



Representative Director, President  
Executive Officer  
Masao Ono

KYB Corporation (7242)



## Company Information

Market	TSE 1st Section
Industry	Equipment for transportation
Representative Director, President Executive Officer	Masao Ono
HQ Address	World Trade Center Building South Tower.28F, 4-1, Hamamatsu-cho 2-chome, Minato-ku, Tokyo
Year-end	End of March
HOME PAGE	<a href="https://www.kyb.co.jp/english/">https://www.kyb.co.jp/english/</a>

## Stock Information

Share Price	Number of shares issued		Total market cap	ROE Act.	Trading Unit
¥3,985	25,748,431 shares		¥102,607million	18.5%	100 shares
DPS Est.	Dividend yield Est.	EPS Est.	PER Est.	BPS Act.	PBR Act.
90.00	2.3%	¥626.39	6.4x	¥4,333.26	1.0x

\* Share price as of closing on June 10. Each number is based on the financial results of FY3/21.

## Earnings Trends

Fiscal Year	Net Sales	Operating Income	Pretax Income	Net Income	EPS	DPS
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 (results)	381,584	-40,298	-41,419	-61,819	-2,422.53	0.00
March 2021 (results)	328,037	18,297	16,340	17,087	668.95	75.00
March 2022 (estimate)	365,000	21,000	19,000	16,000	626.39	90.00

\* Unit: Million yen or yen. IFRS adjustment. 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.

This Bridge Report presents details of KYB earnings results for the fiscal year ended March 2021 and “2020 Medium-Term Management Plan”.

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## Key Points

- For the term ended Mar. 2021, sales decreased 14.0% year on year to 328 billion yen, and segment profit fell 24.2% year on year to 13.3 billion yen. Sales volume declined due to the substantial impact of COVID-19. However, operating income and other incomes returned to the black due to declines in costs related to seismic isolation/mitigation oil dampers and impairment losses. Both sales and profits are recovering rapidly after bottoming out in the first quarter. The payment of the dividend, which had been undetermined, will be resumed with its amount being 75.00 yen/share.
- In the term ending Mar. 2022, it is forecasted that sales and profit will rise significantly as sales will increase 11.3% year on year to 365 billion yen, and segment profit will augment 65.1% year on year to 22 billion yen. The company plans to increase sales in both AC and HC businesses. The AC business centered on hydraulic shock absorbers for automobiles is expected to continue its gradual recovery, despite concerns about the spread of the COVID-19 and the global shortage of semiconductors. In the HC business centered on hydraulic equipment for construction machinery, it is anticipated that demand will continue to be strong, although there is uncertainty due to the spread of COVID-19. The dividend is to be 45.00 yen/share for both the interim dividend and the year-end dividend for a total of 90.00 yen/share per year (up 15.00 yen/share from the previous year). The estimated payout ratio is 14.4%.
- Regarding the seismic isolation/mitigation oil dampers, as of the end of April 2021, the company has started to bring 951 properties, accounting for 96% of the target buildings, up to conformity. The work is completed in 912 properties, which account for 92% of the target buildings. The company is progressing steadily toward the completion of making all properties compliant with the standards. The company believes that the prospect of recording expenses is also coming together.
- After conducting a review considering the external environment, including the impact of COVID-19, the company officially announced the 2020 Medium-Term Management Plan. Under the theme of “aiming to transform the company into a highly profitable structure with moral awareness and strict compliance as the basis of management”, (1) strict compliance and strengthening governance, (2) stabilization of the profit base (withdrawal from unprofitable businesses, bases, and products), (3) growth strategy, and (4) evolving to ESG management are listed as focus items. The financial target for the term ending Mar. 2022 is sales of 378 billion yen and a segment profit of 25 billion yen. Sales will not reach the level of sales of the term ended Mar. 2019, but the company aims to earn record-high segment profit and profit margin. In addition, KYB will try to transform into an agile company.
- The company achieved a surplus at a higher level than expected. This resulted in the soaring stock price along with the rapid recovery of the company’s business performance. The company reached a new high price in October 2019 before the COVID-19 crisis disaster and recovered to the 4,000 yen level. However, PER was six, falling below the market average. Dividing October 2017’s highest price of 7,380 yen by the forecasted EPS of 614.58 yen for the term ended Mar. 2018, which was included in financial results for the second quarter of the term ended Mar. 2018, the forecasted PER at that time would have been 12.0. The current PER is 50% of this level. We would like to pay attention to whether

**investors would consider this cheap or have doubts about future growth potential at this point. Also, we will focus on the progress of the 2020 Medium-Term Management Plan and how the company will weave its future growth story.**

## 1. 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 40% of the domestic market and 14% of the global market.

### 【1-1 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.

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.

### 【1-2 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



(Taken from KYB's website)

#### (What the logo means)

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 the KYB Group, which aims to contribute to society by providing technologies and products for making the living of people safe and comfortable, it reflected on the improper act revealed in Oct. 2018, and revised its Corporate Spirit and Corporate Guiding Principles.

### (Corporate Spirit)

We shall follow all rules and face all issues with honesty.
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)

<b>Human Resources Development</b>	<b>To cultivate the talent to achieve the objectives with a thorough understanding of the principles and the strategy.</b>
<b>Technology and product development</b>	<b>To provide products that are impressive, comfortable and reliable to customers throughout the world.</b>
<b>Monozukuri (Manufacturing expertise)</b>	<b>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.</b>
<b>Management</b>	<b>Always keep social responsibilities of the corporation in mind and provide efficient group management.</b>

### (Corporate Guiding Principles)

See the following URL:

<https://www.kyb.co.jp/english/company/guidelines.html>

## 【1-3 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

The global demand for automobiles, including hybrids and EVs, is expected to increase in the medium to long term. The number of automobiles produced, which had temporarily decreased due to the influence of COVID-19, was recovering. However, the business environment is uncertain as Toyota Motor has temporarily suspended the production at some domestic factories due to a shortage of semiconductors.

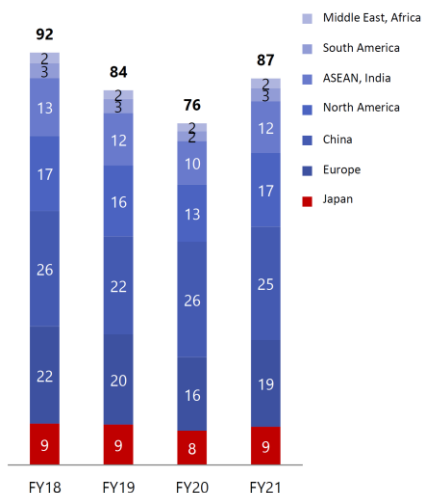
KYB supplies shock absorbers (SA) for new vehicles directly to automobile manufacturers as Tier 1, and also supplies them to auto parts stores, repair shops, etc. through agencies for aftermarket as well. The company calls the former "OEM" and the latter "marketed". Japanese cars are popular in Asia, the Middle East and others, and the commercial market is important for KYB.

# BRIDGE REPORT



## Automobile Production Forecast

(Million units)



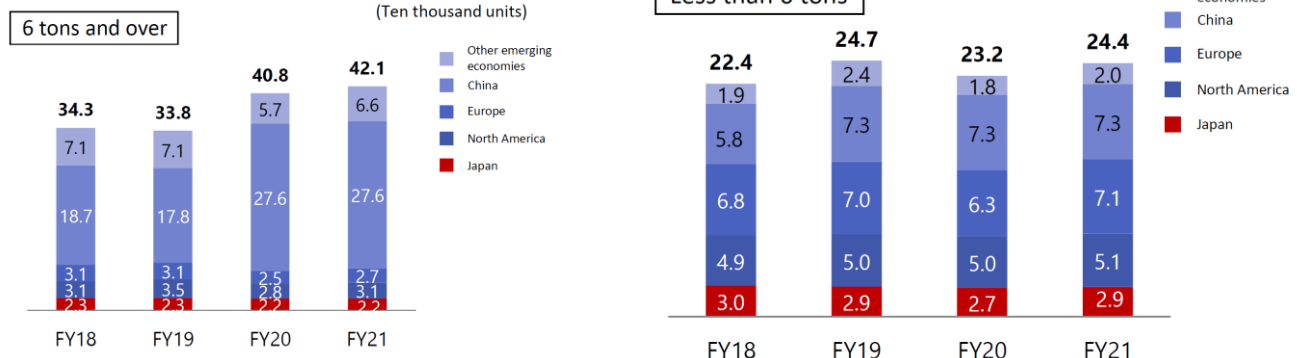
(Taken from the reference material of KYB)

## ② Construction Machinery Market

While the Chinese and Indian markets are expected to slow down, demand is forecasted to be strong despite the uncertainty in the short term due to the impact of COVID-19.

### Demand Forecast for Hydraulic Excavators

(Ten thousand units)



(Taken from the reference material of KYB)

## (2) Competitors

### ① AC Business

KYB's domestic competitors include Hitachi Astemo, Ltd. (unlisted).

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%. Monroe (a commercial brand of Tenneco), and Sachs, etc. are competitors in global.

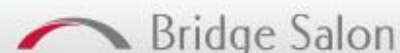
KYB competes with Hitachi Astemo, Ltd. in the market of shock absorbers for motorcycles, and with JTEKT Corporation (6473, TSE 1st section) and NSK Ltd. (6471, TSE 1st section) in the steering market.

### ② HC 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

## BRIDGE REPORT



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	37,000	+6.9	1,500	+724.3	4.1%	-1.3%	7,770	11.1	0.5
6268	Nabtesco	286,000	0.0	29,000	+0.3	10.1%	10.6%	635,679	5.4	3.2
6471	NSK	860,000	+15.0	53,000	+732.7	6.2%	0.1%	589,856	14.4	1.0
6473	JTEKT	1,400,000	+12.3	39,000	+145.1	2.8%	0.2%	428,078	25.2	0.8
6474	Nachi-Fujikoshi	205,000	+2.0	8,000	+16.8	3.9%	2.1%	105,159	25.7	0.9
7212	F-Tech	-	-	-	-	-	-2.9%	16,672	-	0.4
<b>7242</b>	<b>KYB</b>	<b>365,000</b>	<b>+11.3</b>	<b>22,000</b>	<b>+65.1</b>	<b>6.0%</b>	<b>18.5%</b>	<b>106,212</b>	<b>6.6</b>	<b>1.0</b>

\*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 4. The unit is million yen. PER (estimates) and PBR (results) are based on the closing price on June 4 with the unit being times. F-Tech's earnings forecast is not disclosed yet.

## 【1-4 Business contents】

### (1) Segments

KYB's business segments are composed of the following four 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, "System products," which produces theater equipment, equipment for military vessels and vibration suppression devices, etc., and the "Aircraft components business," which produces devices for take-offs and landings of aircrafts, steering components, control devices, etc. It also has the "Others" segment which handles special purpose vehicles, electronics, and the like.

### Fiscal Year ended March 2021 results

	Sales	Composition Ratio	Segment profit	Profit rate
AC Business	197,453	60.2%	8,195	4.2%
HC Business	111,348	33.9%	5,501	4.9%
System products	5,990	1.8%	1,052	17.6%
Aircraft components business	3,857	1.2%	-2,461	-
Others	9,389	2.9%	1,037	11.0%
Total	328,037	100.0%	13,325	4.1%

\*Unit: million yen

### ① AC(Automotive Components)Business

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

#### Composition ratio for Fiscal Year ended March 2021

Product	Sales	Composition ratio	Major products
Shock absorbers for automobiles	142,723	72.3%	Shock absorbers
Shock absorbers for motorcycles	26,087	13.2%	Front forks, rear cushion units
Hydraulic equipment for automobiles	24,753	12.5%	Vane pumps, CVT pumps, EPS
Others	3,890	2.0%	Shock absorbers for ATVs, Stay dumpers
Total	197,453	100.0%	-

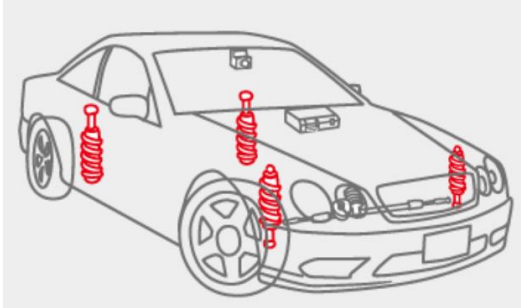
\*unit: million yen

## <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.

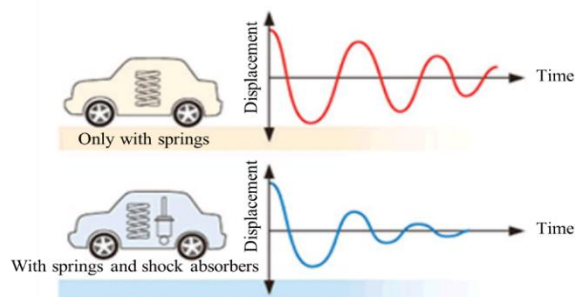
Suspensions have two main functions; one is, as buffers, to prevent transmission of rough road profiles to the car body and another is to set the position of the wheels and axles and press the wheels down on the roads.

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)

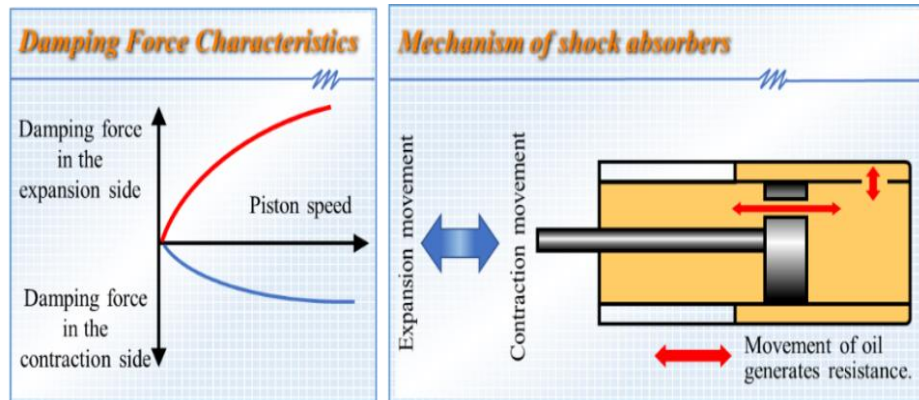
The vehicle in which the shock absorber is functioning properly achieves the following, making a comfortable driving experience possible

- ☆ 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.”

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)

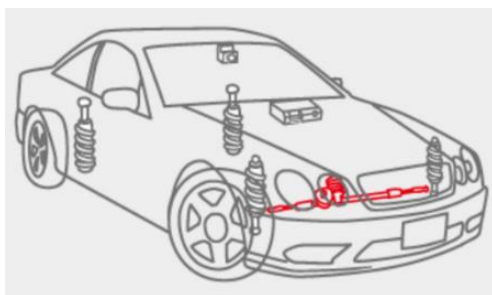
KYB’s shock absorbers developed based on its sophisticated technology has earned reputation from a number of automobile manufacturers worldwide, leading to the large market share as mentioned below.

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

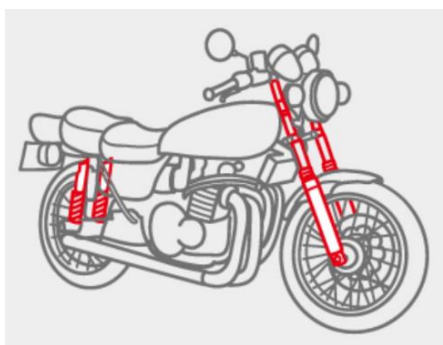


\*Hydraulic power steering vane pump for passenger vehicles



◎ 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 Fiscal Year ended March 2021

Products	Sales	Composition ratio	Major products
Hydraulic equipment for industrial use	103,973	93.4%	Cylinders, valves, pumps, motors
Others	7,375	6.6%	Railroad dampers, railroad brakes
Total	111,348	100.0%	-

\* unit: million yen

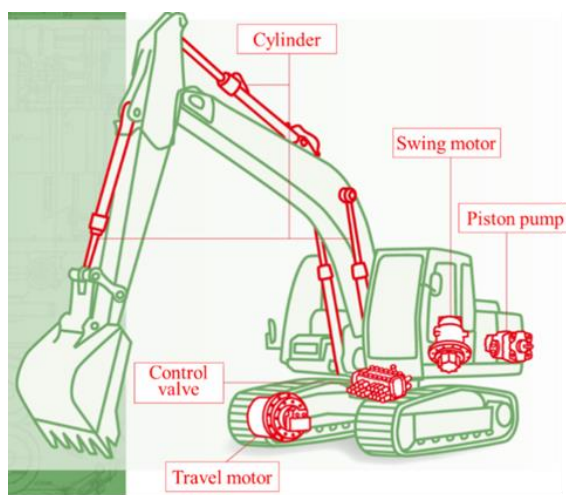
<Major Products>

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 its manufacturers all kinds of parts as just mentioned.



\*Control valve for shovels

\*Travel motor

\*Hydraulic cylinder



(Taken from KYB’s website)

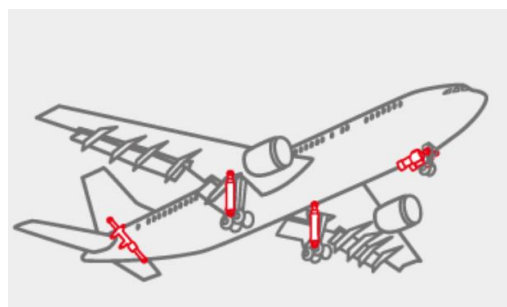
③ Segments other than the AC Business and the HC Business

Fiscal Year ended March 2021

Segments	Sales	Major products
System products	5,990	Theater equipment, equipment for military vessels, seismic isolation and vibration suppression devices, simulators, hydraulic systems, tunnel boring machines, and environmental devices
Aircraft components business	3,857	Devices for take-off and landing of aircrafts and its steering components, control devices, and emergency equipment
Others (special purpose vehicles, electronics, and the like)	9,389	Concrete mixer trucks, granule carriers, special purpose vehicles, and electronic devices

\* unit: 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.



**(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 group and Honda, respectively, contributing to KYB's large market share.

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

**©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 23 countries worldwide including Japan, KYB has 46 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 Fiscal year ended March 2021)



### (4) Research and Development

(Structure)

KYB has established a global and optimum research and development (R&D) structure by setting R&D bases in 2 regions, Japan and Europe.

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.

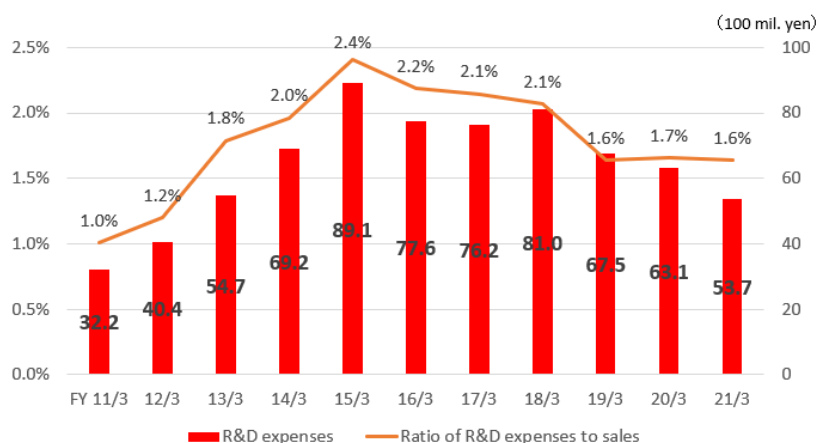
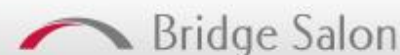
Regarding high-functionality and systematization of its products, KYB, in addition to independent development, propels joint research and development with its clients or related equipment manufacturers. The company is also endeavoring proactively to developing advanced technology through industry-academia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

(Variation in R&D expenses)

Since the term ended Mar. 2013, the awareness of R&D costs with respect to sales has been raised, and it is currently around 1.5%.

However, R&D costs are currently declining because of the incident of the nonconforming seismic isolation/mitigation oil dampers. From this term, as business performance is expected to recover, it will be necessary to make aggressive investments again to achieve the medium-term management plan's goals and achieve longer-term and sustainable growth.

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**(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.

**[1-5 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 14%, the global share of hydraulic cylinders for construction machinery being 25%, the domestic share of concrete mixer trucks being 83%.

**◎ 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.

**[1-6 ROE analysis]**

	FY 3/16	FY 3/17	FY 3/18	FY 3/19	FY 3/20	FY 3/21
<b>ROE [%]</b>	<b>-2.0</b>	<b>9.3</b>	<b>8.8</b>	<b>-15.0</b>	<b>-55.4</b>	<b>18.5</b>
Net income margin [%]	-0.89	4.09%	3.87	-6.01	-16.22	5.21
Total asset turnover [times]	0.95	0.96	0.99	0.97	0.90	0.78
Leverage [times]	2.35	2.37	2.30	2.59	3.81	4.53

**2. Fiscal Year ended March 2021 Earnings Results****(1) Overview of consolidated results**

	FY3/20	Composition ratio	FY3/21	Composition ratio	YoY	Compared with estimates 1	Compared with estimates 2
Sales	381,584	100.0%	328,037	100.0%	-14.0%	+5.8%	+2.5%
Gross Profit	71,254	18.7%	60,308	18.4%	-15.4%	-	-
SG&A Expenses	53,679	14.1%	46,983	14.3%	-12.5%	-	-
Segment Profit	17,575	4.6%	13,325	4.1%	-24.2%	+114.9%	+21.1%
Operating Profit	-40,298	-	18,297	5.6%	-	+357.4%	+57.7%
Profit before Taxes	-41,419	-	16,340	5.0%	-	+610.4%	+58.6%
Net Profit	-61,819	-	17,087	5.2%	-	+3317.4%	+137.3%

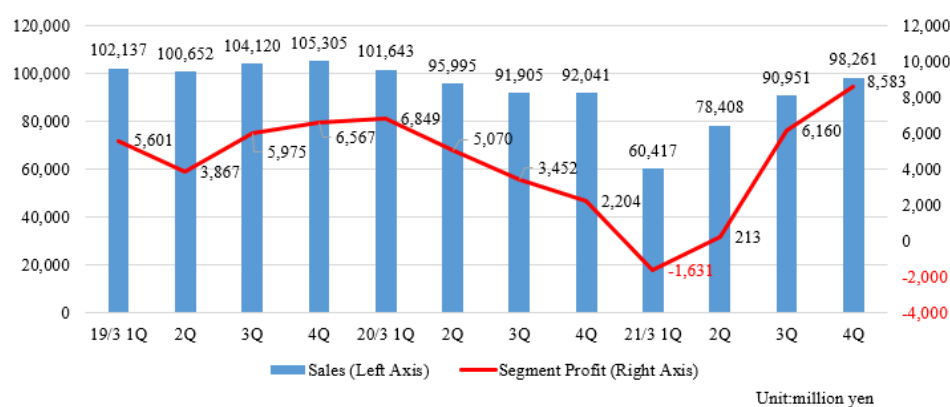
\* Unit: million yen. Segment profit corresponds to the operating income in the Japanese standard. Net profit is the profit attributable to the owner of the parent company. Compared with estimates 1 and compared with estimates 2 are the ratios of actual results to the forecasts announced in the fiscal year November 2020 and fiscal year February 2021, respectively.

**Sales and segment profit declined, but operating income returned to the black.**

Sales decreased 14.0% year on year to 328 billion yen, and segment profit fell 24.2% year on year to 13.3 billion yen. Sales volume declined due to the substantial impact of COVID-19. However, operating income and other incomes returned to the black due to declines in costs related to seismic isolation/mitigation oil dampers and impairment losses.

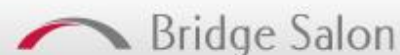
Both sales and profits are recovering rapidly after bottoming out in the first quarter.

The payment of the dividend, which had been undetermined, will be resumed with its amount being 75.00 yen/share.

**◎Sales Trends in each region**

Region	FY3/20	FY3/21	YoY
Japan	1,711	1,448	-15.4%
Europe	626	519	-17.2%

## BRIDGE REPORT



America	351	312	-11.2%
China	321	366	+13.9%
Southeast Asia	296	217	-26.8%
Others	510	420	-17.8%
<b>Total</b>	<b>3,816</b>	<b>3,280</b>	<b>-14.0%</b>

\* unit: 100 million yen

Sales declined in all regions except China, which recovered early. Overseas sales ratio increased 0.7% from the previous term to 55.9%.

## (2) Trend in each segment

Sales	FY3/20	Composition ratio	FY3/21	Composition ratio	YoY
AC business	232,101	60.8%	197,453	60.2%	-14.9%
HC business	125,321	32.8%	111,348	33.9%	-11.1%
System Products	8,148	2.1%	5,990	1.8%	-26.5%
Aircraft Components business	5,481	1.4%	3,857	1.2%	-29.6%
Others	10,534	2.8%	9,389	2.9%	-10.9%
<b>Total</b>	<b>381,584</b>	<b>100.0%</b>	<b>328,037</b>	<b>100.0%</b>	<b>-14.0%</b>
Segment profit					
AC business	11,691	5.0%	8,195	4.2%	-29.9%
HC business	5,531	4.4%	5,501	4.9%	-0.5%
System Products	1,531	18.8%	1,052	17.6%	-31.3%
Aircraft Components business	-2,185	-	-2,461	-	-
Others	999	9.5%	1,037	11.0%	+3.8%
Adjustment	9	-	2	-	-
<b>Total</b>	<b>17,575</b>	<b>4.6%</b>	<b>13,325</b>	<b>4.1%</b>	<b>-24.2%</b>

\* Unit: million yen. The composition ratio for profit is a profit margin.

## ① AC Business

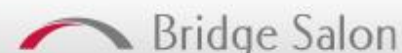
Product	Sales	Composition ratio	YoY
Shock Absorbers for Automobiles	142,723	72.3%	-14.6%
Shock Absorbers for Motorcycles	26,087	13.2%	-7.6%
Hydraulic Equipment for Automobiles	24,753	12.5%	-22.8%
Others	3,890	2.0%	-16.7%
<b>Total</b>	<b>197,453</b>	<b>100.0%</b>	<b>-14.9%</b>

\* Unit: 100 million yen

Region	Sales	Composition ratio	YoY
Japan	549	27.8%	-16.8%
Europe	473	23.9%	-14.6%
America	240	12.2%	-14.3%
China	184	9.3%	+22.7%
Southeast Asia	198	10.0%	-27.2%
Others	331	16.8%	-18.1%
<b>Total</b>	<b>1,975</b>	<b>100.0%</b>	<b>-14.9%</b>

\* Unit: 100 million yen

## BRIDGE REPORT



## ② HC Business

Products	Sales	Composition ratio	YoY
Hydraulic Equipment for Industrial Use	103,973	93.4%	-11.1%
Others	7,375	6.6%	-11.2%
Total	111,348	100.0%	-11.1%

\* Unit: 100 million yen

Region	Sales	Composition ratio	YoY
Japan	739	66.4%	-13.0%
Europe	46	4.1%	-36.1%
America	63	5.7%	+5.0%
China	182	16.4%	+6.4%
Southeast Asia	18	1.6%	-21.7%
Others	65	5.8%	-17.7%
Total	1,113	100.0%	-11.2%

\* Unit: 100 million yen

## (3) Financial standing and cash flows

## ◎ Major BS

	End of Mar. 2020	End of Mar. 2021		End of Mar. 2020	End of Mar. 2021
Current Assets	216,635	236,252	Current Liabilities	237,931	204,480
Cash, etc.	50,423	68,700	Trade Payables	69,661	74,437
Trade Receivables	95,547	98,898	Debts	88,714	70,010
Inventories	56,252	53,997	Noncurrent Liabilities	92,707	105,430
Noncurrent Assets	193,818	190,383	Debts	33,268	54,836
Property, Plant and Equipment	165,825	160,308	Total Liabilities	330,639	309,910
Intangible Assets	4,874	4,106	Net Assets	79,815	116,726
Other Financial Assets	14,230	15,647	Retained Earnings	19,617	49,579
Total assets	410,454	426,635	Total Liabilities and Net Assets	410,454	426,635

\* 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 19.6 billion yen from the end of the previous term mainly due to a rise in cash, etc. and trade receivables, etc. Noncurrent assets decreased 3.4 billion yen from the end of the previous term mostly due to a decline in property, plant and equipment, and total assets rose 16.2 billion yen from the end of the previous term to 426.6 billion yen.

Total liabilities declined 20.7 billion yen from the end of the previous term to 309.9 billion yen due to a decrease in provisions, etc. Net assets increased 36.9 billion yen from the end of the previous term to 116.7 billion yen due to an increase in retained earnings. As a result, the equity ratio attributable to owners of the parent augmented 7.8% from the end of the previous term to 25.9%.



◎ Cash Flow

	FY3/20	FY3/21	Increase/decrease
Operating CF	-4,999	20,826	+25,825
Investing CF	-21,505	-6,281	+15,224
Free CF	-26,504	14,545	+41,049
Financing CF	22,576	1,146	-21,430
Cash and equivalents	50,423	68,700	+18,277

\* Unit: million yen

Operating CF and free CF turned positive, because operating income returned to the black.  
 The surplus of financing CF has shrunk due to an increase in expenditures for the repayment of long-term debt, etc.  
 The cash position increased.

**(4) The Progress in the adaption of seismic isolation/mitigation oil dampers**

**(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.

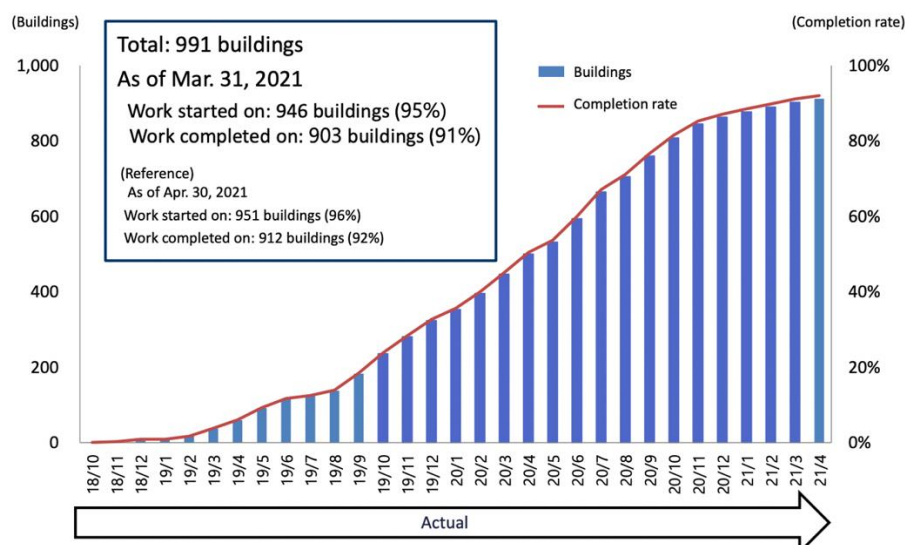
As a result of the investigation, 991 buildings in subject were found as of March 31, 2021.

**(Response and Progress)**

As of the end of April 2021, the company started working to make nonconforming seismic isolation/mitigation oil dampers compliant with the standards at 951 properties, which account for 96% of the target buildings. It has completed the work in 912 properties, which account for 92% of the target buildings.

Of the 991 target buildings, the company has not started working on making 79 buildings compliant with the standards. Of these 79 buildings, 17 cases are under construction or administrative procedures, 37 are manufacturing or have been manufactured the dampers (waiting for construction to start, construction schedule is being adjusted), and 25 are under detailed coordination with related parties for conformation. However, the company is exerting efforts toward the early start of the work at these buildings.

Progress Plan for Bringing Nonconforming Seismic Isolation/Mitigation Dampers up to Conformity



**(Effects on business performance)**

Regarding the expenses for this incident, the company posted 57.6 billion yen as provision of reserve for product warranties and 18.2 billion yen as measures for product warranties which amounts to 75.8 billion yen in the two terms, FY2018 and FY2019.

Although the company booked 8.6 billion yen in expenses for product warranty measures this fiscal year, the company believes that it is on track to book such expenses, as the provision for product warranties was 14.6 billion yen reversed in Q2-Q3, compared to a 100 million yen provision in Q1.

The total cash outflow came to 47.5 billion yen.

**(Response)**

Based on this scandal, the company aims to establish moral awareness as part of the corporate culture to implement strict compliance. Thus, the company starts to conduct education and training for all employees to disseminate the corporate action guidelines, foster compliance awareness, and fully identify and inspect related laws and regulations.

In terms of governance, the company is advancing measures to raise the ratio of outside directors, establish a compliance committee chaired by the president, reorganize domestic affiliated companies, strengthen governance of affiliated companies by appointing overseas governing officers (the U.S., Europe, and China), and improve the process of reporting to the board of directors.

**(5) Topics****◎ Issuance of Preferred Shares Through a Third-Party Allotment**

The company has decided to issue a Class A preferred stock by the method of third-party allotment to Mizuho Bank, Ltd., Development Bank of Japan Inc., Meiji Yasuda Life Insurance Company, Ogaki Kyoritsu Bank, Ltd., The 77 Bank, Ltd., Sompo Japan Insurance Inc., Fuyo General Lease Co., Ltd., and Mizuho Leasing Co., Ltd. This decision is subject to the approval of the Ordinary General Meeting of Shareholders to be held on June 25, 2021.

In order to realize a stable and growth-oriented business foundation, the company needs to progress its base strategies further and improve product performance and systematization through making more strategic capital investments and R&D investments continuously. Thus, the company recognized that getting out of the difficult financial situation at an early stage and building stable financing ability and risk resilience to unforeseen circumstances are the top priorities. Therefore, the company has decided to issue preferred shares this time.

The planned payment amount is 12.5 billion yen.

The preferred dividend amount is calculated on a pro-rata basis at an annual rate of 7.5% for the period up to June 28, 2026, and 8.5% for the period after June 29, 2026. If the priority dividend is not paid, it will be accumulated, but the dividend of the surplus will not be paid more than the priority dividend and the accumulated priority dividend that has not been paid.

The specific purposes of use of the raised funds are as follows.

Purpose of use	Amount of money	Expected spending time
Rationalization by labor-saving and reorganization in the AC business, capital investment related to constructing a mass-production system of new technology-based products, etc.	6.7 billion yen	July 2021 to March 2023
Support for new products in the HC business, rationalization through reorganization, capital investment related to the in-house production of parts, etc.	4.1 billion yen	July 2021 to March 2023
R&D investment to achieve growth in the AC business, the HC business, and the headquarters' technology division	1.4 billion yen	July 2021 to March 2022

### 3. Fiscal Year ending March 2022 Earnings Estimates

#### Full-year earnings forecast

	FY3/21 Results	Composition ratio	FY3/22 Forecast	Composition ratio	YoY
Sales	328,037	100.0%	365,000	100.0%	+11.3%
Segment profit	13,325	4.1%	22,000	6.0%	+65.1%
Operating profit	18,297	5.6%	21,000	5.8%	+14.8%
Profit before taxes	16,340	5.0%	19,000	5.2%	+16.3%
Net profit	17,087	5.2%	16,000	4.4%	-6.4%

\* Unit: 100 million yen. The forecast was announced by the company. Segment income corresponds to the operating income in the Japanese standards. Net income is profit attributable to owners of the parent.

#### Increase in profits, profit will rise significantly

It is forecasted that sales and profit will rise significantly as sales will increase 11.3% year on year to 365 billion yen, and segment profit will augment 65.1% year on year to 22 billion yen.

The company plans to increase sales in both AC and HC businesses.

The AC business centered on hydraulic shock absorbers for automobiles is expected to continue its gradual recovery, despite concerns about the spread of the COVID-19 and the global shortage of semiconductors.

In the HC business centered on hydraulic equipment for construction machinery, it is anticipated that demand will continue to be strong, although there is uncertainty due to the spread of COVID-19.

The dividend is to be 45.00 yen/share for both the interim dividend and the year-end dividend for a total of 90.00 yen/share per year (up 15.00 yen/share from the previous year). The estimated payout ratio is 14.4%.

As for the costs related to inappropriate acts in the inspection process of seismic isolation/mitigation oil dampers for buildings, a product warranty allowance was recorded for the manufacturing costs, the costs required for replacement work, the structural recalculation costs, and compensation for the seismic isolation/mitigation oil dampers. These costs were calculated using the information that was possible to collect at this time and the information which is based on reasonable facts.

On the other hand, at present, no provision has been made for the costs of the lawsuit related to this incident, for which is difficult to make a reliable and rational estimate of the costs. Future progress could have a significant impact on business performance if additional provisions were to be made.

### 4. 2020 Medium-Term Management Plan

After conducting a review considering the external environment, such as the impact of COVID-19, the company officially announced the 2020 Medium-Term Management Plan.

The theme of the plan is “aiming to transform the company into a highly profitable structure based on moral awareness and strict compliance as the basis of management”, and (1) strict compliance and strengthening of governance, (2) stabilization of the profit base (withdrawal from unprofitable businesses, bases, and products), (3) growth strategy, and (4) evolving into ESG management are listed as focus items.

Strict compliance and improvement of governance is described in the “Progress of making seismic isolation/mitigation oil dampers compliant with the standards.” The entire company will work to establish a moral consciousness as part of the corporate culture.

## 【4-1 Stabilization of the Earnings Base (Withdrawal from Unprofitable Businesses, Bases, and Products) & the Growth Strategy】

### (1) Financial Goals

The following financial targets are set for the term ending Mar. 2022.

	2019 Results	2022 Goals
Sales	3,816	3,780
AC business	2,321	2,290
HC business	1,253	1,300
Segment profit	176	250
Segment profit ratio	4.6%	6.6%
Capital adequacy ratio	18.1%	34%

Sales will not reach the level of sales in the term ended Mar. 2019, but the company aims to have record-high segment profit and profit margin. They will also work to transform KYB into an agile company.

### (2) About Segment Profit

The profit improvement measures and expected improvement effects for segment profit are as follows.

The total amount is expected to improve 7.4 billion yen from 17.6 billion yen in the term ended Mar. 2019 to 25 billion yen in the term ended Mar. 2022.

Measures	Amount of improvement	Outline of measures
Productivity improvement (reduction of manufacturing cost)	+34	Innovative manufacturing (improvement of the automation level), promotion of labor-saving, etc.
Withdrawal and reduction of unprofitable fields	+17	Withdrawal from domestic production of unprofitable EPS for passenger cars, closure of the European PS base, etc.
Variable cost reduction	+10	VA, VE, promotion of the localization of procurement activities, etc.
Consolidation of production bases and establishment of an optimal production system	+7	Reorganization of European bases, construction of CVT global optimum production systems, etc.
Promotion of sales expansion activities	+6	Expansion of sales of mini excavators by adopting electronic control, improving the sales network of commercial products, etc.

\*Unit: 100 million yen

### (3) Ideal State

The company continues to position the AC business and HC business as the two major core businesses that support KYB, and it has set out its goals as follows.

#### ① AC Business

The goal for the term ending Mar. 2022 is to establish the company's position as a core supplier by enhancing existing businesses and core technologies.

The three basic strategies are (1) enhancement: stabilizing the earnings base, (2) evolution: innovative manufacturing, and (3) renovation: creating high-value-added products.

#### ◎ Strengthening the Earnings Base

The company's concrete initiatives include production optimization by consolidating and reorganizing major bases, cost reduction activities, and structural reforms of commercial businesses.

In production optimization, the company aspires to achieve optimal production that matches the shift in customer demand areas. In Europe, the PS base will be closed, and the SA base in the region will be reorganized from Western Europe centered to Eastern Europe centered.

In EPS production, the company will withdraw from domestic production of unprofitable passenger cars and shift its focus to China. The company will build a CVT global optimum production system. The surplus production capacity of the two-wheeled Asian base will also be reduced through production restructuring.

**◎ Innovative Manufacturing**

The company will further promote robotization and labor-saving, reduce processing costs, and strengthen competitiveness. Innovative manufacturing efforts will be adopted sequentially at all domestic and overseas bases, centering on the commercial line.

**◎ Creation of High Value-Added Products**

The company will enhance its unique technology in response to the ever-increasing trend toward EV, CASE, and MaaS. As their technology strategies set as (1) next-generation platform support, (2) enhancing core technology (vibration control/power control technology), (3) hydraulic technology application, and (4) electric and digital system support, the company will create high-value-added products that meet market needs such as quietness, spaciousness, high performance, low vibration, and ride comfort.

**② HC Business**

The vision for the term ending Mar. 2022 is HC business that is trusted by customers and continues to be used worldwide—to be a trusted manufacturer and the first to be contacted by customers.

The company’s two basic strategies are, meeting automation and complex needs, and promoting cost reduction and the localization of procurement activities.

**◎ Excavator Growth Strategy: Meeting Automation and Complex Needs**

For excavators, the company’s technology strategies are digitization, expansion of the pump lineup, and electronic control of control valves.

In addition, a vital technology strategy for mini excavators is to expand the lineup and electronically control by the load sensing system.

In the HC business, the company will further refine the power control technology, which is one of their strengths, to fuse the pump, the heart of the excavator, and the valve, its brain, based on KYB’s unique technology, to create new added value and demonstrate a competitive advantage.

The critical technology to realize the cooperation and fusion of the pump and valve is electronically controlled load sensing. Load sensing is a mechanism that feeds back the load sensed by the valve to the pump to supply the required flow rate and pressure. The advantages of load sensing are (1) simultaneous or combined operations that rely on the experience of the operator become easy, (2) can be used not only in construction work but also in disaster relief because it can use various attachments, (3) saves energy, and (4) can be digitized and automated without being affected by load.

**◎ Promotion of Cost Reduction and the Localization of Procurement**

The company will improve market competitiveness by introducing a cost reduction model and localizing procurement.

**(4) Enhancing the ESG Management**

Currently, the company is proceeding with the following efforts.

Reducing energy consumption and CO <sub>2</sub> emissions Energy saving	The company installed a solar power generation facility at the KYB-YS Ueda Plant. The total power generation in 2020 was about 700,000 kW.
Reducing industrial waste	The company uses waste materials generated at factories and related business partners as in-house casting materials.

**Creating a rewarding workplace**

The company is promoting health management and has been certified as an excellent health management corporation for the second consecutive year.

Going forward, the company will reduce CO<sub>2</sub> emissions per unit by 3% from the previous year, raise the composition ratio of renewable energy usage to 15% in 2025, and promote product development that contributes to the sustainable development of society. In addition, the company will set up an ESG promotion office to strengthen the chain of policies and implementation.

## 5. Conclusions

The company achieved a surplus at a higher level than expected. This resulted in the soaring stock price along with the rapid recovery of the company's business performance. The company reached a new high price in October 2019 before the COVID-19 crisis disaster and recovered to the 4,000 yen level. However, PER was six, falling below the market average. Dividing October 2017's highest price of 7,380 yen by the forecasted EPS of 614.58 yen for the term ended Mar. 2018, which was included in financial results for the second quarter of the term ended Mar. 2018, the forecasted PER at that time would have been 12.0. The current PER is 50% of this level.

We would like to pay attention to whether investors would consider this cheap or have doubts about future growth potential at this point. Also, we will focus on the progress of the 2020 Medium-Term Management Plan and how the company will weave its future growth story.

### <Reference: Regarding Corporate Governance>

#### ◎ Organization type and the composition of directors and auditors

Organization type	Company with auditors
Directors	7 directors, including 3 outside ones
Auditors	4 auditors, including 2 outside ones

#### ◎ Corporate Governance Report

Last update date: July. 8, 2020

##### <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. Handle all matters with sincerity while adhering to the normative consciousness.
2. We shall build a corporate culture that holds high goals and full of vitality.
3. We shall maintain kindness and sincerity, cherish nature and care for the environment.
4. 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

As we announced in 2018, regarding nonconforming acts in the inspection process for seismic isolation/mitigation oil dampers for buildings, and issuing invoices based on false production figures for the defense equipment by our company and our subsidiary, we give our deepest and most sincere apology for all the related parties, whom we've caused trouble and worry. Regarding the nonconforming acts of the seismic isolation/mitigation oil dampers, we have sincerely accepted the suggestions by the external investigation committee, designed measures to prevent recurrence in the future, and we are publicly disclosing the progress every 3 months. Eliminating the related parties' worries and concerns as fast as possible is the management's most important issue, which we are handling in all sincerity. Moreover, regarding the nonconforming acts related to defense equipment, we have proactively reported it to the Ministry of Defense on January 28, 2019, and on January 24, 2020, we finalized the payment of 8,033 million yen as a refund to the National Treasury.

One of the measures for preventing recurrence is that we revised the management philosophy on October 1, 2019. The management philosophy is established based on the "the spirit of creation and development," which is inherited from the founder, Shiro Kayaba. While the revision sticks to the basic philosophy, it responds to the issues pointed out by the external investigation committee, "lack of awareness of the rules," "corporate culture in which staff avoid facing the truth," by adding new ideas of "compliance with norms" and "facing the truth" and we strongly expressed our firm resolve to not let any nonconforming acts happen ever again. Furthermore, as adhering to the normative consciousness by all individuals is what best supports "quality management," which we have raised as the foundation of management from the beginning, we will take action while considering that nurturing and maintaining it as the first principle.

### <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 2016 we have established a committee of nomination formed with an internal 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】	(1.) Policy on strategic shareholding 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

	<p>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>
<p>Principle 5-1【Policy on constructive dialogue with shareholders】</p>	<p>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 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 week before 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>

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.

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