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**Forward-Looking Statements**

This annual report contains forward-looking statements, including KYB's plans and strategies, as well as statements that report historical results. Forward-looking statements involve such known and unknown risks and uncertainties as economic conditions; currency exchange rates; laws, regulations, and government policies; and political instability in principal markets.

What is **KYB**?

# At a Glance

As a pioneer in hydraulic technology, KYB is active in a wide range of fields, including automobiles, motorcycles, construction machinery, railroad cars, aircraft, special-purpose vehicles, seismic isolation systems, vibration control dampers, and marine equipment.

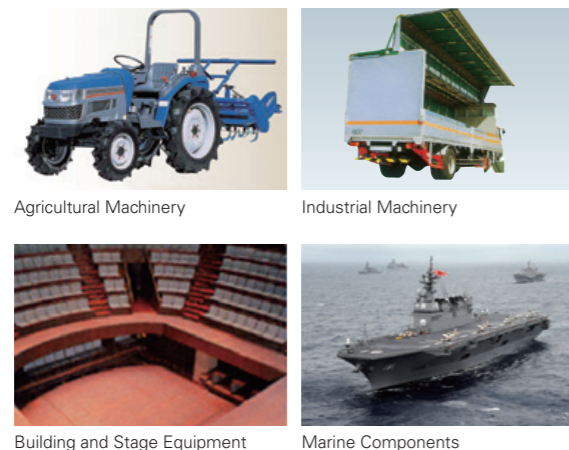
By developing advanced products that combine hydraulics with vibration control, power control, and systemization technology, KYB has earned the trust of customers around the world. We aim to continue earning customer and stakeholder support with our relentless drive to create the technologies and products of tomorrow.



Automobiles      Motorcycles      Railroad Equipment      Aircraft Components



Construction Machinery      Industrial Vehicles      Special-purpose Vehicles      Vibration Control Dampers



Agricultural Machinery      Industrial Machinery

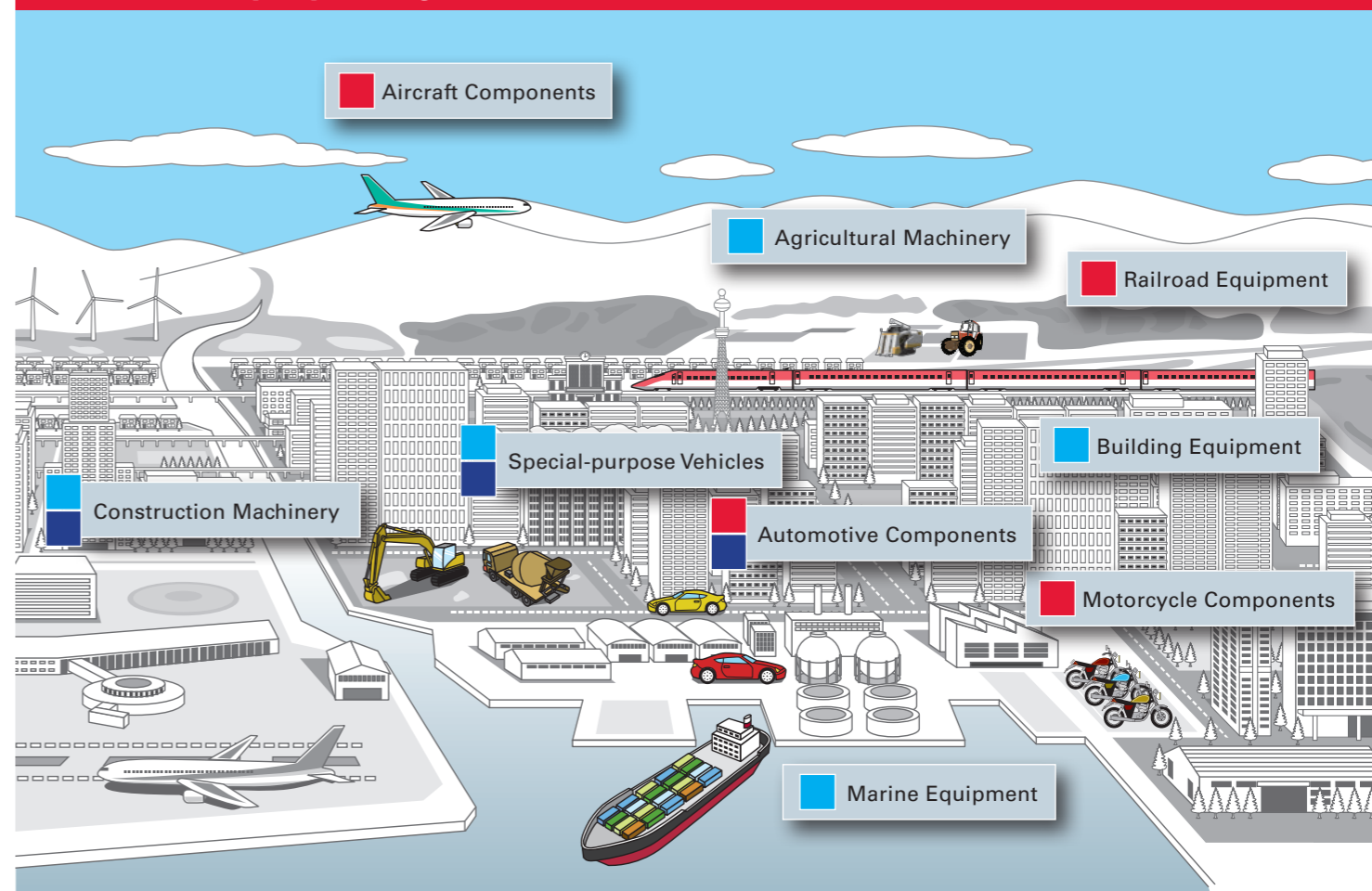


Building and Stage Equipment      Marine Components



Mobile Communication Device      High-Performance EPS

## KYB in Everyday Living



| Segment   | Sales Breakdown by Segment  |
|---|---|
| <b>Automotive Components (AC) Operations</b> <ul style="list-style-type: none"> <li>Shock absorbers for automobiles</li> <li>Shock absorbers for motorcycles</li> <li>Hydraulic equipment for automobiles</li> <li>Others</li> </ul>  | Shock absorbers (OE, aftermarket)<br>Front folk, Rear cushion units<br>Vane pumps, Power steering systems, Vane Pumps for CVT, EPS<br>Stay damper, Shock Absorbers for ATVs (All Terrain Vehicle) |
| <b>Hydraulic Components (HC) Operations</b> <ul style="list-style-type: none"> <li>Hydraulic equipment for industrial use</li> <li>Others</li> </ul>  | Cylinders, Valves, Pumps, Motors, MMP, HSTT<br>Dampers for railroad cars, Brakes for railroad cars, Seals   |
| <b>Special-purpose Vehicles, Aircraft Components, System Products and Electronics Components Business</b> <ul style="list-style-type: none"> <li>Special-purpose vehicles</li> <li>Hydraulic equipment for aircraft</li> <li>System products and electronic components, etc.</li> </ul> | Concrete mixer trucks<br>Actuators, Valves, Wheels, Brakes<br>Vibration control dampers, Auditorium and stage control systems, ECU, Mobile communication devices                                  |



# What is **KYB**? History

**Establishment Phase** Beginning hydraulic technology with the buffered hydraulic strut for aircraft (Oleo)

1919 Kayaba Research Center was founded by Shiro Kayaba.  
 1927 Kayaba Seisakusho was established for manufacturing of hydraulic dampers, catapults, etc. for aircraft.  
 1935 Kayaba Manufacturing Co., Ltd., was established.  
 1943 Gifu works (presently Gifu South Plant) was established.

**Reconstruction phase** Post-WWII reconstruction and building the foundation for growth

1948 Kayaba Industry Co., Ltd., was established (based on the Corporate Reconstruction and Reorganization Act).  
 1956 Kayaba Auto Service Co., Ltd. (presently KYB Engineering and Service Co., Ltd.), was established.  
 1959 The Company's stocks were listed on the Tokyo Stock Exchange  
 1961 Urawa special purpose vehicle works was established.

**Expansion phase** Strengthening the organization, expanding performance

1968 Gifu North Branch Plant (presently Gifu North Plant) was established.  
 1970 Capital participation in Yung Hwa Machinery Industrial Co., Ltd., in Taiwan.  
 1971 Kumagaya Plant and Mie Plant was established.  
 1974 Sales subsidiary was established in the United States  
 1975 Sagami Plant was established.  
 1976 Shock absorber production joint venture was established in Indonesia.  
 1977 Nippon Power Steering Co., Ltd., was established.  
 1980 Deming Application Prize was awarded for TQC activities.

**Development phase** Moving from Japan to overseas, further growth

1983 Shock absorber manufacturer in Spain was jointly acquired. Shock absorber production manufacturing joint venture was established in Malaysia.  
 1985 Company name "KYB" in Japanese changed from kanji (Chinese characters) to katakana (Japanese Characters).  
 1986 Shock absorber manufacturing subsidiary was established in the United States.  
 1989 Sales subsidiary was established in Germany.  
 1996 Shock absorber manufacturing jointly venture was established in Thailand.  
 Joint venture was established in Spain for manufacture of hydraulic components for automobiles.  
 Joint venture was established in Thailand for manufacture of hydraulic components for automobiles.  
 1998 All plants obtained ISO 9001 certification  
 1999 Cadac Co., Ltd., became a wholly owned subsidiary  
 2001 All plants obtained ISO 14001 certification  
 2001 Shock absorber manufacturing subsidiary in the United States became a wholly owned subsidiary.  
 2002 Motorcycle shock absorber manufacturing subsidiary was established in Vietnam.  
 Automobile shock absorber manufacturing subsidiary was established in China.

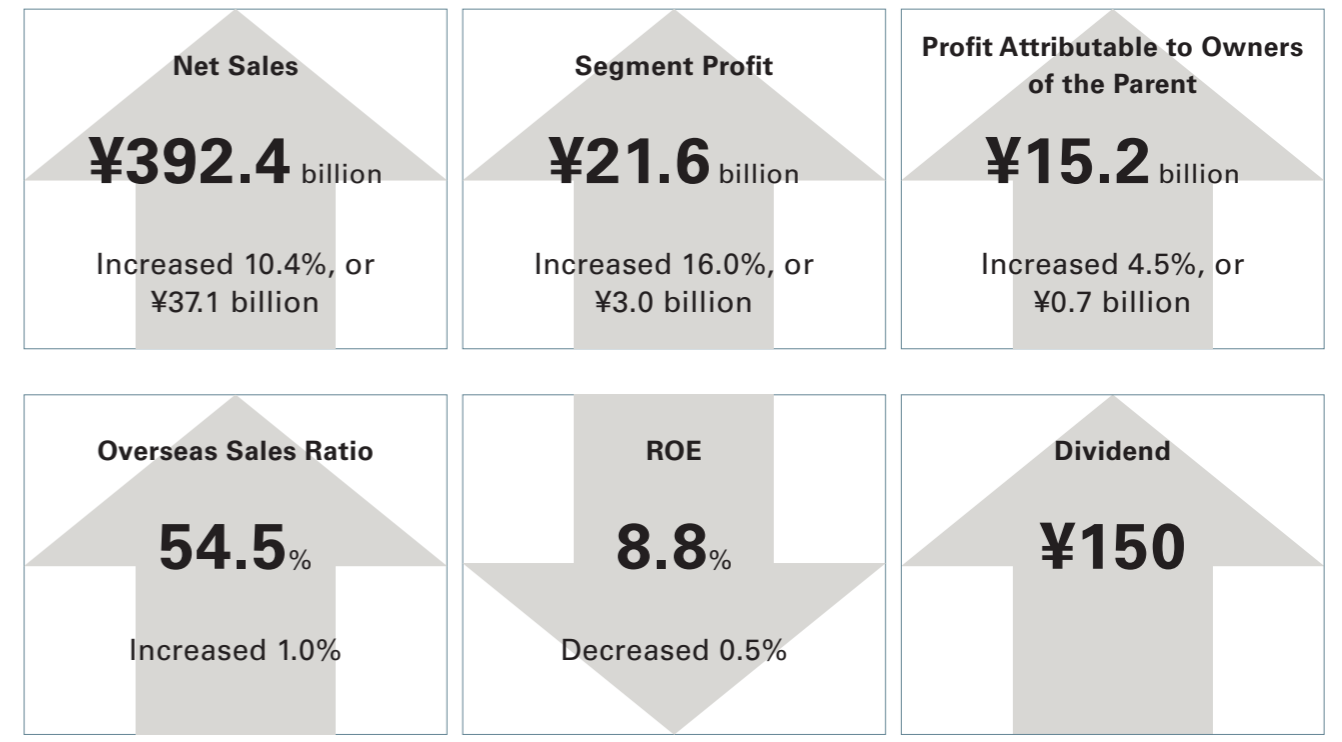
2003 Automobile shock absorber manufacturing subsidiary was established in the Czech Republic  
 Urawa plant was closed and operations were merged into the Sagami plant.  
 2004 Industrial-use hydraulic equipment manufacturing subsidiary was established in China.  
 Stock acquisition in KYB Trondule Co., Ltd., which became a subsidiary. Systems Products segment split from the Company, and new company Kayaba System Machinery Co., Ltd. was established.  
 Sales office is established in China and in Mexico.

**Reform phase** Building a strong management system

2005 Sales office is established in Thailand.  
 "KYB" was assumed to be an alias name of the Company.  
 2006 Stock acquisition in Takako Industries, Inc., which became a subsidiary.  
 2008 Gifu East Plant was established.  
 Joint ventures for manufacturing and sales of railroad equipment and motorcycle suspensions established in China.  
 Automobile shock absorber manufacturing and sales company established in Spain  
 2009 European Regional Headquarters established in Germany  
 2010 Regional Headquarters established in China  
 2011 Aftermarket hydraulic shock absorbers sales company established in Panama.  
 Yanagisawa Seiki MFG CO., LTD., became a wholly owned subsidiary. Trade name changed to KYB-YS CO., LTD.  
 Operations started at Developmental Experiment Center, an exclusive test tracks for automobile and motorcycle components.  
 Machine Tools Center established in Japan  
 2012 Electronics Technology Center established in Japan  
 KYB Europe Headquarters B.V. established in the Netherlands  
 Aftermarket sales company established in Russia  
 Hydraulic components manufacturing and sales company established in Mexico  
 Motorcycle hydraulic oil damper manufacturing and sales company established in India  
 2013 Joint venture aftermarket automotive suspension spring manufacturing and sales company established in the Czech Republic  
 Acquired shares in a concrete construction equipment maker in India and established subsidiary  
 Hydraulic component manufacturing and sales company established in Indonesia  
 Established KYB Motorcycle Suspension Co., Ltd., for the manufacture and sale of motorcycle hydraulic shock absorbers  
 Aftermarket sales company established in Brazil  
 2015 The trade name was changed to KYB Corporation.  
 2016 Established Aircraft Components Division, independent from HC Operations.  
 KYB-CADAC Co., Ltd. merged with KYB-YS Co., Ltd.  
 KYB Hydraulics Industry (Zhenjiang) Ltd. merged with KYB Industrial Machinery (Zhenjiang) Ltd.  
 KK Hydraulics Sales (Shanghai) Ltd. merged with KYB Trading (Shanghai) Co., Ltd.  
 2017 KYB Asia Co., Ltd. merge with KYB Technical Center(Thailand) Co., Ltd., and established KYB Asian Pacific Corp.Ltd.

# FY2017 Highlights

## Highlights of the year



## Topics of the year

**Sponsorship Agreement with the FIA World Rallycross Championship EKS**

KYB Corporation has announced that it has entered a sponsorship agreement with EKS on June 26, 2017. Through this agreement, KYB will aim to increase awareness of the KYB brand and expand its sales promotions for electronic power steering (EPS) used in motorsports. KYB will continue strengthening its support for motorsports, making conventional products more lightweight, and improving its product development and technological capacities to contribute to the environment.

**KYB Awarded Technical Division of the New Corolla Sport Project Awards**

On June 7, 2018, KYB Corporation received a Technical Division Award at the New Corolla Sport Project Awards. The award was conferred for the shock absorber, which incorporates the latest technology and was designed through KYB's unique technological development. Toyota judged that this component has contributed greatly to their new model's product appeal. Encouraged by this award, we will strive to further advance our efforts to deliver both a luxurious ride feel and the highest performance.

**ASTRIC (Active Suspension System with Triple Control Modes)**

This is the latest model is the multi-mode active suspension system. It automatically switches between fully active, passive, and semi-active modes based on input from the controller. A sensor detects when the carriage sways, and by greatly reducing vibration, the system improves the ride feel. The suspension system is at use in all Odakyu Limited Express "Romance Car" 70000 GSE trains.

## Ten-Years Summary

KYB Corporation and its Consolidated Subsidiaries  
Years ended March 31,

|  | Millions of yen |              |              |              |               |               |               |               |               |               |
|--|-----------------|--------------|--------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|
|  | 2018<br>IFRS    | 2017<br>IFRS | 2016<br>IFRS | 2015<br>IFRS | 2014<br>JGAAP | 2013<br>JGAAP | 2012<br>JGAAP | 2011<br>JGAAP | 2010<br>JGAAP | 2009<br>JGAAP |
| Net sales  | ¥392,394        | ¥355,316     | ¥355,320     | ¥370,327     | ¥352,711      | ¥305,752      | ¥337,159      | ¥320,083      | ¥252,021      | ¥329,262      |
| Cost and expenses  | 370,794         | 336,692      | 337,732      | 354,821      | 334,541       | 295,279       | 315,621       | 295,931       | 248,125       | 329,212       |
| Operating profit   | 20,885          | 19,247       | 4,327        | 14,461       | 18,170        | 10,473        | 21,538        | 24,152        | 3,896         | 50            |
| Operating profit margin [%]  | 5.3             | 5.4          | 1.2          | 3.9          | 5.2           | 3.4           | 6.4           | 7.5           | 1.5           | 0.0           |
| Profit before tax / Income (loss) before income taxes and minority interests   | 20,881          | 18,852       | 2,825        | 14,892       | 21,032        | 12,994        | 21,760        | 24,440        | 1,671         | (4,300)       |
| Profit (loss) attributable to owners of the parent / Net income (loss)         | 15,202          | 14,544       | (3,161)      | 8,036        | 12,761        | 7,789         | 13,898        | 17,014        | 661           | (5,230)       |
| Comprehensive income   | 20,115          | 18,345       | (17,832)     | 25,203       | 20,310        | 16,061        | 14,997        | 14,406        | —             | —             |
| Return on equity attributable to owners of the parent / Return on equity (ROE) | 8.8             | 9.3          | —            | 5.1          | 9.7           | 7.3           | 14.8          | 21.1          | 0.9           | —             |
| Cash flows from operating activities   | 29,252          | 31,153       | 19,958       | 22,335       | 28,788        | 18,984        | 17,399        | 35,433        | 22,655        | 8,499         |
| Cash flows from investing activities   | (16,386)        | (21,337)     | (20,320)     | (30,658)     | (36,078)      | (36,125)      | (20,000)      | (7,233)       | (12,828)      | (26,505)      |
| Cash flows from financing activities   | (4,482)         | (969)        | (3,395)      | (555)        | 5,709         | 8,529         | (3,455)       | (16,968)      | (6,646)       | 32,200        |
| R&D expenses   | 8,102           | 7,621        | 7,760        | 8,910*       | 6,917         | 5,468         | 4,035         | 3,218         | 2,817         | 3,268         |
| Depreciation and amortization  | 16,988          | 15,922       | 17,075       | 15,191       | 17,294        | 14,554        | 13,508        | 13,427        | 15,318        | 16,552        |
| Capital expenditures   | 20,956          | 20,578       | 21,300       | 30,087       | 29,908        | 39,215        | 27,173        | 8,916         | 10,082        | 24,968        |
| Working capital  | 39,911          | 33,278       | 23,511       | 29,405       | 39,303        | 22,179        | 42,006        | 46,023        | 48,701        | 43,513        |
| Total equity attributable to owners of the parent                              | 180,225         | 164,299      | 148,278      | 169,307      | —             | —             | —             | —             | —             | —             |
| Total equity / Total net assets  | 186,651         | 169,771      | 153,381      | 175,256      | 153,997       | 116,435       | 102,762       | 89,964        | 78,489        | 76,451        |
| Total assets   | 412,493         | 381,326      | 359,002      | 387,877      | 361,083       | 327,912       | 301,349       | 285,134       | 269,361       | 269,655       |
| Cash and cash equivalents at end of period                                     | 42,702          | 33,988       | 25,296       | 30,510       | 38,132        | 35,215        | 42,010        | 48,123        | 37,664        | 34,272        |
| Ratio of equity attributable to owners of the parent / Equity ratio [%]        | 43.7            | 43.1         | 41.3         | 43.6         | 41.2          | 34.5          | 33.2          | 30.6          | 27.3          | 26.6          |

|   | Yen      |         |           |         |         |         |         |
|---|----------|---------|-----------|---------|---------|---------|---------|
|   | 2018     | 2017    | 2016      | 2015    | 2014    | 2013    | 2012    |
| <b>Per share data:</b>  |          |         |           |         |         |         |         |
| Basic earnings per share / Net income (loss)                  | ¥ 595.09 | ¥ 56.93 | ¥ (12.37) | ¥ 31.45 | ¥ 55.25 | ¥ 35.24 | ¥ 62.87 |
| Equity attributable to owners of parent per share / Net worth | 7,055.40 | 643.15  | 580.40    | 662.67  | 582.28  | 512.18  | 453.00  |
| Cash dividends applicable to the year                         | 150.00   | 12.00   | 11.00     | 12.00   | 9.00    | 8.00    | 9.00    |
| P/E ratio [Times]   | 8.5      | 10.2    | —         | 14.0    | 7.9     | 13.1    | 8.0     |
| Number of employees   | 14,754   | 14,350  | 13,796    | 13,732  | 13,033  | 12,306  | 11,975  |

\*JGAAP

Note: The Company carried out 1-for-10 reverse stock split on the effective date of October 1, 2017.

# FOCUSING ON THE FUTURE TO ACHIEVE CONTINUOUS GROWTH

## A GLOBAL **KYB** – CHALLENGE & INNOVATION –

### Overview of FY2017

#### Supported by a Favorable Construction Machinery Market in China

FY2017 (the fiscal year ended March 31, 2018) marked the first year of our medium-term management plan. During the period, infrastructure investment and consumer spending increased in China, bringing stable economic growth. Also, economies were strong in Europe and emerging nations. In Japan, a gradual recovery continued, with increasing consumer spending and improving corporate earnings. Looking at the automobile market, where the majority of demand for KYB's products is found, sales declined in the United States, but increased in both Europe and China. In the construction machinery market, further growth continued in China, and the European market was strong as well.

Amidst this environment, we made efforts to create a flexible yet resilient management base that can deal with rapid changes in the business environment and a strong revenue base under the policy of "carrying out drastic structural reforms," encompassing everything from the organization to products to plants.

#### ■ Organizational change

- In Automotive Components (AC) Operations, we switched to a three-division organization comprised of the Suspension Division, Steering Division and Motorcycle Division
- Established a new CSR Division under the direct control of the President (currently the CSR & Safety Control Div.)

#### ■ Product development/Plant reorganization

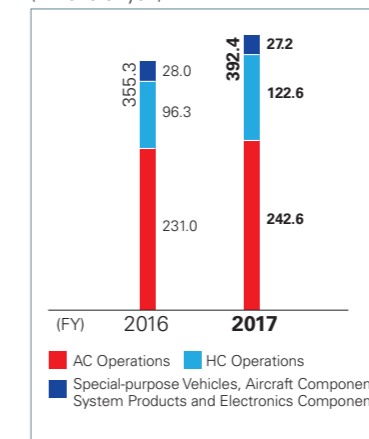
- Started production on innovative production lines in Japan and Mexico
- Constructed a globally optimized local production system by consolidating products and transferring control
- Plant and company reorganization, including making a Brazilian joint venture a wholly owned subsidiary



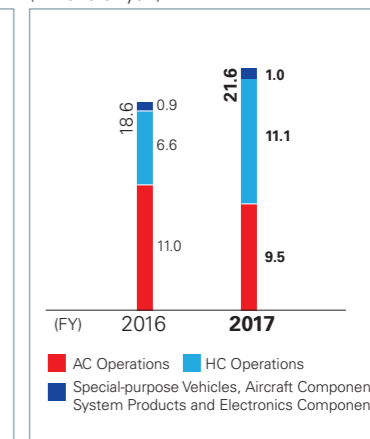
**Yasusuke Nakajima**  
Representative Director,  
Chairman and President Executive Officer

Next, let's turn to the KYB Group's performance in FY2017. Sales were at ¥392.4 billion, boosted by outside factors including a sudden increase in demand for products related to the construction machinery industry in China and a low exchange rate for the yen. In profitability, segment profits were ¥21.6 billion, operating profit at ¥20.9 billion, profit attributable to owners of the parent was at ¥15.2 billion, all surpassing our forecast at the beginning of the fiscal year. However, we face issues with worsening profitability for a part of our operations, and a declining ROE.

**Net Sales by Business Segment**  
(Billions of yen)



**Segment Profits by Business Segment**  
(Billions of yen)



### Efforts in FY2018

#### Toward Continuous Growth: Accomplish structural reforms and stabilize the revenue base

The outlook for the world economy in FY2018 called for gradual growth, but there are several risks that are causing a sense of uncertainty. These include concerns over U.S. trade policies and turbulence in the economies of emerging nations due to a rise in interest rates.

My next topic is the business environment around the KYB Group and how it will effect our major operations.

AC Operations is the division of our company that is centered in automotive hydraulic shock absorbers. Here, we forecast that a rise in sales of aftermarket products in the United States and Europe as well as the effects of making our Brazilian manufacturing plant a wholly owned subsidiary will drive a sales increase. However, we also anticipate that profits will be restricted to a slight increase due to rising fixed costs.

HC Operations is the division of our company that primarily deals in hydraulic equipment for the construction machinery industry. Here, we expect sales to greatly increase due to growing demand, particularly in the Chinese market. However, we forecast that worsening profitability from the pressure placed on manufacturing and temporary costs related to the transfer of control for control valves will cause profits to decline slightly.

Efforts are as follows, separated by business division:

**AC Operations:** We have rapidly expanded our business operations in order to establish the optimum production system that meets the needs of the market, customers, and business strategies. However, we are currently facing issues with increasing profitability. We are tackling those issues through the following efforts to rebuild our revenue base and strengthen the earning power of AC Operations.

In drastic structural reforms, we will reorganize the motorcycle business by consolidating our plants. Also, we will work to reorganize the EPS business, which has the technology necessary to achieve integrated control of shock absorbers and power steering as well as the autonomous driving of the future.

Particularly in the EPS business, with business continuity in mind, we decided to enter the growing Chinese market, where we established a joint venture with Hubei Henglong, a company well known by the country's citizens. China's market is already seeing a transition from hydraulics to EPS, with the ratio of EPS use in 2020 forecast to rise to 73%. Both companies shall apply their resources to the maximum degree, and in addition to capturing EPS demand in the Chinese market, are opening possibilities for products in the future environmentally friendly vehicle market and for global expansion. In shock absorbers, as high functionality progresses, we must develop the next generation of shock absorbers that can meet customers' increasingly demanding needs regarding performance and cost. We aim to achieve high performance and low

## To Our Shareholders and Investors

cost through integrating specifications and components. In addition to reducing shock absorber types by 30%, we seek to reduce product costs by 20% compared with existing products.

Also, we will sequentially roll out production lines that make use of IoT and AI to each plant, and aim to introduce fully automated lines in 2026. We will also increase product competitive power by achieving low costs with existing conventional shock absorbers, which are in the premium market segment. Through revising product technical specifications and innovative *monozukuri*, we will create a firm revenue base for shock absorbers.

In addition to strengthening earning power, we are working to achieve continuous growth. We are creating a system to establish the new product development and technology that can meet customers' technology needs, and aiming to receive orders for value-added products. In April 2018, we opened the Europe Technical Center in Germany to address our immediate objective of obtaining orders from Germany's three premium car brands. Also, we are progressing with developing and making sales promotions for high-value-added products with a focus on 10 or 20 years in the future.

**HC Operations:** In the construction machinery market, there was a recovery of demand in the excavator market in FY2016 particularly in China, and we anticipate that demand will reach a record level in Europe, particularly for small-sized excavators. We will answer this demand by increasing our capacity through accelerating investments in relation to recent high demand and adding more investments, as well as resuming operations on suspended lines.

In drastic structural reforms, we are planning to construct an integrated line by transferring control valves for mid- to large-sized excavators to the Nagano district to establish the optimum mass production system. Also, we are further strengthening our sales and development system for non-excavator hydraulic products. Furthermore, we are making efforts to stabilize the revenue base by establishing a manufacturing and delivery system that can deal with high demand, and make sales promotions in markets which we were not active.

**Special-purpose Vehicles Div., Aircraft Components Div., System Products and Electronic Components Div.:** In the Special-purpose Vehicles Div., we plan to strengthen our after service and components sales. In India, where the competition is fierce, we plan to achieve profitability with mixers through cost reduction activities and increase our share. In the Aircraft Components Div., we will establish a stable production system and earnings system.

Outside of our business divisions, we shall make the following efforts.

**Human resource development:** In *monozukuri*, technology and product development, human resources who can think and act from a global point of view will be indispensable to increasing our competitive power as we move forward. KYB has an overseas trainee dispatch system, provides work experiences for capable young employees, and is increasing opportunities for female workers. In this way, we promote an environment where diverse human resources can work to the utmost of their abilities, and are ensuring that we will have talented human resources as Japan moves toward an aging society.

**Technology and product development:** In five areas of the world (Japan, Europe, China, ASEAN and North America), we are progressing with the establishment of environmental infrastructure and the development of CAE technology, seeking to improve quality in design and production technology from the customer's point of view. We will provide products that incorporate market needs in a timely manner to customers, thereby increasing orders. In addition, we will focus our efforts on the creation of new technologies and new products by such means as developing systems products that are fused with our core technologies. And we will continue to provide comfort—a long-standing KYB brand value—to the market.

**Monozukuri:** In addition to highly unique production technology, construction methods and equipment development, we are aggressively pursuing automation that uses IoT and AI. We are making efforts to construct innovative lines that can reduce lead time and space by half while doubling productivity, and striving for global *monozukuri*.

**Management:** Last fiscal year, we had a serious work-related injury at an overseas plant and received complaints about quality, which led to a recall. Based on this, we reinforced safety by refocusing our thinking on the principle that "Safety

takes priority above all else," assigned safety and environmental functions to the CSR Division, and founded the Global Safety Promotion Committee. We also worked on quality, took a quality management pledge based on our concept that "Quality is the foundation of management," and strictly enforced our policy of "Bad News 1st" (whenever something is abnormal, report it immediately).

We are actively working to further strengthen our corporate governance. We are increasing the effectiveness of our internal controls system, improving global compliance with laws and regulations, working toward the establishment and practical use of an internal reporting system, and strengthening responsiveness to the corporate governance code. Also, we are improving our business continuity through the establishment of a business continuity plan and business continuity management as well as striving for social support/contribution activities (non-business) to contribute to the sound development of society.

In FY2018, we will continue tackling the current management issues of drastic structural reforms, stabilizing the revenue base and seeking continuous growth.

While providing guidance for the sound resolution of issues, we shall push forward toward achieving our goals in FY2019, the final year of the medium-term management plan. And we shall aim to reach the next stage—consolidated Group sales of ¥500.0 billion—at the earliest stage possible.

## Focus on the Future

### Offering Value through the Pursuit of Our Core Technology

In the more than 80 years since KYB was established, we've developed our core hydraulic technology on a foundation of power control, representing "strength," and vibration control, representing "gentleness." Through our many products, we've offered safety and comfort, our key values, to society.

We provide value in pursuing our core technology, and combining it with the "intelligence" of IT, we pursue our corporate mission: to contribute to solutions to the problems that our society faces. Even in light of the diversification of values, changes in social conditions, and technological innovations such as AI and IoT, that mission remains unchanged.

The automobile market is undergoing the kind of revolution that only happens once in 100 years. EV batteries and the popularization of autonomous driving will allow for larger cabin interiors, which puts new demands on suspension components. Our goal in response to this important issue is to pursue such a high level of comfort that passengers will not even feel the movement of the vehicle at all. We will respond to the diversification of individual needs and develop shock absorbers with sensitivity that make driving more fun. And we will continue to support the lives of people everywhere throughout the world as a trusted brand contributing to the creation of an abundant society.

#### Dividend policy

KYB positions the appropriate distribution of earnings to shareholders as an important management policy. In FY2017, taking into account our new policy of aiming for a consolidated dividend payout ratio of 30% and at least 2% (annual rate) of shareholders' equity on a consolidated basis, the annual dividend per share was ¥150, consisting of an interim dividend of ¥70 and a year-end dividend of ¥80.

KYB will strengthen our stance by returning to our foundation of putting safety and quality first. At the same time, we will steadily move forward with efforts for innovative *monozukuri* and structural reforms to improve profitability, thereby reinforcing our business constitution and advancing our growth strategy as we continue seeking to maximize shareholder value.

In closing, I'd like to offer my gratitude to KYB's shareholders and investors, and humbly ask for your continued support.

July 2018



Representative Director,  
Chairman and President Executive Officer

Corporate Governance

**Basic Policy for Corporate Governance**

KYB seeks to meet stakeholders' expectations with continuous growth and the improvement of corporate value, and to contribute to society by fulfilling our corporate social responsibility. We have a swift, efficient management system centering on the Board of Directors, and a highly fair and impartial management supervisory function. The following Management Principles and Basic Policies are the foundation of our approach to strengthening governance and our efforts for further improvements.

**Management Principles**

The KYB Group contributes to society by providing technologies and products that make life safe and comfortable.

1. Challenge higher objectives and construct a livelier corporate cultural climate.
2. Maintain grace and good faith, and pay attention to nature and the environment.
3. Always seek creative ideas and contribute to the progress of customers, shareholders, suppliers, and society.

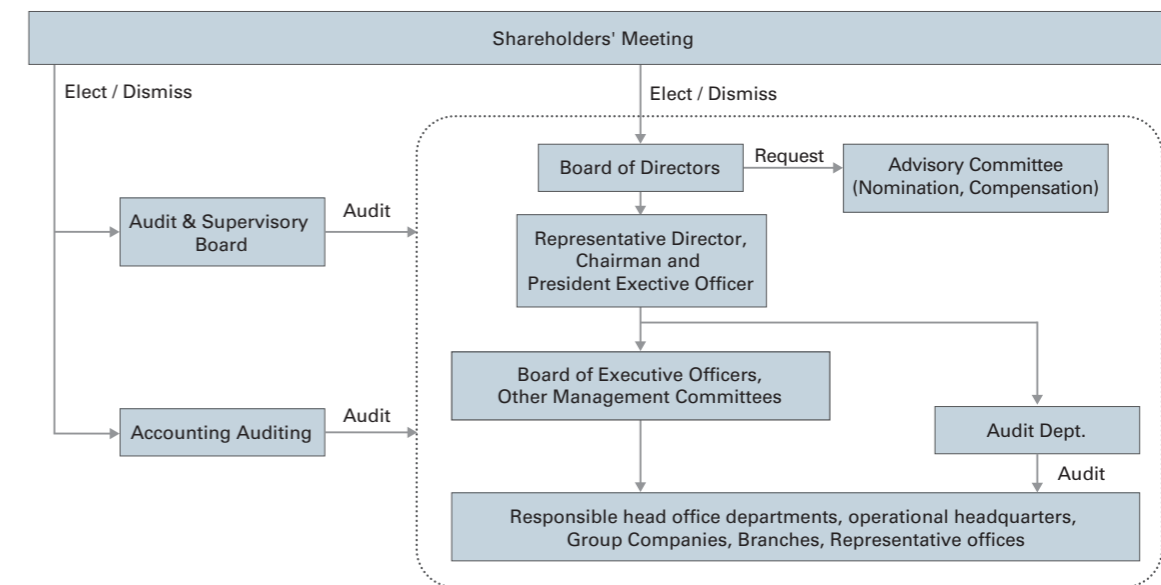
**Basic Policies**

1. We shall respect the rights of shareholders, and ensure the equal and fair treatment of all shareholders.
2. We shall take the benefits of stakeholders into consideration and endeavor to appropriately cooperate with those stakeholders.
3. We shall disclose not only the information in compliance with the relevant laws and regulations, but also actively provide the important and/or useful information to stakeholders for their 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 shareholders' support regarding the Company's Business Policies and also reflect shareholders' opinions and concerns in the improvement of management.

**Outline of Corporate Governance Systems Structure**

|  |  |
|--|--|
| Structure based on Companies Act                                   | Company with Audit & Supervisory Board                             |
| Board chairperson  | Chairman of the Board of Directors                                 |
| Number of directors  | 8 (including 2 outside directors)                                  |
| Number of Audit & Supervisory Board Members                        | 4 (including 2 outside audit & supervisory board members)          |
| Number of independent directors/ audit & supervisory board members | 2 outside directors and 1 outside audit & supervisory board member |
| Independent auditor  | KMPG AZSA LLC  |

**Corporate Governance Structure**



**Selection of Outside Directors and Audit & Supervisory Board Members**

KYB has two outside directors and two outside audit & supervisory board members and selects in accordance with the requirements of the Companies Act. Standards for independence prescribed by securities exchanges and other organizations are used for the selection of independent directors and audit & supervisory board members.

**Reasons for Selections of Outside Directors**

|   |  |
|---|--|
| <b>Rokuro Tsuruta</b><br>(Independent Director)<br>Attorney and Representative of Rokuro Tsuruta Law Office | Mr. Tsuruta is an outside director because KYB believes he can continue to use his knowledge and experience as an attorney to provide valuable opinions and recommendations for strengthening internal controls and compliance and about other subjects. |
| <b>Shuhei Shiozawa</b><br>(Independent Director)<br>Professor of Economics, Keio University                 | Mr. Shiozawa is an outside director because KYB believes he can continue to use his extensive knowledge and insight concerning economics to provide valuable opinions and recommendations concerning KYB's finances and CSR activities.                  |

**Reasons for Selections of Outside Audit & Supervisory Board Members**

|   |   |
|---|---|
| <b>Osamu Kawase</b><br>(Independent Audit & Supervisory Board Member) | Mr. Kawase is an independent audit & supervisory board member because KYB believes he can use his knowledge and experience acquired during a career in the non-life insurance industry to provide valuable opinions and recommendations primarily from the standpoint of audits of business operations. |
| <b>Takashi Saito</b>  | Mr. Saito is an outside audit & supervisory board member because KYB believes he can use his considerable expertise involving finance and accounting based on the knowledge and experience acquired during his financial institution career to provide valuable opinions and recommendations.           |

**Compensation**

**1. Compensation for directors and audit & supervisory board members and the number of applicable individuals**

| Category   | Total compensation (Millions of yen) | Compensation by category (Millions of yen) |         | Number of applicable individuals |
|--|--------------------------------------|--|---------|----------------------------------|
|  |                                      | Basic compensation                         | Bonuses |                                  |
| Directors (excludes outside directors)                       | 366                                  | 216  | 149     | 7                                |
| Audit & Supervisory Board Members (excludes outside members) | 45                                   | 45   | —       | 2                                |
| Outside officers   | 62                                   | 62   | —       | 4                                |

**2. Compensation paid to the independent auditor**

| Category                  | Millions of yen                      |  |                                      |  |
|---------------------------|--------------------------------------|--|--------------------------------------|--|
|                           | FY2016                               |  | FY2017                               |  |
|                           | Compensation for audit certification | Compensation for non-auditing services | Compensation for audit certification | Compensation for non-auditing services |
| KYB Corporation           | 73                                   | 5                                      | 81                                   | 3                                      |
| Consolidated subsidiaries | 31                                   | —                                      | 32                                   | —                                      |
| Total                     | 105                                  | 5                                      | 113                                  | 3                                      |

**3. Significant Compensation**

Five consolidated subsidiaries, including KYB Americas Corporation, have paid ¥116 million to KPMG International, which belongs to the same network as the independent auditor used by KYB, for audit certification and other services for fiscal 2017.

**Investor Relations Activities**

The IR Section of the Finance Division discloses information as required by laws and regulations and discloses other information that is important or useful for shareholders and other investors.

The IR Section conducted the following activities during the fiscal year ended March 31, 2018.

**Major Activities of FY2017**

|  |   |
|--|---|
| Activities for securities analysts and institutional investors | <ul style="list-style-type: none"> <li>Information meetings: 2 (End of first half and fiscal year)</li> <li>Small meeting: 1</li> <li>Conferences: 2</li> <li>Plant tour: 1</li> <li>Overseas IR events: 3</li> </ul>                                 |
| Activity for individual investors                              | <ul style="list-style-type: none"> <li>Company information meetings: 7</li> <li>Plant tour: 1</li> </ul>  |
| IR website   | <ul style="list-style-type: none"> <li><a href="https://www.kyb.co.jp/ir/index.html">https://www.kyb.co.jp/ir/index.html</a></li> <li>Information meeting materials, flash reports, securities reports, annual reports and other documents</li> </ul> |

**Management**

As of June 22, 2018



Representative Director,  
Chairman and President Executive Officer  
Yasusuke Nakajima

Senior Managing Executive Officers  
Hiroshi Ogawa  
Shizuka Sakai  
Toshihiko Hatakeyama



Representative Director,  
Executive Vice President Executive Officer  
Takaaki Kato

Managing Executive Officers  
Eiji Hisada  
Kenji Yamanouchi  
Hideki Nonoyama  
Osamu Kunihara  
Hitoshi Nitta  
Ikuo Inagaki  
Hajime Sato



Member of the Board of Directors,  
Executive Vice President Executive Officers  
Masao Ono

Executive Officers  
Masaru Tsuboi  
Tomoyuki Nagata  
Masayoshi Sakemi  
Koji Yamamoto  
Hiroshi Kurotaki  
Takashi Kondo  
kimiro sudo  
Masahiro Kawase  
Takashi Tezuka  
Ryuji Uda  
Minoru Ishikawa



Keiichi Handa



Member of the Board of Directors,  
Senior Managing Executive Officers  
Keisuke Saito

Audit & Supervisory Board Members  
Tomoo Akai  
Osamu Kawase \*  
Motoo Yamamoto  
Takashi Saito \*



Takafumi Shoji

\* Outside



Member of the Board of Directors  
(Outside)  
Rokuro Tsuruta



Shuhei Shiozawa



## Risk Information

This section explains the major risk factors involving the KYB Group's results of operations and financial position that may have a significant effect on decisions by investors. Forward-looking statements in this section represent the judgments of the KYB Group as of the end of March 2017.

### Risks Relating to the Economic Environment

#### 1) Economic Climate

Consolidated net sales consist primarily of parts that are sold to makers of automobiles, and motorcycles, construction machinery, and commercial vehicles. Manufacturers of these parts are expanding overseas operations even faster in response to the growing overseas manufacturing activities of their customers. The KYB Group supplies parts to customers outside Japan from plants in the Americas, Europe and Asia. These overseas plants are vulnerable to fluctuations in demand, and the resulting changes in customers' production volume, caused by changes in the economies in the regions where these plants are located. As a result, there may be a significant impact on the KYB Group's results of operations and financial condition.

#### 2) Fluctuations in Exchange Rates and Interest Rates

Overseas sales are 53.5% of the KYB Group's total net sales. As a result, changes in foreign exchange rates may have a significant impact on the Group's exports from Japan as well as the performance of group companies in other countries.

An increase in interest rates in Japan or other countries may have a significant impact on the KYB Group's results of operations.

### Risks Relating to Business Operations

#### 1) Demand Trends

Sales of the KYB Group's automotive components and hydraulic components operations depend greatly on the global production volume of automobiles and construction machinery. The decline in demand for these products during the global economic downturn caused by the financial crisis may have a significant impact on results of operations. The KYB Group sells most of its special-purpose vehicles, aircraft components, system products and electronic components in Japan. Especially in the special-purpose vehicles business, which involves primarily concrete mixer trucks, demand may be significantly influenced by changes in the volume of construction activity, which is closely linked to the economic outlook, as well as by changes in laws and regulations.

#### 2) Prices and Quality

The KYB Group's products are subject to intense price-based competition in Japan and other countries. Customers are always asking for cost cuts and lower prices. Quality is also critical. The Group supplies vital automotive parts, such as shock absorbers, which maintain a vehicle's stability, and power steering systems. For construction machinery and commercial vehicles, the Group supplies key functional components such as hydraulic cylinders and motors. Consequently, if the Group supplies a defective product, there may be substantial expenses due to customers' demands for the payment of damages and other events. Furthermore, sales volume and prices for aftermarket automotive shock absorbers will probably be influenced by changes in the health of regional economies and the actions of competitors.

#### 3) Procurement of Materials and Parts

The KYB Group purchases materials and parts from a large number of suppliers. Prices of materials and other items are closely linked to prices on international commodity markets. If the KYB Group is unable to fully reflect an increase in the cost of materials or parts in its selling prices, or if it is not possible to reduce prices of materials and parts sufficiently to reflect a reduction in selling prices, there may be a significant impact on results of operations.

#### 4) Fund procurement

The KYB Group uses loans from financial institutions in Japan and other countries to meet requirements involving capital expenditures and working capital. The KYB Group takes out these loans while carefully monitoring financial markets. However, procuring funds in a timely manner at favorable terms may not be possible if there is broad decline in prices of the KYB Group's products, an economic recession, a credit crunch, a decline in the KYB Group's credit rating, or for other reasons. Any of these events may affect the KYB Group's financial condition and results of operations.

#### 5) Worsening Overseas Business Conditions

If there is a bankruptcy at a KYB Group overseas manufacturing and sales base caused by a decline in orders, falling earnings or some other reason, there may be a significant impact on results of operations.

#### 6) Counterparty Credit Risk

The KYB Group sells its products to automobile and construction machinery makers and many other customers. An unexpected problem involving credit risk of a customer may affect the Group's results of operations.

### Risks Relating to Significant Litigation or Other Legal Action

If the KYB Group is the defendant in a law suit and the outcome is unfavorable, the resulting demands and requirements may have a significant impact on the Group's results of operations.

### Risks Relating to Fires, Accidents and Natural Disasters

Many plants of the KYB Group produce hydraulic products that utilize the properties of oil. In addition, plants often have coating equipment that uses organic solvents and storage tanks for various oils, chemicals and other substances. If there is a fire or a leak of a hazardous substance, manufacturing activity may have to be suspended temporarily.

In Japan, many plants of the KYB Group and its suppliers are located in the Chubu area (central area of Japan's mainland). If there is a major earthquake in this region or other disaster that prevents these plants from operating, there may be a substantial decline in the Group's production capacity.

In addition, if an earthquake, fire, conflict, act of terrorism or other event outside Japan occurs where the KYB Group has a plant, there may be a substantial decline in the Group's production capacity.

## Financial Review

### Summary

In the automotive components segment, sales of shock absorbers for automobiles increased 7.6% to ¥162.5 billion. Sales declined in the United States, but the Japan, Chinese, and European markets were generally strong. Sales of motorcycle shock absorbers increased 3.5% to ¥29.5 billion because of strong sales in the core markets of China and India. Sales of hydraulic equipment for automobiles, which is used mainly for power steering, decreased 1.7% to ¥45.7 billion. Sales of vane pumps for continuous variable transmissions were steady, however, sales decreased for electric power steering and hydraulic pumps. Sales of other products, mainly ATV (all-terrain vehicle) equipment, were ¥4.9 billion. As a result, sales in the automotive components segment totaled ¥242.6 billion, segment profit was ¥9.5 billion and the segment profit margin was 3.9%.

In the hydraulic components segment, sales of industrial hydraulic components, which are used mainly in construction machinery, surged 28.7% to ¥114.1 billion. The increase was due to continued stable growth in large-sized excavators, particularly in the Chinese market, and favorable performance with small-sized and mini excavators in the Europe and U.S. markets. Sales of other components, mainly railway semi-active systems and shock absorbers, increased 10.9% to ¥8.5 billion. As a result, hydraulic components segment sales were ¥122.6 billion, segment profit was ¥11.1 billion and the segment profit margin was 9.1%.

In the other segment, the primary activities are special-purpose vehicles, aircraft components, system products and electronic components. Sales of special-purpose vehicles, mainly concrete mixer trucks, increased 11.8% to ¥9.6 billion due to a sales increase in India. Sales of hydraulic equipment for aircraft decreased 17.8% to ¥6.4 billion. Sales of system products and electronic components decreased 3.2% to ¥11.3 billion. As a result, segment sales were ¥27.2 billion, segment profit was ¥10.3 billion and the segment profit margin was 3.8%.

As a result, consolidated net sales increased ¥37.1 billion to ¥392.4 billion.

Operating profit was ¥20.9 billion, income before income taxes was ¥20.9 billion and profit attributable to owners of parent was ¥15.2 billion.

### Financial Condition

Total assets increased ¥31.2 billion to ¥412.5 billion. This was mainly due to an increase in cash and cash equivalents, trade and other receivables, and property, plant and equipment.

Total liabilities increased ¥14.3 billion to ¥225.8 billion mainly because of an increase in trade and other payables.

Total equity increased ¥16.9 billion to ¥186.7 billion mainly because of an increase in retained earnings.

The ratio of equity attributable to owners of the parent increased 0.6 percentage point from one year earlier to 43.7% at the end of March 2018 due to an increase in net assets.

### Cash Flows

Net cash flows from operating and investing activities was ¥12.9 billion and net cash used in financing activities was ¥4.5 billion. After a deduction of ¥0.3 billion for changes in foreign exchange rates, there was an increase of ¥8.7 billion in cash and cash equivalents to ¥42.7 billion.

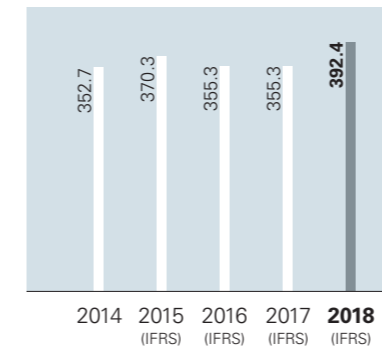
Net cash from operating activities decreased 6.1% to ¥29.3 billion. The main reasons for this decline were profit before tax of ¥20.9 billion, depreciation and amortization of ¥17.0 billion, and payment for income taxes of ¥4.9 billion.

Net cash used in investing activities decreased 23.2% to ¥16.4 billion. This was mainly due to payments of ¥14.4 billion for purchases of property, plant and equipment.

Net cash used in financing activities was ¥4.5 billion. There were payments of ¥13.4 billion for the repayment of long-term borrowings and ¥3.6 billion for dividends. Major sources of cash inflow were proceeds of ¥9.4 billion from long-term borrowing and a net increase of ¥3.4 billion in short-term borrowings.

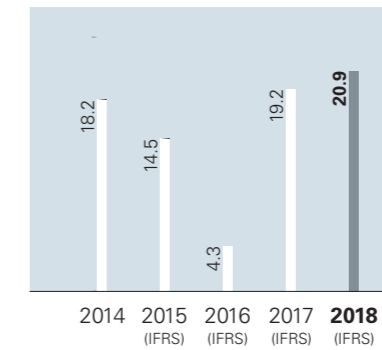
### Net Sales

(Billions of yen)



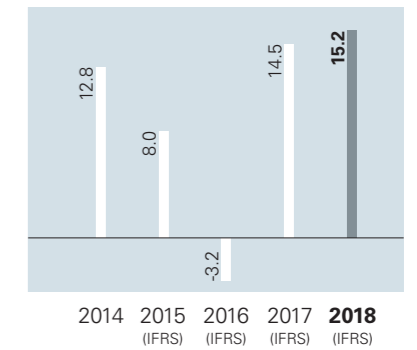
### Operating Profit

(Billions of yen)



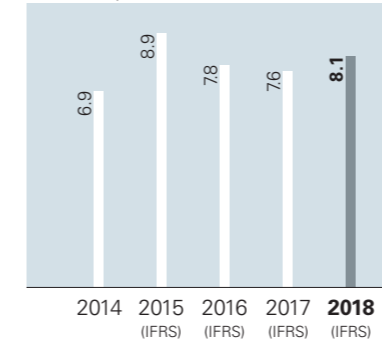
### Profit (Loss) Attributable to Owners of the Parent / Net Income

(Billions of yen)



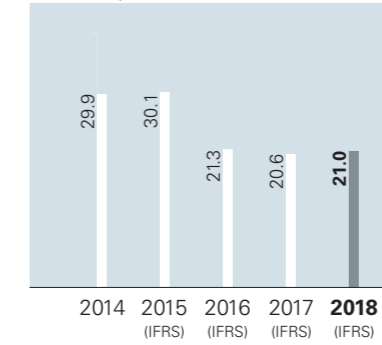
### R&D Expenses

(Billions of yen)



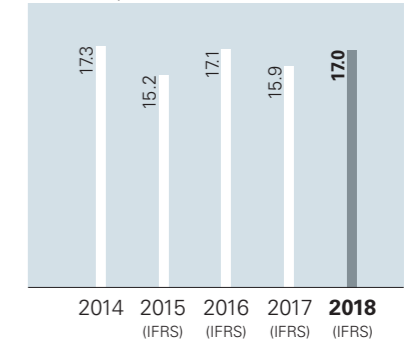
### Capital Expenditure

(Billions of yen)



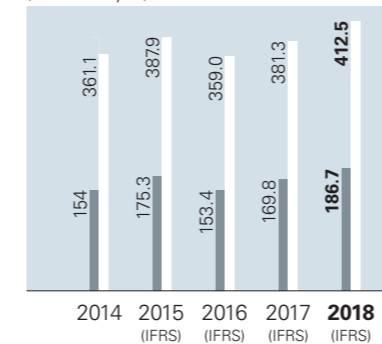
### Depreciation and Amortization

(Billions of yen)



### Total Equity and Total Assets / Total Assets

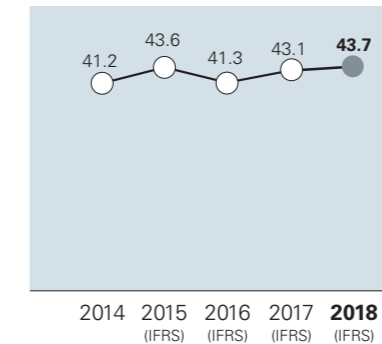
(Billions of yen)



■ Total Equity / Total Net Assets  
□ Total Assets

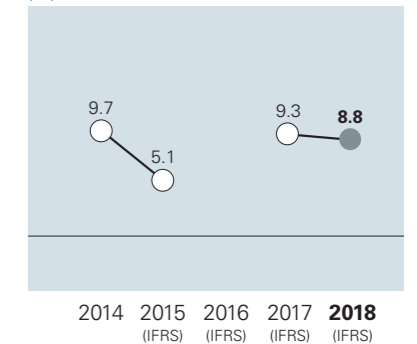
### Ratio of Equity Attributable to Owners of the Parent / Equity Ratio

(%)



### Return on equity attributable to owners of the parent / Return on Equity (ROE)

(%)



## Financial Statements

### Consolidated Statements of Financial Position

KYB Corporation and its Consolidated Subsidiaries  
March 31, 2017 and 2018

|   | Millions of yen |          |
|---|-----------------|----------|
|   | 2017            | 2018     |
| <b>ASSETS</b>                                     |                 |          |
| <b>Current assets:</b>                            |                 |          |
| Cash and cash equivalents                         | ¥ 33,988        | ¥ 42,702 |
| Trade and other receivables                       | 92,653          | 103,881  |
| Inventories                                       | 49,640          | 54,001   |
| Other current financial assets                    | 1,039           | 1,066    |
| Other current assets                              | 3,641           | 9,904    |
| Total current assets                              | 180,962         | 211,554  |
| <b>Non-current assets:</b>                        |                 |          |
| Property, plant and equipment                     | 158,990         | 161,886  |
| Goodwill  | 283             | 268      |
| Intangible assets                                 | 5,850           | 6,692    |
| Investments accounted for using the equity method | 5,438           | 4,342    |
| Other non-current financial assets                | 23,169          | 24,731   |
| Other non-current assets                          | 500             | 532      |
| Deferred tax assets                               | 6,132           | 2,487    |
| Total non-current assets                          | 200,364         | 200,938  |
| Total assets                                      | ¥381,326        | ¥412,493 |

#### LIABILITIES

|                                     |          |         |
|-------------------------------------|----------|---------|
| <b>Current liabilities:</b>         |          |         |
| Trade and other payables            | ¥ 72,137 | ¥82,695 |
| Borrowings                          | 50,983   | 57,098  |
| Income tax payables                 | 1,536    | 1,944   |
| Other current financial liabilities | 18,274   | 22,760  |
| Provisions                          | 3,754    | 5,438   |
| Other current liabilities           | 1,001    | 1,708   |
| Total current liabilities           | 147,684  | 171,643 |

#### Non-current liabilities:

|   |          |          |
|---|----------|----------|
| Borrowings                              | 39,962   | 34,986   |
| Liability for retirement benefits       | 11,589   | 9,592    |
| Other non-current financial liabilities | 2,405    | 2,255    |
| Provisions                              | 2,127    | 2,189    |
| Other non-current liabilities           | 56       | 21       |
| Deferred tax liabilities                | 7,732    | 5,156    |
| Total non-current liabilities           | 63,871   | 54,198   |
| Total liabilities                       | ¥211,555 | ¥225,841 |

#### EQUITY

|   |          |          |
|---|----------|----------|
| <b>Equity attributable to owners of the parent:</b> |          |          |
| Share capital                                       | ¥ 27,648 | ¥27,648  |
| Capital surplus                                     | 29,414   | 29,414   |
| Retained earnings                                   | 100,995  | 114,363  |
| Treasury shares                                     | (587)    | (598)    |
| Other components of equity                          | 6,829    | 9,398    |
| Total equity attributable to owners of the parent   | 164,299  | 180,225  |
| Non-controlling interests                           | 5,472    | 6,426    |
| Total equity  | 169,771  | 186,651  |
| Total liabilities and equity                        | ¥381,326 | ¥412,493 |

### Consolidated Statements of Income

KYB Corporation and its Consolidated Subsidiaries  
Years ended March 31, 2017 and 2018

|   | Millions of yen |          |
|---|-----------------|----------|
|   | 2017            | 2018     |
| <b>Net sales</b>                                    | ¥355,316        | ¥392,394 |
| <b>Cost of sales</b>                                | 282,886         | 312,810  |
| Gross profit  | 72,430          | 79,583   |
| <b>Selling, general and administrative expenses</b> | 53,806          | 57,983   |
| <b>Equity in earnings of affiliates</b>             | 1,016           | 173      |
| <b>Other income</b>                                 | 2,036           | 2,665    |
| <b>Other expenses</b>                               | 2,430           | 3,553    |
| Operating profit                                    | 19,247          | 20,885   |
| <b>Finance income</b>                               | 593             | 973      |
| <b>Finance costs</b>                                | 988             | 977      |
| Profit before taxes                                 | 18,852          | 20,881   |
| Income tax expenses                                 | 3,774           | 5,096    |
| Profit for the year                                 | ¥15,078         | ¥15,786  |

#### Profit attributable to:

|                           |         |         |
|---------------------------|---------|---------|
| Owners of the parent      | ¥14,544 | ¥15,202 |
| Non-controlling interests | 533     | 584     |
| Profit for the year       | 15,078  | 15,786  |

#### Earnings per share

|                          | Yen     |         |
|--------------------------|---------|---------|
| Basic earnings per share | ¥569.32 | ¥595.09 |

### Consolidated Statements of Comprehensive Income

KYB Corporation and its Consolidated Subsidiaries  
Years ended March 31, 2017 and 2018

|  | Millions of yen |         |
|--|-----------------|---------|
|  | 2017            | 2018    |
| <b>Profit for the year</b>   | ¥15,078         | ¥15,786 |
| <b>Other comprehensive income:</b>   |                 |         |
| Items that will not be reclassified to profit or loss:                                   |                 |         |
| Net change in financial assets measured at fair value through other comprehensive income | 3,342           | 1,206   |
| Remeasurements of defined benefit plans  | 1,705           | 1,698   |
| Share of other comprehensive income of investments accounted for using the equity method | 17              | (27)    |
| Total  | 5,064           | 2,876   |
| Items that may be reclassified to profit or loss:  |                 |         |
| Exchange differences on translation of foreign operations                                | (1,509)         | 1,333   |
| Effective portion of the change in the fair value of cash flow hedges                    | (85)            | (71)    |
| Share of other comprehensive income of investments accounted for using the equity method | (203)           | 191     |
| Total  | (1,797)         | 1,453   |
| Total other comprehensive income   | 3,267           | 4,329   |
| <b>Comprehensive income for the year</b>   | ¥18,345         | ¥20,115 |

#### Comprehensive income for the year attributable to:

|                                   |         |         |
|-----------------------------------|---------|---------|
| Owners of the parent              | ¥17,708 | ¥19,445 |
| Non-controlling interests         | 636     | 670     |
| Comprehensive income for the year | ¥18,345 | ¥20,115 |

## Financial Statements

## Consolidated Statements of Changes in Equity

KYB Corporation and its Consolidated Subsidiaries  
Years ended March 31, 2017 and 2018

|  | Millions of yen |                 |                   |                 |   |   |   |                                  |         |          |        |  |                           |
|--|-----------------|-----------------|-------------------|-----------------|---|---|---|----------------------------------|---------|----------|--------|--|---------------------------|
|  | Share capital   | Capital surplus | Retained earnings | Treasury shares | Other components of equity              |   |   |                                  |         |          |        | Comprehensive income for the year attributable to owners of the parent | Non-controlling interests |
| Net change in financial assets measured at fair value through other comprehensive income |                 |                 |                   |                 | Remeasurements of defined benefit plans | Exchange differences on translation of foreign operations | Effective portion of the change in the fair value of cash flow hedges | Total other components of equity |         |          |        |  |                           |
| <b>Balance at April 1, 2016</b>  | ¥27,648         | ¥29,414         | ¥86,393           | ¥(579)          | ¥4,967                                  | ¥ —   | ¥275  | ¥160                             | ¥5,402  | ¥148,278 | ¥5,103 | ¥153,381   |                           |
| <b>Comprehensive income for the year:</b>  |                 |                 |                   |                 |   |   |   |                                  |         |          |        |  |                           |
| Profit for the year  | —               | —               | 14,544            | —               | —                                       | —   | —   | —                                | —       | 14,544   | 533    | 15,078   |                           |
| Other comprehensive income   | —               | —               | —                 | —               | 3,342                                   | 1,702   | (1,796)   | (83)                             | 3,164   | 3,164    | 103    | 3,267  |                           |
| Total comprehensive income for the year  | —               | —               | 14,544            | —               | 3,342                                   | 1,702   | (1,796)   | (83)                             | 3,164   | 17,708   | 636    | 18,345   |                           |
| <b>Transactions with owners:</b>   |                 |                 |                   |                 |   |   |   |                                  |         |          |        |  |                           |
| Contributions by and distributions to owners in their capacity as owners:                |                 |                 |                   |                 |   |   |   |                                  |         |          |        |  |                           |
| Acquisition of treasury shares   | —               | —               | —                 | (8)             | —                                       | —   | —   | —                                | —       | (8)      | —      | (8)  |                           |
| Disposal of treasury shares  | —               | —               | —                 | —               | —                                       | —   | —   | —                                | —       | —        | —      | 0  |                           |
| Dividends of surplus   | —               | —               | (2,810)           | —               | —                                       | —   | —   | —                                | —       | (2,810)  | —      | (2,810)  |                           |
| Changes of scope of equity method  | —               | —               | 1,175             | —               | —                                       | —   | —   | —                                | —       | 1,175    | —      | 1,175  |                           |
| Changes due to business combination  | —               | —               | (45)              | —               | —                                       | —   | —   | —                                | —       | (45)     | —      | (45)   |                           |
| Transfer to retained earnings  | —               | —               | 1,737             | —               | (35)                                    | (1,702)   | —   | —                                | (1,737) | —        | —      | —  |                           |
| Total contributions by and distributions to owners in their capacity as owners           | —               | —               | 57                | (8)             | (35)                                    | (1,702)   | —   | —                                | (1,737) | (1,687)  | —      | (1,687)  |                           |
| Changes in equity interest of subsidiaries:  |                 |                 |                   |                 |   |   |   |                                  |         |          |        |  |                           |
| Change of non-controlling interests  | —               | —               | —                 | —               | —                                       | —   | —   | —                                | —       | —        | —      | —  |                           |
| Dividends of surplus   | —               | —               | —                 | —               | —                                       | —   | —   | —                                | —       | —        | (267)  | (267)  |                           |
| Total changes in equity interest of subsidiaries   | —               | —               | —                 | —               | —                                       | —   | —   | —                                | —       | —        | (267)  | (267)  |                           |
| Total transactions with owners   | —               | —               | 57                | (8)             | (35)                                    | (1,702)   | —   | —                                | (1,737) | (1,687)  | (267)  | (1,955)  |                           |
| <b>Balance at March 31, 2017</b>   | 27,648          | 29,414          | 100,995           | (587)           | 8,274                                   | —   | (1,521)   | 77                               | 6,829   | 164,299  | 5,472  | 169,771  |                           |
| <b>Comprehensive income for the year:</b>  |                 |                 |                   |                 |   |   |   |                                  |         |          |        |  |                           |
| Profit for the year  | —               | —               | 15,202            | —               | —                                       | —   | —   | —                                | —       | 15,202   | 584    | 15,786   |                           |
| Other comprehensive income   | —               | —               | —                 | —               | 1,206                                   | 1,675   | 1,433   | (71)                             | 4,243   | 4,243    | 87     | 4,329  |                           |
| Total comprehensive income for the year  | —               | —               | 15,202            | —               | 1,206                                   | 1,675   | 1,433   | (71)                             | 4,243   | 19,445   | 670    | 20,115   |                           |
| <b>Transactions with owners:</b>   |                 |                 |                   |                 |   |   |   |                                  |         |          |        |  |                           |
| Contributions by and distributions to owners in their capacity as owners:                |                 |                 |                   |                 |   |   |   |                                  |         |          |        |  |                           |
| Acquisition of treasury shares   | —               | —               | —                 | (11)            | —                                       | —   | —   | —                                | —       | (11)     | —      | (11)   |                           |
| Disposal of treasury shares  | —               | 0               | —                 | 0               | —                                       | —   | —   | —                                | —       | 0        | —      | —  |                           |
| Dividends of surplus   | —               | —               | (3,576)           | —               | —                                       | —   | —   | —                                | —       | (3,576)  | —      | (3,576)  |                           |
| Change of scope of equity method   | —               | —               | —                 | —               | —                                       | —   | —   | —                                | —       | —        | —      | —  |                           |
| Changes due to business combination  | —               | —               | 69                | —               | —                                       | —   | —   | —                                | —       | 69       | —      | 69   |                           |
| Transfer to retained earnings  | —               | —               | 1,674             | —               | 1                                       | (1,675)   | —   | —                                | (1,674) | —        | —      | —  |                           |
| Total contributions by and distributions to owners in their capacity as owners           | —               | 0               | (1,834)           | (11)            | 1                                       | (1,675)   | —   | —                                | (1,674) | (3,518)  | —      | (3,518)  |                           |
| Changes in equity interest of subsidiaries:  |                 |                 |                   |                 |   |   |   |                                  |         |          |        |  |                           |
| Change of non-controlling interests  | —               | —               | —                 | —               | —                                       | —   | —   | —                                | —       | —        | 541    | 541  |                           |
| Dividends of surplus   | —               | —               | —                 | —               | —                                       | —   | —   | —                                | —       | —        | (257)  | (257)  |                           |
| Total changes in equity interest of subsidiaries   | —               | —               | —                 | —               | —                                       | —   | —   | —                                | —       | —        | 284    | 284  |                           |
| Total transactions with owners   | —               | 0               | (1,834)           | (11)            | 1                                       | (1,675)   | —   | —                                | (1,674) | (3,518)  | 284    | (3,235)  |                           |
| <b>Balance at March 31, 2018</b>   | ¥27,648         | ¥29,414         | ¥114,363          | ¥(598)          | ¥9,480                                  | ¥ —   | ¥(88)   | ¥6                               | ¥9,398  | ¥180,225 | ¥6,426 | ¥186,651   |                           |

## Financial Statements

## Consolidated Statements of Cash Flows

KYB Corporation and its Consolidated Subsidiaries  
Years ended March 31, 2017 and 2018

|  | Millions of yen |                 |
|--|-----------------|-----------------|
|  | 2017            | 2018            |
| <b>Cash flows from operating activities:</b>   |                 |                 |
| Profit before tax  | ¥18,852         | <b>¥20,881</b>  |
| Depreciation and amortization  | 15,922          | <b>16,988</b>   |
| Impairment loss  | 147             | <b>383</b>      |
| Increase (decrease) in assets and liabilities for retirement benefits  | 149             | <b>422</b>      |
| Increase (decrease) in provision for product warranties  | (1,495)         | <b>351</b>      |
| Finance income   | (593)           | <b>(973)</b>    |
| Finance costs  | 988             | <b>977</b>      |
| Equity in (earnings) losses of affiliates  | (1,016)         | <b>(173)</b>    |
| Loss on sales of investments accounted for using the equity method   | —               | <b>367</b>      |
| (Increase) decrease in trade and other receivables   | (5,052)         | <b>(9,820)</b>  |
| (Increase) decrease in inventories   | (1,889)         | <b>(3,874)</b>  |
| Increase (decrease) in trade and other payables  | 6,640           | <b>9,745</b>    |
| Provision for loss on cancellation of joint venture agreement  | —               | <b>1,189</b>    |
| Loss associated with the Anti-Trust law  | 700             | —               |
| Other  | 2,209           | <b>(3,065)</b>  |
| Subtotal   | 35,562          | <b>33,399</b>   |
| Interest received  | 94              | <b>131</b>      |
| Dividends received   | 1,072           | <b>1,593</b>    |
| Interest paid  | (1,003)         | <b>(1,012)</b>  |
| Income taxes paid  | (3,815)         | <b>(4,859)</b>  |
| Payments of loss associated with the Anti-Trust law  | (757)           | —               |
| Net cash from operating activities   | 31,153          | <b>29,252</b>   |
| <b>Cash flows from investing activities:</b>   |                 |                 |
| Payment into time deposits   | (237)           | <b>(203)</b>    |
| Proceeds from withdrawal of time deposits  | 255             | <b>136</b>      |
| Payment for purchases of property, plant and equipment   | (19,734)        | <b>(14,402)</b> |
| Proceeds from sale of property, plant and equipment  | 31              | <b>99</b>       |
| Payment for purchases of other financial assets  | (1)             | <b>(24)</b>     |
| Proceeds from sale of other financial assets   | 178             | <b>8</b>        |
| Proceeds from sale of investments accounted for using the equity method  | —               | <b>286</b>      |
| Other  | (1,830)         | <b>(2,287)</b>  |
| Net cash flows from investing activities   | (21,337)        | <b>(16,386)</b> |
| <b>Cash flows from financing activities:</b>   |                 |                 |
| Net increase (decrease) in short-term borrowings   | 5,207           | <b>3,408</b>    |
| Repayments of lease obligations  | (456)           | <b>(589)</b>    |
| Proceeds from long-term borrowings   | 15,294          | <b>9,388</b>    |
| Repayment of long-term borrowings  | (17,928)        | <b>(13,386)</b> |
| Proceeds from non-controlling interests  | —               | <b>541</b>      |
| Payments for purchase of treasury shares   | (8)             | <b>(11)</b>     |
| Proceeds from sales of treasury shares   | —               | <b>0</b>        |
| Dividends paid   | (2,810)         | <b>(3,576)</b>  |
| Dividends paid to non-controlling interests  | (267)           | <b>(257)</b>    |
| Net cash flows from financing activities   | (969)           | <b>(4,482)</b>  |
| <b>Effects of changes in foreign exchange rates</b>  | (160)           | <b>288</b>      |
| <b>Net increase (decrease) in cash and cash equivalents</b>  | 8,687           | <b>8,672</b>    |
| <b>Cash and cash equivalents at beginning of period</b>  | 25,296          | <b>33,988</b>   |
| <b>Increase (decrease) in cash and cash equivalents resulting from merger with unconsolidated subsidiaries</b> | 5               | <b>42</b>       |
| <b>Cash and cash equivalents at end of period</b>  | ¥33,988         | <b>¥42,702</b>  |

## Segment Information

KYB Corporation and its Consolidated Subsidiaries  
Years ended March 31, 2017 and 2018

## FY2016 (April 1, 2016–March 31, 2017)

|   | Reportable segment    |                      |          | Other (Note 1) | Total    | Adjustment (Note 2) | Consolidated |
|---|-----------------------|----------------------|----------|----------------|----------|---------------------|--------------|
|   | Automotive components | Hydraulic components | Subtotal |                |          |                     |              |
| Net sales:                              |                       |                      |          |                |          |                     |              |
| Outside customer                        | ¥231,025              | ¥96,327              | ¥327,352 | ¥27,964        | ¥355,316 | ¥ —                 | ¥355,316     |
| Intersegment sales and transfers        | 577                   | 2,336                | 2,913    | 481            | 3,393    | (3,393)             | —            |
| Total                                   | 231,601               | 98,663               | 330,265  | 28,445         | 358,709  | (3,393)             | 355,316      |
| Segment profit (Note 3)                 | 10,997                | 6,615                | 17,612   | 941            | 18,553   | 71                  | 18,624       |
| Equity in earnings of affiliates        | 639                   | 377                  | 1,016    | —              | 1,016    | —                   | 1,016        |
| Other income and expenses (net)         | (315)                 | (120)                | (436)    | 42             | (394)    | —                   | (394)        |
| Operating profit                        | 11,321                | 6,872                | 18,193   | 983            | 19,175   | 71                  | 19,247       |
| Finance income and costs (net)          |                       |                      |          |                |          |                     | (395)        |
| Profit before taxes                     |                       |                      |          |                |          |                     | 18,852       |
| Depreciation and amortization           | 9,987                 | 5,158                | 15,145   | 783            | 15,928   | (6)                 | 15,922       |
| Impairment loss                         | 81                    | 42                   | 123      | 23             | 147      | —                   | 147          |
| Increase of non-current assets (Note 4) | 14,794                | 3,751                | 18,545   | 2,030          | 20,575   | 4                   | 20,578       |

Notes: 1. "Other" includes "Special-purpose Vehicles," "Aircraft Components" and "System Products and Electronic Equipment" that are not included in the two of reportable segment.

2. ¥71 million of adjustment of segment profits are the elimination of intersegment transactions.

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

4. Non-current assets do not include investments accounted for using the equity method, other non-current financial assets and deferred tax assets.

## FY2017 (April 1, 2017–March 31, 2018)

|   | Reportable segment    |                      |          | Other (Note 1) | Total    | Adjustment (Note 2) | Consolidated |
|---|-----------------------|----------------------|----------|----------------|----------|---------------------|--------------|
|   | Automotive components | Hydraulic components | Subtotal |                |          |                     |              |
| Net sales:                                |                       |                      |          |                |          |                     |              |
| Outside customer                          | ¥242,560              | ¥122,603             | ¥365,163 | ¥27,231        | ¥392,394 | ¥ —                 | ¥392,394     |
| Intersegment sales and transfers          | 771                   | 1,363                | 2,134    | 488            | 2,622    | (2,622)             | —            |
| Total                                     | 243,331               | 123,966              | 367,297  | 27,719         | 395,016  | (2,622)             | 392,394      |
| Segment profit (Note 3)                   | 9,256                 | 11,021               | 20,277   | 1,004          | 21,281   | 320                 | 21,600       |
| Equity in earnings (losses) of affiliates | (207)                 | 380                  | 173      | —              | 173      | —                   | 173          |
| Other income and expenses (net)           | (490)                 | (238)                | (729)    | (160)          | (888)    | —                   | (888)        |
| Operating profit                          | 8,559                 | 11,163               | 19,722   | 844            | 20,566   | 320                 | 20,885       |
| Finance income and costs (net)            |                       |                      |          |                |          |                     | (4)          |
| Profit before taxes                       |                       |                      |          |                |          |                     | 20,881       |
| Depreciation and amortization             | 10,936                | 5,230                | 16,166   | 828            | 16,994   | (6)                 | 16,988       |
| Impairment loss                           | 301                   | 57                   | 358      | 25             | 383      | —                   | 383          |
| Increase of non-current assets (Note 5)   | 14,114                | 5,489                | 19,603   | 1,402          | 21,005   | (48)                | 20,956       |

Notes: 1. "Other" includes "Special-purpose Vehicles," "Aircraft Components" and "System Products and Electronic Equipment" that are not included in the two of reportable segment.

2. ¥320 million of adjustment of segment profits are the elimination of intersegment transactions.

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

4. Non-current assets do not include investments accounted for using the equity method, other non-current financial assets and deferred tax assets.

## Changes in reportable segments

In this fiscal year, due to the change in the management method of some domestic affiliated companies, we reexamined the "Electronic Equipment" business, etc. which had been included in "Hydraulic components" and "Others." And we disclose part of it into "Automotive components" and "Hydraulic components."

Financial information for the previous fiscal year has been revised to reflect this change.

**KYB in Globe**

As of June 1, 2018

**Europe (9companies in 13countries)**

- KYB Europe Headquarters B. V.
- KYB Europe GmbH
- KYB Europe GmbH (Spain Branch)
- KYB Europe GmbH (Munich Branch)
- KYB France
- KYB Iberia
- KYB Italy
- KYB Poland
- KYB Rumania
- 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 (19companies in 7countries)**

- KYB (China) Investment Co., Ltd.
- KYB Industrial Machinery (Zhenjiang) Ltd.
- Wuxi KYB Top Absorber Co., Ltd.
- Changzhou KYB Leadrun Vibration Reduction Technology 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-UMW Steering Malaysia Sdn. Bhd.
- KYB Motorcycle Suspension India Pvt. Ltd.
- KYB-Conmat Pvt. Ltd.
- KYB Asian Pacific Corp. Ltd.
- KYB Asian Pacific Corp. Ltd. (Branch)
- KYB Trading (Shanghai) Co., Ltd.
- Kayaba System Machinery Co., Ltd. Taiwan Office
- KYB Corporation Chennai Branch

**48 Companies in 24 Countries**

- Regional Headquarters (6)
- Production base (37)
- R&D base (6)
- Sales Office/Other Services (35)

**America (7companies in 3countries)**

- 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 Corporation Aircraft Components Division
- KYB International America, Inc.
- KYB Latinoamerica, S.A. de C.V.
- Comercial de Autopeças KYB do Brasil Ltda.

**Japan (13companies in 1country)**

- KYB Corporation (Head Office)
- Kumagaya Plant
- Sagami Plant
- Aikawa Plant
- Gifu North Plant
- Gifu South Plant
- Gifu East Plant
- Basic Technology R&D Center
- Electronics Technology Center
- Products Technology R&D Center
- Machine Tools Center
- Developmental Experiment Center
- Automotive Components Operations Sales & Marketing Headquarters Sales Department No.2
- Nagoya Branch
- Osaka Branch
- Hiroshima Sales Office
- Fukuoka Branch
- Kayaba System Machinery Co., Ltd.
- KYB Trondule Co., Ltd.
- KYB-YS Co., Ltd.
- KYB Kanayama Co., Ltd.
- KYB Motorcycle Suspension Co., Ltd.
- Takako Industries, Inc.
- KYB Engineering and Service Co., Ltd.
- Kensiyuu Co., Ltd.
- Japan Analysts Co., Ltd.
- KYB Logistics Co., Ltd.
- KYB Systemerit Co., Ltd.
- Chikuyo Seiki Kogyo Co., Ltd.

**Corporate Information**

As of March 31, 2018

**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: <http://www.kyb.co.jp>

**Date of Establishment:** March 10, 1935

**Fiscal Year:** April 1 to March 31

**Paid-in Capital:** ¥27,647.6 million

**Number of Employees:** 14,754 (Consolidated basis)

**Securities Traded:** Tokyo Stock Exchange (First Section)

**Plants:** Kumagaya, Sagami, Aikawa, Gifu North, Gifu South, Gifu East

**R&D Centers:** Basic Technology R&D Center, Electronics Technology Center, Production Technology R&D Center, Machine Tools Center, Developmental Experiment Center

**Sales Branches:** Automotive Components Operations Sales Department No. 2, Nagoya, Osaka, Fukuoka, Hiroshima

**Shareholder Information**

As of March 31, 2018

**Common Stock Issued:** 25,748,431

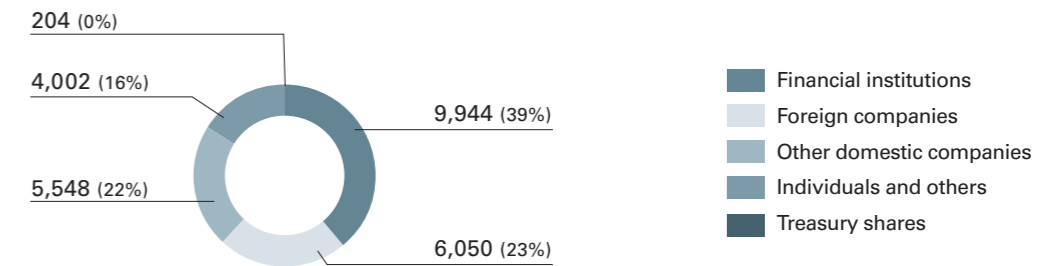
**Number of Shareholders:** 10,665

**Transfer Agent and Registrar:** Mizuho Trust & Banking Co., Ltd.  
2-1, Yaesu 1-chome, Chuo-ku, Tokyo 103-8670, Japan

**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)   | 1,209                     | 4.7                            |
| Japan Trustee Services Bank, Ltd. (Trust Account)  | 1,122                     | 4.4                            |
| Meiji Yasuda Life Insurance Company  | 1,004                     | 3.9                            |
| Hitachi Construction Machinery Co., Ltd.   | 892                       | 3.5                            |
| KYB suppliers' stock ownership   | 748                       | 2.9                            |
| Japan Trustee Services Bank, Ltd. (Trust Account 9)  | 726                       | 2.8                            |
| Trust & Custody Services Bank, Ltd. as trustee for Mizuho Bank, Ltd. Retirement Benefit Trust Account re-entrusted by Mizuho Trust and Banking Co., Ltd. | 611                       | 2.4                            |
| Ogaki Kyoritsu Bank, Ltd.  | 591                       | 2.3                            |
| Mizuho Bank, Ltd.  | 490                       | 1.9                            |
| Total  | 9,358                     | 36.5                           |

**Composition of Shareholders:**  
(Thousands)



**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.