming for a consolidated payout ratio of 30% or higher, it decided that dividends shall be distributed basically at the annual DOE of 2% or higher. This means that dividends will be paid stably at DOE of 2% when the business performance is sluggish, whereas shareholder return will be made depending on profit when the business performance is healthy.

【2-7 ROE analysis】

	FY 3/16	FY 3/17	FY 3/18	FY 3/19
ROE (%)	-2.0	9.3	8.8	-15.0
Net income margin [%]	-0.89	4.09	3.87	-6.01
Total asset turnover [times]	0.95	0.96	0.99	0.97
Leverage [times]	2.35	2.37	2.30	2.59

3. Fiscal Year March 2019 Earnings Results

(1) Overview of consolidated results

	FY3/18	Ratio to sales	FY3/19	Ratio to sales	YOY	Previous forecast
Sales	393,743	100.0%	412,214	100.0%	+4.7%	416,000
Gross profit	80,932	20.6%	82,115	19.9%	+1.5%	-
SG&A expenses	57,983	14.7%	60,104	14.6%	+3.7%	-
Segment profit	22,949	5.8%	22,010	5.3%	-4.1%	21,300
Operating profit	20,885	5.3%	-28,496	-	-	-12,000
Profit before taxes	20,881	5.3%	-29,510	-	-	-
Net income	15,202	3.9%	-24,757	-	-	-10,000

* unit: million yen

*Segment profit corresponds to the operating income in the Japanese standard. Net income is profit attributable to owners of the parent

*The previous forecast was announced in Feb. 2019. From the first quarter of FY3/19, "Loyalty income" and "Income related to compensation for metal molds" which were recorded in "Other incomes" on P/L have been changed to be recorded in "Sales." The same applies to the figures of the FY3/18.

Sales grew, marking a record high, but a loss was posted due to a provision for product warranties related to nonconforming acts for seismic isolation/mitigation oil dampers.

Sales were 412.2 billion yen, up 4.7% year on year. Both the AC and HC business saw the growth in quantity sold and sales. Especially, the sales of the HC business increased as the construction machinery market was thriving.

Segment profit dropped by 4.1% year on year to 22 billion yen. The profit of the AC business declined due to the deficit in Brazil, and the profit growth of the HC business was slight due to the cost augmentation caused by the increase in production output.

Operating loss, loss before taxes, and net loss were 28.5 billion yen, 29.5 billion yen, and 24.8 billion yen, respectively. The company posted a loss related to the U.S. antitrust law amounting to 4.3 billion yen and a provision for product warranties related to nonconforming acts for seismic isolation/mitigation oil dampers amounting to 35.1 billion yen.

(2) Trend in each segment

Sales	FY 3/18	Composition ratio	FY 3/19	Composition ratio	YoY
AC business	2,437	61.9%	2,458	59.6%	+0.9%
HC business	1,228	31.2%	1,406	34.1%	+14.5%
Others	272	6.9%	258	6.3%	-5.3%
Total	3,937	100.0%	4,122	100.0%	+4.7%
Segment profit					
AC business	106	4.3%	98	4.0%	-7.5%
HC business	113	9.2%	119	8.5%	+5.3%
Others	10	3.7%	3	1.2%	-70.0%
Total	229	5.8%	220	5.3%	-4.1%

* unit: 100 million yen

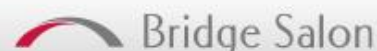
*The composition ratio for income is an income margin.

① AC Business

Product	Sales	Composition ratio	YoY
Shock absorbers for automobiles	1,697	69.0%	+4.0%
Shock absorbers for motorcycles	291	11.8%	-3.2%
Hydraulic equipment for automobiles	421	17.1%	-8.0%
Others	50	2.0%	+2.0%
Total	2,458	100.0%	+0.9%

* unit: 100 million yen

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Region	Sales	Composition ratio	YoY
Japan	726	29.5%	-1.9%
Europe	587	23.9%	+6.0%
America	282	11.5%	-2.8%
China	180	7.3%	+1.7%
Southeast Asia	288	11.7%	+5.9%
Others	396	16.1%	-2.2%
Total	2,458	100.0%	+0.9%

* unit: 100 million yen

Sales quantity increased in Europe, China, etc., but the company saw a decline in profit as well as sales growth, due to the deficit in a Brazilian company, which became a consolidated subsidiary of KYB.

② HC Business

Products	Sales	Composition ratio	YoY
Hydraulic equipment for industrial use	1,323	94.1%	+15.8%
Others	83	5.9%	-2.4%
Total	1,406	100.0%	+14.5%

* unit: 100 million yen

Region	Sales	Composition ratio	YoY
Japan	915	65.1%	+10.4%
Europe	81	5.7%	+39.7%
America	75	5.3%	+13.6%
China	221	15.7%	+33.1%
Southeast Asia	29	2.0%	+11.5%
Others	86	6.1%	+4.9%
Total	1,406	100.0%	+14.5%

* unit: 100 million yen

As the construction machinery market was thriving, sales grew from the previous term. Although the increase in production output caused cost augmentation, the segment profit increased.

(3)Trend in each region

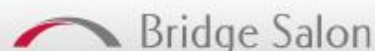
	FY 3/19	Composition ratio	YoY
Japan	1,847	44.8%	+3.4%
Europe	668	16.2%	+9.0%
America	367	8.9%	+1.0%
China	401	9.7%	+16.9%
Southeast Asia	317	7.7%	+6.1%
Others	523	12.7%	-1.9%
Total	4,122	100.0%	+4.7%

* unit: 100 million yen

In China, the construction machinery market was strong, and in Europe, the market for automotive components was strong. In the U.S., performance remains unchanged.

Overseas sales ratio rose from 54.6% to 55.2%.

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**(4) Financial standing and cash flows****◎ Major BS**

	End of Mar. 2018	End of Mar. 2019		End of Mar. 2018	End of Mar. 2019
Current assets	211,554	235,105	Current liabilities	171,643	206,979
Cash, etc.	42,702	56,092	Trade payables	82,695	87,189
Trade receivables	103,881	107,426	Debts	57,098	54,255
Inventories	54,001	59,591	Noncurrent liabilities	54,198	78,451
Noncurrent assets	200,938	205,969	Debts	34,986	44,046
Property, plant and equipment	161,886	161,368	Total liabilities	225,841	285,430
Intangible assets	6,692	7,532	Net assets	186,651	155,643
Other financial asset	24,731	22,983	Retained earnings	114,363	86,536
Total assets	412,493	441,074	Total liabilities and net assets	412,493	441,074

* unit: million yen

* “Cash, etc.” means cash and cash equivalents. “Trade receivables” means trade receivables and other receivables. “Trade payables” mean trade payables and other payables

Current assets increased 23.6 billion yen from the end of the previous fiscal year due to the increase in cash, etc. and trade receivables. Noncurrent assets rose 5 billion yen from the end of the previous term due to the increase in deferred tax assets. Consequently, total assets increased 28.6 billion yen to 441.1 billion yen.

Current liabilities augmented 35.3 billion yen from the end of the previous term, due to the increase in trade payables. Noncurrent liabilities grew 24.3 billion yen from the end of the previous term due to the increase in debts, and total liabilities increased 59.6 billion yen to 285.4 billion yen. Net assets dropped by 31 billion yen from the end of the previous term to 155.6 billion yen, due to the decrease in retained earnings, etc.

As a result, the ratio of equity attributable to owners of parent decreased by 9.8 points from 43.7% to 33.9%.

◎ Cash Flow

	FY3/18	FY3/19	Increase/decrease
Operating CF	29,252	17,047	-12,205
Investing CF	-16,386	-13,616	+2,770
Free CF	12,866	3,431	-9,435
Financing CF	-4,482	10,418	+14,900
Cash and equivalents	42,702	56,092	+13,390

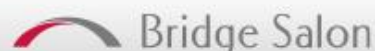
* unit: million yen

The surplus of operating CF shrank due to the posting of pretax loss, etc. The deficit of investing CF decreased due to the increase in sales by selling property, plant and equipment. Although the surplus of free CF decreased, it remained positive. Financing CF became positive due to gains from sale and lease-back transactions. The cash position significantly improved.

4. Fiscal Year March 2020 Earnings Estimates**(1) Full-year earnings forecast**

	FY 3/19 Results	Ratio to sales	FY 3/20 Forecast	Ratio to sales	YoY
Sales	4,122	100.0%	4,100	100.0%	-0.5%
Segment profit	220	5.3%	206	5.0%	-6.4%
Operating profit	-285	-	194	4.7%	-
Net income	-248	-	140	3.4%	-

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* unit: 100 million yen

*The forecast was announced by the company. Segment profit corresponds to the operating income in the Japanese standards.

*Net income is profit attributable to owners of the parent.

Both sales and profit decline are forecasted due to the appreciation of yen.

The sales for the term ending Mar. 2020 are expected to be unchanged from the previous term, standing at 410 billion yen. While the sales of the HC business are expected to grow, the sales of the AC business are projected to drop. The segment profit is forecast to decrease by 6.4% year on year to 20.6 billion yen. Profits of both the AC and HC businesses are expected to drop. As there is no longer provision for product warranties or impairment loss for this term like the previous one, operating profit is expected to be 19.4 billion yen. The yen appreciation is expected and the assumed exchange rates (average rates) are 1 US dollar = 105 yen, while 1 US dollar = 110.91 yen in the previous term. With regard to euro, the assumed exchange rates are 1 euro = 122 yen, while 1 euro = 128.40 yen in the previous term.

(2) Trend in each segment

Sales	FY3/19 Results	Composition ratio	FY3/20 Forecast	Composition ratio	YoY
AC Business	2,458	59.6%	2,405	58.7%	-2.2%
HC Business	1,406	34.1%	1,423	34.7%	+1.2%
Others	258	6.3%	272	6.6%	+5.4%
Total	4,122	100.0%	4,100	100.0%	-0.5%
Segment profit					
AC Business	98	4.0%	84	3.5%	-14.3%
HC Business	119	8.5%	116	8.2%	-2.5%
Others	3	1.2%	6	2.2%	+100.0%
Total	220	5.3%	206	5.0%	-6.4%

* unit: 100 million yen

*The composition ratio for profit is the income margin.

*AC Business

Product	Sales	Composition ratio	YoY
Shock absorbers for automobiles	1,730	71.9%	+1.9%
Shock absorbers for motorcycles	288	12.0%	-1.0%
Hydraulic equipment for automobiles	329	13.7%	-21.9%
Others	59	2.5%	+18.0%
Total	2,405	100.0%	-2.2%

* unit: 100 million yen

* HC Business

Products	Sales	Composition ratio	YoY
Hydraulic equipment for industrial use	1,341	94.2%	+1.4%
Others	82	5.8%	-1.2%
Total	1,423	100.0%	+1.2%

* unit: 100 million yen

As for the AC business, it is forecast that sales and profit will decline, as sales of hydraulic equipment for automobiles are expected to decrease and the yen appreciation is assumed.

As for the HC business, it is projected that sales and profit will be nearly unchanged from the previous fiscal year, as the strong demand is expected to remain mainly in the Chinese market.

5. Progress in the 2017 mid-term management plan

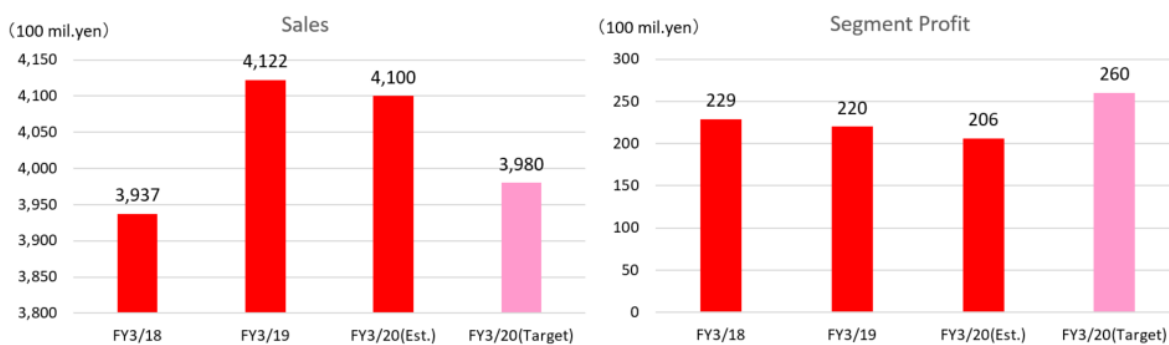
(1) Review on the past two years

As for achievements, the company insisted that they have successfully released products with high added value for automobiles to the market of the AC business, and have also seen the prospect of the transfer and integration of product lines for construction machinery in the HC business.

On the other hand, with regard to points that require improvement, the company acknowledges the fact that the restructuring of unprofitable businesses has been delayed and profitability has not yet improved, and the delay in production in response to growing demand for construction machinery which has far exceeded expectations.

In addition, nonconforming acts related to the seismic isolation/mitigation oil dampers for buildings, which were revealed last year, have caused a significant impact on corporate activities.

Progress in numerical terms is as follows. Sales for this term, which is the final fiscal year for the plan, are expected to exceed the goal, while segment profit is not projected to reach it. As for ROE, the estimated value is 8.4% while the goal for the term ending Mar. 2020 is 10%. Improvement of profitability and capital efficiency remains to be achieved.



* FY3/20 target was announced in May 2017.

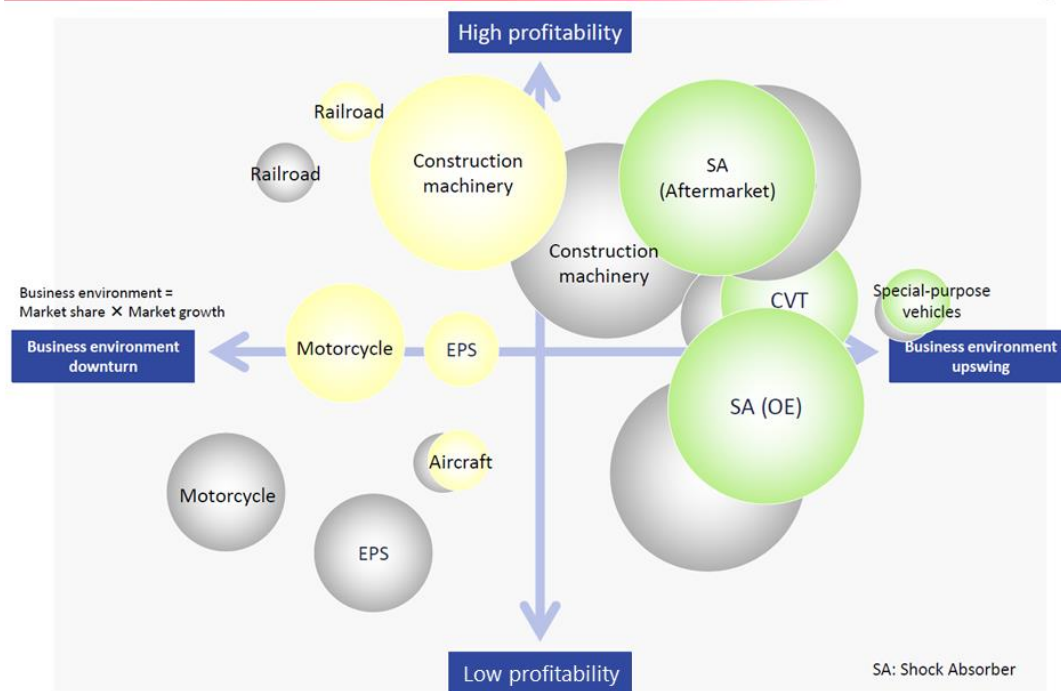
(2) Basic policies for fiscal 2019

Under these circumstances, this term, which is the final fiscal year for the 2017 mid-term management plan, has the following basic policies, and the company considers this term to be a year to “overcome the painful reforms and realize a profitable structure.”

- * Thoroughly diffuse corporate culture that prioritizes compliance and safety
- * Quickly adapt seismic isolation/mitigation oil dampers for buildings
- * Determine unprofitable businesses and bases to discontinue, work on restructuring and integration, specialize in core business
- * Develop new competitive products, and promote innovative manufacturing

As for the next mid-term management plan, the company aims to develop products mainly in fields with high profitability and a favorable business environment (high market share x significant growth) in the AC business, and plans to improve profitability in the HC business.

Ideal Status: Next Mid-term Management Plan



(Taken from KYB's website)

(3) Activities in each business

(3-1) AC business

The company engages in the following activities, under the mid-term policy of “getting on a growth track by integrating and dismantling business footholds according to the change of regions where clients demand products, developing products with high added value, and promoting their sales.”

* Completion of drastic structural reform

The company aims for an optimal layout that matches its strategies for markets, customers, and business.

- Business restructuring in Europe: Reorganize business in each base in order to maximize profits in Europe.
- Two-wheel business: Integrate the business in an optimal production base in order to maximize global profits.
- EPS business: Reorganize business to improve profitability, in collaboration with Hubei Henglong in China, with which the company formed an alliance in order to enter the Chinese market.

* Stabilization of the revenue base

The company is making efforts to enhance productivity by unifying the global specifications of shock absorbers for mass retailers and achieving innovative manufacturing.

In order to increase productivity through innovative manufacturing, it is indispensable to develop a production system which does not rely on manpower, as personnel expenses are augmenting in emerging countries.

To work towards the goal, the company has built a road map, which is divided into four phases from the first phase to the final phase. By fully utilizing IoT and AI, the company plans to begin with development of innovative production lines, and then establish the lines inside and outside Japan, enhance automation levels, and achieve fully automated operation in the final period in order to reduce processing costs by 30%.

* Sustainable growth

The company plans to keep developing products with high added value and expanding sales, as well as receiving orders and enhancing sales of products for SUV/EV/pickup truck vehicles that are growing.

As for products with high added value, products such as electronically controlled suspensions obtained high marks for receiving a project award from Toyota.

Based on these achievements, the company is actively promoting their products not only in Japan, but also globally. They focus on promoting premium cars in Europe, and SUVs and EVs in China and North America in order to increase the number of orders they receive.

(3-2) HC business

Under the mid-term policy of “securing stable sales and profit that are not affected by market fluctuations,” the company will enhance sales promotion in growing markets into which the company has not yet made inroads based on shovels.

*** Completion of drastic structural reform**

As for the ongoing transfer of the manufacturing lines for control valves for medium-sized shovels, the process is scheduled to be finished in Oct. 2019 as planned. With regard to the integration of motor products in Sagami Factory, the layout for restructuring in China Factory, etc. was determined, and the company started them. The integration and restructuring are scheduled to be finished in Sept. 2020.

Sales and profit of products related to the ongoing transfer and integration are expected to see a significant increase, up 47% and 55% respectively, for the term ending in Mar. 2022.

The company also expects to increase production capacity and productivity by establishing an integrated casting and processing/assembly line, improve efficiency and reduce cost by abolishing transportation between factories, returning a rental factory, etc.

In addition, by integrating the bases for production and development, the period of development can be shortened, and improvement of competitiveness and capabilities of products can be expected.

*** Stabilization of the revenue base**

As local and foreign-affiliated companies in the Chinese market are making rapid progress, the company actively promotes sales and receives an increasing number of orders from these manufacturers.

In addition, with regard to compact and large-sized shovels whose demand is expected to remain strong, the company is aiming to establish a structure which is less susceptible to market fluctuations by improving production capacity to maintain a high market share, etc.

***Sustainable growth**

Activities to promote sales of products in markets other than the construction machinery market are ongoing.

6. Conclusions

As the problem related to the Ministry of Defense emerged in addition to the matter regarding the seismic isolation/mitigation oil dampers, the company cannot deny that cost may increase further, and investors probably have no choice but to just keep an eye on the situation. However, the segment profit which indicates earnings of the mainstay business has been consistently over 20 billion yen since fiscal 2017. As the transfer of the manufacturing lines for control valves for medium-sized shovels in the HC business is scheduled to be finished this term and the integration and restructuring of motor products are also scheduled to be finished next term, profitability is expected to increase steadily from now on. As the yen is expected to get stronger, sales and profits are forecast to decrease this term. However, it is noteworthy how the company accumulates results in the one year before the next mid-term management plan.

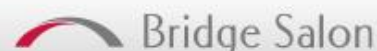
<Reference 1: 2017 Midterm Management Plan>

KYB has formulated a 3-year mid-term management plan with the year 2017 (the term ending Mar. 2018) being the first fiscal year and the year 2019 (the term ending Mar. 2020) being the final fiscal year and the plan is ongoing.

(1) Numerical goals

Under the slogan of “A GLOBAL KYB – CHALLENGE & INNOVATION –,” KYB is striving to “complete drastic structural reform” in FY2017 and will make efforts to realize “sustainable growth,” “stabilization of the earning base,” and “solving managerial issues” in

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FY2018 and 2019. The company will aim to achieve sales of 500 billion yen in the group companies as a whole and earn the rating “A” as soon as possible after fiscal 2020.

(2) Vision for each business

① AC Business

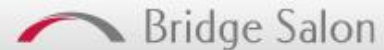
Mid-term policy	Draw a growth path by reorganizing bases to follow shifts of areas of demand by clients and developing and expanding sales of products with high added value Acceleration through introduction of a department system (suspension, steering, and motorcycle departments)
Priority efforts	◇Optimum layout and enhancement of capacities in conformance with the markets and the business strategies of clients Enter emerging markets and review the existing bases. ◇Development and expansion of sales of high-value added products by taking advantage of the electronic technology Expand sales of electronic control suspensions for automobiles, and develop electronic control suspensions for motorcycles. ◇Cost reduction in the existing products by introducing an innovative line

KYB aims to increase the number of shock absorbers sold to 88 million (OEM products and commercially-available products account for 68% and 32%, respectively) for fiscal 2020 from 72 million (OEM products and commercially-available products account for 70% and 30%, respectively) in the previous term.

Points are as follows:

SA (OEM)	Make profit constantly through sale of shock absorbers, the backbone of the AC business (Policies) <ul style="list-style-type: none"> • Increase the customer satisfaction level by strengthening the 5-region development structure • Enhance capacities in areas of demand • Put high-value added products on the market • Maintain and increase competitiveness mainly through development and introduction of an innovative line
SA (commercially-available)	Certainly fulfill the FY2020 goal of sales of 28 million shock absorbers (Policies) <ul style="list-style-type: none"> • Strengthen capacities in areas with thriving markets by setting up distributors • Develop and introduce new SA apps for popular vehicle models • Develop and introduce apps for peripherals of SAs • Endeavor to attain the goal mainly by hedging exchange rate risks through promotion of local production and consumption of coil springs, etc.
SA Innovative monozukuri(manufacturing)	Accelerate global development of innovative manufacturing With a concept of dealing with the declining birthrate and stabilizing the product quality, endeavor to enhance the overall productivity and automation by 25% and 75%, respectively, through automatic welding, assembly, and inspection, compact coating equipment, etc.
Motorcycles	Optimize excess capacities to realize a business entity that can make profit through development and production innovation Strengthen the businesses in India, Vietnam, and Indonesia, and reorganize the business structures in China and Thailand.
System products	Strengthen development of high-value added system products Strive to meet the needs for electronic control suspensions and autonomous driving system in anticipation of the trend in fiscal 2020 and the subsequent fiscal years.

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② HC Business

Mid-term policy	Secure stable sales and profit that are independent of market changes With shovels placed on the core, strengthen sales increase in growing markets where KYB has not yet fully shown its presence
Priority efforts	◇Establishment of an optimum production system Certainly make profit by developing control valves and reorganizing the production system. ◇Sales increase in the markets of agricultural machinery, railroad equipment, and other fields Strive to expand sales through product strategies and development that satisfy the demand of each region.

Points are as follows:

Establishment of an optimum production system	Change to a corporate structure with greater profitability through the integrated line using the capacity of its corporate group (Policies) ▪ Establish an integrated line for control valves. A 15% increase in productivity and discontinuation of transportation between plants are expected as a new line enables establishment of an integrated production system, ranging from casting to machining and assembly. Integration of production and development bases shortens development periods, from which enhancement of product appeal is expected.
Products for agricultural machinery	Increase sales of products for agricultural machinery through product strategies that meet the needs of each region (Policies) ▪ Japan: Develop electronic products that can deal with automatic control and unmanned driving and system support. ▪ North America: Develop products that satisfy the demand for large capacity. Develop electronic products that can deal with automatic control and driving. ▪ China: Boost the competitiveness of the existing products.
Products for railroads	Endeavor to expand the business through sales increase in overseas markets and new product strategies KYB deems China, India, North America, and Japan as markets to which it must pay attention. (Policies) ▪ China: Expand sales of passive dampers and other products for high-speed (250 – 300 km/h) railway and interurban railway (reduce costs through local production) ▪ India and other regions: Boost sales expansion together with Japan. ▪ Japan: Increase sales of active suspension systems for luxury trains, limited express trains, and next-generation shinkansen (bullet train).

③Other

Points are as follows:

Special purpose vehicle business	Increase sales in the special purpose vehicle business through incorporation of domestic demand, and enhancement of the production structure and technical capacities following the thriving Indian market In India, KYB's strengths are not only the technical aspects, including "the high performance of ready-mixed concrete emission" and "the high driving stability with the low center of gravity when ready-mixed concrete is loaded," but also sales aspects of "trust in Japanese companies."
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<Reference 2: Regarding Corporate Governance>

◎ Organization type and the composition of directors and auditors

Organization type	Company with an audit and supervisory board
Directors	8 directors, including 2 outside ones
Auditors	4 auditors, including 2 outside ones

◎ Corporate Governance Report

Last update date: Dec. 20, 2018

<Basic approach>

In order to respond to the expectations of the stakeholders through realization of sustainable growth and corporate value improvement as well as fulfill the corporate social responsibility of contributing to society, it is our basic approach to pursue the development of a rapid and efficient management structure centered on the Board of Directors and establishment of fair and transparent management supervision functions and work on strengthening and enhancing corporate governance based on the following management philosophy and basic policies.

(Management philosophy)

“KYB group contributes to the society, by serving technologies and products that make people’s life safe and comfortable.”

1. We shall build a corporate culture that holds high goals and full of vitality.
2. We shall maintain kindness and sincerity, cherish nature and care for the environment.
3. We shall constantly pursue creativity and contribute to the prosperity of customers, shareholders, business partners and society.

(Basic policies)

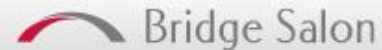
1. We shall respect the rights of shareholders and ensure their equality.
2. We shall take the benefits of stakeholders including our shareholders into consideration and endeavor to appropriately collaborate with those stakeholders.
3. We shall disclose not only the information in compliance with the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

To regain trust

Since our company presented our values regarding appropriate cooperation with stakeholders, respect of their interests, ethics for sound business activities, etc., and stipulated the “corporate conduct guidelines” as a code of conduct each of us must observe, we have made continuous efforts to widely diffuse the guidelines in the front lines of our business activities inside and outside Japan for observance (Principle 2-2). As an example, we hold briefings on the corporate conduct guidelines, conduct various compliance education programs, have compliance education as a promotion requirement, conduct one-on-one inspection activities with applied employees, and thoroughly promote the whistleblower system. We have continued fulfilling daily work with a sense of tension and thorough awareness that the products and services we provide to society through our corporate activities and various opportunities including these are related to safety of many people’s lives, bodies, and property, and that slacking of individual work may affect the entire society, as all of us engage in quality management directly and indirectly. In addition, we have continuously worked on enhancing awareness of and observing “Bad News 1st,” which is the policy where we immediately report inconvenient news in all workplaces and try to solve the problem while it is small.

However, as announced in the press release on Oct. 16th, 2018 or later, it was revealed that the performance inspection records for some of seismic isolation/mitigation oil dampers, which are manufactured and sold by our company, were falsified and then the products

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which do not comply with the performance evaluation criteria approved by the Ministry of Land, Infrastructure, Transport and Tourism (MILT) or the clients' specs were attached to buildings.

We deeply apologize, for all the concern and inconvenience we have caused, to everyone in society including the property owners, occupants, people related to construction companies and design firms, our shareholders, and people using the buildings.

With determination, our company plans to make every endeavor to diffuse our corporate conduct guidelines among all "individual" employees in the front lines of our business activities inside and outside Japan for observance.

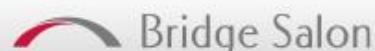
<Reasons for Non-compliance with the Principles of the Corporate Governance Code (Excerpts)>

Principles	Reasons for not implementing the principles
(Supplementary principle 4-1-3 Successive plan for CEO, etc.)	Our company deems successive plans for CEO and the like as an important issue for sustainable growth and medium to long-term improvement of our corporate value. From this year we have established a committee of nomination formed with a representative director and an unaffiliated director so we can improve our transparency in terms of the process of nomination. From now on we will consider requirements and development policy regarding CEO and other positions, taking account of the management environment surrounding our company and the corporate culture. At the same time we will give consideration to the supervision system by the board of directors.
(Principle 4-11 Precondition for ensuring effectiveness of the board of directors and board of corporate auditors)	The Company does not have female directors. However, we appoint people we judge suitable for incorporating diverse values into management as directors, sufficiently considering the balance in knowledge of the whole board of directors, experience (including international experience), abilities, etc., without distinguishing them based on personal attributes such as gender, as stated in 4-11-1.

<Disclosure Based on the Principles of the Corporate Governance Code (Excerpts)>

Principles	Disclosure contents
Principle 1-4【So-called strategically held shares】	<p>(1.)Policy on strategic shareholding</p> <p>From the perspective of medium to long-term improvement of corporate value, our company, when judging as necessary, strategically holds shares through which the relationship of trust and the business relationship are expected to be maintained or strengthened regarding business strategies and operations after comprehensively judging the growth potential and economic rationality of such shares. With regard to strategically held shares, we check the rationality of continued holdings in consideration of whether or not the benefits of holdings are commensurate with the Company's cost of capital, etc., at a meeting of the board of directors every year. We plan to sell shares when we consider that the rationality in holding them has weakened.</p> <p>(2.)Policy on exercise of voting rights</p> <p>Before exercising the voting rights of shares that our company strategically holds, we consider for each case whether the strategic shareholding contributes to medium to long-term improvement of our corporate value and increase in shareholder return and make judgment after giving thorough consideration to the management policies and business strategies of the company that issues relevant shares.</p>
Principle 5-1【Policy on constructive dialogue with shareholders】	In our company, the global finance executive presides and the IR office of the accounting head department deals with shareholders and investors in order to encourage constructive dialogue with shareholders and the like. The IR office has established a system that allows appropriate response in collaboration with related departments of our company to enrich such dialogue. We hold financial results briefings for analysts and institutional investors, where the president and the global

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	<p>finance executive describe our management strategies and financial conditions, once in every half year. In addition, we carry out individual interviews as requested, and strive for proactive communication with overseas shareholders and institutional investors through attendance at conferences in and outside Japan and individual IR activities abroad. Opinions and requests obtained from shareholders and investors through our IR activities are conveyed on a regular basis to the board of directors and the management as feedback in order to share information. Our company gives meticulous attention to handling of insider information not to inflict losses on each other in dialogue with shareholders and investors. Accordingly, for a period beginning with the following day of the date of settlement and ending with the day when financial statements are announced, which is called a quiet period, our company refrains from having dialogue with shareholders and investors and endeavors to conduct thorough internal information management.</p>
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<p>This report is intended solely for information purposes, and is not intended as a solicitation to invest in the shares of this company. The information and opinions contained within this report are based on data made publicly available by the Company, and comes from sources that we judge to be reliable. However we cannot guarantee the accuracy or completeness of the data. This report is not a guarantee of the accuracy, completeness or validity of said information and or opinions, nor do we bear any responsibility for the same. All rights pertaining to this report belong to Investment Bridge Co., Ltd., which may change the contents thereof at any time without prior notice. All investment decisions are the responsibility of the individual and should be made only after proper consideration.</p>

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