



Our Precision, Your Advantage

KYB Group Report 2019

(April 1, 2018 - March 31, 2019)



To Our Stakeholders

I am pleased to present you with KYB Group Report 2019.

Until now we have published an Annual Report and an Environmental and Social Activity Report to keep you informed about our business and CSR activities, respectively. This year, we have issued KYB Group Report 2019, our first integrated report, featuring enhancements including details on our new management structure and non-financial information. We hope that this report will be a starting point not just in terms of content, but for deeper dialogue with our stakeholders.

We have positioned FY2019 as the first year of KYB's recovery. The entire KYB Group will conduct various measures as it returns to the basis of *monozukuri*.

The First Year of KYB's Recovery

We will drastically reform our corporate culture as we rebuild the KYB Group, by returning to the basis of *monozukuri*, Japanese manufacturing expertise, and steadily implementing measures to prevent the recurrence of improper acts.

Regaining Trust

In FY2018, we announced nonconforming acts by KYB Corporation and one of its subsidiaries associated with building-use seismic isolation/mitigation oil dampers, as well as improper claims related to working hour billing for defense equipment. I would like to offer my deepest apologies for the trouble and concern we have caused our stakeholders.

We are addressing nonconforming acts associated with seismic isolation/mitigation oil dampers by seriously embracing the guidance and recommendations of the external investigative committee, implementing measures to prevent recurrence, and posting quarterly progress reports on our website. With respect to these acts, eliminating concerns among related parties as quickly as possible is a top management priority. In addition, the improper claims related to working hour billing for defense equipment are currently under investigation. We will promptly report the details as soon as they have been clarified.

We revised our Corporate Spirit* on October 1, 2019 as one measure to prevent recurrence of improper acts. Our Corporate Spirit is based on the spirit of creative development inherited from founder Shiro Kayaba. The revised Corporate Spirit remains true to this spirit, but we have added "We shall follow all rules and face all issues honestly." This expresses our intention to comply and face the facts, given that the guidance of the external investigative committee pointed out a lack of compliance awareness and a corporate culture that did not face up to inconvenient facts. It also expresses our determination

to preclude improper acts in the future. In addition, fostering compliance awareness among all employees is a top priority because it is crucial for supporting quality management, which has always been one of our core management tenets.

* For details, please see page 4.

Our Future Approach

FY2019 is the final year of the FY2017-2019 Medium-Term Management Plan. During FY2017 and FY2018, we largely completed preparations for launching high-value added automotive products and consolidating the production lines for our construction machinery products to increase efficiency. However, there are still issues that require attention. We have been slow to restructure unprofitable businesses, and we have experienced construction machinery production delays because our manufacturing capacity has not kept pace with growth in demand.

We are now working to bring our seismic isolation/mitigation oil dampers into conformance with required standards as quickly as possible, and in view of issues in the past two years, we are restructuring our organization, including closing unprofitable businesses and locations, in order to sharpen our focus on our core operations. We are also preparing for the next medium-term management plan that will begin in FY2020 by developing competitive new products and innovative *monozukuri*.

The KYB Group will continue to devote itself to the challenging task of implementing reforms while fundamentally reviewing conventional approaches to its businesses with the goal of creating a fair and honest corporate group that has high ethical standards and places the highest value on compliance.

We will transition to an operating structure that ensures stable earnings while appropriately fulfilling our corporate social responsibilities. We are determined to regain trust in the KYB brand, so that it can continue to contribute to an affluent, vibrant society through the power of *monozukuri*.

We look forward to your continued support as we take on the challenges ahead.



Masao Ono

Representative Director,
President Executive Officer



Nonconforming Acts in the Inspection Process for Seismic Isolation/Mitigation Oil Dampers and Other Matters

Outline of Improper Acts

- 1. Falsified Coefficients:** In the inspection process, measurement results for damping force were deliberately increased or decreased by multiplying them by designated coefficients to keep them within an intended range.
- 2. Origin Adjusting:** In the inspection process, measurement results for damping force were deliberately changed to keep them within a desired range by using a Balance ON function (a program that moves the median damping force on extension and compression in the direction of the origin) and an Amplifier function (to adjust the zero point of the load on the inspection machine) of the personal computers installed in inspection machines.
- 3. Use of Materials That Did Not Conform with Specifications Certified by Minister:** Materials were used that did not comply with specifications certified by the Minister for seismic isolation oil damper components, including the pistons, packing and paints.
- 4. Falsified Device Coefficient of Stiffness:** Figures for device stiffness (the ability to resist deformation when force is applied) were deliberately increased to desired values when customers agreed that device stiffness values exceeded prescribed values.
- 5. Screw Problems:** Galling prevents screws used to attach the piston and piston rod from tightening fully. As a result, the seismic isolation oil dampers were shipped with a gap between the piston and piston rod.

Causes of Improper Acts

Contents	Cause	Comments
Corporate culture	Lack of compliance awareness	Inspectors at KYB Corporation and Kayaba System Machinery Co., Ltd. (KSM) who acted improperly, the supervisors who were aware of their improper acts but did not correct them, people in other departments, and certain managers and executives, lacked the fundamental compliance awareness that is an essential part of <i>monozukuri</i> .
	Corporate culture that did not face up to inconvenient facts	Certain managers and executives in the oil damper business at KYB Corporation and KSM were in positions where they should have stopped improper acts and rectified the situation in the first place. Instead, they perpetuated a corporate culture in the oil damper business of failing to face inconvenient facts by directing or giving their tacit approval for improper acts.
Business operation system	Factory management focused on simply filling orders received	In their factory operations, KYB Corporation and KSM accepted orders that exceeded their technical capabilities and production capacity for multiple reasons including a lax view of product performance requirements for sustaining the oil damper business and their focus on sales targets and delivery dates.
	Incomplete information-sharing systems	The systems for sharing information among KSM frontline operations and senior management, and between KYB Corporation and KSM, were deficient. Moreover, the Group's whistleblowing system was ineffective.
	Important business operations dominated by entrenched personnel	Certain entrenched management and frontline personnel dominated important operations in the oil damper business of KYB Corporation and KSM.
	Problems related to commercialization	The oil damper business relied heavily on specialized technicians before mass production began, and a system that would allow other managers to carefully and conservatively verify factors including oil damper technology, performance, quality inspection and production capacity was not fully in place. This situation was not remedied even after mass production began, so management was not able to properly monitor the business on a continuous basis as it expanded, or to implement appropriate improvements as they should have.
Quality inspection system	Deficient inspections	Manufacturing departments with a strong incentive to falsify inspection data had conducted performance inspection of themselves, which made it difficult to adopt cross checks, and therefore effective checks and balances were lacking in manufacturing departments.
	Lack of mechanisms to prevent improper acts involving inspection machines	Inspection equipment lacked systems to prevent improper acts, such as automatically recording raw data that would expose subsequent falsification of that data. Inspection machine administration was also inadequate, as it allowed inspection machine software itself to be improperly modified.
Internal audit system	Deficient internal audit system (deficient quality audits)	Quality audits by KYB Corporation or KSM were insubstantial and ineffective because they were conducted perfunctorily using a checklist of predetermined questions prepared in advance. In addition, companies were selected for audits on the basis of quality and percentage of process defects, but not on the basis of investigating improper acts.
	Deficient internal audit system (deficient audits of similar quality misconduct)	There were deficiencies in the internal audit system of KSM and our system for internal audits of KYB Group companies. Therefore, internal audits did not function properly. For example, internal audits conducted for improper acts similar to quality misconduct lacked rigor.

On its website, KYB periodically posts reports* of its progress in preventing the recurrence of improper acts and measures to identify and address such acts.

*First report posted in July 2019. Second report posted in October 2019.

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

The KYB Group released the report by an external investigative committee and published the results of the Group's internal investigation of the causes of improper acts and measures to prevent their recurrence. Please refer to these reports for details.

- Report by the external investigative committee on nonconforming acts in the inspection process for seismic isolation/mitigation oil dampers manufactured by KYB Corporation and its subsidiary for buildings
https://www.kyb.co.jp/company/progress/progress_20190213_02.pdf (Japanese only)
- Investigation into the causes of nonconforming acts in the inspection process for seismic/mitigation oil dampers manufactured by KYB Corporation and its subsidiary for buildings, and measures to prevent their recurrence
https://www.kyb.co.jp/company/progress/progress_20190213_01.pdf (Japanese only)

Outline of Measures to Prevent Recurrence

Foster strict compliance awareness and reform the corporate culture	Establish compliance management	<ul style="list-style-type: none"> • Establish compliance awareness at KYB Corporation and KSM • Foster compliance awareness throughout the Group • Revise the Corporate Guiding Principles and other guidelines • Emphasize the importance of compliance regularly • Implement personnel evaluations and related measures
	Change the mindset of all officers and employees	<ul style="list-style-type: none"> • Conduct education and training to raise awareness of social responsibility • Conduct education that incorporates numerous case studies and best practices from other companies • Conduct education on laws and regulations specific to businesses and products • Make education regarding quality mandatory
Evaluate business feasibility, and revise business operations, information-sharing systems and other matters	Establish a balanced business operation system	<ul style="list-style-type: none"> • Ensure appropriate business management at KSM • Review how decisions to accept orders are made at KSM • Develop business systems • Revise use of mass-production evaluation procedures for individual and small-batch products
	Ensure personnel are rotated	<ul style="list-style-type: none"> • Nurture successors by sharing expertise/know-how in the Company through effective job rotation and by increasing the transparency of operations
	Collect information and establish a feedback system	<ul style="list-style-type: none"> • Ensure thorough documentation of meetings, reports and instructions at KSM • Ensure that internal regulations are applied in the event of an emergency • Review the internal whistleblowing system to improve its effectiveness • Clarify the actions to be taken when quality misconduct is detected • Create a mechanism for extracting information
Improve inspection systems and methods	Implement inspection systems	<ul style="list-style-type: none"> • Strengthen the independence of quality assurance • Improve methods for onsite oil damper inspections with the customer present • Review inspection manual
	Implement preventive measures against fraudulent operation of inspection machines	<ul style="list-style-type: none"> • Tighten internal procedures for changing the software of oil damper inspection machines • Regularly monitor the software of oil damper inspection machines • Automatically record inspection results without human involvement • Automate inspection processes • Tighten controls on access to oil damper inspection machines • Ensure traceability of performance test data
Strengthen internal audit and control systems	Enhance internal quality inspection system	<ul style="list-style-type: none"> • Perform audits that consider quality misconduct • Perform audits that effectively verify inspection data • Institute audits by KYB Corporation • Leverage the support of external experts
	Tighten the subsidiary management system	<ul style="list-style-type: none"> • Strengthen systems for sharing information and collaborating among Group companies • Review management systems for Group companies • Analyze and monitor Group companies' business risks • Reorganize Group companies

Corporate Spirit

Imbued with the spirit of creative development of founder Shiro Kayaba, the KYB Group will dedicate its collective strengths toward being a highly ethical, fair and honest corporate group in order to regain trust in its brand through *monozukuri* (Japanese manufacturing expertise) that delights people and consistently contributes to a prosperous society.

Corporate Spirit (What KYB Aims to Be)

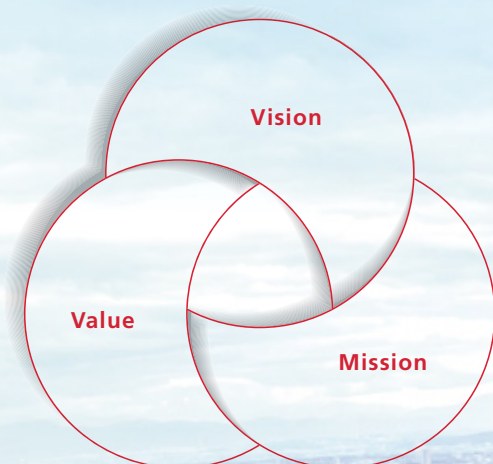
By serving technologies and products that make people's lives safe and comfortable, KYB group dedicates to the society.

1. We shall follow all rules and face all issues with honesty.
2. We shall build a corporate culture full of vitality, and hold high goals.
3. We shall value sincerity, cherish nature and care for the environment.
4. We shall constantly pursue creativity to contribute to the prosperity of customers, shareholders, suppliers and society.

Vision

What the KYB Brand Can Do for the World
***Monozukuri* That Delights People**

KYB aims to support the development of society through the joy of *monozukuri*, and to make people happier as a result.



Mission

The Mission of the KYB Brand
***Monozukuri* Taken One Step Further**

KYB draws on technical expertise acquired over many years to continue delivering value to clients and markets. Using our unique capabilities, we take *monozukuri* one step further to provide clients with new value and greater satisfaction.

Value

The KYB Brand Delivers Value
Technology for Comfortable Living

Sensory value: Comfortable living and the joy of *monozukuri*

Functional value: Reliable quality

The value KYB promises end users is greater comfort from creative technology and honesty in product development.

The value KYB promises clients is the reliable quality that comes from thinking of end users as clients.

The value KYB promises employees is the joy of *monozukuri* that comes from knowing they are changing the world.



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Editorial Policy

From FY2019, the KYB Group issues this integrated report to communicate its management policies, business strategies and CSR activities to shareholders, investors and all other stakeholders. We hope to create new opportunities for dialogue by covering business performance, management strategies and other financial information, as well as the environment, society, governance (ESG) and other non-financial information in order to inform readers about our efforts to increase corporate value over the medium to long term. For a better reading experience, we will continue to improve the report based on stakeholder feedback. We welcome your suggestions.

Reporting Period

FY2018 (April 1, 2018 to March 31, 2019)

(Includes efforts that are outside the above reporting period)

Scope

The report covers KYB Corporation and subsidiaries and affiliates in Japan and around the world. Environmental data is for KYB Corporation (Sagami Plant, Kumagaya Plant, Gifu North Plant, Gifu South Plant and Gifu East Plant) unless otherwise annotated.

Date of Issue

December 2019 (We plan to issue our next report in August 2020.)

Forward-Looking Statements

This report includes plans and forecasts as of the issue date, and estimates based on our business plans and management policies. Forward-looking statements are based on information available at the time of report preparation, and actual results may differ depending on changes in relevant conditions.

Feature: The History of KYB and Its Businesses

KYB's current businesses have been built on the creativity and tireless technological exploration of the development people who have followed in the footsteps of founder Shiro Kayaba. As we strengthen our foundation for further rapid growth, we take a look back at KYB's progress over more than 80 years and the origin of its *monozukuri* (Japanese manufacturing expertise).

Our Founding DNA

KYB Began with the Creativity of Its Founder and His Tireless Pursuit of Technology.

A search for the origins of KYB's advanced technologies and corporate philosophy leads back to founder and inventor Shiro Kayaba. At the age of 21, he founded the Kayaba Research Center (which celebrated its 100th anniversary on November 19, 2019) and used cutting-edge hydraulic technology and creativity to invent and develop practical applications for takeoff and landing equipment including for aircraft carriers. The hydraulic buffers (oleo struts) that he developed for aircraft takeoff and landing equipment became the basis for KYB's vibration control technology,¹ a precursor to automotive shock absorbers and other products. The metal plating of oleo struts on the sliding components of a Japanese Zero fighter plane discovered on

the bottom of Japan's Seto Inland Sea in 1977 was still shiny after more than 30 years underwater, demonstrating the sophistication of KYB's technologies in the 1940s.

Furthermore, KYB's hydraulic components for aircraft control systems greatly improved control that until then had relied on physical force, thus helping to lessen the burden on pilots. Kayaba's hydraulic technology subsequently evolved into the power control technology² central to modern construction machinery and industrial cylinders. Today, products that use KYB's core vibration control and power control technologies account for the majority of sales.

Shiro Kayaba's spirit of creative development and advanced technology were the driving force behind KYB's establishment and remain part of the Company's DNA today.

Notes: 1. Technology to absorb and mitigate shock and vibration
2. Technology that transmits and controls a large amount of power with a small amount of force

An Independent Company with an Enduring Spirit of Freedom and Creativity

KYB has been an independent company unassociated with any larger corporate group throughout its 84-year history.

History

November 1919	Founder Shiro Kayaba established Kayaba Research Center
January 1927	Kayaba Seisakusho established
March 1935	Kayaba Manufacturing Co., Ltd. established
November 1948	Kayaba Industry Co., Ltd. established
October 1959	Company stock listed on the Tokyo Stock Exchange



Shiro Kayaba (circa 1945)

Selected List of Kayaba Award Recipients

Promotes the Development and Commercialization of Product Applications

1975

Kayaba Award established one year after the death of founder Shiro Kayaba

Development of an embarkation ramp

Development of a compact internal position control valve

1976

Development of an electronic control system (ECS) for linear lock stitching

1978

Development of a one-chamber air-type front fork

This product absorbs more shock and delivers better ride quality and handling stability than a conventional product by combining an air spring with the metal spring in the chamber to generate counterforce. KYB was first in the world to develop this type of product, which has been adopted for use in motocross bikes and also in large street motorcycles with upright front forks.

1979

Development and application of a motorcycle suspension simulation system

Shiro Kayaba imbued the company he founded with the basic tenets of vitality, love and creativity. Our independent perspectives and ideas give us the will to respond flexibly to customer issues and contemporary needs. For example, in the automotive industry we have co-developed and proposed a large number of products to ensure a safe and comfortable ride. Deploying this strong independence, we have acquired unmatched experience and technologies by collaborating with a wide variety of manufacturers.

Shiro Kayaba stated that ultimately, the ability to deliver quality with exceptional reliability supported by technological capabilities is the result of the cumulative knowledge and efforts of individual employees on the manufacturing floor. In other words, it comes from manufacturing skills backed by boundless energy. Our founder believed that the development of new technologies was the basis of KYB's growth, and his spirit has been the force driving us to become the leader in hydraulic technology. The ambitions of our founder live on in our Corporate Spirit and Management Vision, and remain the foundation supporting the KYB Group.

Our Pioneering Spirit of Development Opens the Door to the Future.

Our founder considered the development of new technologies to be the basis of corporate development. Following his death, in 1975 we embodied this philosophy in the Kayaba Award, which is given to employees who make remarkable

achievements from a creative perspective in the area of technological development.

A vane pump now widely used as a component in continuously variable transmissions (CVT) for vehicles received the Kayaba Award in 2004. The hydraulic pressure from the vane pump enables smooth gear shifting. An important component that determines fuel efficiency, the vane pump addressed a variety of needs, including space saving, high efficiency, low noise and low cost, in addition to fundamental performance. We also completely renovated our production line to install the vane pump inside the transmission, which thoroughly eliminated contamination.³ As a result of our commitment to quality, as of 2015 we had achieved cumulative production of approximately 20 million CVT vane pumps with zero complaints. The 2017 Kayaba Award went to the development of an adjustable damping force shock absorber with an external proportional solenoid. This computer-controlled shock absorber optimizes the attitude of automobiles. The use of a proportional solenoid as the actuator allows the shock absorbers to control attitude according to driving conditions eight times faster than conventional shock absorbers that use a stepping motor.

Note 3. Extraneous material left over from the manufacturing process or caused by wear inside the product.



Adjustable damping force shock absorber with a proportional solenoid

Adding Greater Value to Products

1981
Development of a new suspension for the 82MX model

1983
Development of an automated production line for large valves

1986
Development of a high-capacity actively controlled suspension (HICAS) system

In addition to steering the front two wheels, this system predicts vehicle behavior based on vehicle speed and steering angle to improve stability at high speeds. It changes the position of the front and rear tires according to steering. Hydraulics have now been replaced with electronics using the knowledge gained from HICAS to develop its successor, a rear active steering actuator that uses an electric actuator for the rear steering rack.

1987
Development of a cut card-type direct jacquard machine

1989
Development of a hydraulic active suspension for passenger vehicles

Use of Composite Technology

1992
Development of an unmanned production line for PV shafts

1996
Development of a semi-active suspension system for railroad equipment

This system contributes to a comfortable ride for railroad cars using electronic control to optimally adjust the damping force of railroad oil dampers according to car vibration. Highly rated by customers, this system attracted attention as the world's first such technology for mass-produced railroad cars.

1999
Development of the KVMG-200H control valve

2000
Development of a lightweight, high-performance front fork for extreme-performance sports motorcycles

This product brings together several new and outstanding technologies, including titanium ion plating on the inner tube sliding surface to improve front fork performance, and the world's lightest titanium alloy bolts, with significant advantages over competing products.

2001
Development of 4KW2 and 4KW3 power steering pump products and associated production line

2002
Development of diamond-like carbon (DLC) coating
Development of a semi-active system using a proportional electromagnetic relief valve for railroad equipment

Pursuing New Dimensions of Performance

2004
Development of a vane pump for use in CVTs

2006
Achievement of sophisticated performance for suspensions used in extreme-performance sports motorcycles

2009
Development of the 7K vane pump for use in CVTs in light and compact automobiles

2010
Development to reduce oil leakage from seals

2017
Development of method for mass-producing adjustable damping force shock absorbers with an external proportional solenoid

Given the growing market for adjustable damping force shock absorbers with a proportional solenoid, we developed a method for mass-producing them with a small, external individual damping control unit (IDC) that delivers excellent performance and ease of installation. We expect the product to be adopted in an increasing range of vehicle models because of its responsiveness and damping force range are superior to competing products and because of its ease of installation.

Evolution into a Comprehensive Hydraulic Equipment Manufacturer

From the Automobile Shock Absorber Market to the Special-Purpose Vehicle Market

KYB has always valued joint development with manufacturers. Shortly after World War II, we started jointly developing shock absorbers with two Japanese automakers. Japanese cars at that time were not equipped with shock absorbers, so we researched multiple prototype iterations to improve driving performance and durability. Our success led to orders for 4,000 shock absorbers for the jeeps of the U.S. occupation forces in Japan in 1948, and we began full-scale production of shock absorbers for domestic automobiles.

The products we delivered excelled in functionality, durability, and cost, so they were fully adopted in domestic passenger cars in 1955 and our market share grew to over 75%.

We subsequently deployed original technology in automotive hydraulic equipment in markets for special-purpose vehicles such as U.S. military trucks and large dump trucks and concrete mixer trucks used for construction, which are customized with a wide range of equipment.

Rapidly Extending Our Acclaimed Technology into New Markets

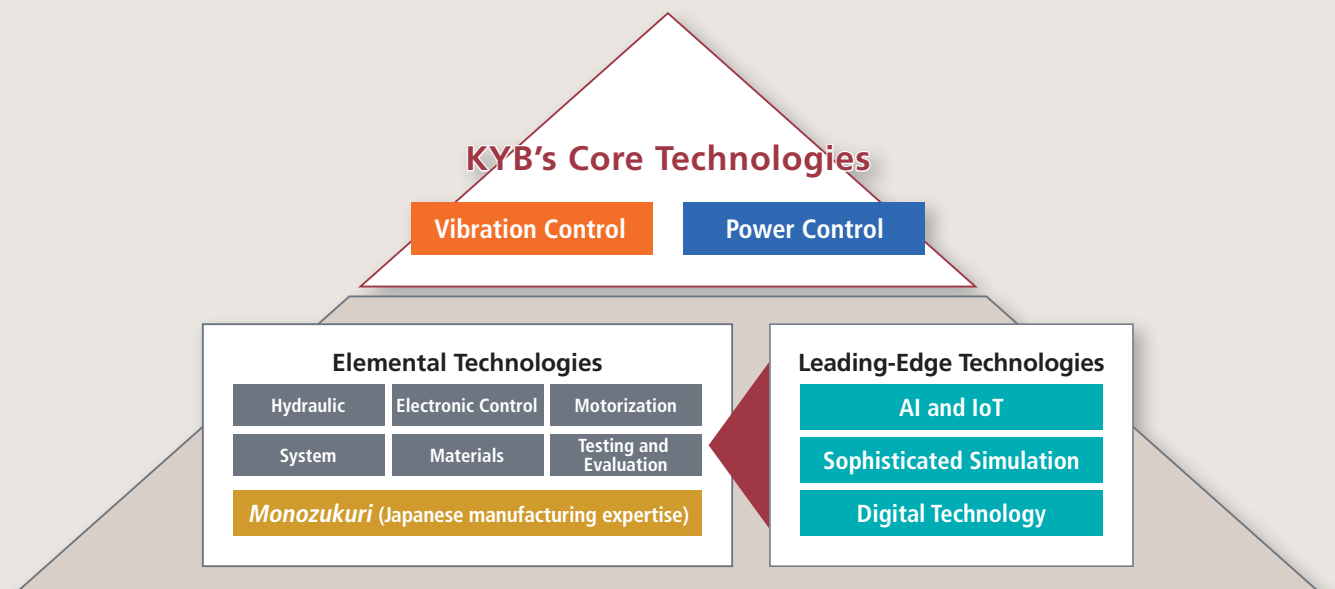
After World War II, KYB laid its foundation as a hydraulic equipment manufacturer by expanding into hydraulic oil presses and hydraulic jacks for automobiles. Due to their controllability and functionality, KYB's hydraulic jacks have been used in a wide range of applications including aircraft maintenance, civil engineering and construction, ship hatches, and lifting work.

In 1951, we began collaborating with Japan National Railways (JNR), now Japan Railway (JR), to develop oil dampers for railroad cars. The equipment we developed, which was similar in appearance to the shock absorbers for large four-wheeled vehicles, demonstrated superior railroad car speed, ride comfort and cost performance compared with the dampers then in use, which combined several types of springs. As a result, all JNR railroad cars built from 1952 onward used the product we developed. Its use subsequently expanded to JNR's diesel railroad cars, and to private railroad companies.

In the railroad equipment business, our steering dampers and pantograph hydraulic shock absorbers have a dominant market share. The technologies we have evolved and the strong and diverse customer base we have built, which includes major automobile, motorcycle, and construction machinery manufacturers, have become our strengths.

KYB's Technologies

KYB works to improve people's quality of life by solving societal issues through the use of a wide range of technologies that it has cultivated over many years based on its core technologies, and by combining these technologies with AI, IoT and other leading-edge digital technologies.



KYB's Advanced Technology for a Better Future

Precision hydraulic technology is essential for safety, reliability and comfort. KYB has continued to refine this technology since its establishment, leveraging vibration control to supply shock absorbers for automobiles, suspensions for motorcycles and power steering; and leveraging power control technology to supply components such as valves, pumps, hydraulic cylinders, actuators and reservoir modules for construction machinery, industrial vehicles, railroad cars and aircraft, as well as reservoirs for space rockets. Few companies worldwide offer this range of elemental technologies.

Control technology that combines suspension and steering is key to achieving autonomous driving. KYB is involved in both of these areas, and has been developing and using electronic control technology since the late 1960s. Two of KYB's key features are its system development capabilities including software for applications such as electric power steering and active suspension, and its in-house production of electronic control modules.

New Technology Initiatives for Autonomous Driving



steering that can be equipped with LKAS to flexibly operate in-vehicle systems.

The use of lane keep assist systems (LKAS) to support autonomous driving is increasing, so we have developed electric power



becoming practical. We are miniaturizing the electronic servo to meet demand for computerized design and autonomous operation of vehicles in which space for installation is limited.

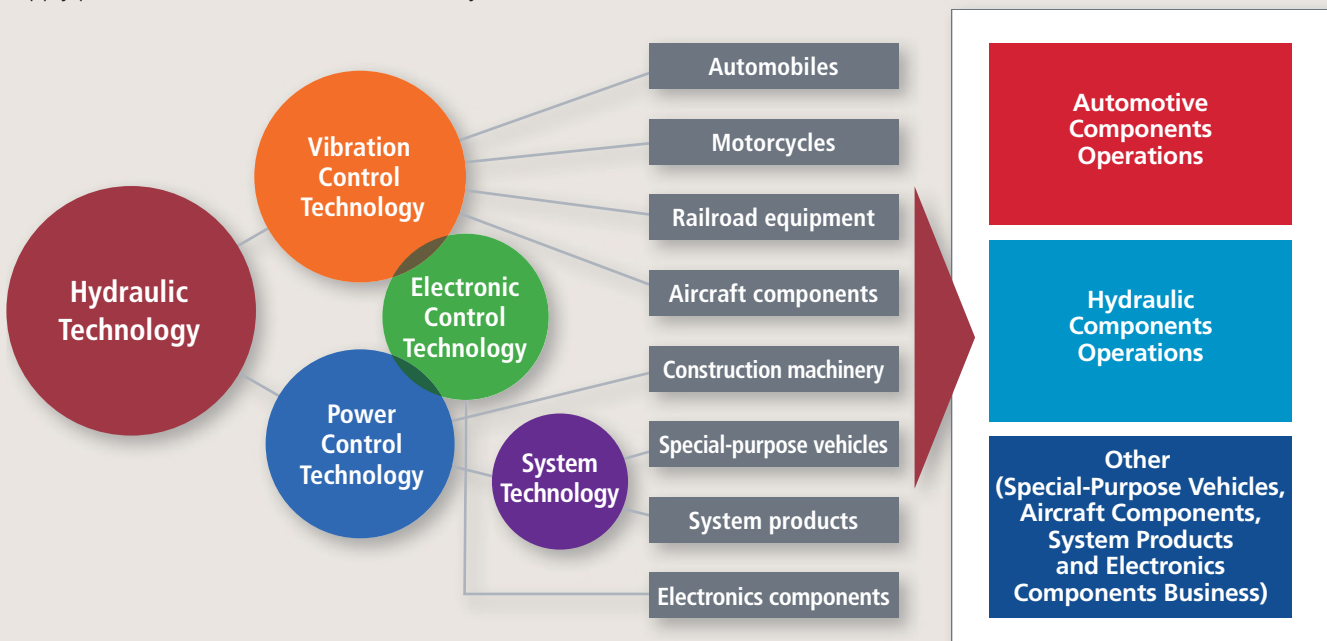
We have begun developing electronically controlled pumps to address needs in operating agricultural and construction machinery, for which autonomous driving is



To support autonomous operation of construction machinery and application of IoT, we have also begun developing electronic control valves for 20-30 ton excavators. We are miniaturizing the electronic control portion to allow installation with no additional space requirements.

KYB's Core Technologies and Businesses

KYB combines system, electronic control and other technologies with its core vibration control and power control technologies to supply products to customers in a wide variety of fields.



Global Expansion

Creating Production and Sales Bases Worldwide

Another KYB strength complementing its hydraulic technology portfolio is its global network of production and sales bases. Quick to expand overseas, KYB formulated a long-term Management Vision in 1966 with the goal of becoming a comprehensive global hydraulic equipment manufacturer. In 1973, we moved to accelerate operations outside of Japan by establishing overseas headquarters to respond to international expansion among customers and improve the product export ratio. Centered on shock absorbers, the KYB brand gained popularity overseas as a result, and in 1981 our export ratio exceeded 10.1% and the value of exports exceeded ¥10 billion.

In 2002, we established a wholly-owned subsidiary, KYB Industrial Machinery (Zhenjiang) Ltd. (KIMZ) as a production and sales base for automobile shock absorbers in Jiangsu Province, China. In 2004, we established KYB Hydraulics Industry (Zhenjiang) Ltd. in Jiangsu Province as our first overseas production base for Hydraulic Components Operations. In the same year, we also established KYB Technical Center (Thailand) Co., Ltd. for technology development in Thailand. Thus we created a global development network spanning the four regions of Japan, the United States, Europe and Asia, enabling development that meets the unique needs of local markets.

Manufacturing the Best-Designed, Highest-Quality Products Worldwide

KYB has the third largest⁴ share of the global automobile shock absorber market. Currently, we have 38 production bases, five research and development bases, and 35 sales bases in 23 countries. We provide products, technologies and services in the United States and Europe, and in the leading emerging economies of Brazil, Russia, India and China, as well as other emerging countries such as Vietnam, Indonesia, South Africa, Turkey and Argentina.



The Developmental Experiment Center test track

Moreover, we established the Developmental Experiment Center in Gifu Prefecture in 2011 to create high-quality products that meet the needs of the regions we serve. On its expansive site, we have built a large-scale test track that reproduces road surface conditions around the world, allowing simulations and road tests with actual vehicles to develop better products.

We will continue to challenge the status quo by pressing forward with the creation of high-value-added products to achieve stable sales and increase profitability unaffected by market fluctuations.

Note 4. Source: KYB data (As of March 2019)

Key Milestones Overseas



1974

Sales subsidiary established in the United States

Chicago Office established in 1972, and sales subsidiary KYB Corporation of America following feasibility study of entering the U.S. market.



1987

Shock absorber manufacturing subsidiary established in the United States

Kayaba Industries established as a production base for shock absorbers in response to the rapid appreciation of the yen and the entry of Japanese automobile manufacturers into the United States.



1996

Joint venture established in Spain to manufacture hydraulic components for automobiles

First production and sales base established in Europe for vane pumps for power steering through a joint venture with ArvinMeritor, Inc..



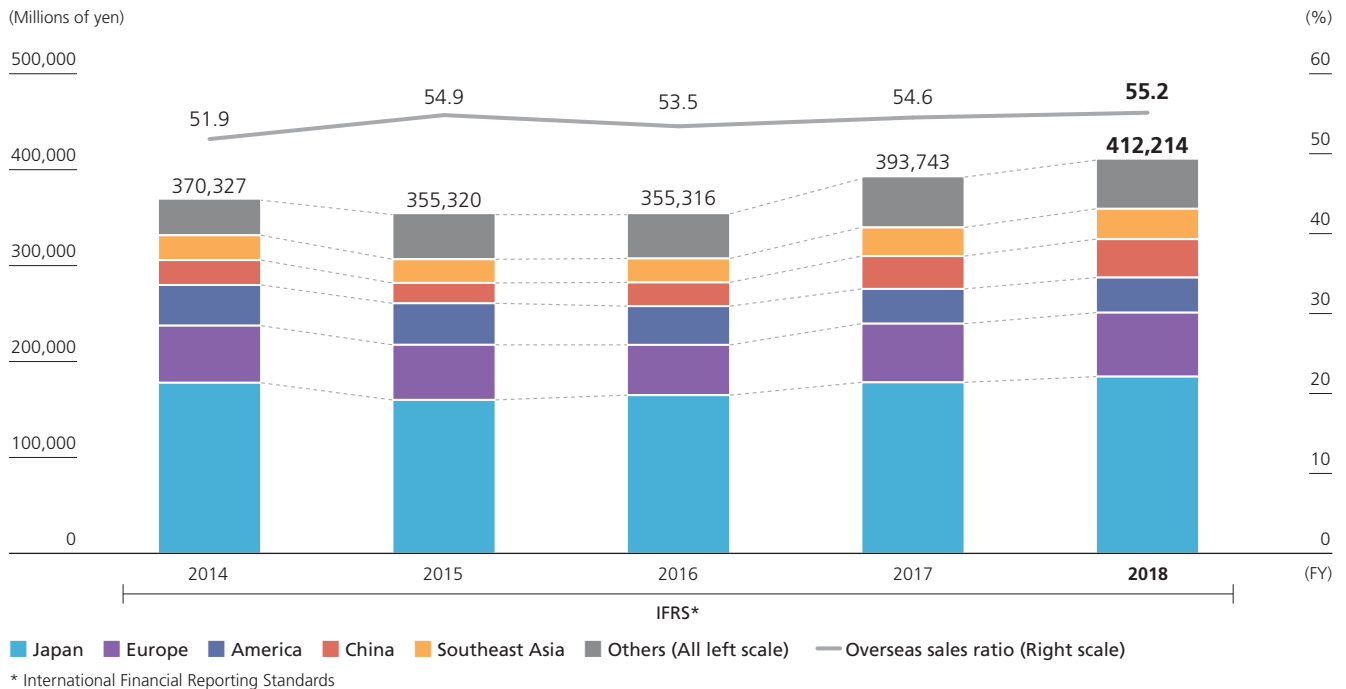
2002

Automobile shock absorber manufacturing subsidiary established in China

Wholly-owned subsidiary KIMZ established as a production and sales base for automobile shock absorbers. Mass production started in 2004.

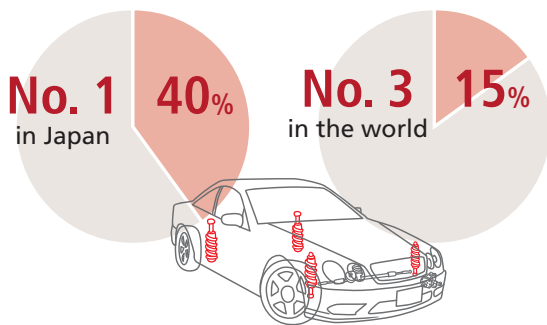
The KYB Group by the Numbers

Net Sales by Geographic Region and Overseas Sales Ratio

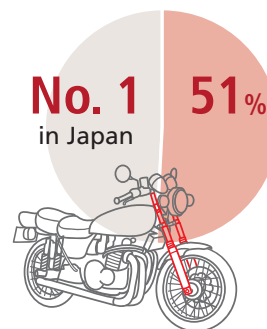


Market Share of Major Products

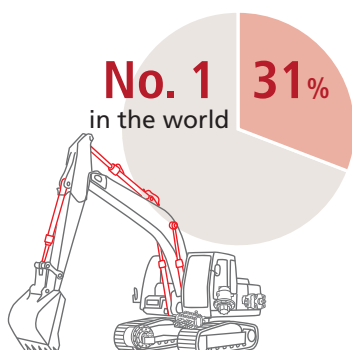
Shock Absorbers



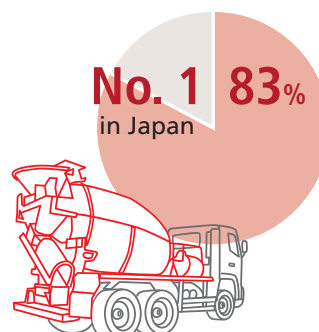
Motorcycle Front Forks



Hydraulic Cylinders



Concrete Mixer Trucks



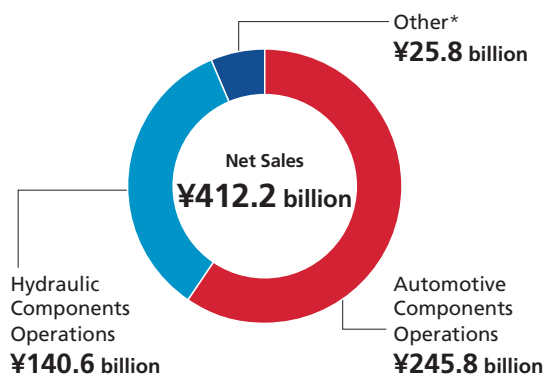
Source: KYB data (As of March 31, 2019)

KYB Group Business Activities

Business Overview

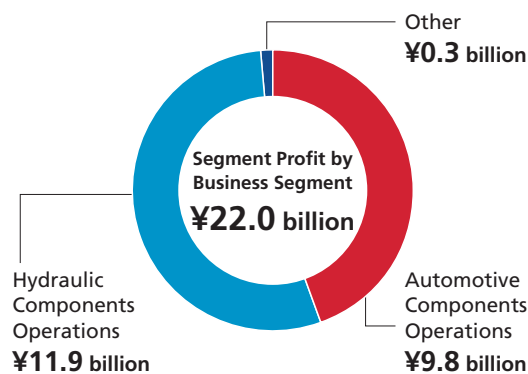
Since its establishment, KYB Corporation has offered a variety of products with hydraulic technology at their core based on a spirit of creative development. We will continue evolving to deepen the trust and support we have gained from customers around the world through product development that integrates technologies including vibration control, power control, systems, and electronic control.

Net Sales by Business Segment



* "Other" includes special-purpose vehicles, hydraulic equipment for aircraft, system products and electronics components not included in the other two reportable segments.

Segment Profit by Business Segment*



* Segment profit corresponds to operating profit in JGAAP.

Main Businesses

Automotive Components Operations



This business primarily develops and supplies a wide variety of products for automobiles and motorcycles. Leveraging vibration control technology, it serves market requirements for comfort, safety and maneuverability in day-to-day driving and motorsports.

Major Products

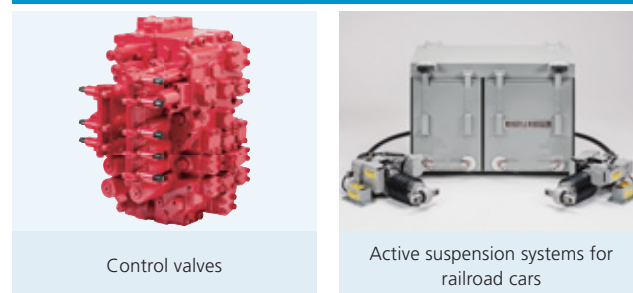
Shock absorbers for automobiles: Shock absorbers (original equipment (OE), aftermarket)

Shock absorbers for motorcycles: Front forks, rear cushion units

Hydraulic equipment for automobiles: Vane pumps, vane pumps for continuously variable transmissions (CVT), hydraulic power steering systems, electric power steering (EPS)

Others: Stay dampers, shock absorbers for all-terrain vehicles, free locks

Hydraulic Components Operations



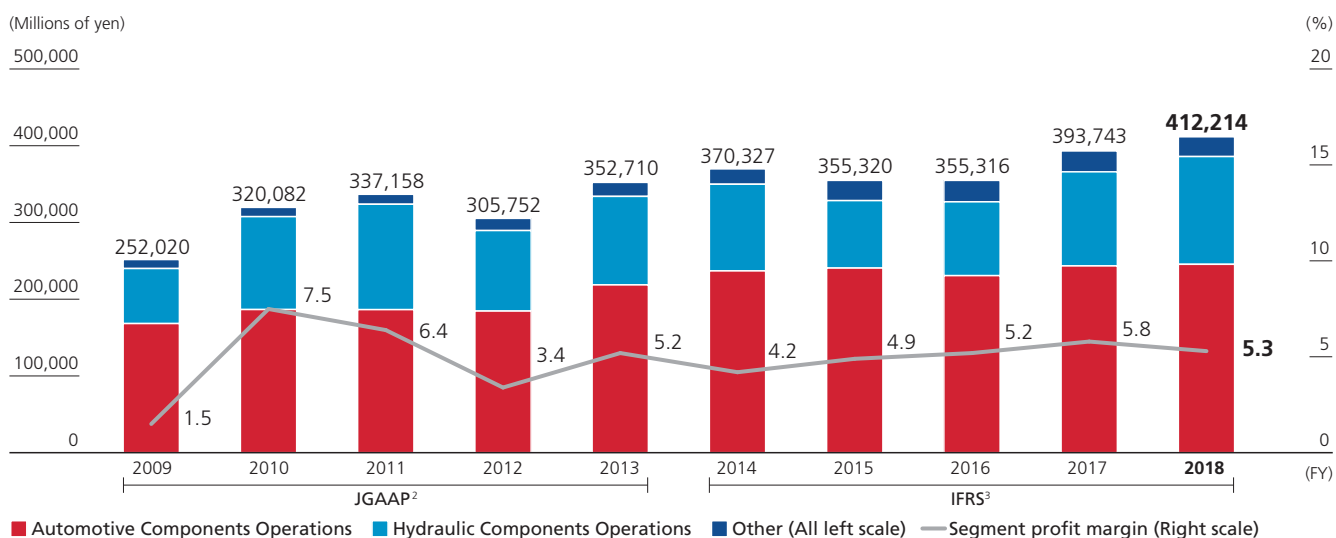
This business develops and supplies a variety of hydraulic equipment for construction machinery, industrial vehicles and railroad cars. It also leverages vibration control technology to meet the needs of onsite *monozukuri* and railroad infrastructure for precision miniaturization, digitalization and systemization.

Major Products

Hydraulic equipment for industrial use: Cylinders, valves, pumps, motors, mini-motion packages (MMP), hydrostatic transmissions (HST)

Others: Dampers for railroad cars, brakes for railroad cars, active suspension systems for railroad cars, seals

Net Sales by Business Segment and Segment Profit Margin¹



Notes: 1. Before FY2014 segment profit margin was presented as operating profit margin under JGAAP.

2. Japanese Generally Accepted Accounting Principles

3. International Financial Reporting Standards

Other



Concrete mixer trucks



Actuators for aircraft



Chair ski shock absorbers for disabled skiing



Floor equipment

• Special-Purpose Vehicles Division

This business develops and manufactures special-purpose vehicles, focusing on a lineup of small to large concrete mixer trucks that have the largest market share in Japan. The excellent mixing, discharging, environmental performance and other features of our products boost work efficiency.

• Aircraft Components Division

This business supplies flight control systems, landing systems, hydraulic and pneumatic systems and other hydraulic equipment for aircraft. In the aerospace technology market, which requires outstanding reliability, we leverage cutting-edge hydraulic technology to support flight safety and comfort.

• System Products and Electronics Components Business

We are opening up new possibilities for hydraulic technology, such as auditorium and stage control systems that support theater performances. In addition to hydraulic technology, we are also focusing on electronic control technology to develop products such as electronic control units (ECU) for automobiles and other uses.

Major Products

Special-purpose vehicles: Concrete mixer trucks, granular material carriers, special-function vehicles

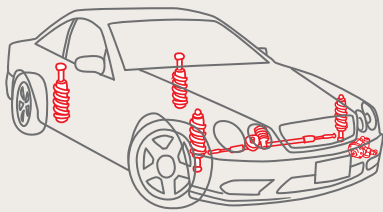
Hydraulic equipment for aircraft: Actuators, valves, wheels, brakes

System products and electronics components, etc.: Auditorium and stage control systems, ECU, mobile communication devices

Product Lineup

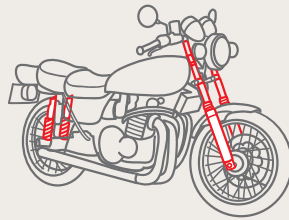
KYB products support *monozukuri* (Japanese manufacturing expertise) in a broad range of fields. The products presented here support daily life by providing safety and comfort in a variety of situations.

Automotive



KYB makes automotive components that give users the drivability they want in any situation, from a family outing to a challenging motorsports event.

Motorcycles



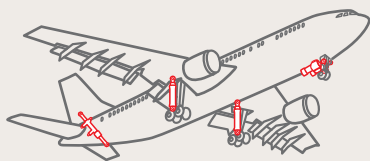
KYB makes motorcycle components for the highest level of riding stability and superior maneuverability by using race-proven technology designed for extreme speed and safety.

Railroad Equipment



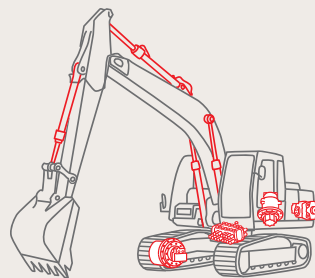
KYB railroad equipment helps achieve comfortable high-speed travel by buffering rolls from air pressure when cornering, passing oncoming trains or entering tunnels.

Aircraft Components



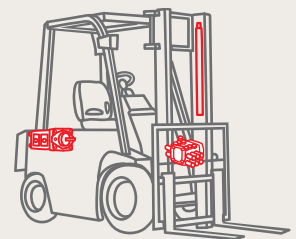
KYB provides a wide range of aircraft components that meet the strict reliability requirements of the aerospace technology market, including components for flight control and landing, and for hydraulic and pneumatic systems.

Construction Machinery



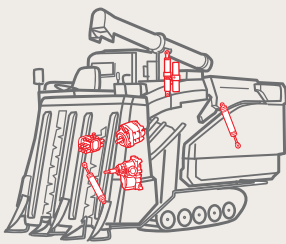
KYB construction machinery components are widely incorporated in equipment used at construction sites under severe conditions.

Industrial Vehicles



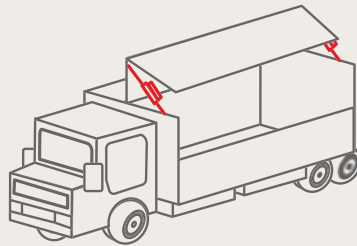
KYB puts its components to work in forklifts and other industrial vehicles to provide powerful support for improved operational efficiency.

Agricultural Machinery



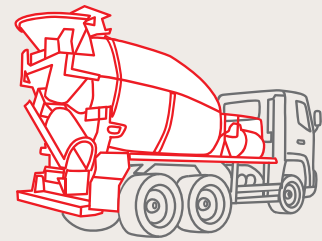
KYB agricultural machinery components save space and energy for easier farming.

Industrial Machinery



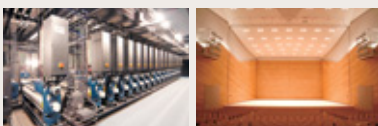
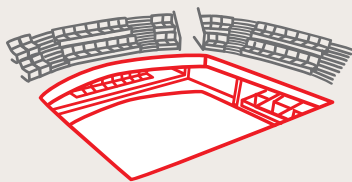
KYB supplies components for industrial machinery from elevators to factory equipment to help accelerate production.

Special-Purpose Vehicles



KYB special-purpose vehicles support comfort in all environments. KYB concrete mixer trucks have the highest market share in Japan.

Theater Equipment and Equipment for Theater Construction



KYB technology supports theatrical productions by providing rigging, acoustic reflectors and other essential equipment for performance venues.

Marine Products



KYB hydraulic and tension control technologies make work at sea easier, including for ships operating remote devices for deep sea exploration, as well as for transport, supply and rescue.

Sports and Welfare



KYB uses its core technologies to develop products for sports and welfare.

Business Strategy Overview

FY2017–2019 Medium-Term Management Plan Progress

	IFRS			
	FY2017 Actual	FY2018 Actual	FY2019 Forecast (As of May 2019)	FY2019 Target (Announced May 2017)
Net Sales	¥393.7 billion	¥412.2 billion	¥410.0 billion	¥398.0 billion
Segment Profit*	¥22.9 billion	¥22.0 billion	¥20.6 billion	¥26.0 billion
(Segment Profit Margin)	5.8%	5.3%	5.0%	6.5%
ROE	8.8%	—	8.4%	10.0%

*Segment profit corresponds to operating profit in JGAAP.

Basic Strategy for FY2019

FY2019 is the final year of the FY2017–2019 Medium-Term Management Plan. Positive outcomes during the first two years of the plan include the launch of value-added products for automobiles, and preparations for the transfer and consolidation of the manufacture of products for construction equipment are nearly complete. On the other hand, issues that remain include delays in the restructuring of unprofitable businesses, and delays in production to meet growing demand, especially for hydraulic equipment for construction machinery. In addition, improper acts in the seismic isolation/mitigation oil damper business have caused great concern and inconvenience for all those involved.

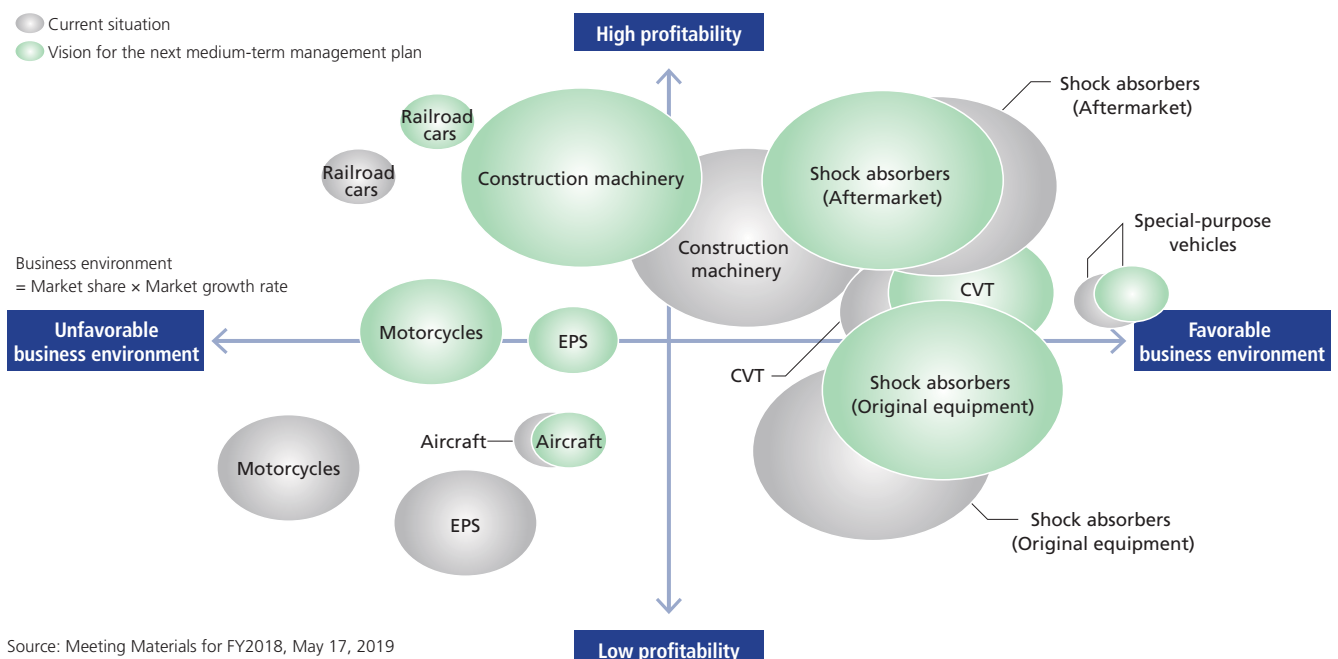
Given these circumstances, in FY2019 the Group's top priority is to thoroughly inculcate a corporate culture of compliance and safety first, while focusing on bringing our seismic isolation/mitigation oil dampers into compliance with regulatory standards. In addition, we will move ahead with reorganization by making decisions about pending matters including withdrawing from unprofitable businesses and closing production bases, and will develop competitive new products and promote innovative *monozukuri*.

Reforms will be challenging, but seeing them through will strengthen our earnings structure.

Vision for the Next Medium-Term Management Plan

In the next medium-term management plan, we will focus on stabilizing our revenue base and generating sustained growth. Key initiatives to maximize earnings will be closing unprofitable

production bases and implementing global restructuring in order to selectively focus on further improving the profitability of businesses in which we are highly competitive.



Source: Meeting Materials for FY2018, May 17, 2019



Medium-Term Strategy

For long-term growth, map out plan for integrating and reorganizing production bases and companies to match geographical shifts in customer demand, and for developing and promoting sales of value-added products

Progress and Future Initiatives

Fundamental structural reforms are progressing, with geographic and business integration including the reorganization of our operations in Europe and the consolidation of production bases in the motorcycle business. We also expect China to be a growing market for the EPS business and have launched a joint venture there to improve profitability.

We will stabilize our revenue base by globally unifying shock absorber specifications for mass markets, and are planning to start doing the same for aftermarket products to expand sales. In addition, we will use IoT and AI to accelerate the launch of innovative product lines in Japan and overseas, gradually increasing the level of automation with the ultimate goal of eliminating processing costs through fully automated operations.

We will also work to generate sustained growth through further rollouts of the high-value-added products we are already mass-producing to increase orders, and by expanding product orders and promoting sales of products for the growing sport utility vehicle, electric vehicle and pickup truck markets.



Medium-Term Strategy

Ensure stable sales and profit that are unaffected by market fluctuations
Maintain base in excavators while promoting sales in growth markets in which we were not fully active

Progress and Future Initiatives

Building a system that is resilient to market fluctuations is a key initiative for the Hydraulic Components segment, which has therefore been transferring production of control valves for medium-sized excavators to create an integrated line. Integrating casting, machining and assembly lines will improve productivity, and integrating production and development bases will reduce development time and further improve product capabilities. In addition, we will consolidate the production of motor products to establish a system that can handle high demand.

In the mini and ultra-large excavator markets, where demand is forecast to remain stable, we expect to maintain high market share by expanding production capacity.

In addition, to generate sustained growth, we will conduct sales promotion activities for products for the railroad, agricultural machinery, skid-steer loader (SSL) and compact track loader (CTL) and other non-construction machinery markets.



Progress and Future Initiatives

In the Special-Purpose Vehicle Division, we will leverage our solid domestic market share to strengthen after-sales service and service part sales in Japan while further expanding business overseas.

In the Aircraft Components Division, we will focus on quickly resolving the issue of inappropriate claims in connection with defense equipment and improve profitability by reviewing conventional channels for expanding private sector demand and by streamlining the public sector business.

In the System Products and Electronics Components Business, we will focus on preventing the recurrence of improper acts regarding seismic isolation/mitigation oil dampers and on manufacturing replacement parts.

Stakeholder Communications

Basic Policy

Our Corporate Spirit states, "The KYB Group contributes to society by providing technologies and products that make life safe and comfortable." To fulfill this we must comply with the following:

1. We shall follow all rules and face all issues with honesty.
2. We shall build a corporate culture full of vitality, and hold high goals.
3. We shall value sincerity, cherish nature, and care for the environment.
4. We shall constantly pursue creativity to contribute to the prosperity of customers, shareholders, suppliers and society.

In this spirit, we will deepen our dialogue with all stakeholders and help them gain a better understanding of our company. Through dialogue, we will clarify the issues

we should address and solve them one by one, thus earning the trust and meeting the expectations of stakeholders.

In addition, as we strive to become a better company we will contribute to the development of a sustainable society through the creation of products that are friendly to people and the Earth, based on the technological capabilities that we have enhanced through ceaseless, creative and innovative research and development.



Current Status of Stakeholder Communications

Stakeholders	Engagement Policy	Approach
Customers (Manufacturers and end users)	Provide quality products and services that satisfy customers at the right time and price to earn the trust of society.	Answer phone inquiries
		Communicate via the corporate website
		KYB Technical Review
		KYB Group Report
		KYB Museum
Shareholders	Disclose business details, management policies, business forecasts and results to shareholders in a timely and appropriate manner.	General Meeting of Shareholders
		Reports (Annual Securities Report, Flash Report, etc.)
		Plant tours for shareholders
Business Partners	Respect our suppliers as valuable business partners, and build relationships of prosperity and trust.	Procurement policy information meetings
		Regular visits
Employees	Contribute to the sustainable development of companies and the creation of a prosperous society, which are common interests for labor and management.	Labor-management meetings
		President's messages
		Employee Satisfaction Survey
		Internal newsletter
Local Communities	Contribute to the development of local communities through active engagement, and by energetically participating in volunteer activities, local events, and other activities.	Invitations to KYB events
		Participation in local community events

Relationship between the KYB Group and Stakeholders



The KYB Group's Social Responsibilities

The KYB Group always seeks to be creative in its business activities and to contribute to the progress of customers, shareholders, business partners and local communities.

Each department sets out the corporate social responsibility (CSR) activities that it will implement during the fiscal year based on the Corporate Spirit and Management Vision. The outcome of each activity is reviewed in an ongoing cycle of improvement and renewal.

Employees follow the Corporate Guiding Principles in their work and deepen their awareness of the importance of CSR.

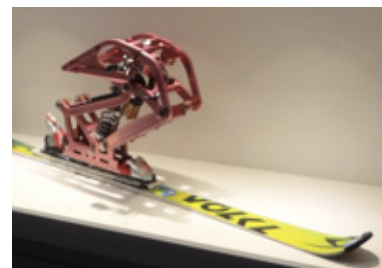
Frequency	Details	Relationship with Business Activities
As needed	Phone call or e-mail form	Collect information on customer needs and enhance customer satisfaction
As needed	Company information and business announcements	
Twice a year	Introduction of technologies and products	
Once a year	Disclosure of financial and non-financial information	
As needed	Museum displaying KYB products and other materials	
Once a year	Business report that includes consolidated financial statements, financial statements, report on audit results, deliberation and resolution of matters to be resolved	Increase corporate value through dialogue
Once a year or more	Report to shareholders	
Once a year	Promote dialogue through plant tours	
As needed	Policy sharing	Strengthen relationships based on mutual trust
As needed	Various meetings	
Several times a year	Various meetings between labor and management	Strengthening labor-management relations Improve employee motivation
Twice a year or more	New Year convocation and speech	
Once a year	Questionnaire survey	
Once a month	Communication via internal newsletter	
As needed	Events held at each plant	Coexist with local communities
As needed	Interaction with community residents	

FY2018 Highlights

Support for the Para-Alpine National Ski Team

We have been an official sponsor of and supplier to the Para-Alpine National Ski Team of the Japan Para-Ski Federation since 2015. We develop shock absorbers for the chair-skis of the Japanese team and provide technical support at the team's training camps and for World Cup competitions in various countries. Takeshi Suzuki, a KYB employee and skier chosen by

the Japan Para-Ski Federation to compete in the Paralympics, has participated in numerous races and worked hard in practice. He also contributes by maintaining positive media relations and giving lectures. The KYB Group will continue working with para-athletes to develop better products and promote sports for people with disabilities as part of its contribution to society.



Participation in Kanagawa Science Summer

In FY2018, we once again participated in Kanagawa Science Summer, an activity that Kanagawa Prefecture promotes for children to develop an interest in science technology and to enhance motivation to study. We invited 30 fourth to sixth grade primary school students and their guardians to KYB Museum on three occasions in July and August. They learned

about Pascal's principle and the mechanism of hydraulic pressure through making a simple hydraulics-themed model and test driving a mini-excavator. It was very popular with the children, as before. In addition, we reflected suggestions from past participants by holding a seminar for families at Minamishigara City Hall.



Marché to Support Areas Afflicted by the Great East Japan Earthquake

To support areas afflicted by the Great East Japan Earthquake, KYB cooperated with the Tokyo Office of the government of Miyagi Prefecture to hold the fourth Reconstruction Support Marché (street market for local products) at its head office. By FY2018 it had become a firmly established Companywide event, with employees from KYB plants in areas other than Tokyo participating. We will continue to support reconstruction so that memories of the earthquake never fade.



Fundraising for the Children's Future Support Fund

The Children's Future Support Fund is an organization that helps children at the grassroots level. KYB received a letter of appreciation from the Cabinet Office for its ongoing support of the fund. We will continue to support the fund to realize a society in which all children can grow with dreams and hopes, and to prevent the spread of poverty to future generations.



Fundraising for the Tokyo Metropolitan Government Community Chest

We received a letter of appreciation from the Tokyo Metropolitan Government Community Chest for the donations we make every year. The donations we collect go to private-sector social welfare facilities and organizations that serve the elderly, children, and people with disabilities. We will continue to support various social welfare projects through community fundraising efforts.



The 17th KYB Corporate Sports and Cultural Exchange Event

The 17th Sports and Cultural Exchange Event was held at Sai-no-Kuni Kumagaya Dome in Kumagaya City, Saitama Prefecture. About 700 KYB Group employees from 15 locations in Japan and 18 locations overseas gathered to enjoy a day of friendly athletic competition. The event transcended age,

gender, department, company, and nationality as the participants formed eight teams in an exciting competition involving tug-of-war and relay races. The joint team comprising members from the host Kumagaya Plant and KYB-Conmat Pvt. Ltd. of India worked best together and won the championship.



Factory Tours for Elementary School Students

We invited 96 children from Minokamo Municipal Hachiya Elementary School to tour the KYB Gifu North Plant. We provided an overview of KYB and its products, showed students actual production lines and a safety awareness training facility, and presented KYB's environmental efforts. The tour was a fun opportunity for everyone to get to know one another better, and the students contributed with many questions and valuable opinions. We will continue to place importance on our relationships with local communities.



Environmental Management

Basic Environmental Policy

Slogan

Protect the Green Earth and Create Products Gentle to the Environment

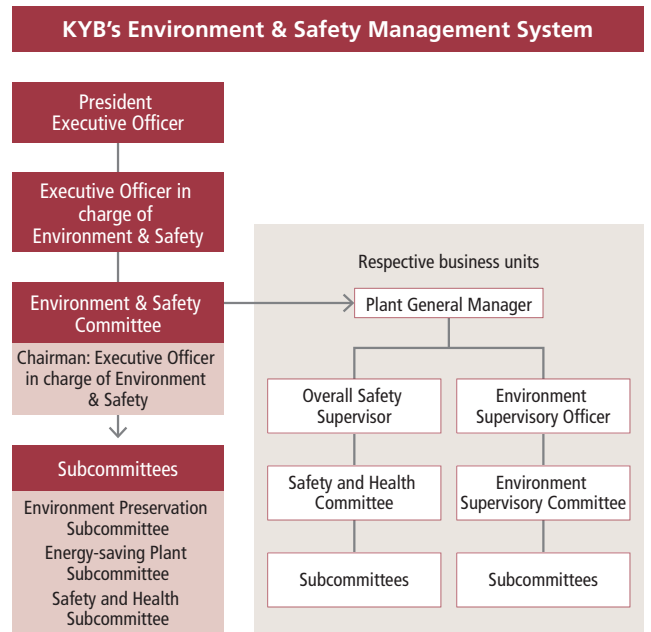
Basic Environmental Policies

The KYB Group creates products gentle to both people and the earth. We are dedicated to the promotion of environmental activities as an important tool for evaluating management.

1. Coordinate and build up production and corporate activities based on recycling to reduce impacts on the environment.
2. Strive to ensure long-term and sustainable operations throughout the entire KYB Group.
3. Work to promote harmony with society and contribute to the global community as a good corporate citizen.
4. Clarify every employee's role so that all employees can participate fully.

Environment & Safety Management System

The Environment & Safety Committee was organized with directors responsible for environment and safety as leaders to harmonize KYB's intentions regarding environment- and safety-related issues. KYB has implemented the system shown below.



Environmental/Safety Mid-Term Policy

Phase 1 (2011-2013)

1. Creation of energy-saving plants

- Reduce CO₂ basic unit by 1% each year and reduce CO₂ emissions by 25% compared to FY1990 by 2020

2. Creation of waste-free plants

- Reduce final disposal amount of industrial waste by 65% compared to FY2000 by 2015

3. Creation of accident-free plants

- Prevent industrial accidents through risk assessment
- Develop safety awareness training facilities, etc.

Phase 2 (2014-2016)

1. Creation of plants that minimize energy consumption and waste

- Reduce energy consumption per basic unit by 1% per year relative to FY2013 levels
- Reduce amount of industrial waste per basic unit by 3% per year relative to FY2013 levels

2. Creation and expansion of industrial accident-free production bases

- Improve employees' awareness of safety and eliminate critical hazards

Phase 3 (2017-2019)

1. Creation of plants that minimize energy consumption and waste

- Develop environment for partial supply of energy
- Promote measures through energy visualization
- Promote waste volume reduction and recycling

2. Creation and expansion of industrial and fire accident-free production bases

- Promote risk assessment and countermeasures for industrial accidents
- Promote fire accident-free measures

Environmental Conservation Goals, Results and Future Initiatives

We developed the Environmental Management Activity Plan based on the Company's environmental policy and implemented a variety of activities for each production base to achieve our goals. However, compared with FY2016, which was the benchmark, we did not achieve our goals for CO₂ emissions, due in part to an increase in production. For industrial waste, until

FY2018 we only calculated emissions as a whole, but from FY2019 we will clarify the definition of recycling in order to calculate actual waste emissions. In addition, we will work to improve the efficiency of production facilities, further reduce energy consumption, improve productivity and promote recycling.

Activity Results for FY2018

○: Goal attained ×: Goal not attained

Theme	Goal	FY2018 Result	Evaluation
Prevention of global warming	CO ₂ emission volume	94,615 t-CO ₂ or less	97,419 t-CO ₂ ×
Energy saving	Energy consumption per basic unit	0.70 kℓ/million yen or less	0.68 kℓ/million yen ○
Improvement of resource recovery and recycling rate	Recycling rate	91.9% or higher	92.1% ○
	Zero emission	4.6% or less	4.5% ○
Reduction of waste	General waste	474 t or less	597 t ×
	General waste per basic unit	1.96 kg/million yen or less	2.09 kg/million yen ×
	Metal scrap	16,855 t or less	20,364 t ×
	Metal scrap per basic unit	237 kg/million yen or less	251.8 kg/million yen ×
	Industrial waste	3,261 t or less	3,827 t ×
	Industrial waste per basic unit	26.79 kg/million yen or less	28.5 kg/million yen ×

Overview of Major Initiatives in FY2019

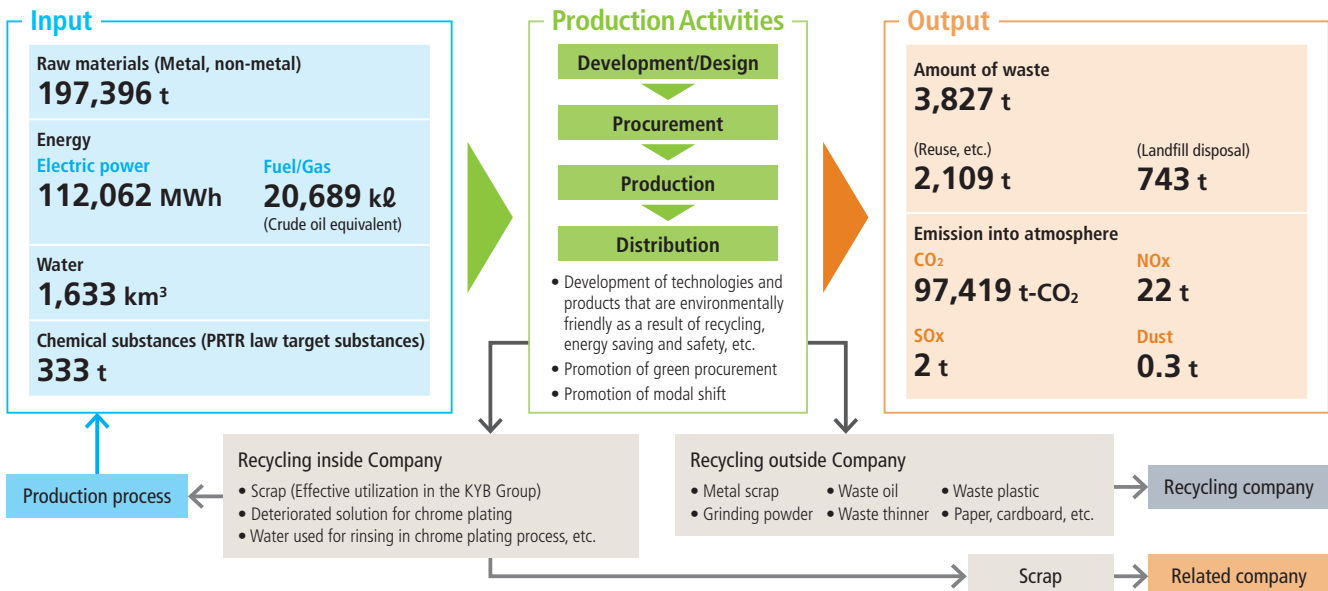
Global Warming Prevention
Measures include replacing lighting with LEDs, LVDs, and other highly efficient devices, adopting inverter control for hydraulic units, reducing air consumption in plants, and reducing the air-conditioning load.

Waste Material Reduction
Measures include reducing paint gas volume through biological treatment, introducing waste treatment systems and turning sludge and white gasoline into valuable products.

Notes: Basic units are calculated using marginal profit.
For energy, crude oil equivalent is calculated for electricity and fuel and the total value is displayed as total energy consumption.
CO₂ emissions and energy consumption are calculated using methods determined by KYB.

Environmental Load of Business Activities

KYB uses energy, water, chemicals, and a variety of other resources. We make efficient use of limited resources in production by taking steps to reduce waste, CO₂, and other emissions.



Chemical Substance Management

Response to Environmental Controls on Products

For protection of the environment, the REACH Regulations,¹ other ELV² and RoHS directives,³ and various laws and regulations have been established, under which increasingly stringent provisions are being implemented. In order to address stricter REACH and other regulations, we have built a database of chemical substances subject to the regulations applicable to each of our products, conduct investigations of such substances, and collect relevant data. We can use this database to rapidly respond to requests from customers about whether or not prohibited and restricted substances are used and to respond to inquiries about substances of high concern that are additionally registered as prohibited and restricted substances from time to time following the implementation of the REACH Regulations.

We will continue with activities that enable us to provide products that conform to the needs of our customers and of the market.

Risk Assessment of Chemical Substances

In FY2015, we assessed the health risks related to chemical substances at all of our production bases in Japan. In FY2016, we assessed risk of explosion and fire from chemical substances at the Gifu South Plant and Gifu East Plant. For the assessment, we submitted an explanation to all departments that handle

chemical substances about the three elements for combustion (i.e., combustibles, oxygen, and ignition sources), flashpoint and ignition temperature, which are the basic factors in explosions and fires. Chemical substances handled by the plants include invisible gaseous substances and those with flashpoints below room temperature. Through risk assessments, we strive to provide useful information to those who handle chemical substances so that they understand the importance of eliminating ignition sources to prevent explosions and fires caused by chemical substances.

Response to PCB Disposal

Transformers and other electrical equipment containing PCBs are stored securely at each of our business establishments. We concluded a disposal contract with a company specializing in detoxification processes and started disposal in FY2012.

So far, we have completed the disposal of transformers stored at KYB-YS Co., Ltd., its Casting Center, the Mie Plant of Kayaba System Machinery Co., Ltd., and our Gifu South Plant and Kumagaya Plant. We will proceed with disposal under the plan for each fiscal year.

Notes: 1. Regulations that came into effect in the EU in June 2007 with regard to registration, evaluation, authorization and restrictions on chemicals

2. A directive that came into effect in the EU in January 2000 to reduce the environmental impact of end-of-life vehicles

3. A directive that came into effect in the EU in July 2006 that restricts the use of specific hazardous substances found in electrical and electronic products.

ISO 14001 Certification Acquisition

In order to systematically develop initiatives for environment conservation, we are introducing and promoting an ISO 14001 environmental management system. We will shift to the 2015 edition sequentially in renewal examinations.

Japan

KYB	Year of Certification Registration
Gifu South Plant (Including Gifu East Plant, Production Technology R&D Center, Machine Tools Center, KYB Motorcycle Suspension Co., Ltd.)	Feb. 2000
Sagami Plant (Including the Basic Technology R&D Center and the Electronics Technology Center)	Dec. 2000
Kumagaya Plant	Dec. 2000
Gifu North Plant (Including KYB Kanayama Co., Ltd.)	Dec. 2001
Group Companies in Japan	Year of Certification Registration
Kayaba System Machinery Co., Ltd. (Mie Plant)	Dec. 2000
Takako Industries, Inc. (Shiga Plant)	Feb. 2003
KYB-YS Co., Ltd.	Apr. 2004
KYB Trondule Co., Ltd.	Nov. 2008

Overseas

Group Companies Overseas	Year of Certification Registration
KYB Manufacturing Taiwan Co., Ltd. (Taiwan)	Jun. 2001
KYB Steering Spain, S.A.U. (Spain)	Jun. 2001
KYB Suspensions Europe, S.A.U. (Spain)	Dec. 2001
KYB Americas Corporation (United States)	May 2002
KYB (Thailand) Co., Ltd. (Thailand)	Jul. 2003
KYB Steering (Thailand) Co., Ltd. (Thailand)	Aug. 2003
PT. Kayaba Indonesia (Indonesia)	Nov. 2004
KYB-UMW Malaysia Sdn. Bhd. (Malaysia)	May 2005
KYB-UMW Steering Malaysia Sdn. Bhd. (Malaysia)	May 2005
Takako Vietnam Co., Ltd. (Vietnam)	Jan. 2007
KYB Manufacturing do Brasil Fabricante de Autopeças S.A. (Brazil)	Mar. 2007
KYB Industrial Machinery (Zhenjiang) Ltd. (China)	Apr. 2009
KYB Manufacturing Czech, s.r.o. (Czech Republic)	Aug. 2009
Changzhou KYB Leadrun Vibration Reduction Technology Co., Ltd. (China)	Jan. 2010
Wuxi KYB Top Absorber Co., Ltd. (China)	Nov. 2013
Takako America Co., Inc. (United States)	Feb. 2013
KYB Manufacturing Vietnam Co., Ltd. (Vietnam)	May 2013
KYB Advanced Manufacturing Spain, S.A.U. (Spain)	Jun. 2015

Environmental Accounting

The amounts of investment and cost were separately calculated with reference to the Environmental Accounting Guidelines, 2005, presented by the Ministry of the Environment.

(Millions of yen)

Cost Type	Major Contents	Invested Amount/Cost
(1) Business area cost	(1)-1 Pollution prevention cost <ul style="list-style-type: none"> • Air pollution and water pollution prevention activities • Maintenance and inspection of pollution prevention facilities • Analysis and measurement of atmosphere and water quality 	204.3
	(1)-2 Global environmental conservation-cost <ul style="list-style-type: none"> • Energy conversion • Energy-saving activities 	21.1
	(1)-3 Resource circulation cost <ul style="list-style-type: none"> • Recycling of plant waste • Reduction of industrial waste 	216.7
(2) Upstream/downstream cost	Not available	0.0
(3) Management activity cost	<ul style="list-style-type: none"> • Maintenance and periodic renewal screening of ISO14001 • Monitoring of environmental impact 	97.0
(4) R&D cost	<ul style="list-style-type: none"> • Environmentally friendly product development • Lightweight products and products containing less hazardous chemical substances 	89.8
(5) Social activity cost	<ul style="list-style-type: none"> • Support of non-profit environmental protection • Afforestation and maintenance of scenery around plants 	12.8
(6) Environmental remediation cost	Not available	0.0
(7) Other cost	<ul style="list-style-type: none"> • Internal environmental conservation • Welfare conservation 	22.7
Grand total	Not available	664.4

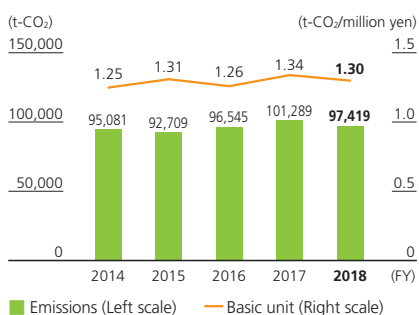
Note: Classification and Definition of Environmental Conservation Costs

Invested amount: Expenditure for the purpose of environmental conservation during the target period with effect that continues for a number of terms and cost running for those periods. (Amount acquired during the current term of the depreciable asset)

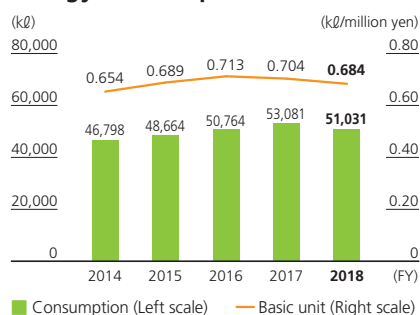
Cost: Cost or loss generated from expenditure of finances/services for the purpose of environmental conservation.

Environment-related Data

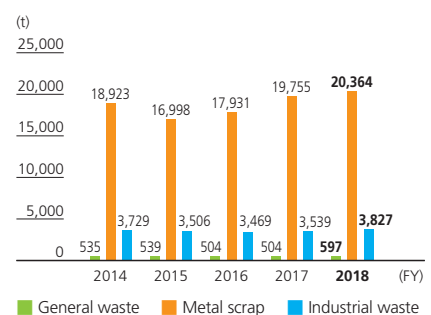
CO₂ Emissions



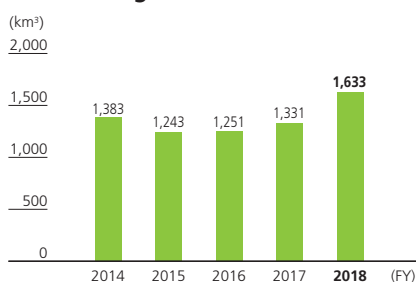
Energy Consumption



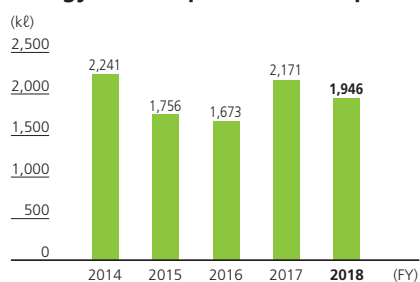
Waste Emissions



Water Usage



Energy Consumption for Transportation*



* Amount as crude oil

Activities at Production Bases

Energy Savings from Introducing Ultra-High-Efficiency Amorphous Transformers

The Sagami Plant has 50 transformers at each of its substations. Four of them had deteriorated over time and were at high risk of failure. We therefore replaced two of the transformers in 2017 and two more in 2018 with Super Amorphous Zero S ultra-high-efficiency amorphous transformers that greatly reduce power loss. The annual energy saved is equivalent to approximately 26 kℓ of crude oil.



Turbo Compressor Upgrade

Since FY2016, the Gifu North Plant has been upgrading to turbo compressors. Turbo compressors with three-stage compression are more efficient than screw compressors with two-stage compression, thus reducing annual electric power cost. In addition, turbo compressors are expected to lower maintenance costs because they have fewer parts. In FY2018, the Gifu North Plant installed its second turbo compressor, and will successively upgrade from screw compressors to turbo compressors to reduce energy costs.



Reducing Compressor Power Consumption

The power consumed by compressors accounts for about 27% of the total energy consumed at the Nakanojo No. 2 Plant of KYB-YS Co., Ltd. The company therefore introduced a control system that can shut down compressors in conjunction with production line operation using the touch panel for automatic compressor operation and shutdown shown in the photo. The result was exceptionally energy-efficient operation, with compressor power consumption reduced 13%, a 3.5% saving for the plant as a whole.



Upgrade of Oil and Water Wastewater Treatment Facilities

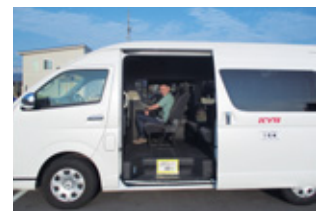
The oil and wastewater treatment equipment at the Gifu North Plant treats wastewater that contains oil from the entire plant and

is within the wastewater standard set under the Water Pollution Control Law. We installed the oil and water treatment equipment about 40 years ago and it had deteriorated over time, lowering treatment capacity, raising the possibility that it would no longer comply with water quality standards going forward. At the same time, the eighth round of standards for effluents (total nitrogen and total phosphorus in water) became more stringent with revision of the Water Pollution Control Law. Given this situation, the plant has upgraded the existing facilities to maintain the quality of treated water with even greater accuracy, thus fulfilling its social responsibility to prevent pollution.



Reducing Environmental Load with Bus Service

The bus used by employees of the Gifu North Plant to commute between the plant and the nearest train station stopped operating over 30 years ago, so the plant has provided taxi service from the station for such people ever since. Given the cost and environmental considerations, we established a bus service synchronized with train arrival times. There are four trips daily. The route includes the Gifu North, Gifu South and Gifu East plants, eliminating an average of 11 taxi trips per day. Although not a major initiative, the bus service has reduced CO₂ emissions and costs. We will continue to implement environmentally friendly initiatives.

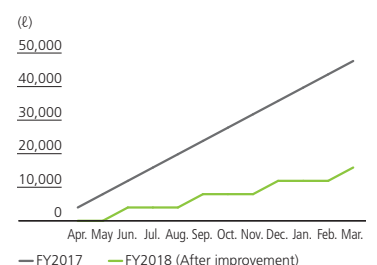


Reducing Industrial Waste by Extending the Cleaning Liquid Replacement Cycle

KYB Kanayama Co., Ltd. is reducing industrial waste as part of its environmental activities. Plant No. 1 made cleaning liquid replacement quantitative rather than periodic, which changed replacement frequency from once a month to once every three months. As a result, the plant was able to reduce the amount of effluent from 47,520 ℓ/year to 15,840 ℓ/year and reduce the cost of purchasing ancillary materials by two-thirds.

The change has no impact on quality, and KYB Kanayama will deploy this system at Plant No. 2 as well.

Effluent Volume



Quality Management

KYB Group Basic Policy for Quality

KYB Group shall:

address quality improvement with honesty driven by the belief that quality is the basis for business.

deliver safe and secure products in compliance with promises to customers as well as with laws and regulations.

KYB and Group companies shall comply with the Bad News First policy,* promptly report any abnormalities they uncover, and work earnestly to resolve problems quickly in order to provide *monozukuri* and services with a level of quality that satisfies our customers and society.

* A system for promptly reporting abnormalities when they are uncovered. It promotes early detection and response to issues that could lead to a serious crisis.



Quality Assurance System

We have built and operate an ISO 9001-compliant quality assurance system that emphasizes the quality of work processes as well as the quality of products and services. We strive each day to make improvements in all aspects of quality.

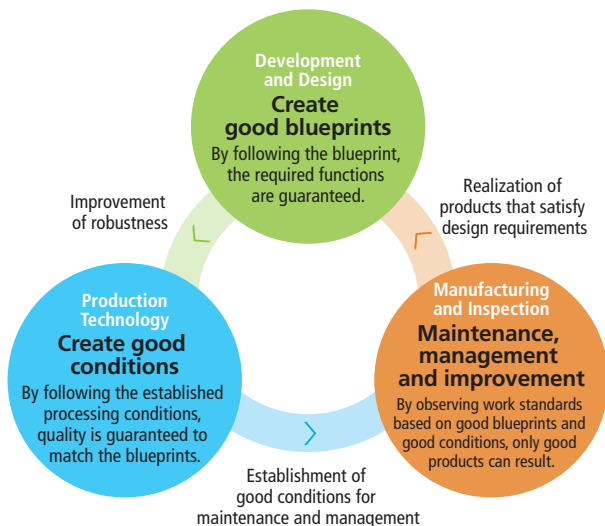
Quality at the development design stage, which includes the development of manufacturing methods and processes, is a determining factor in the market quality of our products.

Furthermore, the adequacy and thorough implementation of shop floor work procedures and rules will contribute to a reduction in process defects and other quality losses that occur in *monozukuri*.

At KYB, we implement what is called a three-step evaluation system for the development and mass production of products,

and the development of technologies, manufacturing methods, and so on. We make every effort to achieve high quality throughout the product life cycle, from the product planning stage, to defect reduction and change management after mass production and shipment. At our production bases, we take a variety of quality improvement measures under the leadership of base managers and plant managers, and we are working to promote the unerring operation of our three-step evaluation system. Furthermore, to ensure the quality of mass-produced products, we also follow this system for single, small-lot orders and when production is moved to another production base.

What KYB Aims to Be: Quality Problem Prevention Cycle



Development of Products and Technologies through a Three-Step Evaluation System and the Declaration of Quality and Safety

Step	Goal of the three steps	Quality assurance step
Prior and model development — DR0 evaluation meeting	Proof of possibility (Description and evaluation of development quality)	Development quality
Order development — DR1 evaluation meeting	Proof of mass production (Description and evaluation of development quality)	Start quality
Mass-production development and production preparations — Declaration of Quality and Safety	Proof of applicability and serialization (Demonstration and evaluation of start quality)	Mass-production quality
— DR2 evaluation meeting		
Mass production Initial flow management	Bad News First Execute (until the reporter receives feedback) When abnormalities arise: Stop, Summon, Wait	

Declaration of Quality and Safety
Evaluate manufacturing site, manufactured products and data to confirm that mass-production quality is problem-free and that reliable production and shipment are possible.

Supplier Award List (FY2018)

Base	Award	Description	Customer
KIMZ (China)	Supplier Commendation	Received all three commendations: QCDS, Quality, Special Award	Jatco Guanzhou Ltd.
KYBT/KST (Thailand)	Regional Quality Award	Received commendation for contributing to quality	Nissan Motor Co., Ltd.
KYB Kanayama	Supplier Commendation	Received commendation in recognition of excellent quality	General Motors Japan Limited
KYBT (Thailand)	Quality Excellence Award	Received commendation in recognition of excellent quality	General Motors (Thailand) Co., Ltd.

Human Resources Management

Human Resources Development

We nurture people with a high awareness of compliance – people who can compete internationally. We use a broad spectrum of education and training to enable them to enhance their expertise, operate independently across borders and regions, and perform their duties competently. Programs include class-specific education, compliance education, specialized technical education, production

system improvement, *monozukuri* (Japanese manufacturing expertise), globalization, and health and safety.

In addition, employees of Group companies in Japan have access to the same education system so that the entire KYB Group can develop people as valuable human assets.

The KYB Education System

Class-specific education	New employee training New manager training Approx. 20 other courses	High awareness of compliance and quality An open workplace environment
Compliance education		
Compliance awareness education		
Quality education		
Safety education		Employee health and safety
Mental health education		

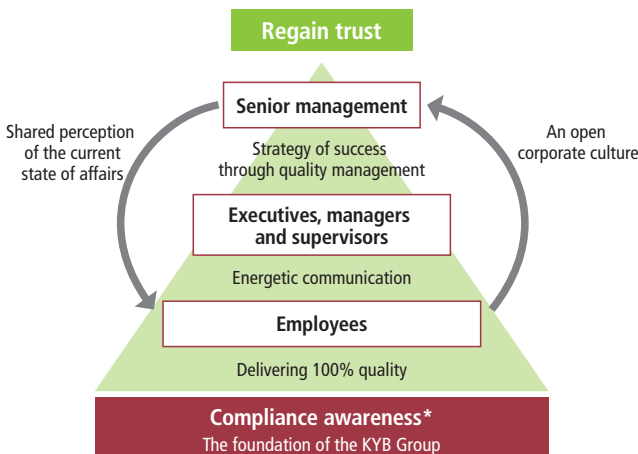
Engineer education	Specialized technical education in fields including mechanics, electricity, electronics, control and materials Approx. 50 other courses	Enhancement of techniques, skills and ability to make improvements
KPS training and study abroad		
Monozukuri education		
Language training	Short-term language training assignments Overseas trainee system and others	Global operations
Training prior to overseas assignments		
Global engineer education		
Distance learning (approx. 270 courses)		Support for self-development

Specific Initiatives

Compliance Awareness Education

The KYB Group is committed to an open corporate culture in which management and employee communication is energized by sharing perceptions of the current state of affairs.

We promote quality management, which is fundamental to management, by positioning compliance awareness as the foundation of the KYB Group. We are working to foster a mindset of abiding with moral, ethical, legal and societal rules at every level of the organization from senior management to rank and file employees.



* Mindset of abiding by moral, ethical, legal and social rules

Taking on the Challenge of the National Skills Competition

The Ministry of Health, Labour and Welfare and the Japan Vocational Ability Development Association organize the National Skills Competition as a technical skill-based competition for young people. People throughout Japan in 42 occupations in fields that include machinery are selected to participate.



KYB participates in the Lathe Operation category as part of its activities to develop young, highly skilled technicians who possess processing skills, judgment, insight, and patience. In FY2019, two young employees will participate in this competition.

Global Engineer Training

We provide global engineer training on an ongoing basis for employees of overseas Group companies.

We currently offer nine courses: plating, welding, painting, centerless grinding, equipment maintenance, measurement and material inspection, KYB Production System (KPS), casting, and heat treatment.



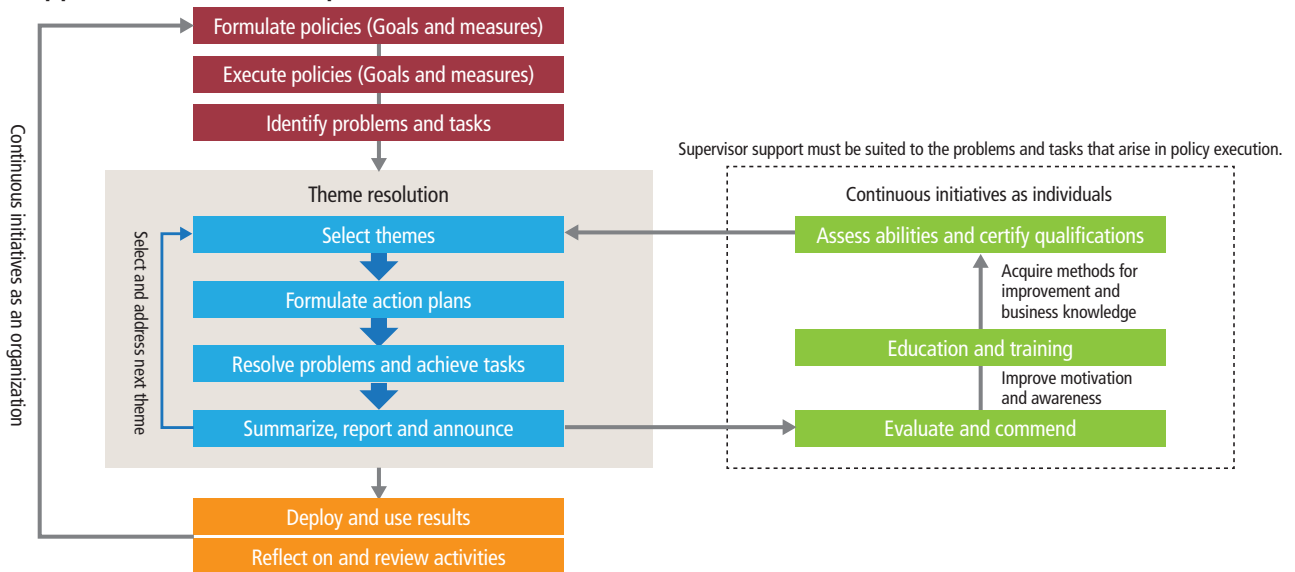
Small Group Activities

What Are Small Group Activities?

In each workplace, we form small teams that have been optimized for specific objectives. Guided by a supervisor, they work to establish compliance awareness and improve safety, quality and productivity. The goal of these Companywide activities is to help

prevent improprieties, enhance corporate performance, energize the workplace and improve communication, and to develop our people by enhancing their ability to make improvements.

Basic Approach for Small Group Activities



Specific Initiatives

Development of Trainers for Overseas Bases

Overseas Group companies are developing trainers for key onsite people who will be responsible for running small group activities. In March 2019, 18 trainees from nine countries participated in the first trainer development program, where they learned about the role of the Small Group Activity Office, approaches, and quality control methods. We will continue to conduct trainer development to increase the number of key onsite people who can run small group activities.



These events help create an open workplace environment and develop our people in ways such as promoting the use of small group activities for preventing improprieties.

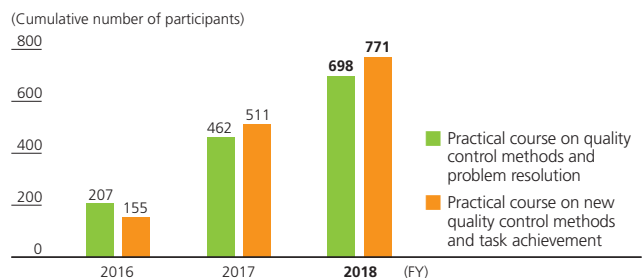
Training in Quality Control Methods

We promote small group activities through two-day courses that teach the methods used by these groups and how to implement them.

1. Practical course on quality control methods and problem resolution
2. Practical course on new quality control methods and task achievement

We have steadily increased the number of participants by making the courses a prerequisite for promotion.

Increase in the Number of Participants in Practical Courses on Quality Control Methods



Presentation of Outstanding Small Group Activities

We share small group success stories at two Companywide events – one for manufacturing departments and one for management, administrative and sales departments – that showcase the results of outstanding teams selected through tournaments at each location, and at tournaments at Group companies in Japan.



Promoting Health Management

KYB Health Declaration

KYB sees the health of employees and their families as an important management resource and source of corporate vitality, and is working to achieve sustainable growth through the creation of an environment in which all employees can work in good health both physically and mentally.

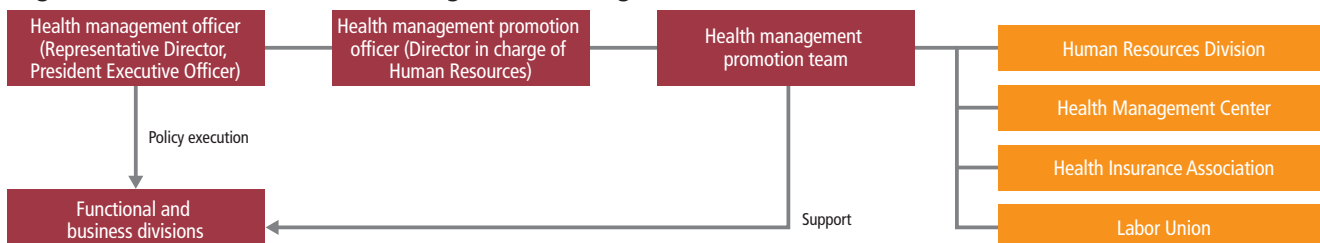
We are committed to actively supporting employees who are engaged in health promotion activities and to promoting organizational measures for health promotion in order to live up to our Corporate Spirit by “building a corporate culture full of vitality and holding high goals.”

November 1, 2019

Representative Director and President Executive Officer



Organizational Structure for Promoting Health Management



Key Initiatives

1. Measures for Lifestyle-Related Diseases

(Collaboration with Health Insurance Association)

- Creating an environment that facilitates exercise

We have installed walking courses and hold Companywide walking events.



- Initiatives to keep the percentage of employees undergoing scheduled health checkups at 100% and to improve the percentage of employees undergoing specified health checkups

Percentage of Employees Undergoing Health Checkups

	Regular health checkups	Specified health checkups
FY2017	100%	73.5%
FY2018	100%	77.4%

- Health seminars

Visiting lecturers give annual health seminars at all of our business locations in order to raise health consciousness among employees.



2. Mental Health Measures

- Promoting mental health education

We promote class-specific education for primary prevention of mental health issues in the workplace.

Class-Specific Education in FY2018

	Seminars held	Attendance rate
Supervisors	5 per year	92.5%
Managers	3 per year	96.0%

- Activities for freedom from harassment in cooperation with functional and business divisions

Based on the belief that freedom from harassment is essential for creating a vibrant and rewarding workplace, we have made freedom from harassment a corporate priority and are executing policies for all functional and business divisions.

3. Passive Smoking Countermeasures

- Smoking environment countermeasures

87.7% of smoking areas are outside and 66.7% of business locations have introduced fixed smoking times.

- Support for smoking cessation

We provide support for employees who want to quit smoking.



Promoting Work Style Reform

Basic Approach

We are focusing on building and enhancing systems using the themes shown on the right to achieve a rewarding workplace in which diverse individuals can contribute over the long term.

In addition, in FY2018 we began conducting an Employee Awareness Survey for all KYB employees regarding workplace climate, working conditions, management policy and other matters. Answers are anonymous, and an external organization compiles and analyzes the results. Consequently, response rates have been high (95.6% for the first survey in 2018, 97.1% for the second survey in 2019) and we have learned the true opinions of employees.

We will continue to conduct this survey regularly and use the data to promote Companywide initiatives for employee work style reform.

- 1. Support for work-life balance**
Flextime system, hour-based annual leave system, etc.
- 2. Consideration of diverse work styles**
Promotion of telecommuting, shortened working hours to accommodate childcare, etc.
- 3. Promotion of employee health**
See "Promoting Health Management" on page 30 for details.
- 4. Improvement of work process efficiency**
Includes productivity improvement projects for administrative operations

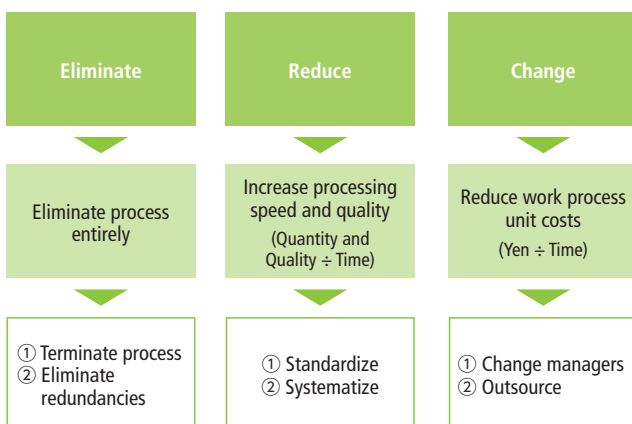
Specific Initiatives

Enhancing the Productivity of Administrative Operations

In FY2017, we launched the Administrative Operations Productivity Improvement Project and are working to improve efficiency and added value in administrative operations, including general affairs, accounting, human resources and production management.

Each administrative department has formulated a Work Process Improvement Action Plan to review existing work from the perspectives of Eliminate, Reduce and Change, with the goal of improving work process efficiency by about 20% over three years through a transition to higher added value.

In addition, we have introduced robotic process automation (RPA) tools in some departments to automate routine work processes. We will continue to study and verify all measures to increase efficiency in order to improve the productivity of administrative operations.



Support for Work-Life Balance

KYB supports work-life balance for its employees as a means to create an environment in which employees can participate with enthusiasm. In April 2018, we extended the childcare leave period to the end of April after the child turns three in order to support

employees raising children. Employees had indicated that the childcare leave period stipulated by law made it difficult to place children in nursery school because the leave period ended in the middle of the fiscal year, before the start of the school year.

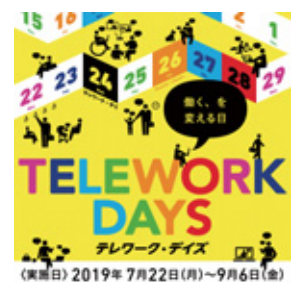
Furthermore, we revised the flextime system in April 2019 by extending the period of the workday available for flextime work and applying the system uniformly at all business locations. This enables flexible work styles that match employees' private lives and work schedules.

Promoting Telecommuting

One of our work style reform initiatives has been to promote telecommuting, with the goal of reducing time and energy spent in commuting, and using the time saved more effectively. In November 2017, we launched a trial program focused on supporting work-life balance for employees raising children or providing nursing care for family members. We then expanded the scope of the program to include all employees at the head office and branches, allowing them to telecommute up to twice a week.

In addition, we registered with the organization implementing Telework Days 2019, a program set up ahead of the 2020 Tokyo Olympics and Paralympics by the ministries involved and by the Tokyo Metropolitan Government, and encouraged employees to work from home.

Based on employee feedback, we plan to improve our telecommuting system by making it more user-friendly, and to broaden eligibility.



Corporate Governance

Basic Policies

1. We shall respect the rights of shareholders, and ensure the equal and fair treatment of all shareholders.
2. We shall take the interests of shareholders and other stakeholders into consideration and endeavor to appropriately cooperate with those stakeholders.
3. We shall disclose not only information in compliance with the relevant laws and regulations, but also actively provide important and/or useful information to stakeholders to enable well-informed decision-making.
4. The Board of Directors shall be cognizant of its fiduciary responsibility and accountability to 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 shareholders, and make efforts to obtain their support regarding the Company's Business Policies and also reflect their opinions and concerns in efforts to improve management.

Basic Approach for Regaining Trust

We have established the Corporate Guiding Principles to demonstrate our values regarding appropriate cooperation with stakeholders, respect for their interests, and sound business ethics. We have inculcated these principles and make efforts to ensure that compliance extends to the front lines of business activities in Japan and overseas. For example, we hold briefings on the Corporate Guiding Principles, conduct various types of compliance education, set compliance education as a requirement for promotions, conduct in-person reviews of relevant employees, and ensure that everyone in the Company is aware of the whistle-blowing system. Through these and other venues we have endeavored to broadly instill a sense of urgency among employees by making them keenly aware that the products and services that we supply through our businesses are connected to people's safety, physical wellbeing and financial position, and that they are involved in quality management both directly and indirectly, and that laxity in any aspect of their work could impact society at large. In addition, we have widely communicated our Bad News First reporting system for identifying and resolving issues when they are still minor. It calls for reporting any workplace

abnormalities whether favorable or unfavorable. However, improper acts occurred. As announced on October 16, 2018, performance inspection data records were falsified for some of the seismic isolation/mitigation oil dampers shipped by KYB and a subsidiary. Products that did not conform to performance evaluation standards approved by the Minister of Land, Infrastructure, Transport and Tourism nor met the standards of our customers were installed in buildings. In addition, there were improper claims in connection with a contract with the Ministry of Defense for defense equipment.

To prevent recurrence of the improper acts and demonstrate our commitment to regaining trust, we revised our Corporate Spirit by adding the item "Follow all rules and face all issues with honesty," and, based on the revised Corporate Spirit and basic policy, we will work to strengthen and enhance corporate governance. Having clearly codified the prevention of quality-related misconduct in our Corporate Guiding Principles, we will deeply inculcate these principles in all of our people at the front line of business operations in Japan and overseas, and will resolutely ensure compliance.

Overview of the Corporate Governance System

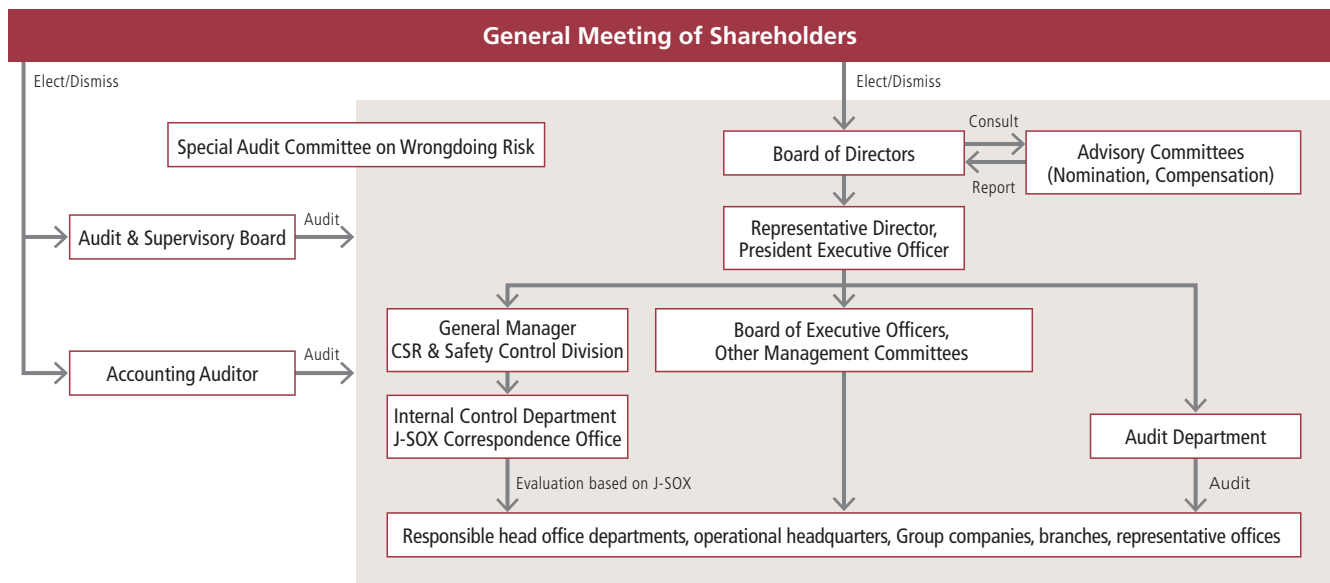
KYB is structured as a company with an Audit & Supervisory Board in accordance with the Companies Act, and corporate governance centers on the Board of Directors and the Audit & Supervisory Board and its individual members. In addition, KYB has instituted an executive officer system to expedite decision-making and streamline business execution.

Two of the six members of the Board of Directors are independent outside directors, and two of the four members of the Audit & Supervisory Board are outside Audit & Supervisory Board members (including one independent outside Audit & Supervisory Board member). KYB believes it has strengthened independent and objective management supervision by the Board of Directors because one-third of the board consists of independent outside

directors. KYB determines whether outside directors and outside Audit & Supervisory Board members are independent based on KYB's independence standards, and selects individuals who can be independent of other members of management.

Furthermore, the Internal Control Department is the organization responsible for overall planning and coordination of global governance and compliance, and the J-SOX Correspondence Office within the Internal Control Department conducts evaluations based on Japan's Financial Instruments and Exchange Law (J-SOX). We have also established the Special Audit Committee on Wrongdoing Risk, which is chaired by an outside director and has broad responsibility for detecting signs of misconduct and situations that give rise to it.

Corporate Governance Structure



Independence Standards for Outside Directors and Outside Audit & Supervisory Board Members

KYB Corporation (the Company) has established the following independence standards for outside directors and outside Audit & Supervisory Board members based on the requirements for independent officers established by financial instrument exchanges. Officers are deemed to lack independence if any of the following apply.

- Persons who have work experience at the Company or its subsidiaries (KYB Group)
- Persons who have work experience at principal lenders¹ to the KYB Group
- Major shareholders² of the Company, or their members or executives
- Major customers³ for the KYB Group's products and services, or their members or executives
- Major suppliers⁴ of products and services to the KYB Group, or their members or executives
- Consultants, accounting professionals, legal professionals and the like who receive annual payments or other goods in kind exceeding ¥10 million from the KYB Group, excluding officer compensation (if a corporation or other organization is the recipient and the amount received exceeds 2% of the organization's annual income, any member or executive of the organization).
- Persons who receive donations of more than ¥10 million annually from the KYB Group (if the recipient is a corporation or other organization, any member or executive of the organization).
- Members or executives of corporations or other organizations that engage in the mutual dispatch of directors or executive officers with the KYB Group.
- Persons who have work experience at an audit firm that is an accounting auditor of the KYB Group
- Persons to whom any of 3 to 9 above are applicable over the past 10 years
- A spouse or relative within the second degree of kinship of a person to whom any of 1 to 10 above are applicable
- Other persons who have special reasons that may cause a conflict of interest with the Company

Notes: 1. The KYB Group's principal lenders are financial institutions and other large creditors that the KYB Group relies on for funding and could not readily replace.
 2. Major shareholders of the Company are those that hold 10% or more of voting rights at the end of the Company's fiscal year, whether directly or indirectly (including rights held indirectly through a trust bank or other vehicle).
 3. Major customers for the KYB Group's products and services are those with an annual transaction amount exceeding 2% of the KYB Group's consolidated sales.
 4. Major suppliers of products and services to the KYB Group are those with annual transaction volume exceeding 2% of the consolidated sales of the supplier group.

Evaluation of the Effectiveness of the Board of Directors

In each of the past three fiscal years, KYB evaluated the effectiveness of the Board of Directors and disclosed a summary of issues and initiatives in the Corporate Governance Report. For example, we reviewed the standards for matters to be submitted for discussion at meetings of the Board of Directors, established a Nomination Committee and a Compensation Committee, and conducted factory tours for individual shareholders.

Takeover Defense Measures

Countermeasures to Large-Scale Purchase of the Company's Shares (Takeover Defense Measures) is a KYB initiative to increase corporate value and thus ensure the common interest of shareholders for the medium and long term. The 97th Ordinary General Meeting of Shareholders on June 25, 2019 approved a resolution to renew this initiative until the end of the 100th Ordinary General Meeting of Shareholders scheduled for June 2022.

Strengthening the KYB Group's Governance

Initiatives	
FY2014	Initiated in-person interviews with relevant employees
FY2015	Appointed one independent outside director
FY2016	Appointed two independent outside directors and established a discretionary Nomination Committee
FY2017	Established a discretionary Compensation Committee
FY2018	Established independence standards for outside directors and outside Audit & Supervisory Board members
FY2019	Established the Special Audit Committee on Wrongdoing Risk and the Internal Control Department Raised the ratio of independent outside directors on the Board of Directors to one-third

Non-Financial Corporate Governance Achievements

1. Corporate Guiding Principles now available in 14 languages (Japanese, English, Chinese (simplified and traditional script versions), Portuguese, Vietnamese, French, German, Czech, Thai, Indonesian, Spanish (European and Latin American versions), and Tagalog)
2. Ratio of independent outside directors on the Board of Directors now one-third
3. Independence standards for outside directors and outside Audit & Supervisory Board members formulated

Officer Compensation

Compensation Structure

Officer compensation consists of fixed monthly compensation (basic compensation) according to position and responsibilities, and performance-linked compensation (bonus) that varies depending on the Company's business results. Outside directors

and Audit & Supervisory Board members only receive fixed compensation according to their respective roles, and in view of their independence do not receive performance-linked compensation.

Type of Compensation	Eligible Officers	Maximum Total Compensation	Date of Resolution of the General Meeting of Shareholders	Calculation Process
Fixed compensation	Directors	¥30 million per month (¥360 million per year)	June 27, 1997 75th Ordinary General Meeting of Shareholders	Consultation with Compensation Committee
	Audit & Supervisory Board members	¥8 million per month (¥96 million per year)	June 24, 2011 89th Ordinary General Meeting of Shareholders	—
Performance-linked compensation	Directors (Excluding outside directors)	40% or less of total compensation (Fixed compensation + Performance-linked compensation)	Approval annually by resolution at the Ordinary General Meeting of Shareholders	Consultation with Compensation Committee

Note: The limit on total fixed remuneration for directors does not include salary for employees concurrently serving as directors.

Compensation Decisions

For director compensation, the discretionary Compensation Committee composed of representative directors and outside directors verifies the propriety of the criteria for calculating fixed and performance-linked compensation and reports the propriety of criteria to the Board of Directors.

Fixed compensation for directors is determined by resolution of the Board of Directors upon receiving the report from the Compensation Committee, within the limit on total compensation

decided at the Ordinary General Meeting of Shareholders.

Payment of performance-linked compensation for directors (excluding outside directors) is approved annually by resolution at the Ordinary General Meeting of Shareholders.

Fixed remuneration for Audit & Supervisory Board members is determined in consultation with Audit & Supervisory Board members, within the limit on total compensation decided at the General Meeting of Shareholders.

Calculation and Determination of Performance-Linked Compensation to Be Paid

1. Criteria and Business Results That Serve as the Basis for Calculation

Performance-linked compensation is calculated according to the degree of achievement in the preceding fiscal year (the “base fiscal year”) of the consolidated performance forecast according to the following calculation criteria (four items).

Calculation Criteria	Target	Result
Segment profit (Millions of yen)	22,000	22,010
Segment profit margin (%)	5.30	5.34
Profit (loss) attributable to owners of the parent (Millions of yen)	16,600	(24,757)
Profit (loss) margin attributable to owners of the parent (%)	4.00	(6.01)

Note: The targets are the consolidated financial results forecast for the base fiscal year (FY2018, or the fiscal year ended March 2019) described in the financial statements at the end of the fiscal year prior to the base fiscal year (FY2017, or the fiscal year ended March 2018).

2. Calculation of Amount to Be Paid

Total performance-linked compensation is limited to 1.0% of profit attributable to owners of the parent. Moreover, the ratio of performance-linked compensation to total compensation (fixed compensation + performance-linked compensation) of directors (excluding outside directors) shall not exceed 40%.

The total amount to be paid is calculated by multiplying the maximum amount payable by a payout ratio derived from the number of calculation criteria targets in 1. that were achieved. Performance-linked compensation is not paid in the case of a loss attributable to owners of the parent.

Calculation criteria targets achieved	4	3	2	1	0	Loss attributable to owners of the parent
Payout ratio	100%	80%	60%	40%	20%	0%

3. Determination of Amount to Be Paid according to Position

The amount of performance-linked compensation to be paid to individual directors (excluding outside directors) is calculated based on proportional distribution of the total amount to be paid in 2. to each director according to the following payment points for each position. Amounts are rounded down to the nearest ¥100,000.

Position	Chairman	Vice Chairman	President	Vice President	Senior Managing Executive Officer
Payment points	8	7	10	6	5

Total Compensation for Each Officer Category, Total Compensation by Type, and Number of Eligible Officers

Category	Total Compensation (Millions of yen)	Compensation by Category (Millions of yen)		Number of Eligible Officers
		Fixed compensation	Performance-linked compensation	
Directors (Excluding outside directors)	225	225	—	7
Outside directors	17	17	—	2
Audit & Supervisory Board members (Excluding outside members)	46	46	—	2
Outside Audit & Supervisory Board members	47	47	—	3

Notes: 1. Total compensation for directors (excluding outside directors) does not include salary for employees concurrently serving as directors.

2. The above data includes one director and one outside Audit & Supervisory Board member who retired at the conclusion of the 96th Ordinary General Meeting of Shareholders on June 22, 2018.

3. KYB abolished the retirement benefits system for directors at the conclusion of the 89th Ordinary General Meeting of Shareholders on June 24, 2011, but the payment of retirement benefits according to tenure as of the close of that meeting was also approved. Based on this approval, in addition to total compensation shown above, the following retirement benefits for directors (excluding outside directors) were paid for FY2018. ¥14 million (one director)

Note: This amount includes the payment of ¥12.1 million to one director, which was disclosed in previous years as allowance for retirement benefits. Retirement benefits are paid to one director who retired during FY2018.

4. FY2018 retirement benefits for directors will not increase because the retirement benefit system for directors was abolished as described above.

Internal Control and Compliance

Internal Control System

Basic Policy

The Board of Directors of the Company ensures effective corporate governance by instituting the Basic Policy for Internal Control System¹ in accordance with the Companies Act, and by implementing various measures including a risk management system, a Group management system and an internal compliance system. The KYB Group also maintains and assesses the implementation of internal control over financial reporting using the procedures stipulated by the Financial Instruments and Exchange Act. In this way, the KYB Group ensures reliable financial reporting and appropriate information disclosure through internal control reports.

Key Points for Internal Control

1. Internal Control Department

The Internal Control Department is responsible for overall planning and coordination of global governance and compliance. The J-SOX Correspondence Office in the Internal Control Department maintains and assesses the implementation of internal control over financial reporting.

2. Basic Policy for Internal Control System

The Company's Board of Directors has instituted the Basic Policy for Internal Control System and monitors the status of related activities. Summaries of its findings are disclosed in business reports.

3. Strengthening Systems for Sharing Information and Collaborating among Group Companies

We are enhancing meetings between the Company and Group company management. We are increasing the frequency of meetings, and mainly at top management meetings, Domestic Affiliated Companies Management Meetings and at global division meetings, we are intensifying discussions about identifying and preventing misconduct.

4. Upgrading the Business Organization

We enhance mandatory checklists used in planning new product

and business development at product development assessment meetings and executive officer meetings in order to upgrade our system for verifying the adequacy of technologies, product performance, quality inspection systems and manufacturing capabilities.

5. Ensuring Personnel Rotation

We are developing effective lines of succession in ways such as ensuring transparent operations through sharing knowledge and expertise internally. In this way, we will conduct appropriate personnel rotation.

6. Rigorous Application of Internal Regulations during Emergencies

We remind all employees of the Company and Group companies of their reporting obligations to ensure rigorous reporting under internal reporting rules that include the Rule of Prompt Report² and Bad News First system, which calls for employees of the Company or Group companies to immediately report to the Company should they become aware of a potential serious problem.

7. Review to Improve the Effectiveness of the Whistleblowing System

We conduct education concerning the whistleblowing system using e-learning for indirectly related departments, through briefing sessions for frontline personnel, as well as by comprehension tests and in-person interviews.³ In addition, we are considering measures including mandatory reporting to improve the effectiveness of whistleblowing for improper acts related to product quality and safety.

Notes: 1. Please refer to the Company website for additional details.
<https://www.kyb.co.jp/english/company/governance.html>

2. A core component of the KYB Group's crisis management system, in which department heads and production base managers promptly and accurately report important information to the president of the Company.

3. We proactively gather frontline information in ways such as conducting in-person interviews to announce, explain and confirm compliance with internal regulations while collecting information about issues that interviewees are experiencing in their workplaces.

Compliance

Basic Policy

We regard compliance as adherence to the laws, orders and rules of society at large, as well as to the Company's articles of incorporation, rules and agreements associated with business activities, in addition to corporate ethics that promote sound business activities.

1. We have developed the Corporate Guiding Principles as rules for the execution of business activities by officers and employees, and are focusing on initiatives including establishing legal compliance and corporate ethics.

2. We are implementing compliance education through training sessions by job title and section.

3. We have established communication channels to management by using the Rule of Prompt Report and Suggestion Box as a system for the Company and all Group companies to identify company risks in a prompt manner. We have also established and are operating contact points for whistleblowers.

Key Points for Compliance

1. Fostering Compliance Awareness in the KYB Group

We will reconfirm employee responsibilities after reflecting on issues concerning improper acts. Based on this, we will use training and education to change the mindset of all executives and employees.

2. Education and Training to Raise Awareness of Social Responsibility

We will systematize repeated top-down education on corporate ethics. We will also proactively review the content of teaching materials to incorporate multiple case studies that lead to change in the awareness of all executives and employees.

3. Emphasize the Importance of Compliance Regularly

Top management of the Company will consistently emphasize the importance of compliance within the Group. In addition, top management will visit Company production bases and other locations, and Group companies in Japan and overseas, to provide guidance on fostering compliance awareness.

4. Personnel Evaluations and Related Measures

Personnel evaluations will include a system for evaluating attitudes toward compliance initiatives, such as compliance with laws and internal rules. In addition, we will conduct small group activities with the theme of preventing misconduct and commend useful activities and conduct other initiatives to support the development of executives and employees who think independently and make improvements themselves.

5. Organizational Upgrades

We will establish committees as necessary. For example, we have established the Personal Information Protection Management Committee to encourage the proper acquisition, use, management and storage of personal information and prevent its leakage. We have also established the Export Control Management Committee to ensure full compliance with export-related laws and regulations and to prevent illegal export of our products and technologies (including services), either directly or indirectly.

6. Initiatives to Prevent Recurrence of Antitrust Violations

We are working on the following measures to prevent violations of antitrust laws based on lessons learned from violations in the United States.

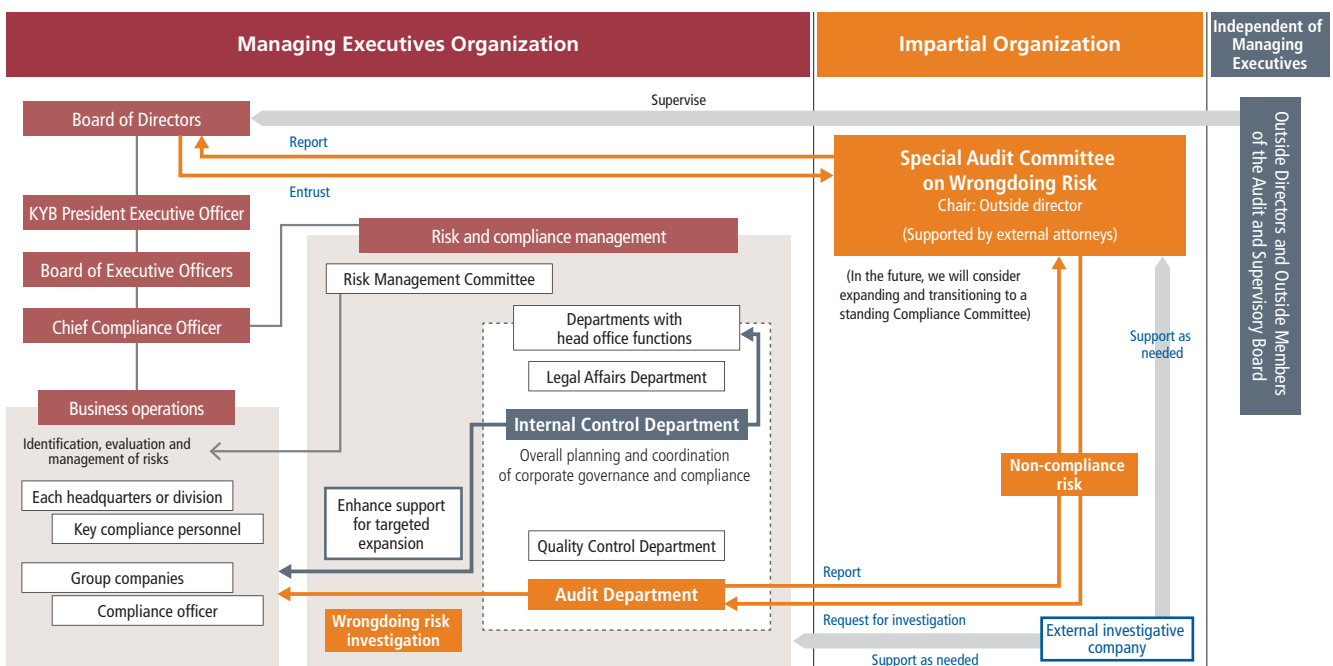
- 1) Establishing an anti-monopoly compliance policy
- 2) Securing written pledges from sales personnel that they will not violate antitrust laws
- 3) Formulating rules for contact with competitors
- 4) Conducting educational activities related to antitrust laws
- 5) Conducting in-person interviews with sales personnel

7. Initiatives to Prevent Bribery-related Violations

We are working on the following measures to prevent violations of bribery-related laws and regulations.

- 1) Establishing an anti-bribery policy
- 2) Establishing internal regulations
- 3) Conducting educational activities related to bribery-related laws
- 4) Conducting in-person interviews with sales personnel

Current Internal Control System (From April 2019)



Initiatives to Prevent the Recurrence of Nonconforming Acts Associated with Seismic Isolation/Mitigation Oil Dampers

Establishing Compliance Management

The KYB Group will use all of its capabilities to change the Group mindset to one that places the highest value on compliance.

Measures to Emphasize in Preventing Recurrence

We will implement the following initiatives as effective measures to encourage all executives and employees to autonomously promote compliance.

- ① We will promote awareness among executives and employees through education and training based on case studies and analysis of examples at other companies to bring attention to the adverse effects of compliance violations on society as a whole.
- ② We will measure how well corporate ethics have been inculcated among executives and employees.
- ③ We will add compliance issues to themes for improvement in each department.

The progress of measures to prevent recurrence is reported to the Company's Board of Directors and on its website every three months.

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

Tighten the Subsidiary Management System

We will work to review and strengthen our management system in order to conduct integrated management with Group companies.

Strengthen System for Sharing Information with Group Companies

- Enhance meetings between the Company and Group company management. Increase the frequency of meetings, and mainly at senior management meetings, management meetings at Group companies in Japan, and international meetings, intensify discussions about identifying and preventing misconduct.

Review Management Systems for Group Companies

- Make the Internal Control Department responsible for comprehensive planning and coordination of Group governance, and strengthen systems that provide deeper understanding of Group companies.
- Confirm the effectiveness of the Regulations on the Promotion of Group Compliance to strengthen the required systems, and strengthen external risk audits of business execution.
- We have established the Special Audit Committee on Wrongdoing Risk, which is chaired by an outside director. It has broad responsibility for uncovering signs of wrongdoing and conditions that give rise to it. Its purview includes quality misconduct, as well as accounting fraud and bribery. We will consider expanding and transitioning to a standing Compliance Committee (tentative name).
- The Audit Department investigates misconduct and reports monthly to the Board of Directors and other bodies. We will use external companies if more specialized investigation is required.

Analyze and Monitor Business Risks at Group Companies

- We will identify specific laws and regulations that apply to each subsidiary's business and conduct risk analysis and required education.

Reorganize Group Companies

- We will consider reorganizing the Group in light of compliance management.

Initiatives with Suppliers

Basic Policy for Procurement

KYB works to fulfill its corporate social responsibility (CSR) and continues to be a company that society can rely upon. Suppliers are important partners for us in continuously developing our business through *monozukuri* (Japanese manufacturing expertise) and contributing to realization of an affluent society.

Our basic policy for procurement is described below.

Basic Approach to Procurement

- ① Procurement activities aimed at the coexistence and mutual prosperity of KYB and its suppliers
- ② Legal compliance
- ③ Quality first
- ④ Safety and health, human rights and labor
- ⑤ Continuous cost reduction activities
- ⑥ On-time delivery
- ⑦ Protection of the natural environment
- ⑧ Construction of global procurement system
- ⑨ Risk management
- ⑩ Classified information management
- ⑪ Prevention of corruption

▶ For details, please see the corporate website.
<https://www.kyb.co.jp/english/company/csr.html>

FY2018 Procurement Policy Briefing

In April 2018, we invited 231 suppliers that have been involved in KYB manufacturing to the KYB Procurement Policy Briefing at the Palace Hotel in Chiyoda-ku, Tokyo to



strengthen cooperation with our suppliers. KYB senior management explained our corporate policy, procurement policy and quality policy to representatives of our suppliers, commended excellent suppliers who contributed greatly to QCD,* and presented mementos. After the briefing, we held a social event that facilitated and deepened discussion with suppliers.

* Quality, cost and delivery

Final Report Meeting of Theme Study Groups

In April 2018, six study groups composed of members from 42 suppliers began improvement activities for FY2018 under the themes of quality, delivery, productivity and business continuity plans



(BCP). In March 2019, we held the FY2018 Final Report Meeting of Theme Study Groups at Wink Aichi (Aichi Industrial Labor Center, Aichi Prefecture) for these groups to present their final reports on the year's achievements. The comprehensive activities of these groups have resulted in safety

improvements, fewer quality defects, faster delivery times and greater productivity among suppliers, and have led to the creation of a BCP crisis management system. New teams are continuing these activities in FY2019.

Survey of Status of BCP

In preparation for the three anticipated interlocked earthquakes (Tokai-Tonankai-Nankai) in Japan, we provided an explanation of BCP at the Procurement Policy Briefing and at meetings regarding production trends at each plant.

As in FY2017, in light of the importance of understanding the BCP status of suppliers we conducted a questionnaire for self-assessment consisting of 100 items in seven categories (actions for anticipated risks; securing personal safety and emergency evacuation; emergency measures taskforce; confirmation of employee safety; confirmation of property damage; instructions for returning home and measures for people who have difficulty returning home; and restoration taskforce). Moreover, we surveyed the status of readiness of first-, second- and subsequent level suppliers with regard to a major earthquake. In this way, we have all suppliers review the status of their BCPs and encourage them to study issues requiring improvement and systematically implement BCP activities.

Initiatives to Prevent Human Rights Violations in the Supply Chain

Companies today are expected to prevent human rights violations globally, including in their supply chains.

For example, under the Dodd-Frank Wall Street Reform and Consumer Protection Act, companies are required to perform due diligence and identify whether their products contain tantalum, tungsten, tin or gold purchased from mines in the Democratic Republic of Congo (DRC) and nine neighboring countries, where the extraction of such mineral resources may be used to finance or benefit armed groups that are causing human rights violations and environmental destruction. The aim of the Dodd-Frank Act is to indirectly cut off financial sources from these "conflict minerals" to prevent such human rights violations. The EU has taken a broader approach to restricting conflict minerals by requiring all companies importing mineral resources into the EU to take similar actions.

In light of the Dodd-Frank Act, the KYB Group annually checks its products with the cooperation of its suppliers, summarizes the results and reports to customers that request such information.

In addition, according to the U.K. Modern Slavery Act 2015 we annually release a statement on KYB Group business activities and initiatives to prevent slave labor and human trafficking in our supply chain, including the above-mentioned conflict mineral measures. We will carry on with our awareness-raising activities on prohibiting human rights violations and slavery labor.

▶ The details are available in our Modern Slavery Act Transparency Statement for Fiscal Year 2018 released on September 27, 2019.
https://www.kyb.co.jp/english/media/ir_20190927_02.pdf

Risk Information

This section explains the major risk factors relevant to the KYB Group's operating results and financial condition that may have a significant effect on decisions by investors. Forward-looking statements in this section represent the judgments of the KYB Group (KYB and its consolidated subsidiaries) as of March 31, 2019.

Economic Risks

Economic Conditions

The KYB Group's consolidated net sales primarily derive from the supply of components to automobile manufacturers, construction machinery manufacturers, commercial vehicle manufacturers and other customers. Component manufacturers have accelerated overseas operations to address the increase in the overseas production bases of customers. The Group also has production bases in the Americas, Europe and Asia, and supplies products to customers in each of these regions. Overseas production bases have a significant impact on the Group's operating results and financial condition, and are subject to the influence of changes in customer production volume resulting from factors including changes in regional economic conditions.

Fluctuations in Exchange Rates and Interest Rate Increases

With an overseas sales ratio of 55.2%, the KYB Group relies heavily on markets outside of Japan. As a result, fluctuations in foreign exchange rates have a significant impact on the Group's exports from Japan and the performance of Group companies in other countries. An increase in interest rates in Japan or other countries could have a significant impact on the KYB Group's operating results.

Risks in Business Operations

Demand Trends

Sales of the KYB Group's Automotive Components and Hydraulic Components Operations segments depend greatly on the global production volume of automobiles and construction machinery. A decline in demand for these products caused by a global economic downturn could have a significant impact on operating results. The KYB Group sells most of its system products, aircraft components, special-purpose vehicles and electronics components in Japan. In particular, demand for the KYB Group's special-purpose vehicles, which are primarily concrete mixer trucks, can fluctuate significantly due to changes in the amount of construction activity, which is closely correlated with the economic outlook.

Prices and Quality

The KYB Group's products are subject to intense price-based competition in both domestic and international markets. Customers regularly request cost cuts and lower prices. Quality is also critical. The Group supplies vital automotive components, such as shock absorbers that maintain vehicle stability and power steering systems. For construction machinery and commercial vehicles, the Group supplies key functional components such as motors and hydraulic cylinders that drive the main unit. Consequently, the Group may incur substantial expenses, including the payment of damages demanded by customers, if it supplies defective products. Furthermore, sales volume and prices for aftermarket automotive shock absorbers are subject to the impact of regional economic conditions and competition.

Procurement of Materials and Components

The KYB Group purchases materials and components from a large number of suppliers. Prices of these items are closely linked to prices on international commodity markets. The KYB Group may not be able to fully reflect an increase in the cost of materials or components in its selling prices, or to reduce prices of materials and components sufficiently to reflect a reduction in selling prices, which could have a significant impact on operating results.

Funding

The KYB Group obtains loans mainly from financial institutions in Japan and other countries to fund capital expenditures and to secure working capital. The Group obtains these loans while carefully monitoring financial markets. However, it may be unable to procure funds when needed at favorable terms due to events including a broad decline in the prices of the Group's products, an economic recession, a credit crunch, or a decline in the Group's credit rating, which could affect the Group's financial condition and operating results.

Business Downturn

Bankruptcy at KYB Group overseas production or sales bases caused by factors including a decline in orders or profitability could significantly impact the Group's operating results.

Counterparty Credit Risk

The KYB Group sells its products to automobile and construction machinery manufacturers and many other customers. An unexpected problem involving customer credit risk could affect the Group's operating results.

Nonconforming Acts in the Inspection Process for Seismic Isolation/Mitigation Oil Dampers

The Company and its subsidiary Kayaba System Machinery Co., Ltd. manufacture and sell seismic isolation/mitigation oil dampers for buildings. We recently determined that some of the seismic isolation/mitigation oil dampers ("Nonconforming Products") shipped and installed in buildings ("Target Properties") did not conform to performance evaluation standards certified by the Minister of Land, Infrastructure, Transport and Tourism (the "Minister"),* or to the standards of customers, because of falsification of performance inspection record data (the "Incident"). We reported the Incident to the Ministry of Land, Infrastructure, Transport and Tourism (MLIT) and announced the status of our response on October 16, 2018.

On November 15, 2018, we uncovered additional matters that we should confirm. On December 19, 2018, we announced that in addition to the falsification of performance record data, the inspection measurement results submitted for damping force had been changed by moving the median damping force on extension and compression in the direction of the origin. At the same time, we presented the results of our investigation. In addition, as a result of ongoing analysis of data remaining in the inspection machines, on March 15, 2019 we revised the number of Target Properties and products that we had announced on December 19, 2018.

The Company's basic policy is to promptly ensure conformity of products that do not conform to the Minister's certified standards and products for which conformity is uncertain. For items that conform to the Minister's certified standards but not to customer standards, we will take appropriate measures according to the

wishes of property owners, residents and other stakeholders. Our management priority is to eliminate worries and concerns, so we will carefully explain matters to owners and other stakeholders. Considering the gravity of the Incident, we established an independent external investigative committee chaired by Koichi Namba, a lawyer from Mori Hamada & Matsumoto legal office and former Chief Judge at the Tokyo High Court, to review the facts of the Incident, analyze its causes, and recommend measures to prevent recurrence. On February 4, 2019, we received the committee's report on the results of the investigation, and accepted its findings and proposed preventive measures. Based on these recommendations, we will take appropriate steps, further strengthen corporate governance and the internal control system, thoroughly implement measures to prevent recurrence, and take action to restore trust.

The Company provides for product warranties for seismic isolation/mitigation oil dampers using information and facts currently available and considered reliable. Provisions have been recorded in our accounts for costs to produce seismic isolation/mitigation oil dampers, to replace seismic isolation oil dampers, to make structural modifications, and to cover expenses incurred by relevant headquarters and divisions. Therefore, future expenses associated with the Incident, including compensatory damages, could significantly impact the Group's operating results.

*There is no Minister's certification system for seismic mitigation oil dampers.

Impact of Improper Claims to the Ministry of Defense

The Company has recorded a provision in its accounts for loss related to repayment and other expenses associated with improper claims regarding working hours that were found to have been made to the Ministry of Defense in connection with a defense equipment contract. The Ministry of Defense has been conducting a special investigation since March 14, 2019, and we are cooperating fully. This provision is a reasonable estimate of expenses at this time, and may change depending on the progress of the special investigation.

Risks Associated with Significant Lawsuits or Other Legal Action

If the KYB Group is the defendant in a lawsuit and the outcome is unfavorable, the resulting payment and other demands may

have a significant impact on the Group's operating results.

Risks Associated with Fires, Accidents and Natural Disasters

Many plants of the KYB Group produce hydraulic products that utilize the properties of oil. In addition, some plants have coating equipment that uses organic solvents, and storage tanks for hydraulic oil, chemicals and other substances. A fire or hazardous substance leak could temporarily shut down manufacturing activity. In Japan, many plants of the KYB Group and many of its suppliers are located in the Chubu area. A major earthquake or

other event in this area that prevents these plants from operating could cause a substantial decline in the Group's production capacity. In addition, an earthquake, fire, conflict, act of terrorism or other event in an area outside of Japan where the KYB Group has a plant could cause a substantial decline in the Group's production capacity.

Management Team (As of August 1, 2019)

Directors



Yasusuke Nakajima¹

Director, Chairman

- 1979 Joined the Company
- 2005 Member of the Board of Directors; General Manager, Hydraulics Sales & Marketing Headquarters, Hydraulic Components Operations
- 2007 Member of the Board of Directors; General Manager, Hydraulics Sales Headquarters, Hydraulic Components Operations
- 2009 Managing Member of the Board of Directors; General Manager, Hydraulic Components Operations
- 2010 Senior Managing Member of the Board of Directors
- 2011 Member of the Board of Directors, Senior Managing Executive Officer
- 2015 Representative Director, President Executive Officer
- 2018 Representative Director, Chairman, President Executive Officer
- 2019 Representative Director, Chairman
- 2019 Director, Chairman (current position)



Masao Ono¹

Representative Director, President Executive Officer

- 1979 Joined the Company
- 2005 General Manager, Operations Planning Department, Automotive Components Operations
- 2006 General Manager, Purchasing Department
- 2008 General Manager, Purchasing Division
- 2012 Executive Officer; General Manager, Purchasing Division.
- 2014 Managing Executive Officer; General Manager, Purchasing Division
- 2016 Senior Managing Executive Officer
- 2017 Member of the Board of Directors, Senior Managing Executive Officer
- 2018 Member of the Board of Directors, Executive Vice President Executive Officer
- Representative Director, President Executive Officer (current position)



Takaaki Kato¹

Representative Director, Executive Vice President Executive Officer

- 1980 Joined The Fuji Bank, Limited (present Mizuho Bank, Ltd.)
- 2005 General Manager, Hong Kong Branch, Mizuho Corporate Bank, Ltd. (present Mizuho Bank, Ltd.)
- 2008 Executive Officer, Mizuho Securities Co., Ltd.
- 2009 Managing Executive Officer, Mizuho Securities Co., Ltd.
- 2011 Managing Executive Officer, Mizuho Securities Co., Ltd. and Chairman, Mizuho Securities Asia Limited
- 2013 Joined the Company; Managing Executive Officer
- 2015 Senior Managing Executive Officer
- 2015 Member of the Board of Directors, Senior Managing Executive Officer
- 2017 Representative Director, Executive Vice President Executive Officer (current position)



Keisuke Saito¹

Member of the Board of Directors, Executive Vice President Executive Officer

- 1983 Joined the Ministry of International Trade and Industry (present Ministry of Economy, Trade and Industry)
- 2002 General Manager, Beijing Office, Japan-China Economic Association
- 2005 Director, Industrial Revitalization Division, Economic and Industrial Policy Bureau, Ministry of Economy, Trade and Industry
- 2007 Director, Industrial Science and Technology Policy Division, Industrial Science and Technology Policy and Environment Bureau, Ministry of Economy, Trade and Industry
- 2008 Director, Finance Division, Minister's Secretariat, Ministry of Economy, Trade and Industry
- 2009 Director-General for Energy Conservation and Renewable Energy Department, Agency for Natural Resources and Energy, Ministry of Economy, Trade and Industry
- 2010 Special Adviser of the Company
- 2011 Member of the Board of Directors, Senior Managing Executive Officer
- 2019 Member of the Board of Directors, Executive Vice President Executive Officer (current position)



Rokuro Tsuruta^{1,3}

Member of the Board of Directors (Outside)

- 1970 Prosecutor, Tokyo District Public Prosecutors Office
- 2005 Superintending Prosecutor, Nagoya High Public Prosecutors Office
- 2006 Registered as an attorney (Daini Tokyo Bar Association)
- 2007 Outside Director, TEIKOKU PISTON RING CO., LTD. (present TPR Co., Ltd.) (current position)
- 2007 Outside Audit & Supervisory Board Member, J. FRONT RETAILING Co., Ltd.
- 2012 Outside Corporate Auditor, Sumitomo Mitsui Financial Group, Inc.
- 2012 Attorney and Representative, Tsuruta Rokuro Law Office (current position)
- 2015 Member of the Board of Directors (Outside) of the Company (current position)
- 2017 Outside Director, J. FRONT RETAILING Co., Ltd.
- 2017 Outside Corporate Auditor, Sumitomo Mitsui Banking Corporation (current position)



Shuhei Shiozawa^{1,3}

Member of the Board of Directors (Outside)

- 1981 Assistant, Faculty of Economics, Keio University
- 1987 Associate Professor, Faculty of Economics, Keio University
- 1994 Professor, Faculty of Economics, Keio University
- 2001 Director for International Economic Affairs, Cabinet Office
- 2005 Dean, Faculty of Economics, Keio University
- 2012 Member of the Board of Directors (Outside), Kenedix, Inc. (current position)
- 2016 Member of the Board of Directors (Outside) of the Company (current position)
- 2017 Independent Director (Audit & Supervisory Committee member), Ahresty Corporation (current position)
- 2019 Professor Emeritus, Keio University (current position)
- 2019 President, Tokyo International University (current position)

Notes: 1. Term of office: One year from the conclusion of the Ordinary General Meeting of Shareholders held on June 25, 2019.

2. Term of office: Four years from the conclusion of the Ordinary General Meeting of Shareholders held on June 24, 2016.

Full-time Audit & Supervisory Board Member (Outside) Takashi Saito has taken over the term of office from the previous Audit & Supervisory Board Member, with a term of office of two years from the conclusion of the Ordinary General Meeting of Shareholders held on June 22, 2018.

In addition, full-time Audit & Supervisory Board Member (Outside) Junichi Tanaka has taken over the term of office from the previous Audit & Supervisory Board Member, with a term of office of one year from the conclusion of the Ordinary General Meeting of Shareholders held on June 25, 2019.

3. Members of the Board of Directors (Outside) Rokuro Tsuruta and Shuhei Shiozawa and full-time Audit & Supervisory Board Member Junichi Tanaka (Outside) are independent officers as prescribed in Rule 436-2 of the Securities Listing Regulations of the Tokyo Stock Exchange.

Audit & Supervisory Board Members



Tomoo Akai²

Audit & Supervisory Board Member (Full Time)

1979 Joined the Company
 2004 General Manager, Legal & Auditing Department
 2005 General Manager, Legal Affairs Department
 2006 General Manager, General Affairs & Personnel Administration Department
 2008 General Manager, Human Resources Division
 2009 General Manager, Audit Department
 2011 Audit & Supervisory Board Member of the Company (Full time) (current position)



Motoo Yamamoto²

Audit & Supervisory Board Member (Full Time)

1977 Joined the Company
 2004 Deputy Executive Officer, Corporate Planning Department
 2005 General Manager, Operations Planning Department, Related Business Operations
 2007 Member of the Board of Directors and General Manager, Administration Department, Kayaba System Machinery Co., Ltd.
 2009 Managing Member of the Board of Directors and General Manager, Administration Department, Kayaba System Machinery Co., Ltd.
 2012 Member of the Board of Directors and Executive Vice President, KYB Trondule Co., Ltd.
 2015 Audit & Supervisory Board Member of the Company (Full time) (current position)



Takashi Saito²

Audit & Supervisory Board Member (Full Time) (Outside)

1984 Joined The Fuji Bank, Limited (present Mizuho Bank, Ltd.)
 2011 General Manager, International Fund Department, The Fuji Bank, Limited (present Mizuho Bank, Ltd.)
 2012 Executive Officer, General Manager, International Fund Department, The Fuji Bank, Limited (present Mizuho Bank, Ltd.)
 2013 Executive Officer, General Manager, Derivatives Sales Department, The Fuji Bank, Limited (present Mizuho Bank, Ltd.)
 2016 Managing Executive Officer, Deputy Head of Global Markets Company, Mizuho Financial Group, Inc.
 2016 Managing Executive Officer, Co-General Manager, Global Markets Division, Mizuho Bank, Ltd.
 2017 Advisor, Mizuho Human Services K.K.
 2017 Representative Director and President, Mizuho Human Services K.K.
 2018 Audit & Supervisory Board Member of the Company (Full time) (Outside) (current position)



Junichi Tanaka^{2,3}

Audit & Supervisory Board Member (Full Time) (Outside)

1984 Joined The Yasuda Fire and Marine Insurance Co., Ltd. (present Sampo Japan Nipponkoa Insurance Inc.)
 2014 Senior Vice President, General Manager, Global Business Planning Department, Sampo Japan Nipponkoa Insurance Inc. Senior Vice President, General Manager, Global Business Planning Department, Sampo Japan Nipponkoa Holdings, Inc. (present Sampo Holdings, Inc.)
 2016 Executive Vice President, General Manager, Europe & South America, Regional Headquarters, Sampo Japan Nipponkoa Insurance Inc. Executive Vice President, General Manager, Europe & South America, Regional Headquarters, Sampo Japan Nipponkoa Holdings, Inc.
 2016 Executive Vice President, General Manager, Europe & South America, Regional Headquarters, Sampo Holdings, Inc.
 2017 Executive Vice President, Sampo Japan Nipponkoa Insurance Inc. Executive Vice President, Sampo Holdings, Inc.
 2018 CEO of Overseas Insurance Business, Executive Vice President, Sampo Holdings, Inc.
 2018 CEO of Overseas Insurance Business, Director, Executive Vice President, Sampo Holdings, Inc.
 2019 Audit and Supervisory Board Member (Full Time) (Outside) of the Company

Executive Officers

Representative Director, President Executive Officer	Masao Ono	
Executive Vice President Executive Officers	Takaaki Kato	In charge of Global Corporate Finances
	Keisuke Saito	General Manager, Seismic Isolation/Mitigation Correspondence Operations
Senior Managing Executive Officers	Hiroshi Ogawa	In charge of European Operations; President, KYB Europe GmbH
	Toshihiko Hatakeyama	In charge of North, Central & South American Operations (Automotive Components Operations Relations) General Manager, Automotive Components Operations
	Hitoshi Nitta	In charge of Quality and Cost Planning; General Manager, Production Division; Deputy General Manager, Seismic Isolation/Mitigation Correspondence Operations
Managing Executive Officers	Eiji Hisada	In charge of auditing; General Manager, President Office
	Kenji Yamanouchi	President, KYB Americas Corporation
	Hideki Nonoyama	In charge of Purchasing; Deputy General Manager, Seismic Isolation/Mitigation Correspondence Operations
	Osamu Kunihara	General Manager, Finance & Accounting Division
	Ikuo Inagaki	General Manager, Hydraulic Components Operations
	Hajime Sato	Deputy General Manager, Automotive Components Operations and General Manager, Motorcycle Headquarters
	Kazuaki Shoji	In charge of Special Purpose Vehicle Division and Aircraft Components Division; General Manager, Human Resources Division
	Masahiro Kawase	General Manager, Steering Headquarters, Automotive Components Operations
	Masaru Tsuboi	General Manager, CSR & Safety Control Division and General Manager, Legal Affairs Department

Executive Officers	Tomoyuki Nagata	Deputy General Manager, Seismic Isolation/Mitigation Correspondence Operations and General Manager, Customer Correspondence Headquarters
	Koji Yamamoto	General Manager, Quality Division
	Hiroshi Kurotaki	Assistant of Aircraft Components Division
	Takashi Kondo	Deputy General Manager, Seismic Isolation/Mitigation Correspondence Operations and Deputy General Manager, Customer Correspondence Headquarters
	Kimiro Sudo	Assistant of Hubei Henglong & KYB Automotive Electric Steering System CO., LTD.
	Takashi Tezuka	General Manager, Engineering Division; General Manager, Engineering Planning Department
	Ryuji Uda	Global Production (Automotive Components Operations Relations) General Manager, Suspension Headquarters, Automotive Components Operations
	Minoru Ishikawa	Deputy General Manager, Seismic Isolation/Mitigation Correspondence Operations; General Manager, Promotion Headquarters
	Tomoki Takaoka	General Manager, Purchasing Division
	Ukuru Tsuchida	General Manager, Special Purpose Vehicles Division
	Ichio Nemoto	In charge of Global Corporate Planning and Domestic Affiliated Companies; General Manager, Corporate Planning Division; General Manager, Corporate Planning Department and IT Planning Department
	Minoru Tamai	General Manager, Gifu South Plant, Hydraulic Components Operations
	Shozo Amano	General Manager, Sagami Plant, Hydraulic Components Operations

Financial Highlights

KYB Corporation and Consolidated Subsidiaries

FY	2008	2009	2010	2011
	JGAAP	JGAAP	JGAAP	JGAAP
Accounting standards applied				
Net sales	329,262	252,020	320,082	337,158
Segment profit ¹	—	—	—	—
Operating profit	50	3,896	24,152	21,538
Profit before tax [Income (loss) before income taxes and minority interests]	(4,300)	1,671	24,440	21,760
Profit (loss) attributable to owners of the parent [Net income (loss)]	(5,230)	661	17,014	13,898
Capital expenditures	24,968	10,082	8,916	27,173
Depreciation and amortization	16,552	15,318	13,427	13,508
R&D expenses	3,268	2,817	3,218	4,035
Cash flows from operating activities	8,499	22,655	35,433	17,399
Cash flows from investing activities	(26,505)	(12,828)	(7,233)	(20,000)
Cash flows from financing activities	32,200	(6,646)	(16,968)	(3,455)
Cash and cash equivalents at end of period	34,272	37,664	48,123	42,010
Total assets	269,655	269,361	285,134	301,349
Interest-bearing debt ²	104,782	98,145	81,641	80,518
Total equity [Total net assets]	76,451	78,489	89,964	102,762
Basic earnings per share [Net income (loss) per share] ³ (Yen)	(23.62)	3.03	77.54	62.87
Cash dividends per share applicable to the year ³ (Yen)	3.50	2.50	8.00	9.00
Return on equity attributable to owners of the parent [Return on equity] (ROE; %)	—	0.9	21.1	14.8
Ratio of equity attributable to owners of the parent [Equity ratio] (%)	26.6	27.3	30.6	33.2
P/E ratio (Times)	—	113.9	8.6	8.0

Notes: 1. Segment profit is calculated by deducting cost of sales and selling, general and administrative expenses from net sales.

2. Interest-bearing debt = Short-term borrowings + Current portion of long-term borrowings + Current lease obligations + Long-term debt + Non-current lease obligations + Guarantee deposits received

3. The Company carried out a 1-for-10 reverse stock split effective October 1, 2017.

Note: Items in brackets are Japanese Generally Accepted Accounting Principles (JGAAP) line item names applied prior to the year ended March 31, 2015 (FY2014).

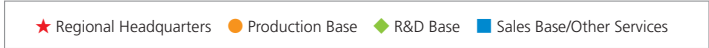
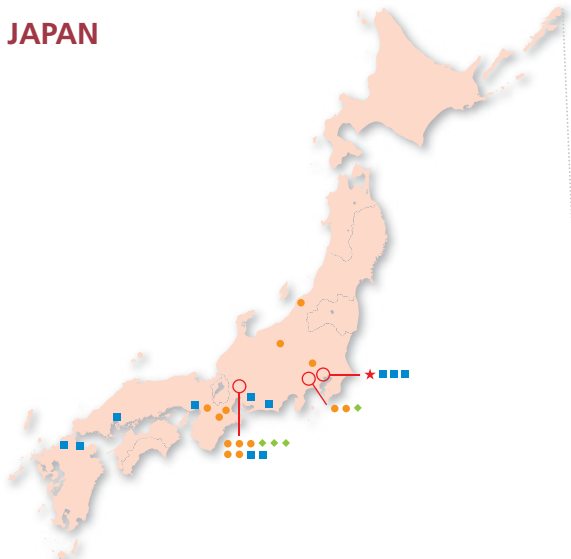
*JGAAP

(Millions of yen)

2012	2013	2014	2015	2016	2017	2018
JGAAP	JGAAP	IFRS	IFRS	IFRS	IFRS	IFRS
305,752	352,710	370,327	355,320	355,316	393,743	412,214
—	—	15,506	17,588	18,624	22,949	22,010
10,473	18,170	14,461	4,327	19,247	20,885	(28,496)
12,994	21,032	14,892	2,825	18,852	20,881	(29,510)
7,789	12,761	8,036	(3,161)	14,544	15,202	(24,757)
39,215	29,908	30,087	21,300	20,578	20,956	25,345
14,554	17,294	15,191	17,075	15,922	16,988	17,581
5,468	6,917	8,910*	7,760	7,621	8,102	6,750
18,984	28,788	22,335	19,958	31,153	29,252	17,047
(36,125)	(36,078)	(30,658)	(20,320)	(21,337)	(16,386)	(13,616)
8,529	5,709	(555)	(3,395)	(969)	(4,482)	10,418
35,215	38,132	30,510	25,296	33,988	42,702	56,092
327,912	361,083	387,877	359,002	381,326	412,493	441,074
95,338	88,813	92,448	91,685	93,563	94,641	108,634
116,435	153,997	175,256	153,381	169,771	186,651	155,643
35.24	55.25	31.45	(12.37)	56.93	595.09	(969.18)
8.00	9.00	12.00	11.00	12.00	150.00	0.00
7.3	9.7	5.1	(2.0)	9.3	8.8	(15.0)
34.5	41.2	43.6	41.3	43.1	43.7	33.9
13.1	7.9	14.0	—	10.2	8.5	—

Global Network (As of September 1, 2019)

JAPAN



KYB Corporation

- ★ KYB Head office
- Kumagaya Plant
- Sagami Plant
- Aikawa Plant
- Gifu North Plant
- Gifu South Plant
- Gifu East Plant
- ◆ Basic Technology R&D Center
- ◆ Production Technology R&D Center
- ◆ Machine Tools Center
- ◆ Developmental Experiment Center
- Hamamatsu
- Nagoya
- Osaka
- Hiroshima
- Fukuoka
- KYB Trondule Co., Ltd.
- KYB-YS Co., Ltd.
- KYB Kanayama Co., Ltd.
- KYB Motorcycle Suspension Co., Ltd.
- Kayaba System Machinery Co., Ltd.
- KYB Stage Engineering Co., Ltd.
- Takako Industries, Inc.
- KYB Engineering and Service Co., Ltd.
- Kensiyyu Co., Ltd.
- Japan Analysts Co., Ltd.
- KYB Logistics Co., Ltd.
- KYB Systemerit Co., Ltd.
- Chikuyo Seiki Kogyo Co., Ltd.

EUROPE

- ★ ◆ KYB Europe GmbH
- ★ KYB Europe GmbH (Navarra Branch)
- KYB Europe GmbH (Düsseldorf Branch)
- KYB France
- KYB Iberia
- KYB Italy
- KYB Poland
- KYB Romania
- KYB Turkey
- KYB UK
- KYB Ukraine
- KYB Suspensions Europe, S.A.U.
- KYB Steering Spain, S.A.U.
- KYB Advanced Manufacturing Spain, S.A.U.
- KYB Manufacturing Czech, s.r.o.
- KYB CHITA Manufacturing Europe s.r.o.
- LLC KYB Eurasia
- KYB Eurasia Vladivostok
- KYB Middle East FZE

ASIA

- ★ KYB (China) Investment Co., Ltd.
- KYB Industrial Machinery (Zhenjiang) Ltd.
- KYB Industrial Machinery (Zhenjiang) Ltd. (Shanghai Branch)
- ■ Wuxi KYB Top Absorber Co., Ltd.
- Changzhou KYB Leadrun Vibration Reduction Technology Co., Ltd.
- Hubei Henglong & KYB Automobile Electric Steering System Co., Ltd.
- CHITA KYB Manufacturing (Zhenjiang) Co., Ltd.
- KYB Manufacturing Taiwan Co., Ltd.
- KYB Steering (Thailand) Co., Ltd.
- KYB (Thailand) Co., Ltd.
- KYB Manufacturing Vietnam Co., Ltd.
- Takako Vietnam Co., Ltd.
- PT. KYB Hydraulics Manufacturing Indonesia
- PT. Kayaba Indonesia
- PT. Chita Indonesia
- KYB-UMW Malaysia Sdn. Bhd.
- KYB Motorcycle Suspension India Pvt. Ltd.
- KYB-Conmat Pvt. Ltd.
- KYB Asian Pacific Corp. Ltd.
- KYB Asian Pacific Corp. Ltd. (Amata Nakorn Branch)
- Kayaba System Machinery Co., Ltd. Taiwan Office
- KYB Corporation Chennai Branch

AMERICAS

- ★ ● KYB Americas Corporation (Indiana)
- KYB Americas Corporation (Chicago)
- KYB Americas Corporation (Detroit Branch)
- KYB Americas Corporation (Greenwood)
- Takako America Co., Inc.
- KYB Mexico S.A. de C.V.
- KYB Manufacturing do Brasil Fabricante de Autopeças S.A.
- KYB International America, Inc.
- KYB Latinoamerica, S.A. de C.V.
- Comercial de Autopeças KYB do Brasil Ltda.

Corporate Information/Shareholder Information (As of March 31, 2019)

Corporate Information

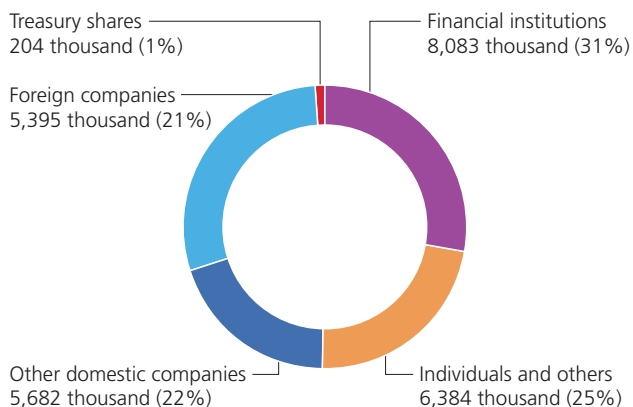
Company Name KYB Corporation
Head Office World Trade Center Bldg.,
 4-1, Hamamatsu-cho 2-chome,
 Minato-ku, Tokyo 105-6111, Japan
 TEL: +81-3-3435-3511
 FAX: +81-3-3436-6759
 URL: <https://www.kyb.co.jp/english/>

Date of Establishment March 10, 1935
Fiscal Year April 1 to March 31
Paid-in Capital ¥27,647.6 million
Number of Employees 15,427 (Consolidated basis)
Securities Traded Tokyo Stock Exchange (First Section)

Shareholder Information

Common Stock Issued 25,748,431
Number of Shareholders 16,693
Transfer Agent and Registrar Mizuho Trust & Banking Co., Ltd.
 2-1, Yaezu 1-chome, Chuo-ku,
 Tokyo 103-8670, Japan

Composition of Shareholders

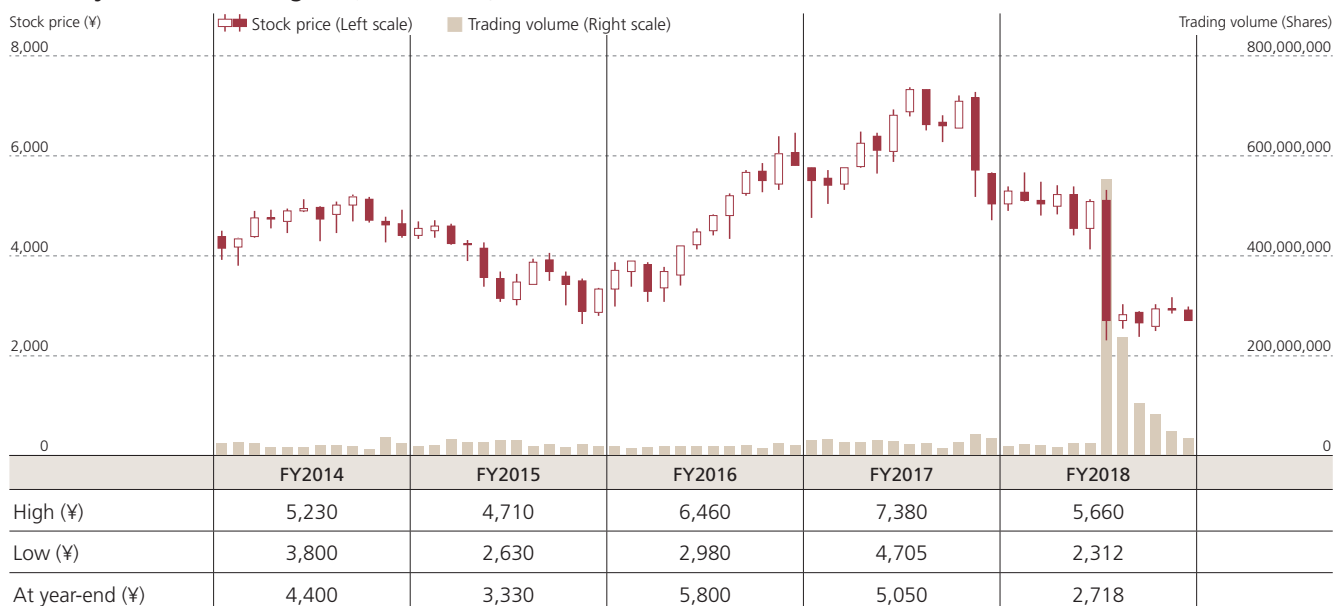


Major Shareholders

Name	Shareholdings (Thousands)	Percent of Total Shares Issued (%)
Toyota Motor Corporation	1,965	7.7
The Master Trust Bank of Japan, Ltd. (Trust Account)	1,324	5.2
Meiji Yasuda Life Insurance Company	1,005	3.9
Hitachi Construction Machinery Co., Ltd.	892	3.5
KYB suppliers' stock ownership	784	3.1
Trust & Custody Services Bank, Ltd. as trustee for Mizuho Bank, Ltd. Retirement Benefit Trust Account re-entrusted by Mizuho Trust and Banking Co., Ltd.	612	2.4
Ogaki Kyoritsu Bank, Ltd.	591	2.3
Mizuho Bank, Ltd.	491	1.9
Japan Trustee Services Bank, Ltd. (Trust Account 9)	419	1.6
Japan Trustee Services Bank, Ltd. (Trust Account 5)	408	1.6

Note: Shareholding ratio is calculated after the deduction of own shares (204,834 shares)

Monthly Stock Price Range (Tokyo Stock Exchange)



Note: The Company carried out 1-for-10 reverse stock split on the effective date of October 1, 2017. Numbers for the prior fiscal years are as recorded after the reverse stock split.

A blurred background image showing a road with double yellow lines curving to the right, with a green grassy area and a blue sky above. The image is heavily motion-blurred, creating a sense of speed and movement.

Contact

KYB Corporation

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World Trade Center Bldg.,
4-1, Hamamatsu-cho 2-chome,
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TEL: +81-3-3435-3545
FAX: +81-3-3436-6759