



Our Precision, Your Advantage

KYB Group Report

April 1, 2020 - March 31, 2021

2021

Contact

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Our Precision, Your Advantage

With society placing increasing importance on corporate social responsibility, KYB seeks to be a corporate group that meets the expectations of its stakeholders. Guided by our Corporate Spirit, each and every one of us at KYB is aware of our responsibilities as a company, and will act with awareness of that in complying with laws and regulations, and enhance our corporate value to remain a trusted enterprise.

Corporate Spirit (What KYB Aims to Be)

By providing technologies and products that make people's lives safe and comfortable, the KYB Group contributes to 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 kindness and 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.

Management Vision

Human Resource Development

To develop human resources who have a thorough understanding of our policies and strategies and can accomplish our goals with passion.

Technology and Product Development

To offer products that gain the admiration, provide comfort and satisfy all of our customers throughout the world.

Monozukuri (Japanese Manufacturing Expertise)

To operate plants filled with the creative inspiration of committed *monozukuri*, and joy of creating products that satisfy our customers.

Management

To be always self-aware of our corporate social responsibilities and to pursue efficient management.

Relationship between the KYB Group and Stakeholders



For details, see the "Corporate Guiding Principles" section of the Company website.



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

Editorial Policy

The KYB Group has issued this integrated report since FY2019 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

FY2020 (April 1, 2020 to March 31, 2021)
(Includes some activities and information from outside the above reporting period)

Scope

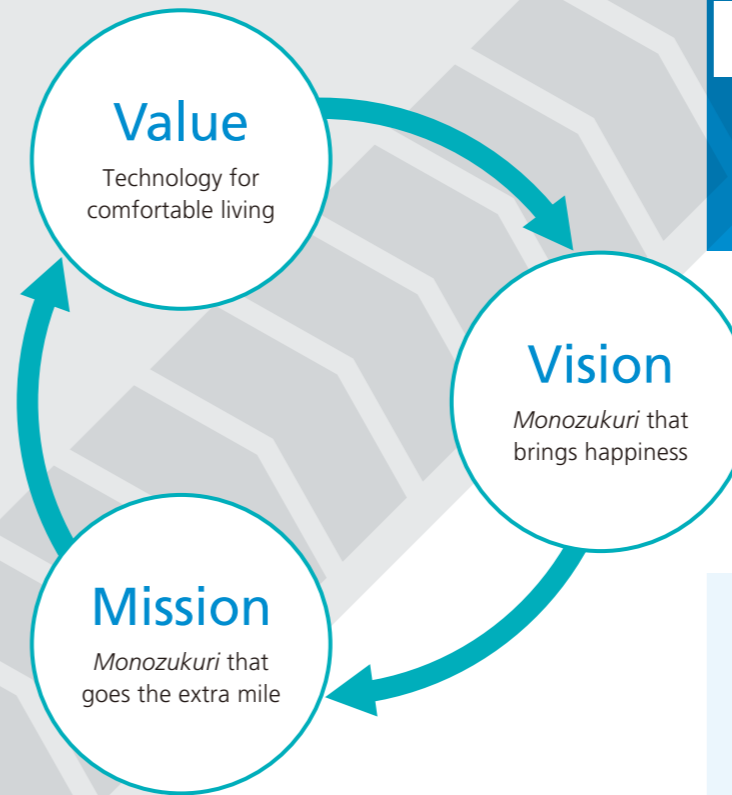
The report covers KYB Corporation and subsidiaries and affiliates in Japan and around the world. Environmental data is for KYB Corporation (Sagami Plant, Kumagaya Plant, Gifu North Plant, Gifu South Plant and Gifu East Plant) unless otherwise annotated.

Date of Issue

November 2021

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.



What KYB Aims to Be

By providing technologies and products that make people's lives safe and comfortable, the KYB Group contributes to society.

What the KYB brand offers the world

Monozukuri (Japanese manufacturing expertise) that brings happiness

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

The mission of the KYB brand

Monozukuri that goes the extra mile

KYB will remain an enterprise that delivers value to customers and markets by making use of the reliable technical expertise we have built up over the years. Through our efforts, we provide *monozukuri* that goes the extra mile to offer our customers new value and greater satisfaction than they have ever known.

Value the KYB brand creates

Technology for comfortable living

Value we can feel: Comfortable living, the joy of *monozukuri*

Value we can use: Reliable quality

The value KYB promises to end users: A higher level of comfortable living through our creative technology and dedication to product development.

The value KYB promises to its customers: Reliable quality that comes from thinking of end users as our customers, too.

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

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.

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KYB's History

Original technologies and dependable quality that have met the needs of the times

The origins of KYB date back to 1919, when inventor Shiro Kayaba founded the Kayaba Research Center at the young age of 21. Shiro Kayaba's invention, which utilized the most advanced hydraulic technology at the time, had a structure and design that no one else had thought of before, and his more than 100 patents supported the Company's survival and growth. He also contributed to the advancement of hydraulic technology in Japan in ways such as making original products available and providing guidance to engineers of other companies.



1919

Establishment "Everything in use is still developing, a legacy from the past. The world continuously seeks that which is new. The unique ability of humankind to progress lies in its constant search for perfection."
 Founder Shiro Kayaba

1945-

Entering New Fields with Creative Technologies

In the second half of 1946, just after World War II, KYB began research and development of a new product—shock absorbers—in cooperation with car manufacturers, and its share of that market gradually expanded with the popularization of automobiles. In the postwar construction boom, KYB in-licensed production technology for concrete mixer trucks from overseas. After further developing the technology, in 1959 it started production of a revolutionary "tilting

mixer," in which the drum body rotated and agitated the concrete through gravitational force. This product put KYB on the map. In 1951, we began development of oil dampeners for railways cars in collaboration with Japanese National Railways (now the Japan Railways Group). We have since established a strong customer base with a variety of partners including automobile manufacturers, motorcycle makers and construction machinery companies.

1980-

Shifting to High-Value-Added Products

Hydraulic excavators, which were created in the 1950s, took a major step forward after technology was introduced in Japan in the 1960s. Today, Japan is at the world's forefront in terms of technology development for hydraulic excavators. In fact, the history of technological advances in hydraulic excavators mirrors the progress of KYB's hydraulic products. The product that is considered the culmination of that technology is the KCH high-pressure cylinder that KYB began producing in 1984. With a new structure that conquered the simple challenge of creating a cylinder that

would not leak, rust or break, this became a core product. The basic data and calculation methods behind the meticulous design necessary to ensure the proper strength, right down to each screw, have been passed on, and improvements continue to be made even today. In the mid-1980s, we began to focus on computer-aided engineering (CAE) ahead of our industry peers, and our accumulation of data from that is reflected today in our use of big data from the introduction of digital transformation (DX) technology.

Active Overseas Expansion

One of KYB's strengths, in addition to the technologies it has built up through the years, is its global production and sales network. KYB set its sights on overseas markets early on, when it presented a long-term management vision in 1966 to become a global player as a comprehensive manufacturer of hydraulic equipment, and established the Overseas Business Division in 1973. The KYB brand spread widely outside Japan, centering on shock absorbers. In 1981, our export ratio reached 10.1% with export value exceeding ¥10 billion. Meanwhile, Japanese automakers began focusing on development of luxury cars with high added value in response to the rapid rise in the

value of the yen following the Plaza Accord.* KYB, in partnership with Nissan Motor Co., Ltd., began development of an electronically controlled suspension, and became the first in the world to successfully commercialize it. In 1990, we received the Technology Development Award from the Japan Hydraulic & Pneumatic Society.

* Plaza Accord: An exchange rate stabilization agreement signed in September 1985 at the G5 (Japan, the United States, the United Kingdom, Germany and France) meeting of finance ministers and central banks.

1990-

Improvement of Management Structure and Productivity Gains

Amid the collapse of Japan's economic bubble and dramatically changing times, KYB, with its future at stake, set the goal of establishing a slim and resilient management structure, and focused on transforming its business structure and strengthening its financial position. Harnessing the power of the KYB Group, we

developed new products and created new businesses, while enhancing productivity throughout our operations by promoting total productive maintenance (TPM; an approach that engages all employees in production maintenance and production management) and total quality control (TQC).

2000-

Weathering the Recession by Reducing Costs

During Japan's prolonged economic downturn, we actively expanded overseas, mainly through joint ventures in the United States and Europe, with the goal of becoming "No. 1 Globally." At the same time, we implemented a total cost-cutting program Company-wide, and continued to strengthen our operations in an effort to reduce lead time by half. As exhaust gas regulations for hydraulic excavators became stricter in various countries, customers required better environmental

performance, and in the 1990s we developed and successfully commercialized a high-efficiency control valve. We have continued to enhance human resource development to improve the level of understanding of technologies, safety and quality. As part of that effort, we gathered engineers from overseas for training to deepen their understanding of *monozukuri* (Japanese manufacturing expertise) and share their expertise in 2006.

2010-

Aiming for Further Growth Based on the Hydraulic Technologies We Have Cultivated Since Our Founding

The Developmental Center, a long-held dream of our engineers, opened in 2011. This enabled us to develop and test products more quickly, and greatly improved our technology development capabilities. The new center sought to link the knowledge and the expertise of all KYB engineering divisions to boost product development efficiency and establish a quality assessment method. As the importance of environmental issues increased worldwide, people's interest began to shift to safety, peace of mind, and comfort. To pursue these, we would need even stronger technological capabilities. Therefore, we established the DX Improvement

Department in 2019. We are utilizing various digital technologies to support the creation of new ideas and businesses, as well as improve quality and productivity, and are building KYB's IT systems in line with global standards. Based on the precise hydraulic technologies that have been continuously refined since its founding, KYB is applying and combining various basic technologies, such as automobile and motorcycle suspensions, vibration control technologies exemplified by power steering systems, and power control technologies used in drive system equipment, to create new products that meet the needs of society.

100th Anniversary

We marked the 100th anniversary of KYB's founding in November 2019. The heritage left by KYB's founder remains a part of the Company today.

Technological DNA



The Kayaba Award, a technology award born from the wishes of our founder (the awards ceremonies were held at each operating base in 2020 and 2021 due to the pandemic)

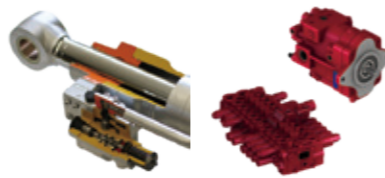
Higher Added Value in Our Core Products: Evolution of Technologies

Automotive shock absorbers



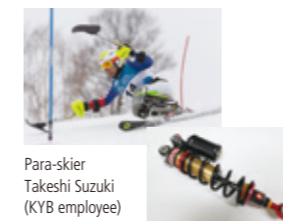
Variable damping shock absorbers with proportional solenoids

Hydraulic cylinders, valves and pumps for construction machinery



KCH hydraulic cylinder
Load-sensing system for mini excavators

Technology Applications



Para-skier Takeshi Suzuki (KYB employee)
Shock absorber for a chair ski we began developing for the 1998 Winter Olympics

Basic Research (Tribology)



DLC coating with excellent sliding characteristics and beautiful appearance

Uniform Quality Worldwide



Global engineer training

Pursuit of Quality



Extensive track record of quality awards

Message from the President

KYB contributes to the sustainable development of the earth and society as a global leader in vibration control and power control technologies.



I would like to extend my thoughts to all those who have been impacted by the ongoing COVID-19 pandemic, and hope for the earliest possible recovery. I also want to express my heartfelt respect and appreciation for the healthcare professionals working hard to treat patients on the front lines every day.

The KYB Group is working to prevent the spread of the virus, and will respond promptly and appropriately based on the requests of the relevant authorities, with the safety of our customers, suppliers, and employees and their families as our top priority.

Start of FY2020-2022 Medium-Term Management Plan—Return to Profitability amid the Pandemic

FY2020, the start of our new medium-term management plan, presented very challenging conditions, including a sharp decline in shipments due to stagnation of economic activity in Japan and globally because of the COVID-19 pandemic in the first half of the year. However, we aggressively implemented various improvement measures, with a focus on reduction of fixed costs, and these measures, coupled with the later recovery in demand, resulted in a turnaround to profitability at a higher level than we expected.

While the COVID-19 pandemic has caused various problems, it has also highlighted some issues we needed to address, and served as an opportunity to make drastic structural reforms including organizational restructuring and a review of our businesses, as well as reform of work styles for our employees. It was a year that reminded us how important it is to maintain a positive outlook and keep moving forward even in difficult conditions.

Stabilization of Our Revenue Base Aiming for Higher Corporate Value and Sustainable Growth

In FY2021, the uncertain operating climate is expected to persist due to COVID-19, the chip supply shortage and other factors, but we will make up for the slow start to the medium-term management plan by continuing to reorganize our production bases and focusing on issues such as scaling back or discontinuing unprofitable businesses and products in order to stabilize our revenue base. Regarding the problem of our seismic isolation/mitigation oil dampers, which has caused trouble and concern for our stakeholders, we will sincerely address the issue at remaining properties to finish bringing all dampers into conformity. To make sure we do not repeat the same

mistakes, we will instill awareness of compliance throughout the Company, from top management to frontline workers.

The growth strategy in the FY2020-2022 Medium-Term Management Plan, in addition to solving current challenges, also seeks to address societal issues such as the aging population and declining birthrate as well as environmental problems. Our approaches will include the creation of high-value-added products that further deepen KYB's core technologies and innovative *monozukuri* that raises the level of automation. At the same time, we will actively promote measures to enhance medium-to-long-term corporate value and ensure sustainable growth.

Monozukuri to Leave a Better Environment for the Next Generation

We established the ESG Promotion Office in July 2021 to roll out and promote our ESG Policy throughout the Group. We also plan to reduce the Group's overall CO₂ emissions and develop products that contribute to the sustainable advancement of society. In addition, we will take a fresh look at our existing business activities from ESG perspectives, and proactively promote *monozukuri* to leave a better environment for the next generation.

A Global Leader in Vibration Control and Power Control Technologies

KYB has a history of more than 100 years since its founding in November 1919, and continues to lead the way as a top global manufacturer specializing in vibration control and power control technologies. KYB's products support people's daily lives worldwide, delivering safety, peace of mind and comfort. Going forward, KYB will continue to evolve to provide products that satisfy customers throughout the world, with the goal of being "a trusted brand that contributes to the prosperity of society." We ask for your continued support and guidance.

Masao Ono

Masao Ono
Representative Director and
President Executive Officer

Roadmap to Our Vision

KYB's operating environment is in a once-in-a-century revolution

- Changing technological and social landscapes
- Focus resources on core businesses and turn change into opportunity
- Bring to market products with high added value such as diverse features, automation, etc.

Focus on core businesses

Societal needs

- Diversity & inclusion
- Post-pandemic world
- Response to global warming

Enhancement of long-term corporate value—
A trusted brand that contributes to the sustainability of the earth and society

FY2020-2022 Medium-Term Management Plan

Ensure compliance and achieve high profitability

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Measures to recover trust and pride

Strengthen compliance and governance

Respond to social demands

Human resource development

Safety first and quality management initiatives

Stabilize the revenue base

Growth strategies in core businesses

KYB's core technologies

Vibration control technology

Power control technology

Hydraulic technology

Technology expansion

Innovation Strategy

Tackle production innovation

Respond to movement toward self-driving and electric vehicles, energy-saving vehicles and environmental restrictions

Create new markets and new products

Utilize advanced technologies

Artificial intelligence (AI)

Internet of things (IoT)

Digital transformation (DX)

Create products that contribute to social sustainability

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KYB's Heritage

The business essence and technologies handed down since KYB's founding

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Corporate Spirit

By providing technologies and products that make people's lives safe and comfortable, the KYB Group contributes to society

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100th Anniversary

KYB's Manufacturing

KYB develops technologies and products by combining its two core businesses—vibration control and power control technologies—with elemental technologies such as electronic control technologies, and through cooperation among research facilities, businesses and Group companies.

In addition, KYB is carrying out Companywide activities to address environmental issues, which cannot be ignored today, as well as looking at solutions to social issues, the achievement of the SDGs, DX-driven production innovation, and the creation of new businesses.

KYB's Technology Development

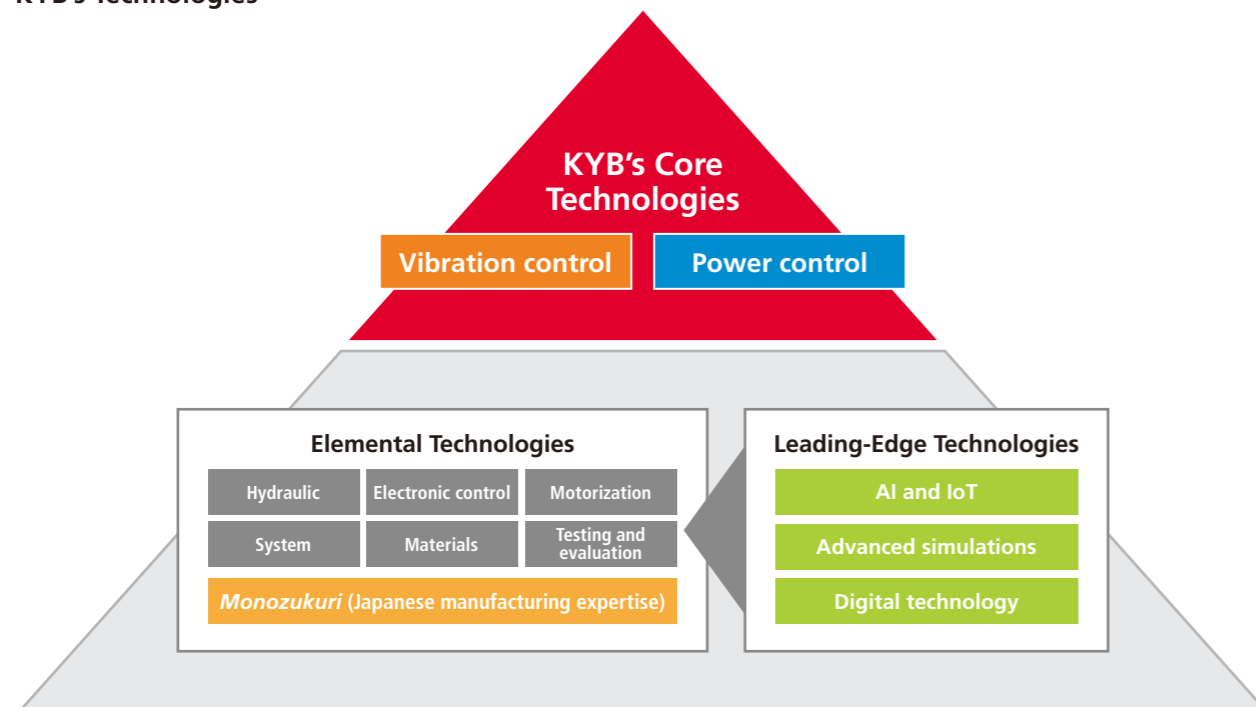
The origin of KYB is the Kayaba Research Center, which was established by the inventor Shiro Kayaba, the Company's founder, in 1919. Since the founding of the center, we have spent a century refining hydraulic technologies. Today, our shock absorbers are used in one out of every five automobiles in the world, and have achieved dominant market shares with their advanced technology and high quality.

A major feature of hydraulic pressure is that it produces a larger output in a more compact device than electric, pneumatic or other driving methods. The ease of control due to its superior responsiveness is another reason for its wide use. For instance, an automobile shock absorber that absorbs impact from the road surface is a good example of the use of the viscosity of oil to exert an appropriate damping force, and hydraulic pressure is considered the best system for construction machinery

because of the large output required.

KYB has created a variety of hydraulic products in combination with other elemental technologies such as electronic control, centering on the two core technologies of hydraulic vibration control and power control. Even with today's rapidly advancing technologies, we have confidence in the meaningful contribution that hydraulic technology can make to the development of society. Therefore, we are not only further deepening our core technologies, but also responding to changing times by adopting cutting-edge technologies such as AI, IoT and advanced simulations to promote the systemization of products. We are also taking on the challenge of developing the next generation of hydraulic equipment that offers both higher efficiency and better safety, such as automated ICT construction machinery using electronic control.

KYB's Technologies



KYB's Technology Development System

KYB is actively developing advanced technologies, primarily at the Basic Technology R&D Center and the Production Technology R&D Center, to solve challenges such as those relating to energy conservation and reduction of environmentally hazardous substances, as well as to improve the performance of and add functionality to existing products.

We aim to create new value by integrating our technologies, global production operations and marketing functions. To do this efficiently, we have created a vision of future technology based on studies, analysis and forecasts of long-term environmental changes and the associated changes in society and customer needs. We are creating a clear roadmap for sustainable growth and conducting research and development to achieve that vision.

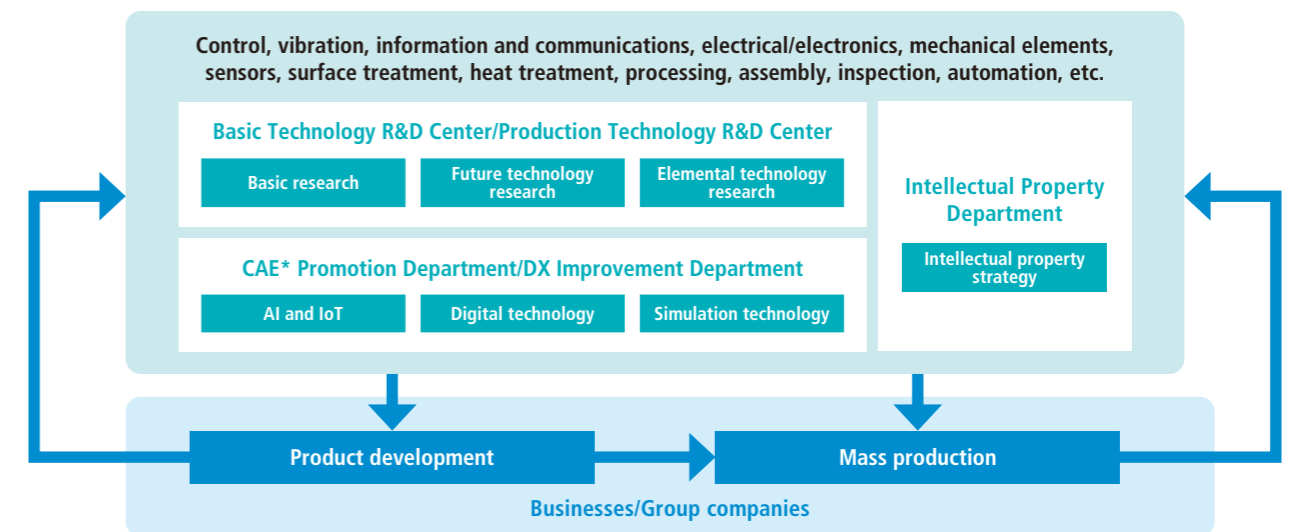
In basic research, we are conducting research for the next generation of businesses and products as well as elemental technology research. To convert the results of that research into tangible assets, we are, for example, developing an integrated system that combines electronically controlled

suspension and electronic power steering technologies for the self-driving vehicles of the future.

At the same time, the technology divisions of each business area are also developing new products on their own and moving them into mass production, in addition to improving the performance and lowering the cost of existing products.

The original product technologies and mass production technologies developed from these activities will be used in production by business divisions and Group companies, and will be applied throughout the Group. The combination of the new production methods developed by the Production Technology R&D Center and the expertise cultivated at each factory is leading to construction of new facilities and internal production of jigs and tools.

Recently, we have begun promoting DX throughout the Company to increase the efficiency and speed of these research and development efforts. We are also actively working to boost efficiency and productivity with approaches such as data analysis that uses AI.



*CAE: Computer-Aided Engineering. The use of computer simulations to resolve issues faced by technical departments.

Environmental Initiatives

The need to address environmental issues is unavoidable today. KYB is promoting research and development related to environmental issues. For example, among our products, we are working on electrification and weight reduction of the hydraulic pumps built into continuously variable transmissions (CVTs) for automobiles and various devices, and energy savings and efficiency improvements in hydraulic equipment for construction machinery.

KYB has multiple operating bases in Europe. We conduct research and development in close coordination with local subsidiaries in order to comply with the EU's REACH Regulations,* for example. To expedite these research and

development activities, we established the Environmental Regulation Response Group in FY2020. This will enable us to share and stay one step ahead of information regarding environmental regulations such as lead-free directives, in addition to the REACH Regulations.

Recently, the EU stated its goal of becoming carbon neutral by 2050. We will examine the details of implementation plans and develop specific measures with a technology roadmap (backcasting).

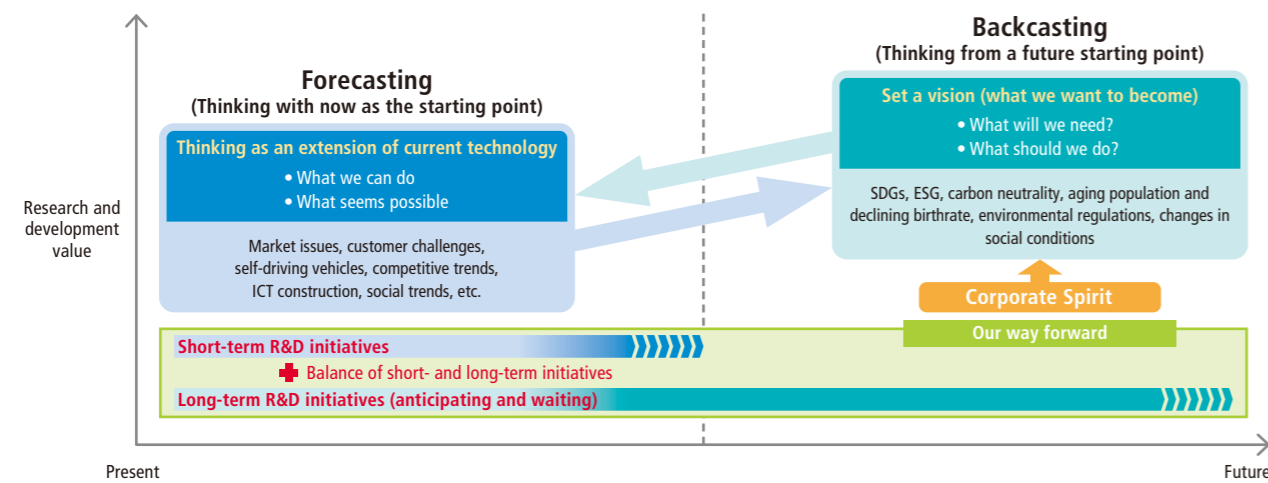
* REACH stands for Registration, Evaluation, Authorisation and Restriction of Chemicals. It is an EU law intended to protect human health and the environment while fostering competitiveness within the European chemical industry.

Four Initiatives to Solve Social Issues

1 Creation of a technology roadmap (backcasting)

KYB has promoted research and development to meet the needs of existing customers and provide a timely and stable supply of excellent products to the market. As a result, we have mainly conducted research and development with a view ranging from the recent past to the medium-term future (i.e., a forecasting approach). However, our activities connected to aspects such as contribution to society and achievement of the SDGs, which are required components

now, have been insufficient. Therefore, we will envision what we want KYB to become, with the future as the starting point, and then use a "backcasting" approach in which we think about what we will need and what we should do in order to realize that vision. From that perspective, we will organize what we need to do, and formulate a roadmap that connects this approach with the conventional forecasting approach.



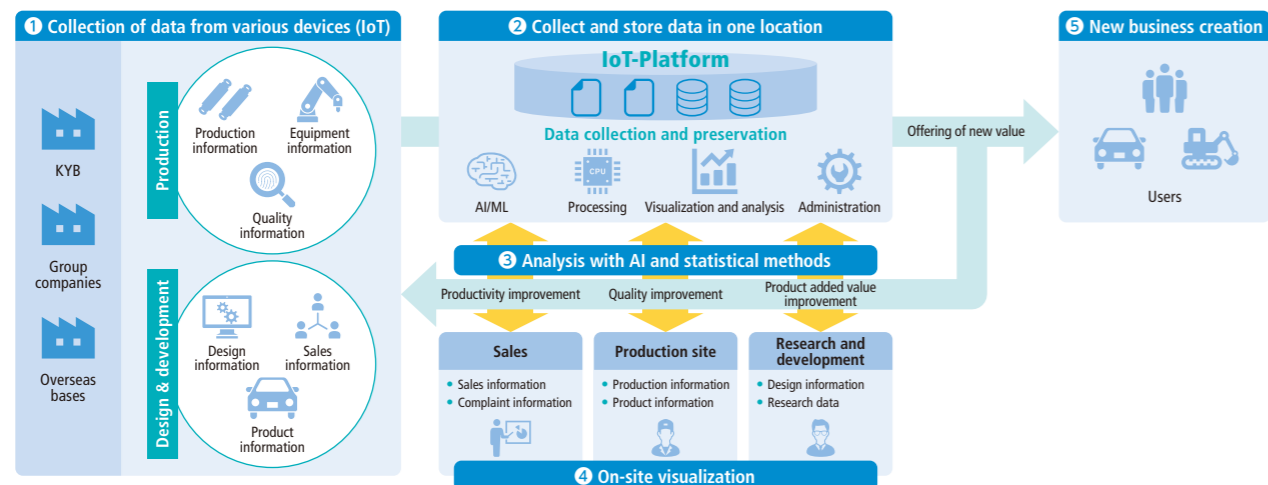
2 DX-driven production innovation and creation of new businesses (innovation strategy)

At KYB, we are making Companywide changes to the ways we utilize data with strong support from management.

In 2020, we produced an IoT platform in-house as a data utilization platform. We will apply this platform to equipment failure prediction and collection of information

from production facilities as initiatives for production innovation, and to the research and development of a smart road monitoring system as a new business creation initiative. In addition, we will actively recruit and develop human resources proficient in using digital technology.

Construction of a Data Utilization Platform

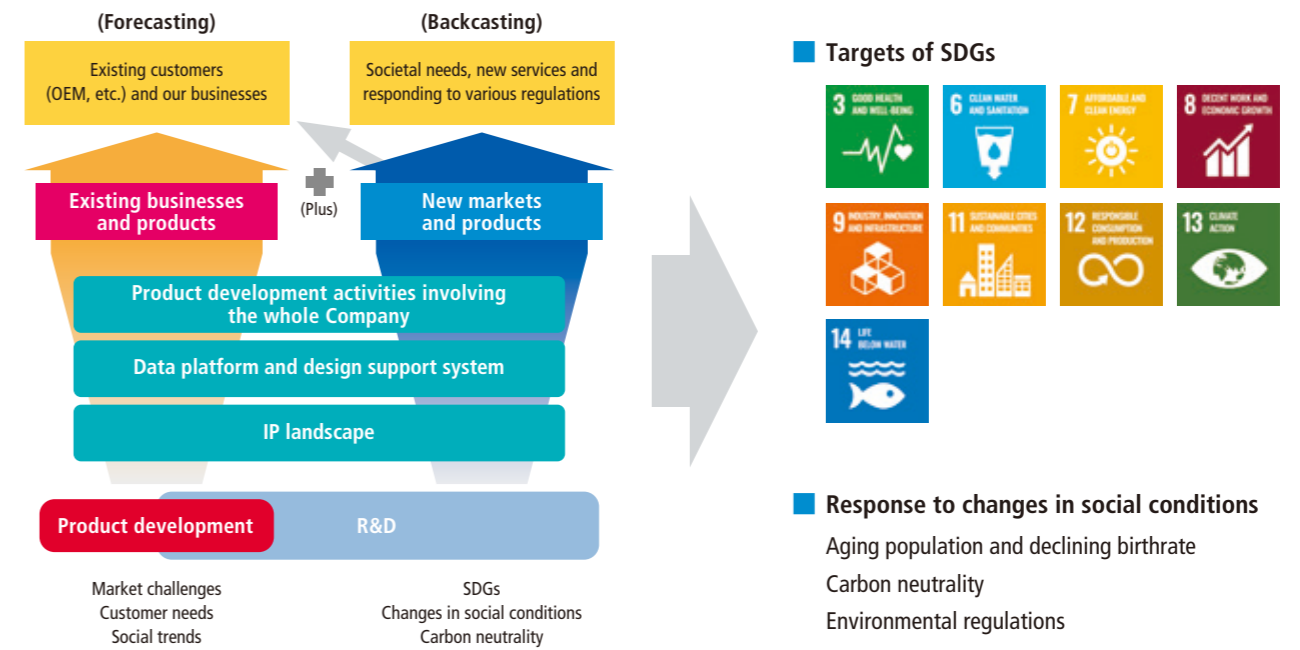


3 Research and development for new products and new markets (conscious of social contribution and SDGs)

KYB continues to provide quality products to existing customers every day.

To further expand our businesses, in addition to providing products to existing customers, we will actively develop new markets and products while contributing to society

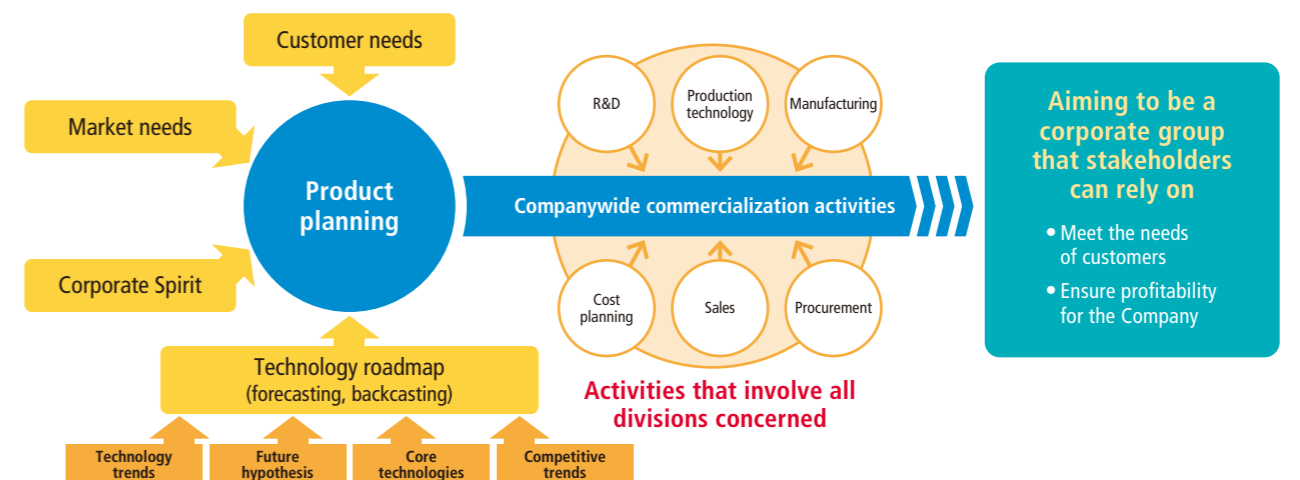
and responding to social and environmental regulations, which are likely to increase in number. We will include this objective in our technology roadmap and incorporate it into every system in the Company to accelerate these activities.



4 Promoting a seamless Companywide process from research and development to commercialization

In advancing research and product development projects derived from customer requests and the technology roadmap, we have begun an initiative in which divisions engaged in research and product development, as well as other divisions, including cost planning, sales, procurement, production technology, and manufacturing divisions, work together to visualize the progress and

follow-up of projects. The aim is to create a system for executing projects as an organization. The ultimate goal is not only to offer products at the price customers want, but also to take into account the need to meet product development schedules and ensure the Company's profitability. This will help us become a corporate group that our stakeholders can rely on.



FY2020-2022 Medium-Term Management Plan

In FY2020, the first year of the new medium-term management plan, we implemented measures to prevent the recurrence of nonconforming acts, and placed awareness of compliance at the core of management as part of reforms to our corporate culture initiated under the slogan, "Recovering trust and pride." However, the year started under extremely challenging conditions, including the spread of COVID-19, which led to lockdowns in many countries and the state of emergency in Japan. As such, we needed to take countermeasures to address the situation.

In FY2021, we will make up for the delay in implementing measures of the medium-term management plan and work to establish a highly profitable structure. Although the spread of COVID-19 continues and the future of the global economy remains uncertain, we will work together as a group to realize the goals of the plan and recover the trust of our customers as soon as possible.

FY2020 in Review

In FY2020, the global economy was severely impacted by the COVID-19 pandemic. Although there have been signs of recovery in economic activities in some countries, including the U.S. and China, and there are growing expectations that COVID-19 will be brought under control through vaccination, the situation still remains unpredictable due to the reemergence of virus variants and other factors. In the Japanese economy, the government's economic stimulus measures have led to signs of recovery in exports and production in some industries, and economic activity seems to be picking up again. However, the outlook remains uncertain due to the resurgence of COVID-19 cases.

In this environment, the automobile market, a major source of demand for our products, saw a decrease in demand compared with the previous fiscal year due to the stalling of the global economy and the impact of factory

shutdowns and other factors. The construction machinery and other markets also experienced a similar decrease in demand.

As a result, net sales were ¥328.0 billion, a decrease of ¥53.5 billion.

Operating profit was ¥18.3 billion (compared with an operating loss of ¥40.3 billion in the previous fiscal year), and profit before tax was ¥16.3 billion (compared with a loss before tax of ¥41.4 billion in the previous fiscal year), mainly due to a reversal of the provision for product warranties for seismic isolation/mitigation oil dampers. Profit attributable to owners of the parent was ¥17.1 billion (compared with a loss attributable to owners of the parent of ¥61.9 billion in the previous fiscal year).

Consolidated Financial Results for FY2020 (IFRS)

	FY2019	FY2020 Results [YoY Change]
Net sales	¥381.6 billion	¥328.0 billion [-¥53.5 billion]
Segment profit	¥17.6 billion	¥13.3 billion [-¥4.3 billion]
Profit (loss) attributable to owners of the parent	(¥61.9 billion)	¥17.1 billion [-]
Cash dividends per share	¥0	¥75

KYB's Operating Environment

The end of the COVID-19 pandemic is still nowhere in sight, as variants have emerged. In addition, other uncertainties have appeared, including the direction of tension between the U.S. and China with the change of presidential administrations in the U.S., a weakening of growth in emerging economies, and the global tightening of supply and demand for semiconductors and resins. KYB's operating environment in Automotive Components Operations is undergoing a once-in-a-century revolution, symbolized by the terms "Mobility as a Service" (MaaS) and "connected, autonomous, shared, electric" (CASE). We must respond to these trends without delay. Meanwhile, in our Hydraulic Components Operations, we need to tailor our strategies to the development stages of the mature markets of Japan and Western countries, and new and growing markets such as China and ASEAN. In the Aircraft Components Division, private sector demand fell sharply due to the COVID-19 pandemic, but the Special-Purpose Vehicles Division grew steadily on the back of solid domestic demand. In system products, KYB has nearly completed work to bring seismic isolation/mitigation oil dampers into conformity, and is restoring the trust of customers.

Revolution in the Operating Environment

Diversification of work styles

ESG SDGs

Globalization



Basic Policies of the FY2020-2022 Medium-Term Management Plan

- Strengthen compliance and governance:**
Instill awareness of compliance and reform the corporate culture
- Respond to social demands:**
Evolve into ESG management
- Human resource development:**
Thorough health management
Train Group human resources, including overseas employees
Promote diversity
Improve productivity of back-office operations
- Safety first and quality management initiatives:**
Zero serious accidents
Strengthen Group quality inspection system
- Stabilize the revenue base:**
Discontinue unprofitable businesses, locations and products
Companywide reorganization, including back-office operations
Total cost reduction activities and innovative *monozukuri*
- Growth strategies in core businesses:**
Strengthen new market and new product strategies

"Recovering trust and pride"



Summary of Medium-Term Management Plan

The KYB Group has formulated the three-year FY2020-2022 Medium-Term Management Plan. In FY2020, the initial year of the plan, we refrained from releasing targets for management indicators because it was extremely difficult to predict the impact of the COVID-19 pandemic. However, we recently reviewed that policy in light of the external environment. The targets are shown below.

To stabilize our revenue base, we will improve profitability by strengthening our fixed cost management system, restructuring unprofitable businesses, locations and products, implementing global total cost reductions, and optimizing the Group's production operations. To improve our financial structure, our basic policy will be to secure profit on a non-consolidated basis and improve the Group's equity ratio, with a target of 34% in FY2022.

FY2020-2022 Medium-Term Management Plan Financial Targets (Consolidated)

	FY2020 Actual Results (comparison with previous fiscal year)	FY2022 Target
Net sales	¥328.0 billion (-¥53.5 billion)	¥378.0 billion
Automotive Components Operations	¥197.5 billion (-¥34.6 billion)	¥229.0 billion
Hydraulic Components Operations	¥111.3 billion (-¥14.0 billion)	¥130.0 billion
Segment profit	¥13.3 billion (-¥4.3 billion)	¥25.0 billion
Segment profit margin	4.1% (-0.5%)	6.6%
Equity ratio	26%	34%

Measure 1 Strengthen Compliance and Governance

Based on the lessons we learned from the seismic isolation/mitigation oil damper problem, during the FY2020-2022 Medium-Term Management Plan we will instill a corporate culture that places top priority on awareness of compliance, all the way through to frontline business activities, and implement compliance programs to create a workplace

environment committed to treating all compliance-related matters seriously.

To strengthen governance, we will aim to create a speedy and efficient management structure and establish fair and transparent management oversight centered on the Board of Directors.

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Corporate Governance

Progress of Measures to Prevent Recurrence of Seismic Isolation/Mitigation Oil Damper Problems

Following the announcement on the KYB website entitled "Investigation into the causes of nonconforming acts in the inspection process, etc. for buildings installed with seismic isolation/mitigation oil dampers manufactured by KYB Corporation and its subsidiary, and measures to prevent their recurrence"

dated February 13, 2019, we have been taking preventive measures and working to restore trust.

As of June 30, 2021, approximately 97% of the measures to prevent recurrence have been completed, and we are continuing our efforts to complete unfinished measures.

Progress of Measures to Prevent Recurrence (As of June 30, 2021)

Foster strict compliance awareness and reform the corporate culture	Establish compliance management	• Establish compliance awareness at KYB Corporation and KSM*	Completed	
		• Foster compliance awareness throughout the Group	Completed	
		• Revise the Corporate Guiding Principles and other guidelines	Completed	
		• Emphasize the importance of compliance regularly	Completed	
		• Implement personnel evaluations and related measures	Completed	
Change the mindset of all officers and employees		• Conduct education and training to raise awareness of social responsibility	Completed	
		• Conduct education that incorporates numerous case studies and best practices from other companies	Completed	
		• Conduct education on laws and regulations specific to businesses and products	In progress	
		• Make education regarding quality mandatory	Completed	
Evaluate business feasibility, and revise business operations, information-sharing systems and other matters	Establish a balanced business operation system	• Ensure appropriate business management	Completed	
		• Review how decisions to accept orders are made	Completed	
	Ensure personnel are rotated	• Develop business systems	Completed	
		• Revise use of mass-production evaluation procedures for individual and small-batch products	Completed	
		• Ensure personnel are rotated	Completed	
Collect information and establish a feedback system		• Ensure thorough documentation of meetings, reports and instructions	Completed	
		• Ensure that internal regulations are applied in the event of an emergency	Completed	
		• Review the internal whistleblowing system to improve its effectiveness	Completed	
		• Clarify the actions to be taken when quality misconduct is detected	Completed	
		• Create a mechanism for extracting information	Completed	
Improve inspection systems and methods	Implement inspection systems	• Strengthen the independence of quality assurance	Completed	
		• Improve methods for on-site oil damper inspections with the customer present	Completed	
		• Review inspection manual	Completed	
	Implement preventive measures against fraudulent operation of inspection machines		• Tighten internal procedures for changing the software of oil damper inspection machines	Completed
			• Regularly monitor the software of oil damper inspection machines	Completed
			• Automatically record inspection results, without human involvement	Completed
			• Automate inspection processes	Completed
			• Tighten controls on access to oil damper inspection machines	Completed
			• Ensure traceability of performance test data	Completed
			• Perform audits that consider quality misconduct	Completed
Strengthen internal audit and control systems	Enhance internal quality inspection system	• Perform audits that effectively verify inspection data	Completed	
		• Institute audits by KYB Corporation	Completed	
		• Leverage the support of experts	Completed	
Tighten the subsidiary management system		• Strengthen systems for sharing information and collaborating among Group companies	Completed	
		• Review management systems for Group companies	Completed	
		• Analyze and monitor Group companies' business risks	In progress	
		• Reorganize Group companies	Completed	

* KSM: Kayaba System Machinery Co., Ltd. was merged into KYB Corporation on July 1, 2021.

Progress of Replacement Work, Etc. (As of August 31, 2021)

Replacement, etc. started¹: **968 buildings (98%)**

Replacement, etc. completed²: **937 buildings (95%)**

1. Includes delivered dampers taken back and readjusted and dampers that will not be replaced.

2. The number of buildings where replacement work, etc. has started includes buildings where replacement or other work has been completed and buildings where it has been decided not to replace the dampers. It is not the number of buildings in the Corrective Measures Completion Report submitted to the specified administrative agency.

Measure 2 Respond to Social Demands

In response to significant changes in the external environment related to ESG issues, we established the ESG Promotion Office in July 2021. ESG-oriented management will be the basis for formulating policies going forward.

In promoting ESG, we will not simply address environmental and social needs, but will look for business opportunities and promote activities that increase our corporate value. We will also summarize and actively communicate our ESG-related activities to stakeholders in order to foster trust.



Measure 3 Human Resource Development

As one initiative to promote health management, in 2021 KYB acquired certification for the second consecutive year as a Health & Productivity Management Organization. We view the health of our employees and their families as an important management resource and a source of the Company's vitality, and are creating rewarding workplaces in which all employees can work in good physical and mental health.

We are fostering awareness of compliance in order to regain trust, creating open workplaces free from harassment and promoting diversification of human resources. We are also working to develop the next generation of leaders through small group activities and by training operating base managers globally. Moreover, we are increasing the value-added productivity of back-office operations, mainly with robotic process automation (RPA), which will lead to lower fixed costs.

* RPA: Robotic Process Automation

Creating healthy and rewarding workplaces

Developing human resources who can help put our Corporate Spirit into practice

Improving productivity of back-office operations

P. 34 Human Resources Development

Measure 4 Safety First and Quality Management Initiatives

We are reinforcing safety and strengthening the legal compliance monitoring system with the aim of creating and expanding industrial and fire accident-free production bases.

To ensure quality, we are imprinting awareness of compliance regarding our social responsibility to deliver quality, with the belief that quality is the basis for

business, and working to prevent serious quality problems by fostering positive and open workplace environments. We will also achieve a high level of quality by improving the quality assurance system and using a technique called three-step evaluation.

Measure 5 Stabilize the Revenue Base

In an unstable market resulting from the COVID-19 pandemic and tight supplies of semiconductor chips, we have been continuing to focus on fixed cost reduction since the second half of FY2020. We will continue our cost-cutting activities to build a production system that is resilient to fluctuations in demand.

For locations and businesses that are unable to generate sufficient profits, we will strengthen the monitoring and administrative structure, and address unprofitable businesses with a willingness to withdraw from them if necessary. On the other hand, we will capitalize on new trends such as MaaS, CASE and DX, and continue our drive to create new markets and new products that will become future revenue sources.

Target for improved profitability (FY2019: ¥17.6 billion→FY2022: ¥25.0 billion) **+¥7.4 billion**

• Improve productivity (reduce manufacturing costs)	+¥3.4 billion
Innovative <i>monozukuri</i> (increase automation level), promote workforce streamlining, etc.	
• Discontinue or reduce activity in unprofitable fields	+¥1.7 billion
Discontinue domestic production of unprofitable automobile EPS, close European power steering plant, etc.	
• Reduce variable costs	+¥1.0 billion
VA and VE, promote local procurement, etc.	
• Consolidate plants and build the optimal production system	+¥0.7 billion
Reorganize European plants, build optimized global CVT production system, etc.	
• Promote sales expansion	+¥0.6 billion
Sales promotions for mini-excavators to accompany the application of electronic controls, expansion of the sales network for aftermarket products, etc.	

Measure 6 Growth Strategies in Core Businesses

Automotive Components Operations Unlock potential with strengthening, evolution and new initiatives

In the FY2020-2022 Medium-Term Management Plan, to unlock the potential of our Automotive Components Operations, we will strengthen and evolve existing businesses while pursuing new opportunities as a growth strategy. In FY2021, we are continuing the fixed cost reductions that we have been applying since the second half of FY2020; securing profit at individual locations by executing various reorganization plans; enhancing mechanisms and systems for business controls; conducting profit-oriented management by securing cost competitiveness; developing new markets and products and cultivating new customers from MaaS and CASE by establishing the position of customer development partners; and making integrated structural reforms in the aftermarket business with cooperation among production, marketing and technology development operations.

Goals for FY2022	Establish a position as a core supplier by further strengthening existing businesses and core technologies
Basic Strategy	Strengthen: Stabilization of revenue base <ul style="list-style-type: none"> Optimize production by consolidating and reorganizing major plants Cost reduction activities Structural reform of the aftermarket business
	Evolve: Innovative <i>monozukuri</i> <ul style="list-style-type: none"> Cost competitiveness
	New initiatives: Creation of high-value-added products <ul style="list-style-type: none"> Strengthen original technology (respond to the shift to EVs, CASE and MaaS)

P. 47 Automotive Components Operations

Hydraulic Components Operations Be a first-choice manufacturer that customers trust and "Shift to an emphasis on profits"

In Hydraulic Components Operations, our basic strategy in the FY2020-2022 Medium-Term Management Plan is to improve long-term profitability through selection and concentration. We are carrying out regional strategies and product function-based strategies according to the development stage of each market. For example, we will focus on maximizing revenue from high-value-added products in the mature markets of Japan, Europe and the U.S., and aim to secure stable profits by emphasizing cost reductions in new and growing markets such as China and ASEAN. In FY2021, we are further advancing these efforts and working on the development of next-generation electronic hydraulic equipment, centered on our regional strategy, with an eye on the future. At the same time, we will aim to create the optimal structure for and enhance the functions of Hydraulic Components Operations overall by reorganizing sales departments and improving the productivity of back-office operations.

Goals for FY2022	Hydraulic Components Operations that continue to be trusted by customers and used around the world
Basic Strategy	Be a first-choice manufacturer that customers trust
	<ul style="list-style-type: none"> Respond to automation and complex needs Develop electronically controlled, load-sensing products, and develop medium- and large-sized pumps Cost reductions and promotion of local procurement Improve market competitiveness by launching low-priced models

P. 49 Hydraulic Components Operations