

# Corporate Governance

## Basic Policies

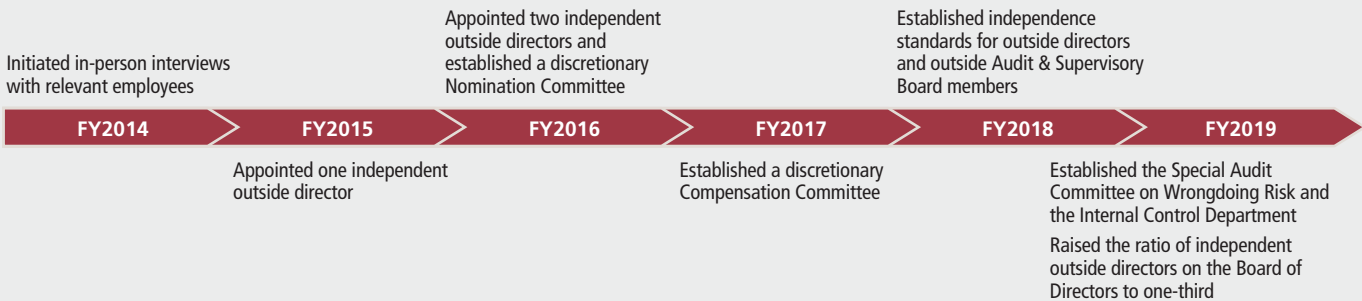
1. We shall respect the rights of shareholders, and ensure the equal and fair treatment of all shareholders.
2. We shall take the interests of shareholders and other stakeholders into consideration and endeavor to appropriately cooperate with those stakeholders.
3. We shall disclose not only information 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 whistleblowing system. Through these and other initiatives we have endeavored to broadly instill a sense of urgency among employees, 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, and did not meet 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.

## Initiatives to Strengthen the KYB Group's Governance



## Non-Financial Corporate Governance Achievements

### Corporate Guiding Principles now available in 13 languages

(Japanese, English, Chinese (simplified and traditional script versions), Portuguese, Vietnamese, French, German, Czech, Russian, Thai, Indonesian, Spanish (European and Latin American versions), and Tagalog)



**Ratio of independent outside directors on the Board of Directors now one-third**

### Independence standards for outside directors and outside Audit & Supervisory Board members formulated

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 Policies, 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

The corporate governance of KYB, which is structured as a company with an Audit & Supervisory Board in accordance with the Companies Act, 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.

Three of the seven members of the Board of Directors are independent outside directors, and two of the four members of the Audit & Supervisory Board are independent outside members. 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 &

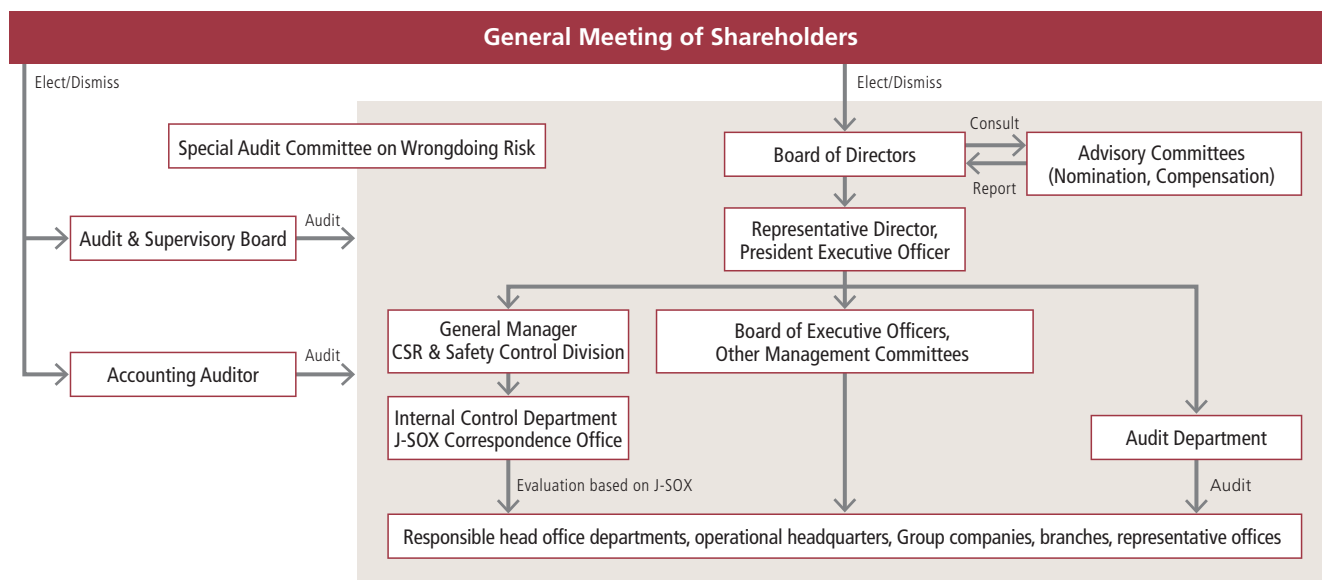
Supervisory Board members are independent based on KYB's independence standards, and only selects individuals who can be independent of other members of management.

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.

► Please refer to the Corporate Governance section on our Company website for details on independence standards.

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

## Corporate Governance Structure



## Evaluation of the Effectiveness of the Board of Directors

KYB defines the effectiveness of the Board of Directors as fulfillment of its expected roles and functions to achieve sustainable growth of the Company and improve corporate value. Committed to a highly effective Board of Directors, we analyze and evaluate the effectiveness of the Board of Directors once a year.

Based on the results of the FY2017 evaluation, in FY2018 KYB fully verified the appropriateness of the agenda and the ease of understanding of meeting materials in advance through channels including the Council of General Managers and the Corporate Strategy Council.

In FY2019, we administered written self-assessment questionnaires for all directors and Audit & Supervisory Board members. We used the questionnaire responses to identify issues

we need to address after obtaining third-party analysis and evaluation by external experts.

### Questionnaire Methodology

**Respondents:** 10 respondents, comprising 6 directors (including 2 independent outside directors) and 4 Audit & Supervisory Board members (including 1 independent member)

**Survey period:** September to November 2019

**Methodology:** External experts administered a self-assessment questionnaire, analyzed and evaluated the results, and interviewed officers

#### Key questionnaire items

1. Roles and responsibilities of the Board of Directors
2. Composition of the Board of Directors
3. Roles and qualities of Directors
4. Administration of the Board of Directors
5. Level of satisfaction among outside directors

#### Number of survey questions

66 (75 for outside directors)

#### Questionnaire methodology

Evaluation of the current situation: 4-level evaluation

Specific suggestions for improving the current situation: open-ended response

### 2019 Results

We have identified the following specific issues for resolution in FY2020:

- 1) Further improve information sharing (between outside directors and Audit & Supervisory Board members, and between the Board of Directors and the Nomination Committee and the Compensation Committee)
- 2) Improve the ease of understanding of meeting materials for the Board of Directors

### Future Actions

In order to strengthen the supervisory function of the Board of Directors, the Board of Directors and Audit & Supervisory Board members provided multiple opinions on matters to be discussed at Board meetings and the composition of the Board of Directors, and shared their awareness of issues. We will continue to discuss both internal and external issues in order to improve effectiveness.

## 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 interests 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.

## 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)	20,600	17,575
Segment profit margin (%)	5.02	4.61
Profit (loss) attributable to owners of the parent (Millions of yen)	14,000	(61,879)
Profit (loss) margin attributable to owners of the parent (%)	3.41	(16.22)

Note: The targets are the consolidated financial results forecast for the base fiscal year (FY2019, or the fiscal year ended March 2020) described in the financial statements at the end of the fiscal year prior to the base fiscal year (FY2018, or the fiscal year ended March 2019). The first consolidated performance forecast will be the baseline if the announcement of results for the recently ended fiscal year does not include a consolidated performance forecast.

### 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)	155	155	—	6
Outside directors	16	16	—	2
Audit & Supervisory Board members (Excluding outside members)	44	44	—	2
Outside Audit & Supervisory Board members	45	45	—	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 two directors and one Audit & Supervisory Board member who retired at the conclusion of the 97th Ordinary General Meeting of Shareholders on June 25, 2019.

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 FY2019. ¥44.8 million (two directors)

Note: This amount includes the payment of ¥41.0 million to two directors, which was disclosed in previous years as allowance for retirement benefits.

4. FY2019 retirement benefits for directors did 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 adhering to the Basic Policy for Internal Control System<sup>1</sup> 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.

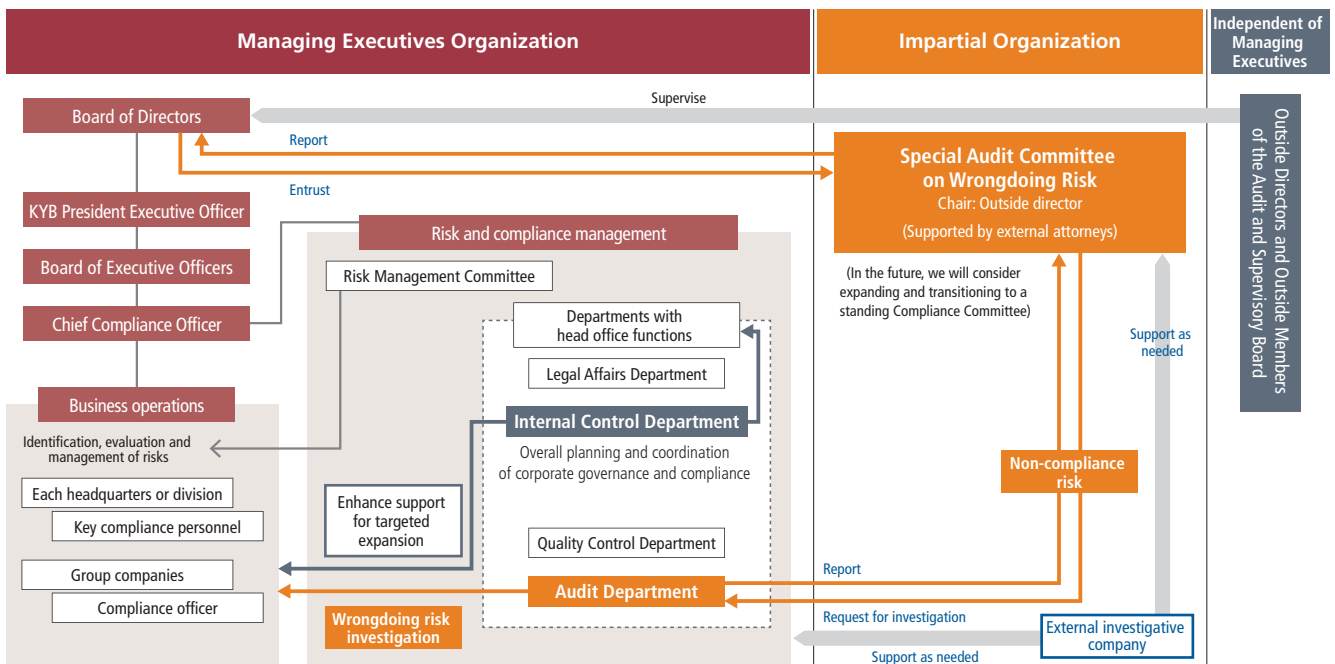
### Key Points for Internal Control

1	<b>KYB Group Risk Management</b>	The Risk Management Committee reports to the Board of Directors. Based on the Risk Management Rules, it designates responsible departments to conduct risk management activities for major risks such as quality problems and occupational accidents during the fiscal year.
2	<b>KYB Group Information Protection</b>	Based on the Basic Policy for Information Security, KYB shall implement a system to protect information assets and take measures against the risk of information leaks and information system failures caused by cyberattacks.
3	<b>Rigorous Application of Internal Regulations during Emergencies</b>	We inform all employees of Group companies of their reporting obligations to ensure rigorous reporting under internal reporting rules that include the Rule of Prompt Report <sup>2</sup> and Bad News First system, which calls for employees of Group companies to immediately notify the Company should they become aware of a potentially serious problem.
4	<b>Review to Improve the Effectiveness of the Whistleblowing System</b>	We carefully explain the internal reporting system to indirectly related departments and frontline workers. We have also made whistleblowing compulsory 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.

### Internal Control System



## 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. In response to the improper acts related to the damper problem, we revised our Corporate Spirit and Corporate Guiding Principles in October 2019 to clearly state that quality fraud will never recur.



Publicity poster for the whistleblowing system

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.



A meeting of compliance officers and key compliance people in Japan



A gathering of employees for Compliance Improvement Week

### Key Points for Compliance

1	Fostering Compliance Awareness in the KYB Group	To improve compliance awareness, officers of the Company and Group companies regularly attend lectures on compliance awareness at training sessions for senior management. We also foster compliance awareness for employees of the Company and the Group through e-learning, lecture transcripts and videos.
2	Education and Training to Raise Awareness of Social Responsibility	We will systematize repeated top-down education on corporate ethics. We are also proactively reviewing the content of teaching materials to incorporate multiple case studies that lead to change in the awareness of all executives and employees, including frontline employees.
3	Emphasize the Importance of Compliance Regularly	Top management of the Company communicates internally through channels including speeches in January, April and October.
4	Personnel Evaluations and Related Measures	Personnel evaluations include a system for evaluating attitudes among employees, managers and executive officers toward compliance initiatives, such as compliance with laws and internal rules.
5	Organizational Upgrade	We have established compliance officers and key compliance people at Group companies and Company business units. They manage and lead the compliance activities of the company or business unit to which they belong to facilitate compliance activities.
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
8	Initiatives to Raise Awareness of the Whistleblowing System	We have complemented internal contact points with external contact points for reporting from outside the Group in order to detect corporate scandals early and prevent them from occurring. Regarding the whistleblowing system, we also provide e-learning education and posters to Company and Group employees. The publicity posters are available in Japanese, Tagalog and Portuguese.