

KYB

Our Precision, Your Advantage



Meeting Materials for FY2014, Ended March 31, 2015 Summary and Business Outlook

May 15, 2015

Masao Usui
Representative Director,
President Executive Officer
KYB Corporation

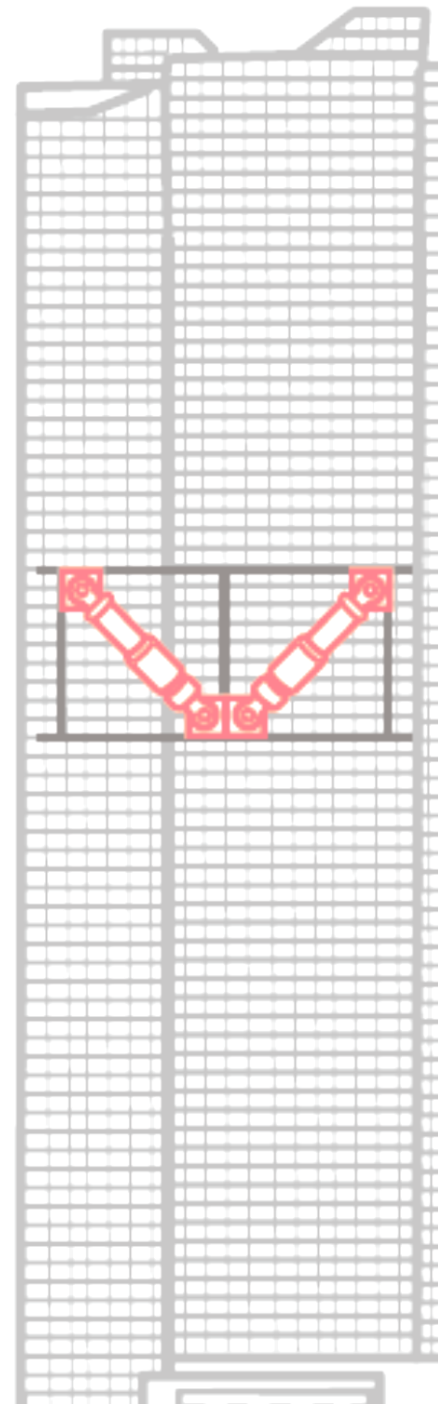
Gratitude for 80 Years, Drive to Reach 100





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1. Financial Information





1-1. FY2014 Financial Summary (1)

(¥ Billion)	FY2013	FY2014		Differences
	Actual	Forecast (Feb. 2, 2015)	Actual	Previous period
Net Sales	352.7	369.0	370.4	17.7
Operating Income	18.2	16.6	13.6	(4.6)
Ordinary Income	20.4	17.9	15.9	(4.5)
Net Income	12.8	10.8	7.1	(5.7)
Dividend (yen)	9	12	12 <small>(including 2 yen of commemorative dividend)</small>	3

■ Causes of fluctuation in operating income

-  Increase in personnel and R&D expenses
-  Increase in provision for product warranties



■ Causes of fluctuation in net income

-  Gain on currency exchange due to lower yen value
-  Loss on impairment fixed assets

■ Causes of fluctuation in operating income

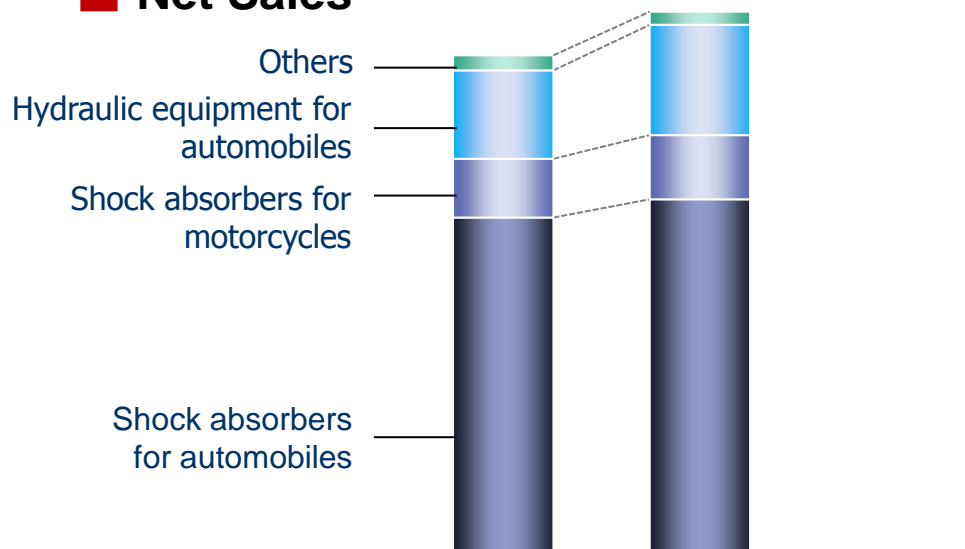
-  **Increase in personnel expenses** ¥5.4 billion
Major factor: Increase in temporary personnel necessitated by increase in domestic and overseas demand
-  **Increase in R&D expenses** ¥2.0 billion
Major factor: Newly established Developmental Experiment Center
-  **Increase in provision for product warranties** ¥0.9 billion
Major factor: automotive shock absorbers (KMCZ, KYBSE)

■ Causes of fluctuation in net income

-  **Gain on currency exchange due to lower yen** ¥0.7 billion
-  **Loss on impairment fixed assets** ¥1.7 billion

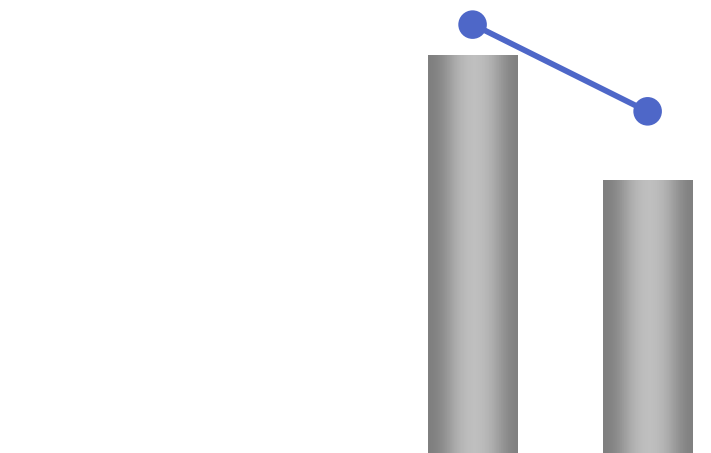
1-2. Performance of AC Operations

Net Sales



(¥ Billion)	FY2013	FY2014	Differences
	Actual	Actual	
Shock absorbers for automobiles	151.6	159.1	7.6
Shock absorbers for motorcycles	24.4	26.7	2.3
Hydraulic equipment for automobiles	36.7	45.9	9.1
Others	6.2	5.4	(0.8)
Total	218.9	237.1	18.1

Operating Income (Margin)



(¥ Billion)	FY2013	FY2014
	Actual	Actual
Operating Income	9.1	6.9
Operating Income Margin	4.2%	2.9%

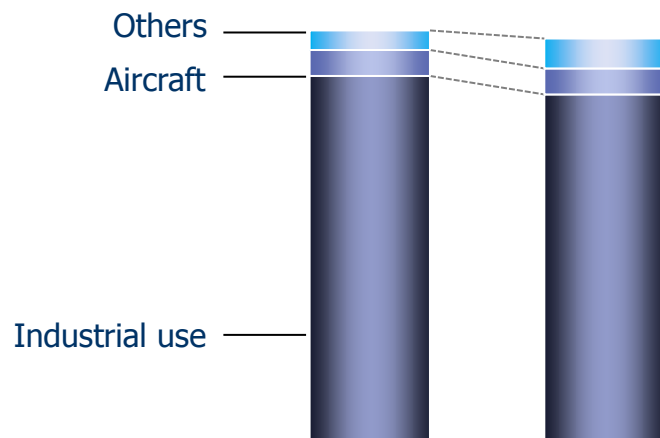
- Favorable exchange rate due to lower yen
- Increase in personnel and R&D expenses
- Increase in provision for product warranties

1-3. Performance of HC Operations



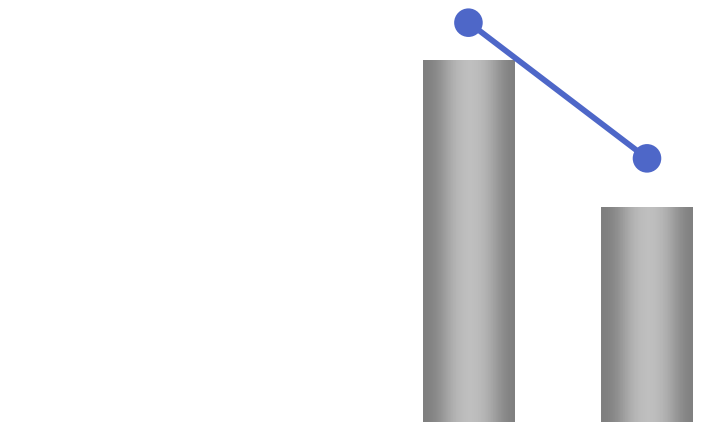
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Net Sales



(¥ Billion)	FY2013	FY2014	Differences
	Actual	Actual	
Industrial use	102.7	97.5	(5.2)
Aircraft	7.3	7.3	0.0
Others	5.5	8.4	2.9
Total	115.5	113.2	(2.3)

Operating Income (Margin)



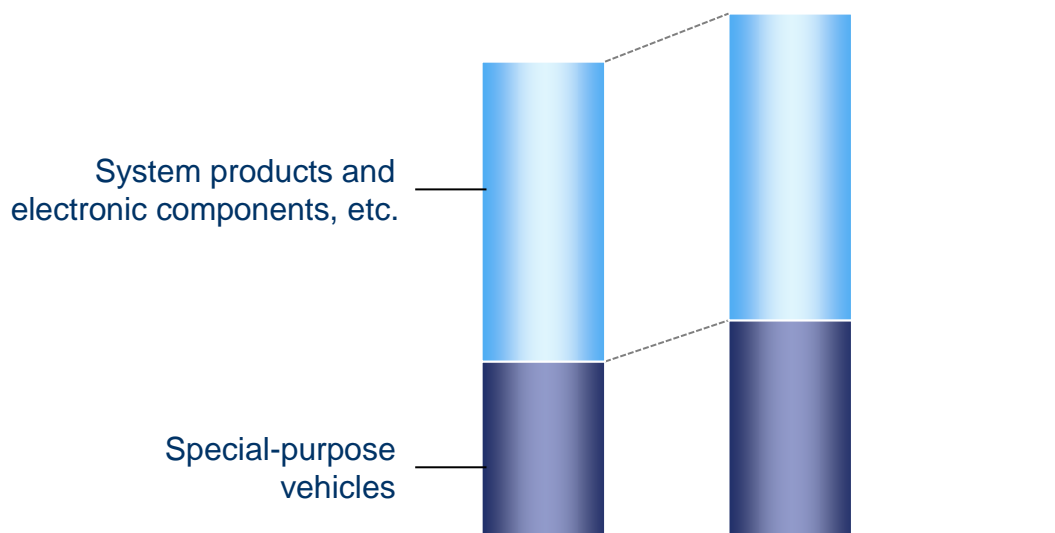
(¥ Billion)	FY2013	FY2014
	Actual	Actual
Operating Income	8.0	5.0
Operating Income Margin	6.9%	4.4%



Economic slowdown and sluggish demand in China

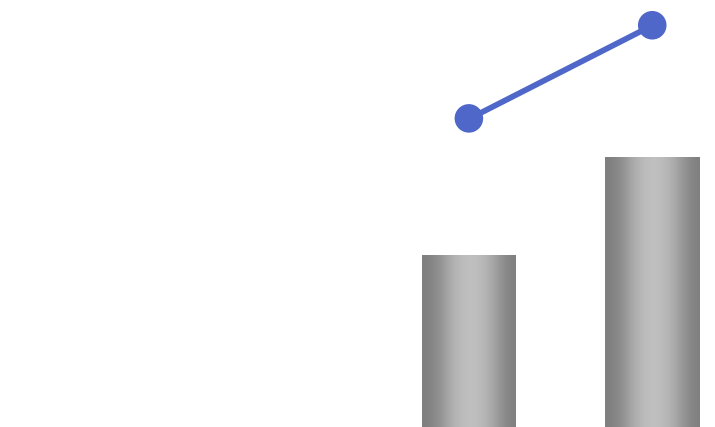
1-4. Performance of Special-purpose Vehicles, System Products and Electronics Components

■ Net Sales



(¥ Billion)	FY2013	FY2014	Differences
	Actual	Actual	
Special-purpose vehicles	6.8	8.4	1.6
System products and electronic components, etc.	11.5	11.7	0.3
Total	18.3	20.1	1.8

■ Operating Income (Margin)



(¥ Billion)	FY2013	FY2014
	Actual	Actual
Operating Income	1.1	1.7
Operating Income Margin	6.1%	8.2%



Favorable sales of concrete mixer trucks in Japan

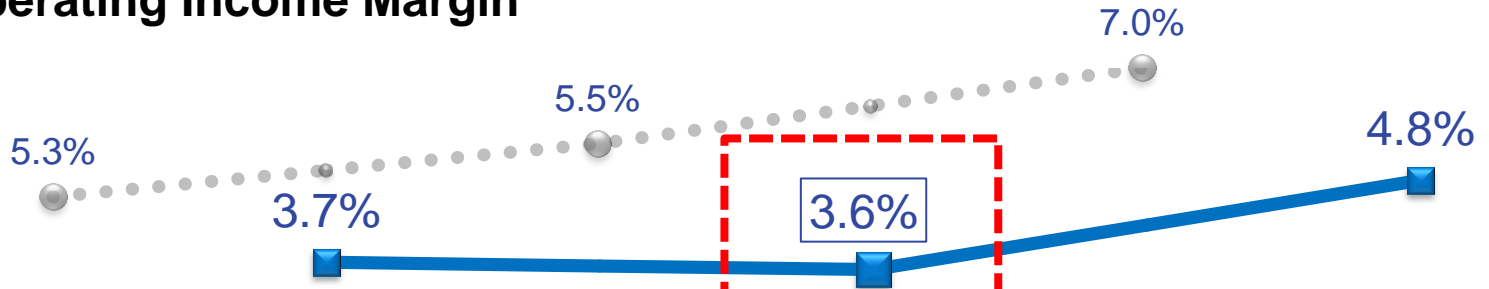
1-5. 2014 Medium-Term Management Plan and FY 2015 Plan



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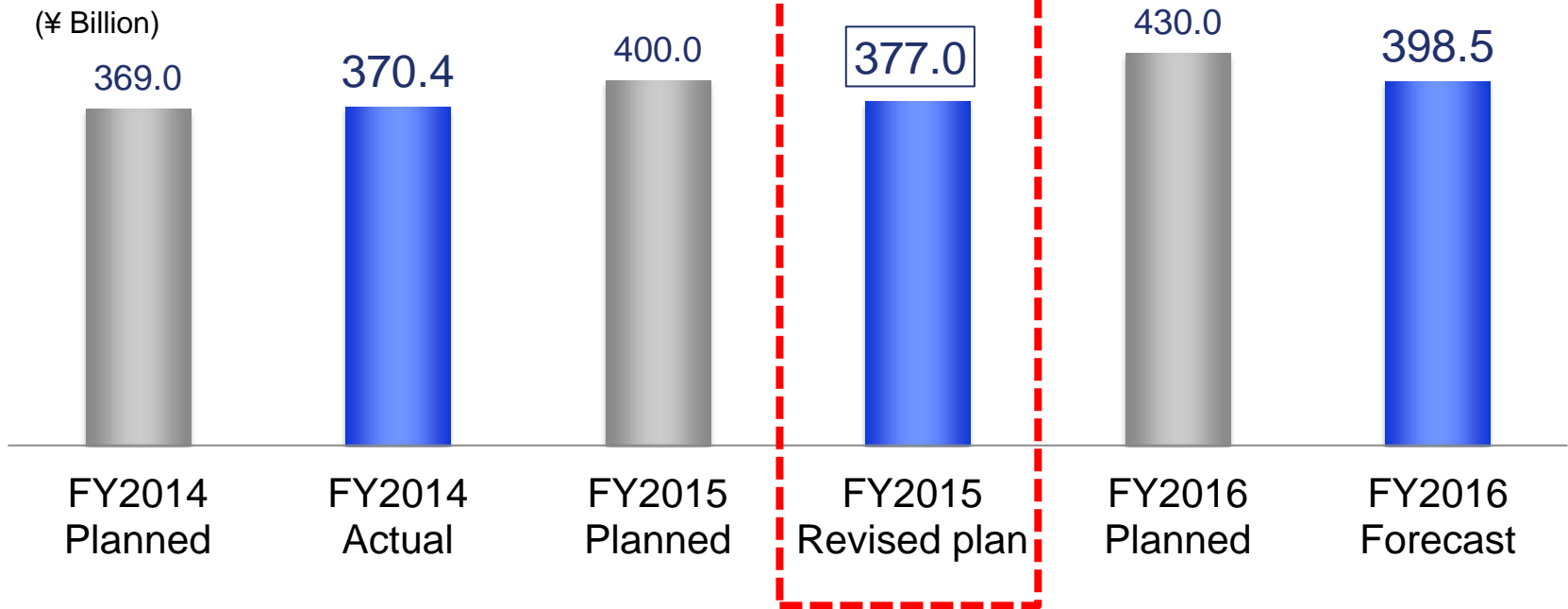
The gap toward 2014 medium-term management plan goals

■ Operating Income Margin



■ Net Sales

(¥ Billion)



1-6. Financial Indicators

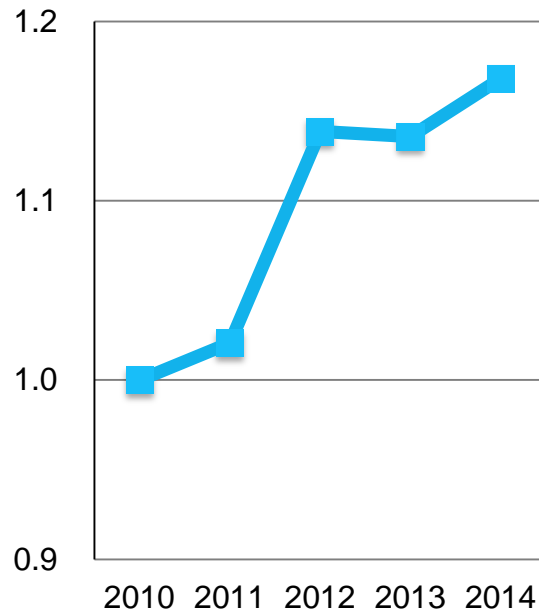


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■ Fixed cost ratio

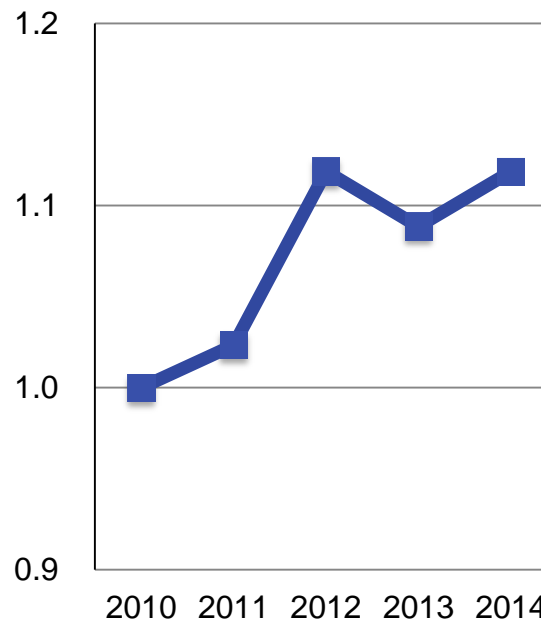
(Personnel, depreciation expenses)

(Times)



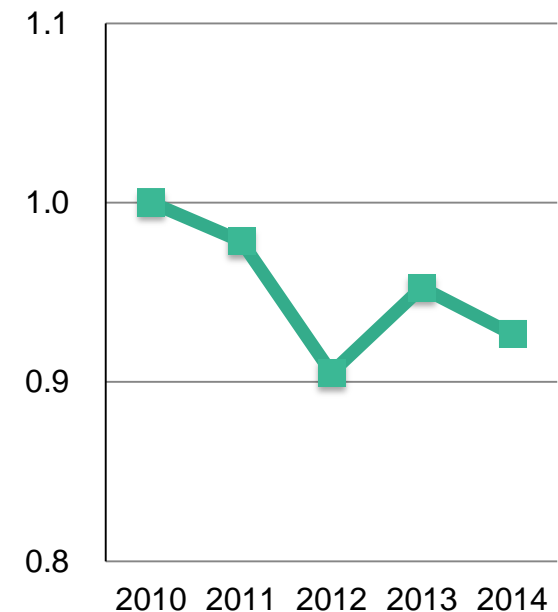
■ Personnel expenses ratio

(Times)



■ Net Sales per Employee

(Times)



FY2010=1.0

- Insufficient control over personnel and fixed costs in responding to fluctuations in sales
- Significant changes to the operating environment, particularly in China
⇒ Quickly reform business structure to collect on previous investments

FY 2015 Corporate Strategy

Earning trust and orders from customers around the world by uniting the KYB Group's functions

— Narrow down important business tasks, complete them thoroughly —

More competitive power

- Strengthen global quality assurance system
- Construct a highly efficient, innovative line
- Conduct LT50 activity (Cut lead time in half) overseas and with suppliers

Technology and product development

- Develop products in line with customers' model changes
- Develop products for high / low value markets
- Develop technology and product for electronic control and communications technology

Expand business opportunities

- Global development that crosses business divisions
- Increase ratios of non-Japanese customers (AC) and non-hydraulic excavator business (HC)

Management

- Thoroughly reduce fixed costs
- Maintain an environment where diverse human assets can make great efforts

1-8. Strengthening Quality Assurance System



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Company	Occurrence	Amount
KMCZ (Czech Republic)	Omission of important functional components in shock absorbers for European automobile manufacturers	¥2.1 billion
KYBSE (Spain)	Oil leak in high-performance shock absorbers for European automobile manufacturer	¥0.4 billion



Cause: Defect in the diagram entry and insufficient number of in-process quality checks

⇒ Less involvement of the mother plant

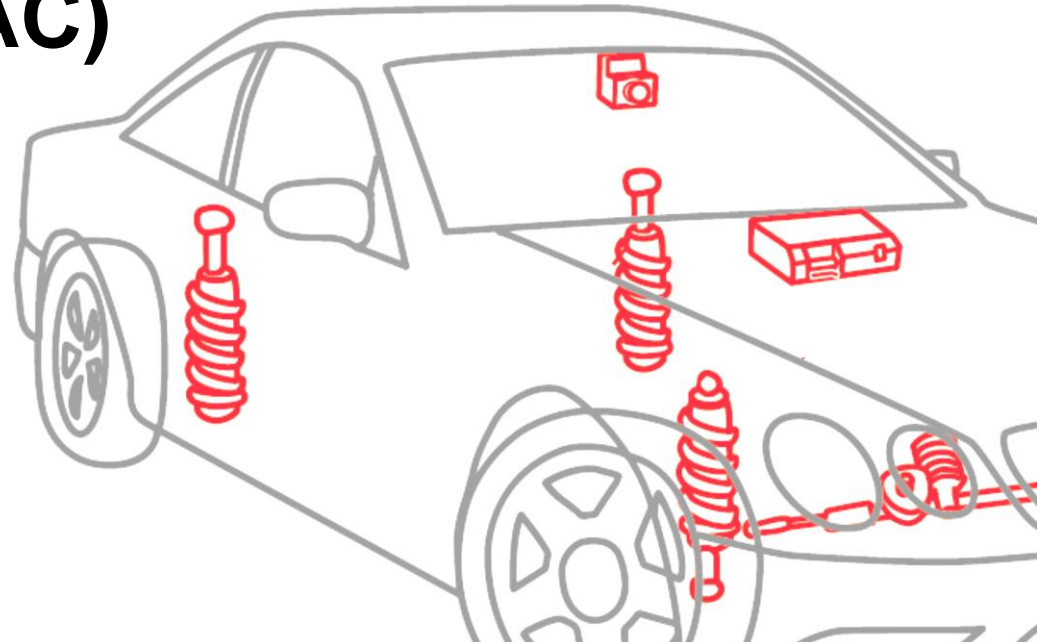
Countermeasure: Reform the system

- Establish quality assurance and engineering divisions at Headquarter of European base
- Assign engineers of the mother plant as manager to ensure direct involvement (including development of human assets) with *monozukuri* (manufacturing expertise) at the work place.



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2. Status for Automotive Components Operations (AC)

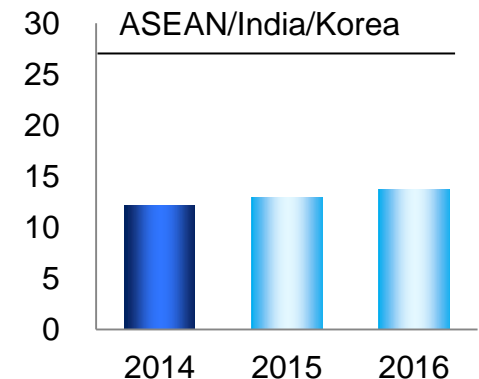
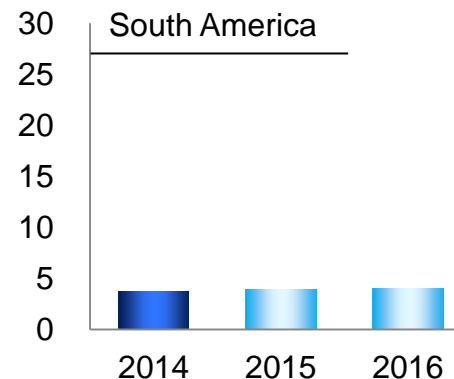
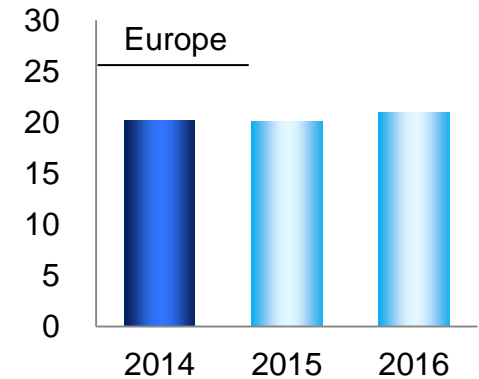
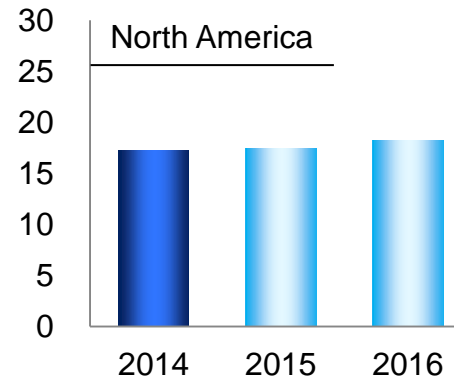
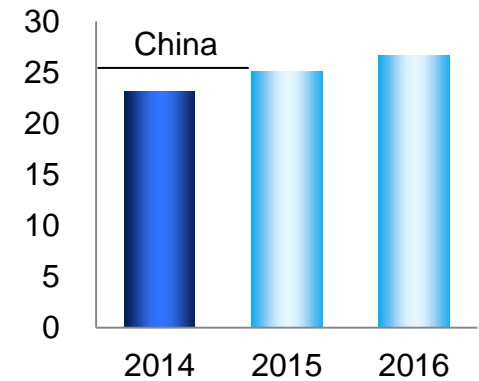
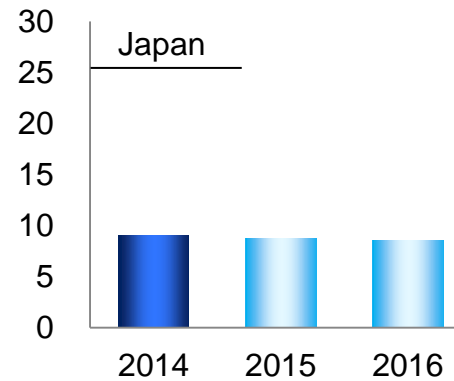
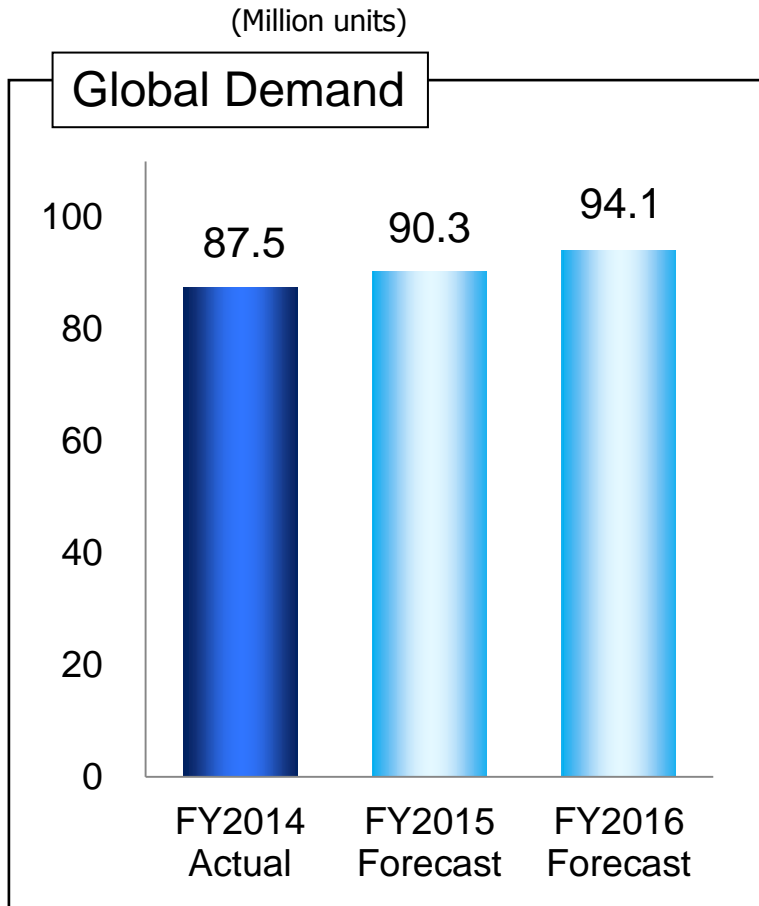


2-1. Market Environment (Automotive)



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Global Production Forecast, by Region



Source: IHS (the end of Apr. 2015)

Japan: Light vehicle tax increase, reduction in HV production due to lower oil prices

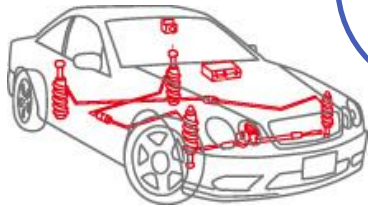
North America: Firm market (U.S. maker↗)

Europe, Asia, China: Deceleration (Japanese maker↘, Local maker↗)

2-2. FY2015 Corporate Policy (AC Operations)



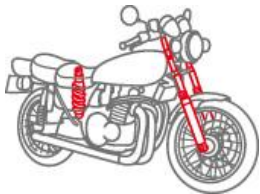
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Compete and win globally

Global OEM order strategy, expansion in Mexico

Develop products in line with customers' model changes and receive steady orders



Aftermarket expansion

Aftermarket brand strategy

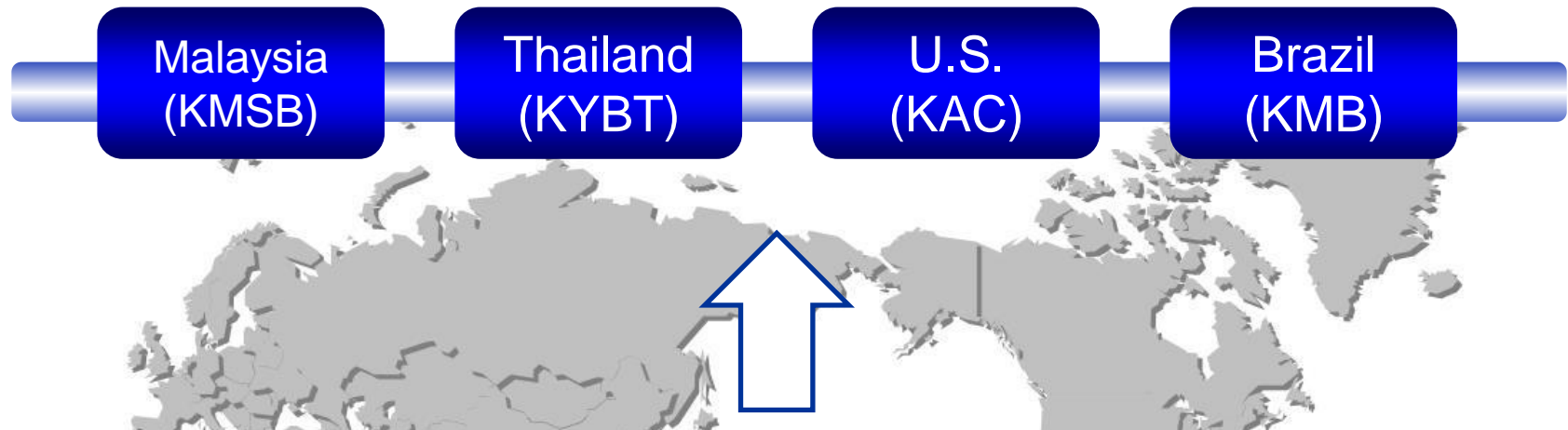
2-3. Compete and Win Globally

Global OEM order strategy



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- Increase speed by establishing unified product development in five areas of the world, receive orders for models around the globe



Product development in five areas of the world
(Europe, ASEAN, China, Japan, the Americas)

- Global development team received orders for the next model of Honda Civic
- Timely propose optimized methods to producers in four overseas areas

2-4. Compete and Win Globally

Expansion in Mexico: from CVT to Shock Absorbers (SA)



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- An automotive SA plant is under construction within the same site as our existing CVT pump plant.



Illustration of the Mexico Plant after completion of construction



SA plant under construction
(May 2015)

Location: Silao, state of Guanajuato, Mexico
(Guanajuato Inland Port industrial park)

Completion of construction: October 2015

Mass production start: May 2016

Products: Automotive shock absorbers

Production capacity:

2016: approx. 800,000 units/year (approx. 330,000 OEM + approx. 470,000 aftermarket)

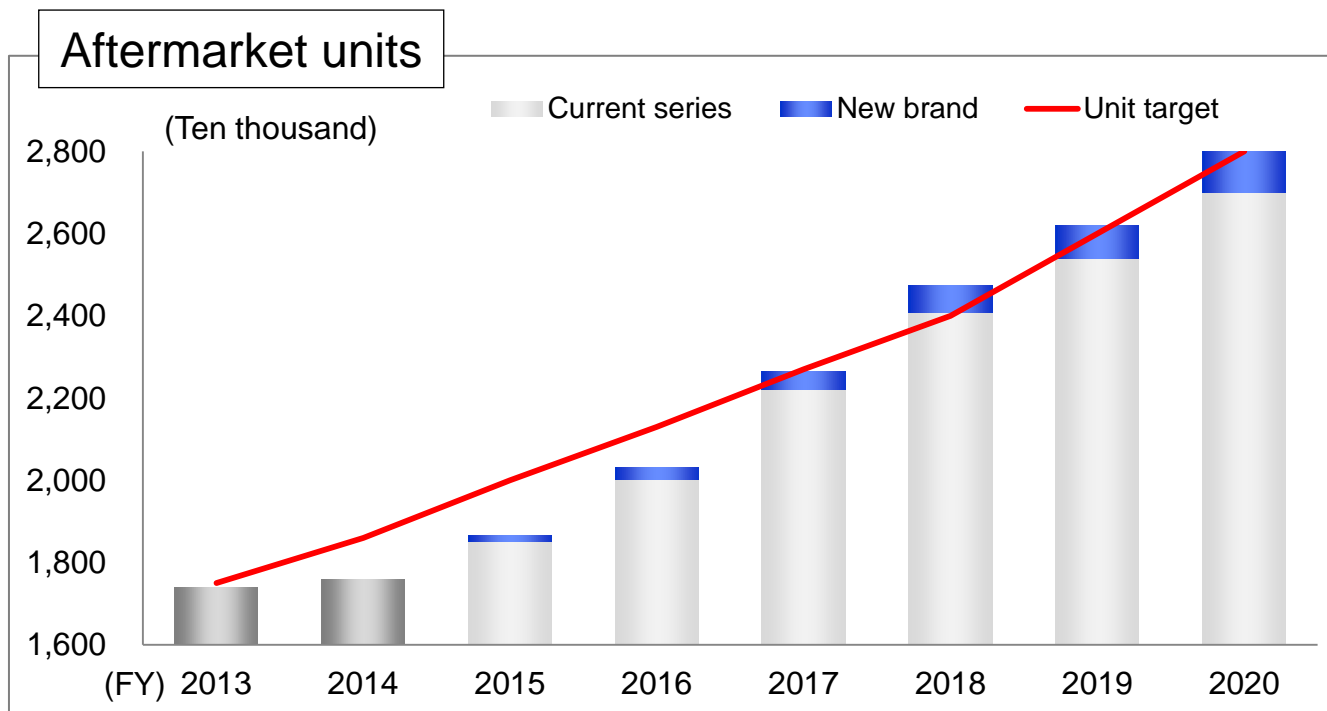
2017: approx. 2,780,000 (OEM approx. 1,700,000 + approx. 1,080,000 aftermarket)

2-5. Aftermarket Expansion

Automotive Shock Absorber Aftermarket Brand strategy



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Note: Figures for 2015 and after are estimates.

	Market scale	KYB's share	Vehicle model year
Current series	63,000,000	Approx. 30%	New – less than 10 years
New brand	19,000,000	Currently: 0% 2020 target: 10%	10 years or over
KYB SD-2 (tentative name)	Start of sales: End of 2015 (Planned) Sales regions: Start with the Americas, the Middle East, Asia, expand to Europe		

2-6. Developmental Experiment Center

- Strengthen product development
- Actual vehicle testing
- Create consistent evaluation system

- Testing, Faster development, Increased sophistication
- Aiming to be a proposal-based supplier

Systems Experiment Laboratory

(Operational as of March 2015)



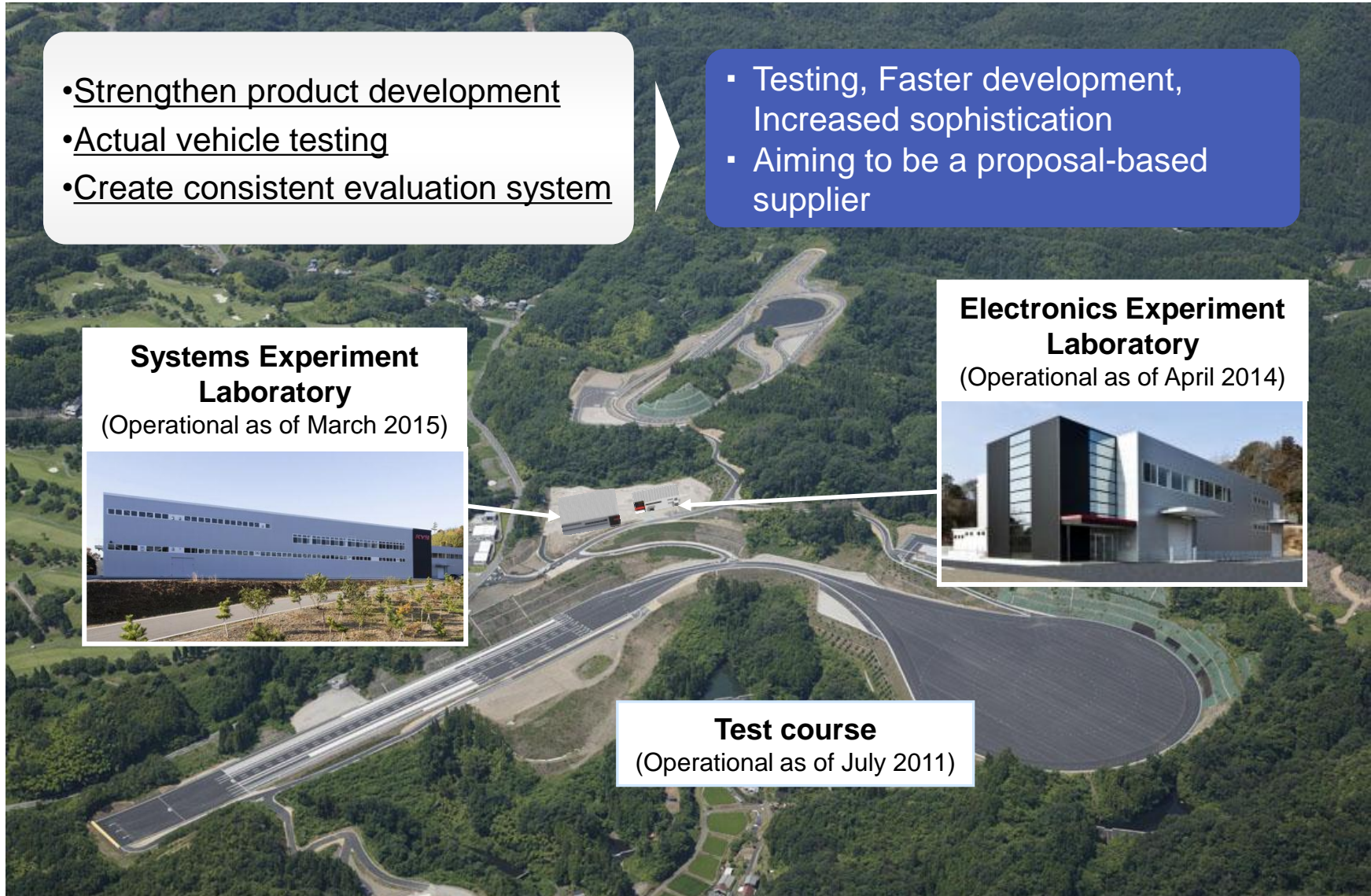
Electronics Experiment Laboratory

(Operational as of April 2014)



Test course

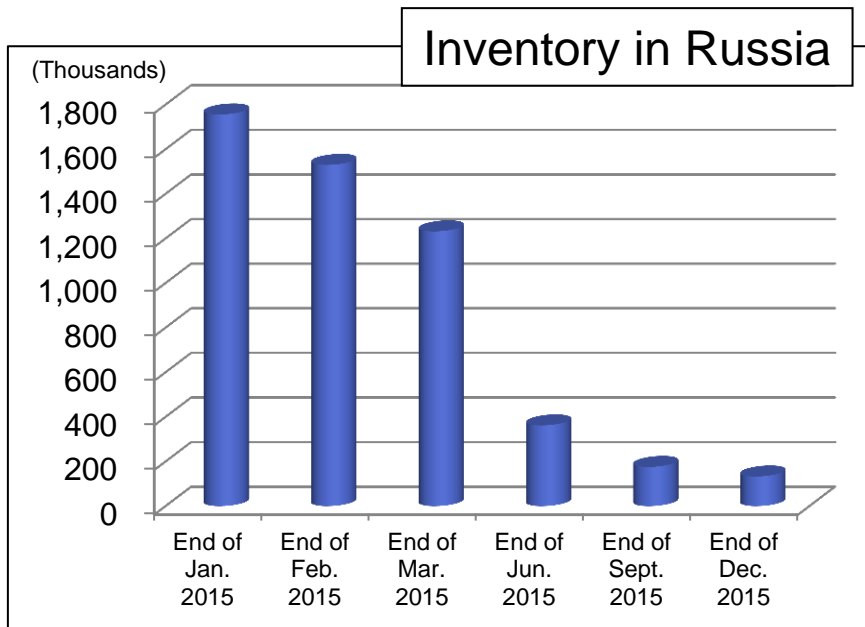
(Operational as of July 2011)



Please follow the projection material.

2-7. Currency Exchange Risk Reduction for Russia **KYB**

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FY 2014

The decline in value of the ruble has caused a foreign exchange loss on inventory in Russia.

■ Countermeasure

Inventory in the Moscow area will be returned to Europe, and shipped to customers at the rate prevalent at the time the order was placed.

→ Zero inventory in Moscow by the end of September

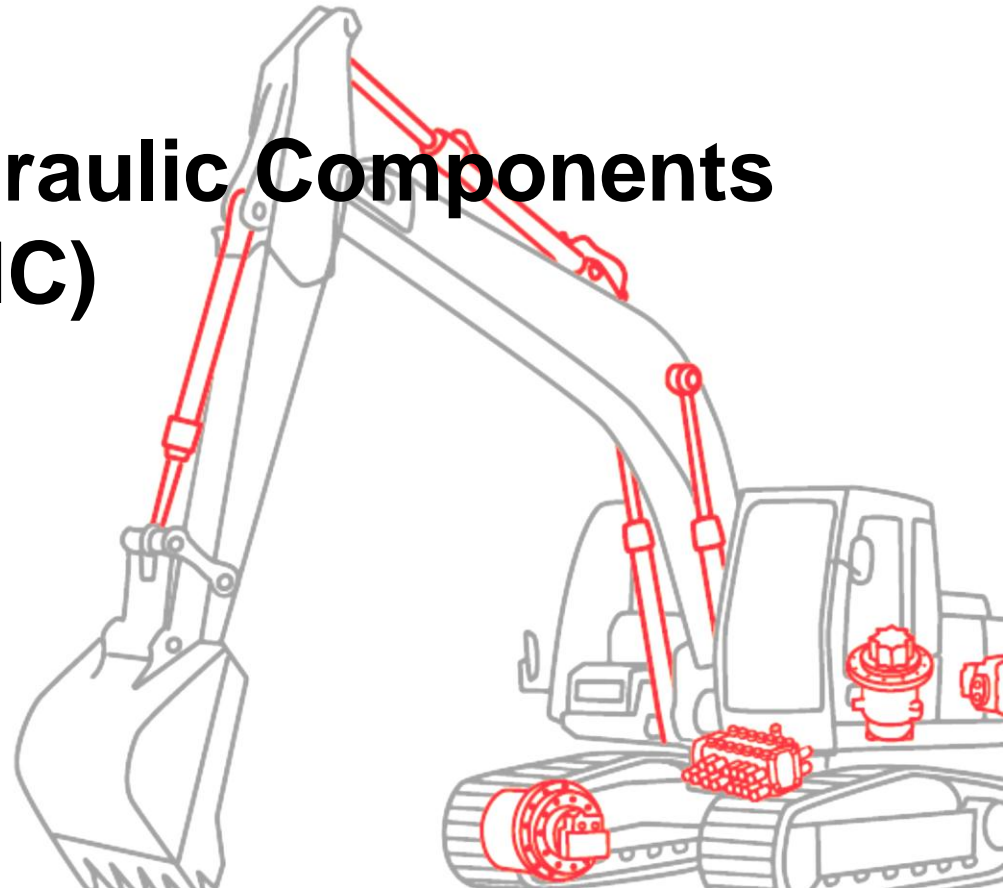
■ Distribution channels from May 2015





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3. Status for Hydraulic Components Operations (HC)



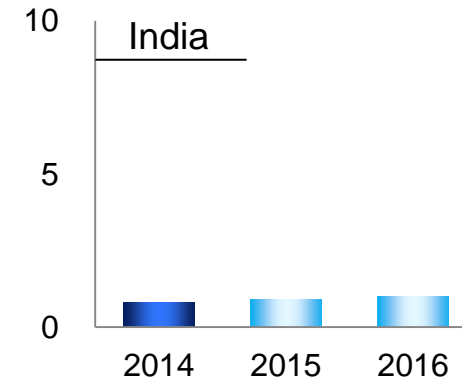
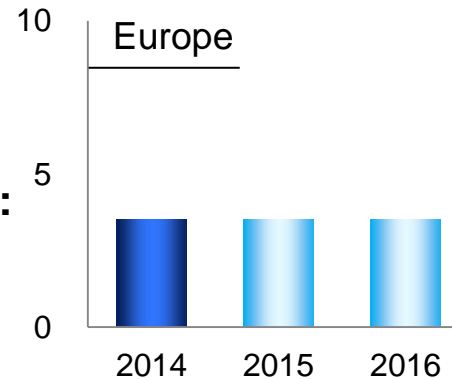
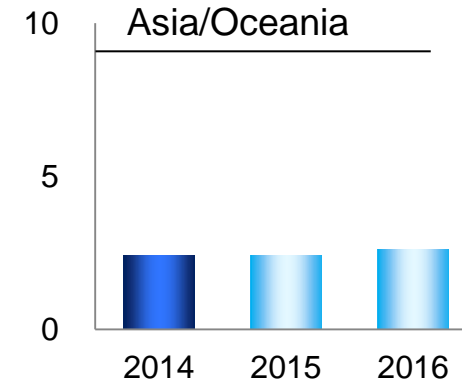
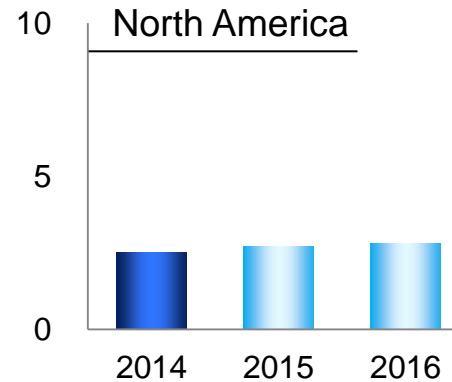
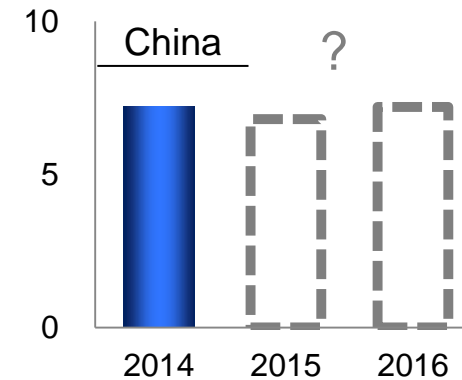
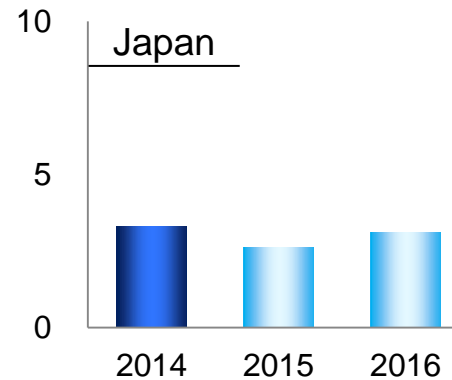
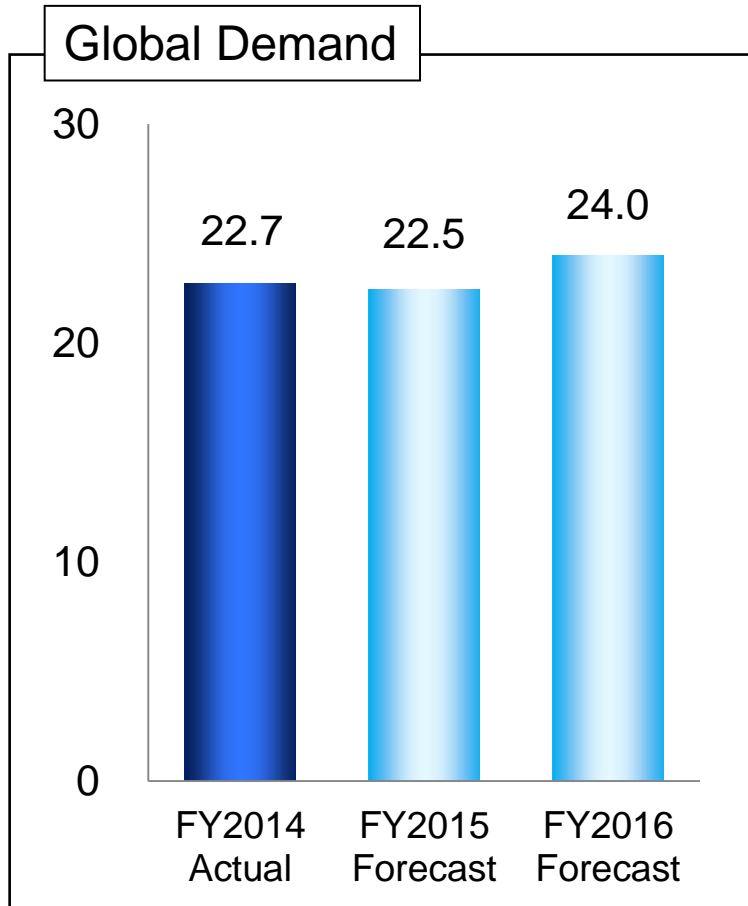
3-1. Market Environment

(Hydraulic excavators 6 tons and over)

Global Demand Forecast, by Region



(Ten thousand units)



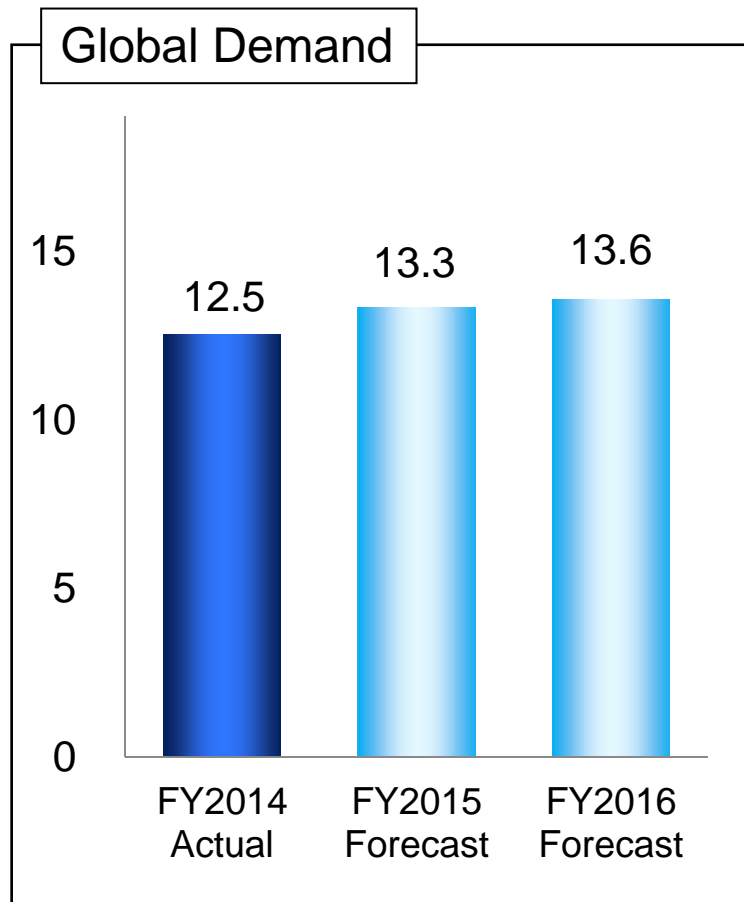
Hydraulic excavators 6 tons and over:
Influence of economic slowdown
in China and emerging economies

3-1. Market Environment

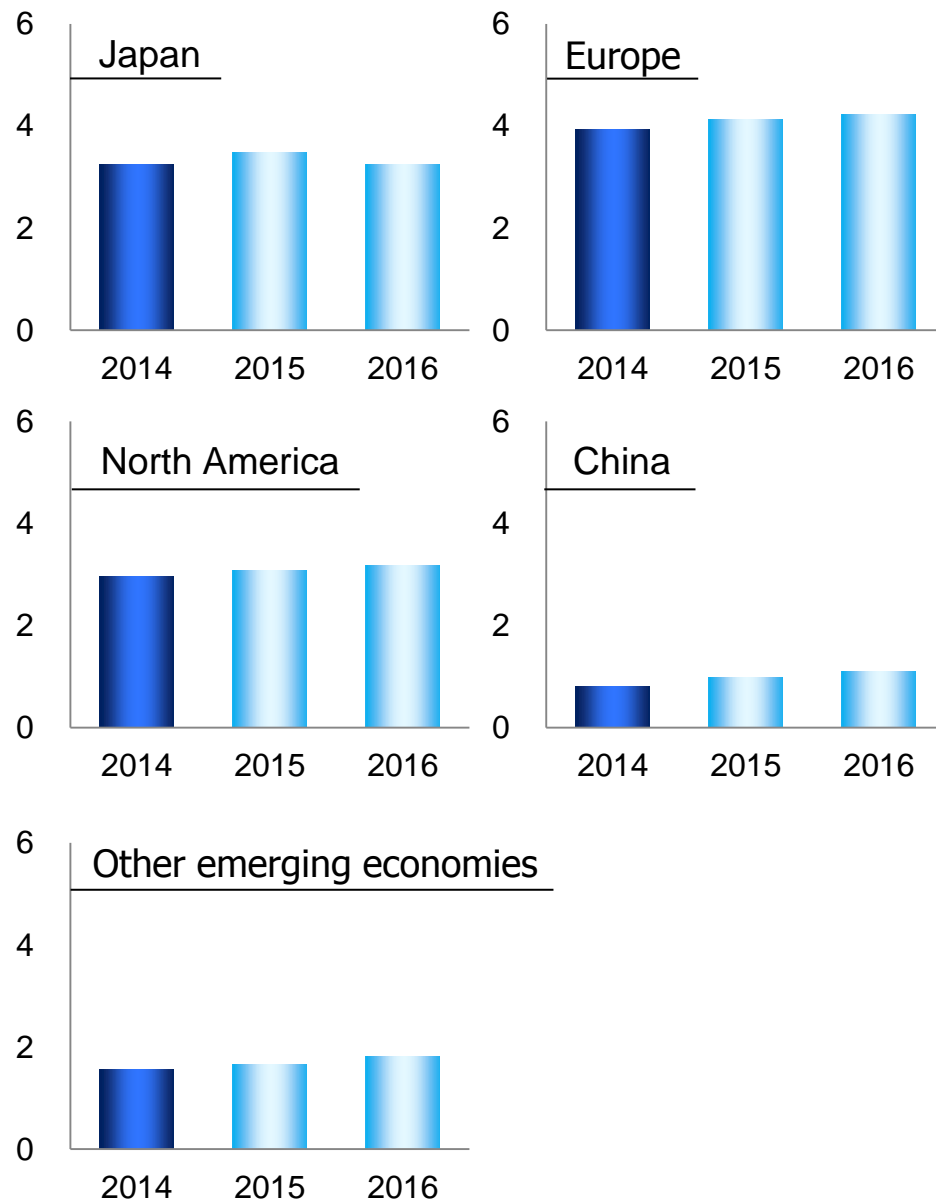
(Hydraulic excavators less than 6 tons)

Global Demand Forecast, by Region

(Ten thousand units)



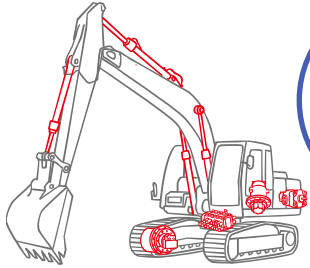
Hydraulic excavators less than 6 tons:
Firm market, particularly in Japan,
the U.S., and Europe



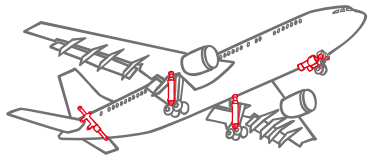
3-2. FY2015 Corporate Policy (HC Operations)



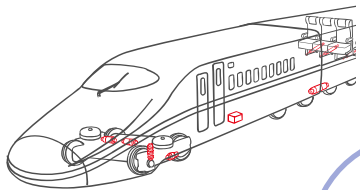
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Accomplish global cost and increase share to surpass competitors



Sales promotions to local manufacturers in China and creation of a flexible production system that can handle market deceleration



Globally development that crosses business divisions

(Sales promotions in Europe for gear pumps, agricultural machinery EPS)

Accelerate product development for new fields and quickly enter markets

(Quickly expand into the skid steer loaders and agriculture machinery market)

3-3. Accomplish Global Cost and Increase Share to Surpass Competitors



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■ Cost Reduction Targets

Product	FY2016 Target	Plan	Activities in FY2014
Cylinders	-30%	Cost reduction model development Local raw material cost reduction Promote in-house production	Complete local procurement excepting non-applicable material Domestic: Achieve FY 2014 cost targets China: Target not achieved due to PQ* reduction
Drive motors	-10%	Promote Group in-house production Increase local procurement Increase productivity	Progress with local procurement (currently 53%) Progress with group in-house production (Component manufacturing in Vietnam → Direct delivery to China)

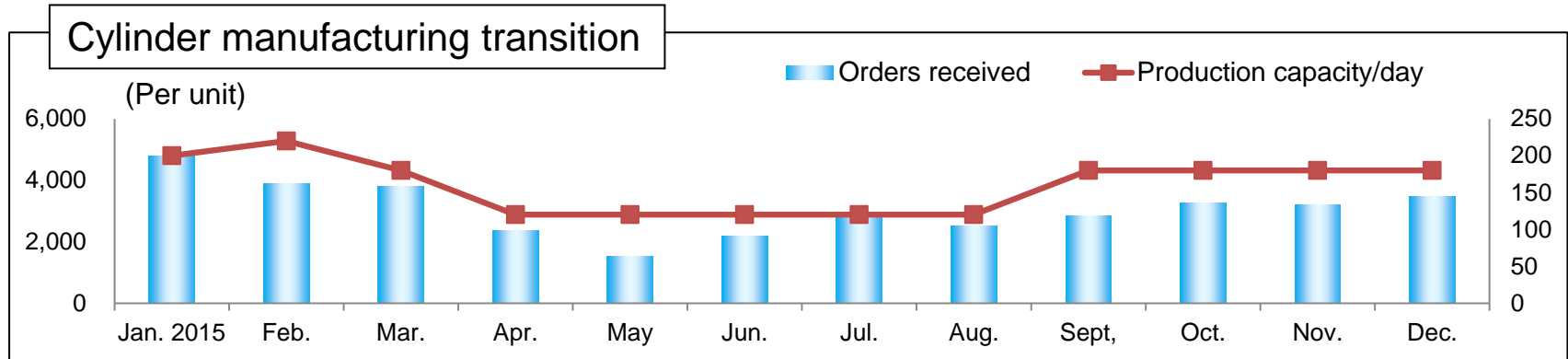
*PQ=production quantity

3-4. Sales Promotions to Local Manufacturers in China and Creation of a Flexible Production System that Can Handle Market Deceleration



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Creation of a flexible production system that can handle market deceleration



Countermeasures at KHIZ

- Fixed cost reduction, reduce working hour to cut production and line suspension (May to July: Total of 15 days)
- Additional working hour reductions will be planned in the next month when a decrease in production quantity is forecast.

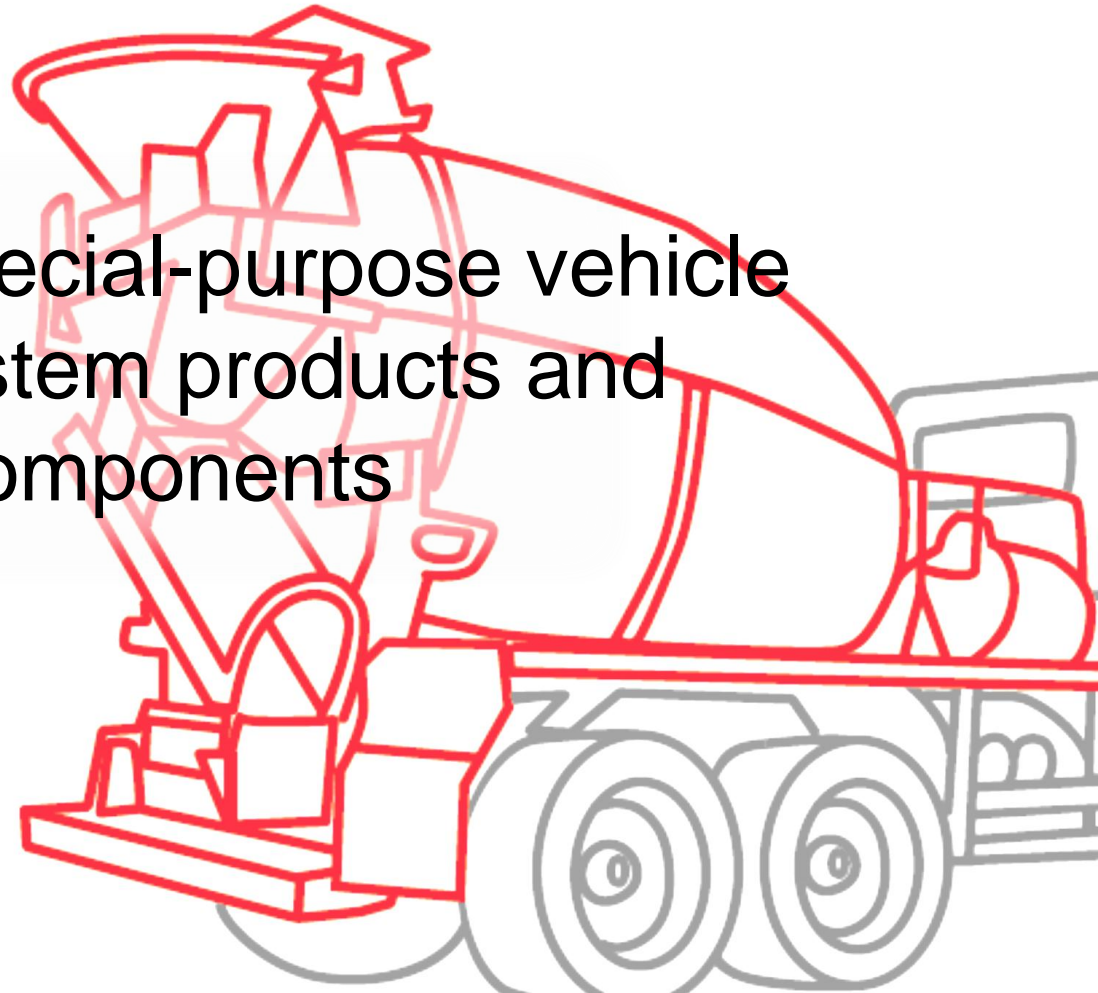
Sales promotions to local manufacturers in China

Product	FY2016 Target	Plan	FY 2014 Activities
Cylinders	3 companies	<ul style="list-style-type: none"> Increase share Cost reduction 	<ul style="list-style-type: none"> Goal not achieved, unchanged from 1 company Continue working to achieve medium-term target
Motors	12 companies	<ul style="list-style-type: none"> Increase share Cost reduction 	<ul style="list-style-type: none"> Introduce to local leading manufacturers (business expanded by 6 companies) Continue working to achieve medium-term target



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4. Status for Special-purpose vehicle business, system products and electronics components



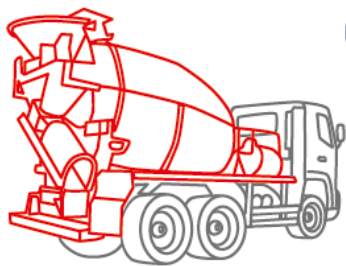
4-1. FY2015 Corporate Policy

(Special-purpose vehicle business, system products and electronics components)

KYB

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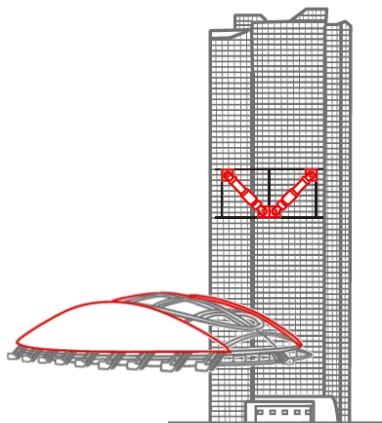
Special-purpose vehicle business



Establish production, sales and inventory system that can deal with domestic demand

Establish *monozukuri* in the Indian market

System products



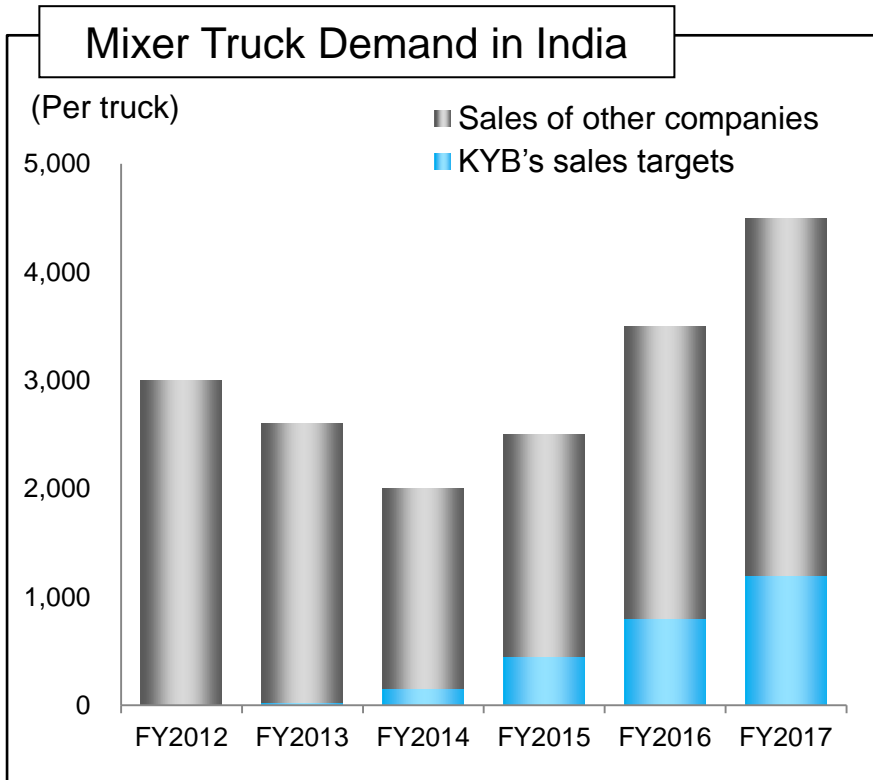
Orders related to Tokyo Olympics
(Stage, vibration control)

4-2. Special-purpose Vehicle Initiatives

(Establish *monozukuri* in the Indian market)

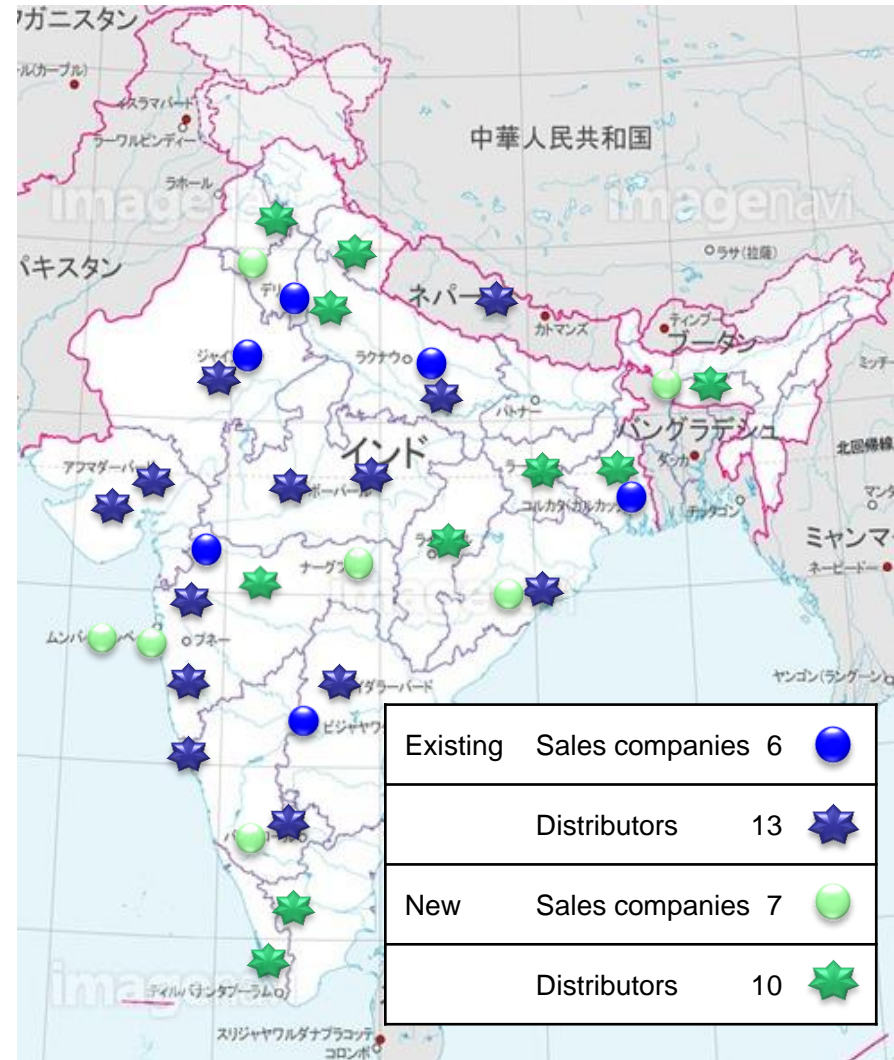


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- Mixer truck demand in India is forecast to recover in FY 2015.
- Aiming for profitability with mixer truck business in India in FY 2017.

KCPL sales network expansion



4-3. System Products Initiatives



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■ Major structures using KYB's vibration control systems



Building	Completed	Systems used
Earthquake resistance upgrade for Tokyo Metropolitan Government Buildings No. 1 and 2	2019	Vibration control dampers: 228
Toranomon Hills	May 2014	Vibration control dampers: 516
ABENO HARUKAS	Mar. 2014	Active mass damper (AMD): 2

■ One-of-a-kind products (Newly developed products)

High speed vibration oil damper: jointly developed with large general contractor → For use in Nakanoshima Festival Tower West (temporary name)

■ Receive Orders for Business Related to the Tokyo Olympics (Stage / vibration control equipment)

Demand for hotel and match facilities will hit stride in 2016 and thereafter

Lowering costs of seismic isolation and vibration control dampers is the key to increasing our share.



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5. Awards from Customers



5. Awards from Customers



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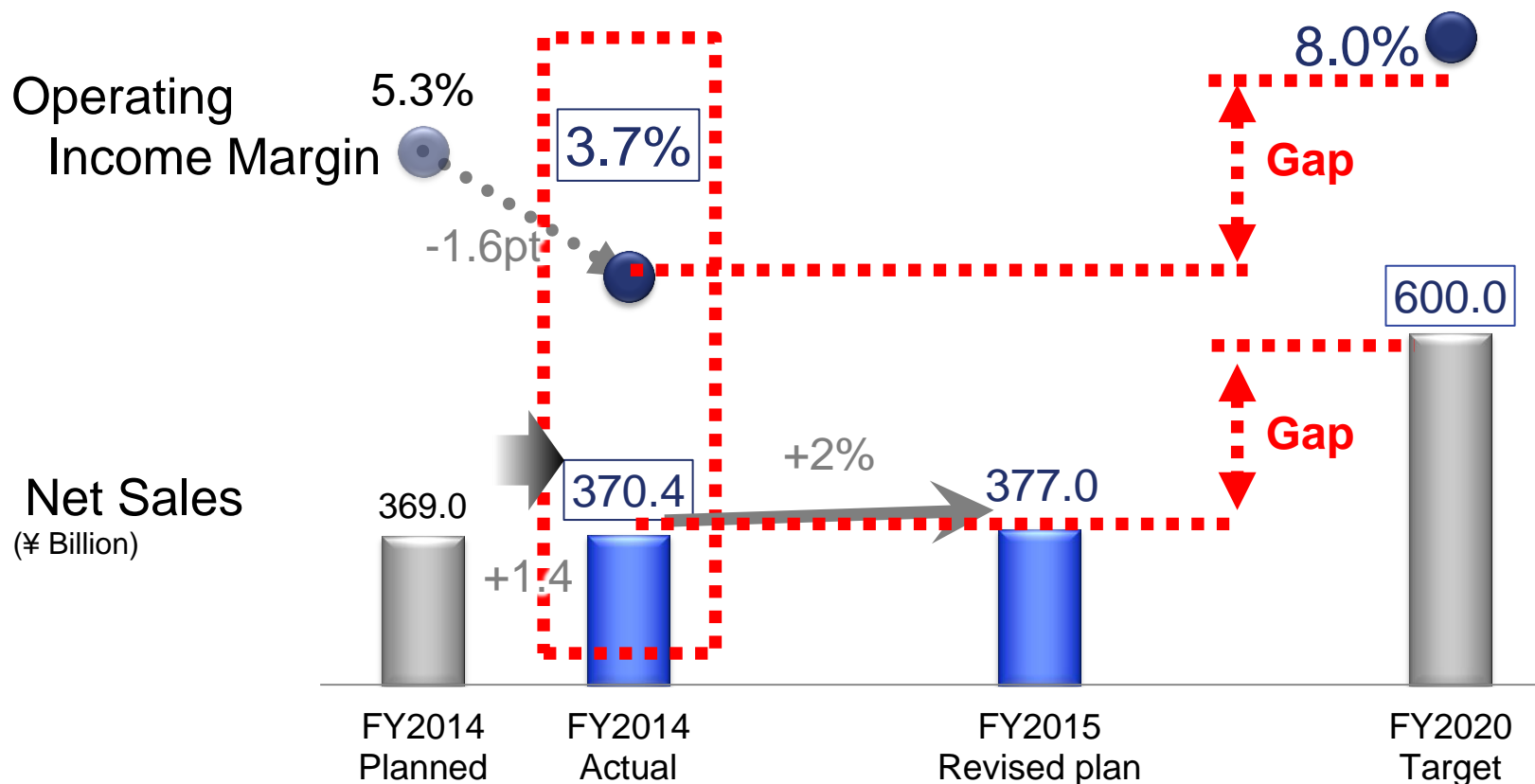
■ Awards from customers (Mostly FY2014, partial excerpt)

Customer	Award	Reason for Award
Suzuki Motor	Best Partner Award	Cooperation in cost reductions and contribution to product development
Mazda Motor	Quality award	Zero delivery problems for six continuous months
Toyota Motor	Certification of Appreciation	Reached cost reduction target for shock absorbers for Alphard and Vellfire models
PSA Peugeot Citroen	Best Supplier Plants	Achieved customer target value for FY 2014
Hitachi Construction Machinery	Excellent Supplier Award	Cost reduction, shortage rate, defect rate, manufacturing support for overseas expansion
Yanmar	Customer Results Evaluation Award	Zero claims during start-up of new equipment model, 25% cost reduction
Sany Heavy Industry	Eligible Supplier Award	Competitive QCD proposal and contribution to start-up of new model
Japan Construction Machinery and Construction Association	Contribution Award	Arch segment assembly equipment (Jointly awarded with Metropolitan Expressway Company Limited and Hazama Ando Corporation)

FY2015 Corporate Strategy

Earning trust and orders from customers around the world

— **Narrow down important business tasks, complete them thoroughly** —





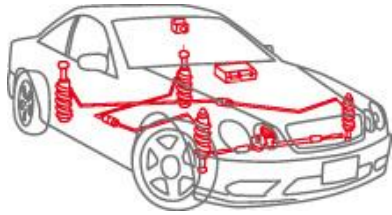
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Cautionary Statement

This 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.

For further information, please contact to:

Mr. Takada
Investor Relations Sect., Finance Dept.
Tel: +81-3-3435-3580



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Financial Information for FY2014

May 15, 2015

Takaaki Kato

Deputy Chief Financial Officer,
Finance & Accounting Div.

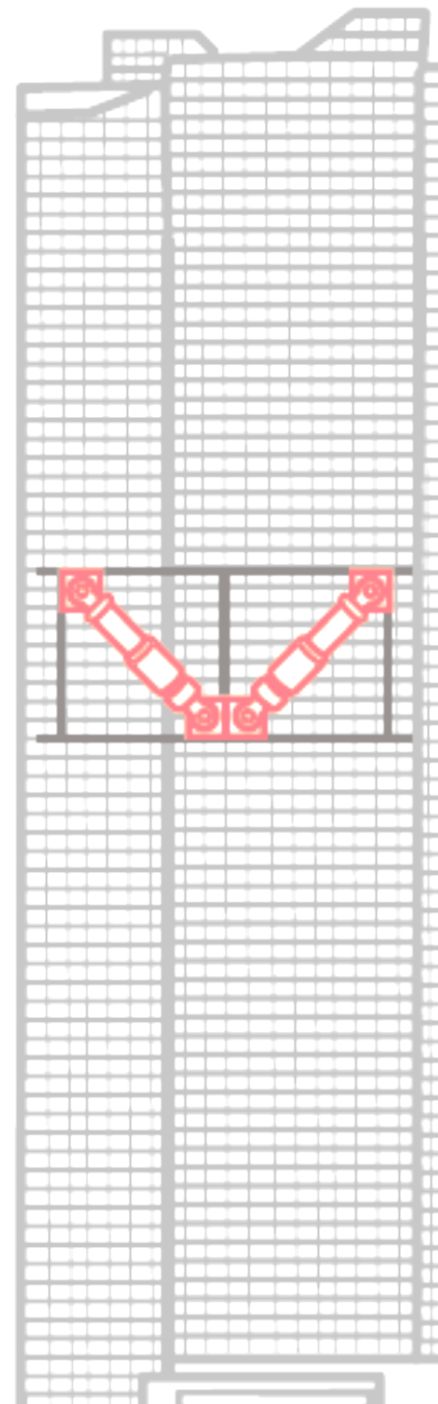
Senior Managing Executive Officer
KYB Corporation



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1. Financial Information for FY2014

- Notes: 1. FY2014 = Year ended March 31, 2015
2. All figures are rounded down to the nearest hundred million yen



1-1. Consolidated Financial Performance for FY2014 (1)



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(¥ Billion)

	FY2013	FY2014		Differences	
	Actual	Forecast (Feb. 2, 2015)	Actual	Previous period	Previous forecast
Net Sales	352.7	369.0	370.4	17.7	1.4
Operating Income	18.2	16.6	13.6	(4.6)	(3.0)
Ordinary Income	20.4	17.9	15.9	(4.5)	(2.0)
Net Income	12.8	10.8	7.1	(5.7)	(3.7)
Net Income per Share (¥)	55.26	42.27	27.60	(27.66)	(14.67)

■ FOREX (Average)

(¥)

	FY2013	FY2014
JPY / US\$	100.24	109.93
JPY / EUR	134.37	138.77

1-2. Consolidated Financial Performance for FY2014 (2)

■ Causes of fluctuation in net sales

■ Automotive Components Operations



Sales increased with firm orders for OEM automotive shock absorbers



Rising sales of EPS also boosted sales

■ Hydraulic Components Operations



Sales decreased for hydraulic excavator components due to the slowing market in China



Sales increased for components for mini-excavators due to a recovery trend in North America and Europe



Sales increased for railway products for the China market

■ Special-purpose Vehicle Business, System Products and Electronics Components





Sales increased for concrete mixer trucks due to earthquake recovery demand

1-3. Consolidated Financial Performance for FY2014 (3)

■ Causes of fluctuation in operating income

-  **Increase in personnel expenses** ¥5.4 billion
Major factor: Increase in temporary personnel necessitated by increase in domestic and overseas demand
-  **Increase in R&D expenses** ¥2.0 billion
Major factor: Newly established Developmental Experiment Center
-  **Increase in provision for product warranties** ¥0.9 billion
Major factor: automotive shock absorbers (KMCZ, KYBSE)

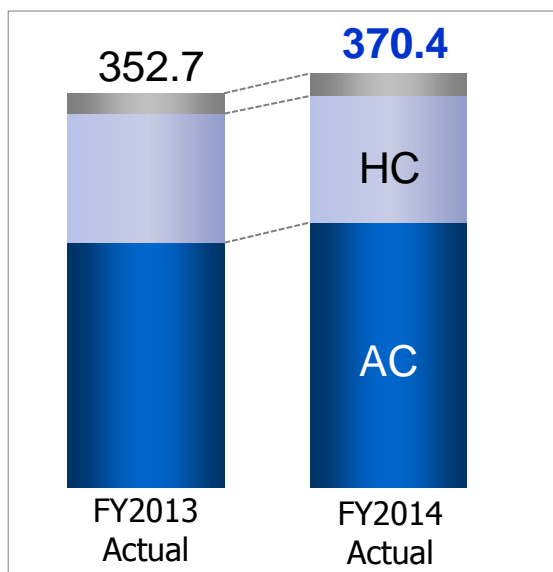
■ Causes of fluctuation in net income

-  **Gain on currency exchange due to lower yen** ¥0.7 billion
-  **Loss on impairment fixed assets** ¥1.7 billion

1-4. Consolidated Financial Performance for FY2014 (4)

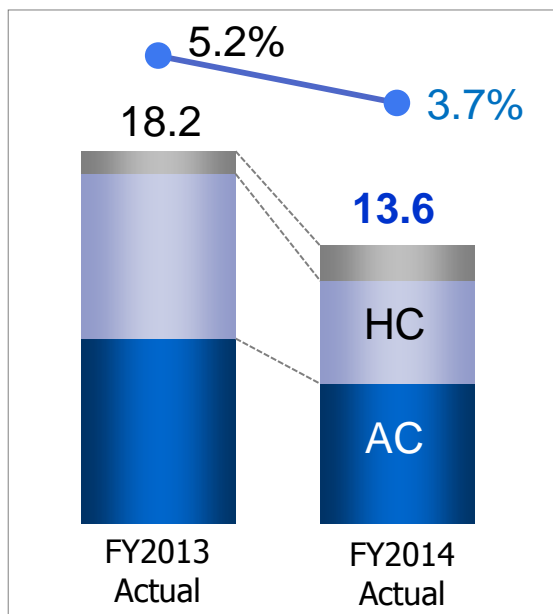


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Net Sales (¥ Billion)

	FY2013	FY2014	Differences
	Actual	Actual	
AC Operations	218.9	237.1	18.1 / 8.3%
HC Operations	115.5	113.2	(2.3) / (2.0%)
Special-purpose Vehicles and Systems	18.3	20.1	1.8 / 10.1%
Total	352.7	370.4	17.7 / 5.0%



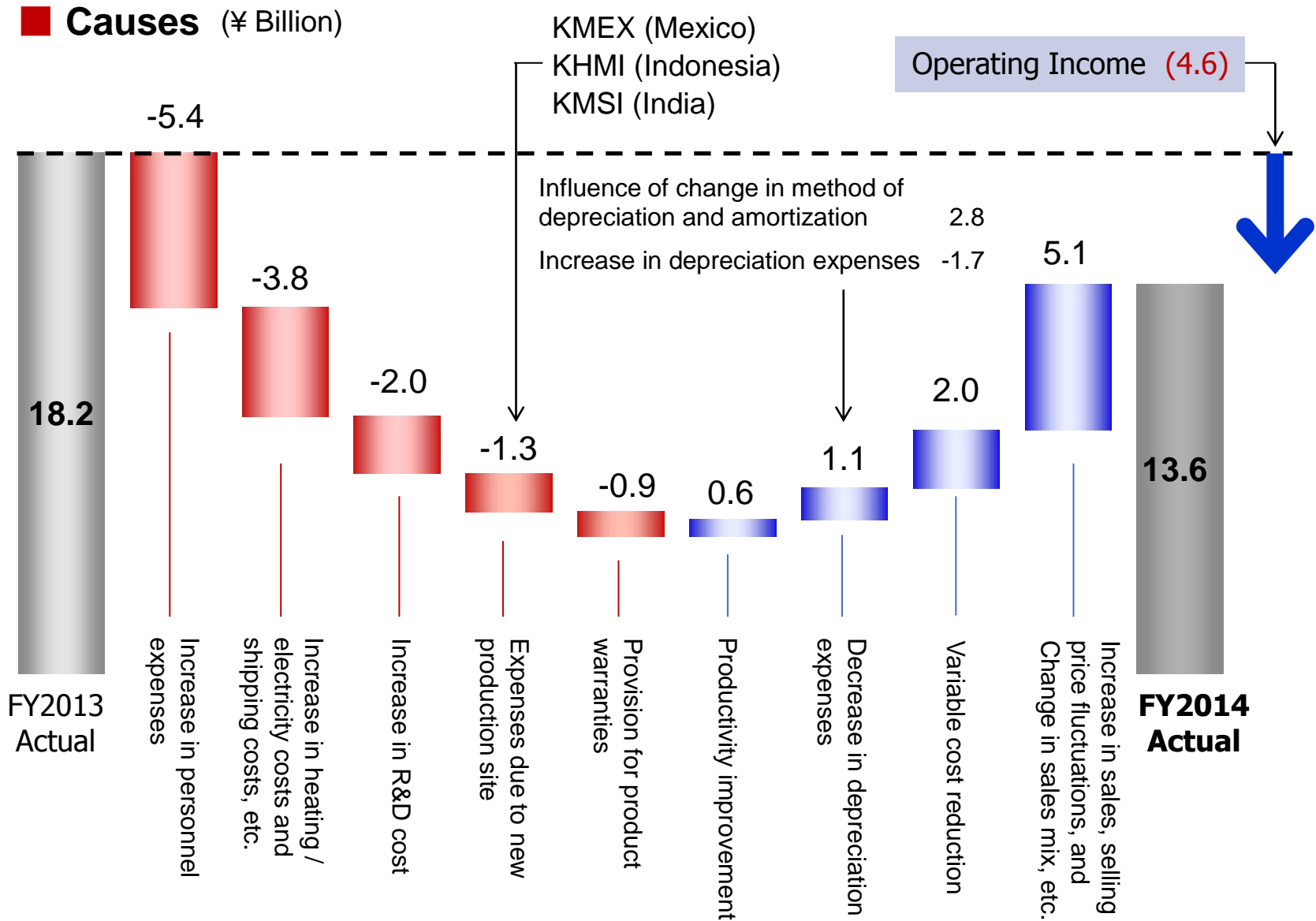
Operating Income (Margin) (¥ Billion)

	FY2013	FY2014	Differences
	Actual	Actual	
AC Operations	9.1	6.9	(2.2) / (23.6%)
HC Operations	8.0	5.0	(3.0) / (37.3%)
Special-purpose Vehicles and Systems	1.1	1.7	0.5 / 48.0%
Total	18.2	13.6	(4.6) / (25.2%)

1-5. Analysis of Consolidated Operating Income for FY2014



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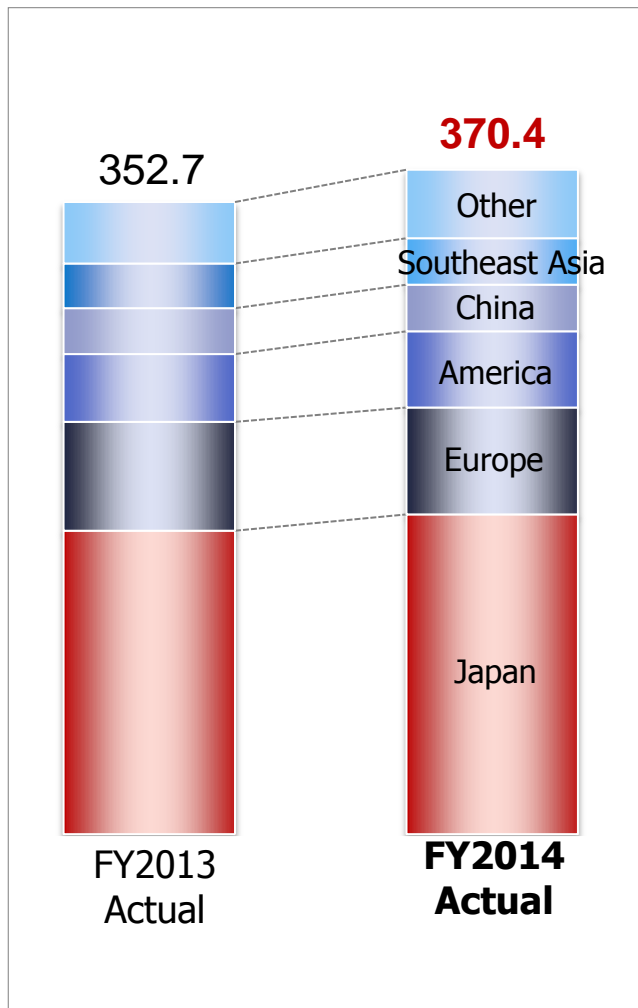


1-6. Consolidated Net Sales for FY 2014



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■ Net Sales by Region (¥ Billion)



	FY2013	FY2014	Differences
	Actual	Actual	
Japan	169.2	178.3	5.4%
Europe	60.7	59.6	(1.8)%
America	37.8	42.5	12.4%
China	25.6	26.0	1.6%
Southeast Asia	24.9	25.9	4.0%
Other	34.3	38.2	11.4%
Total	352.7	370.4	5.0%

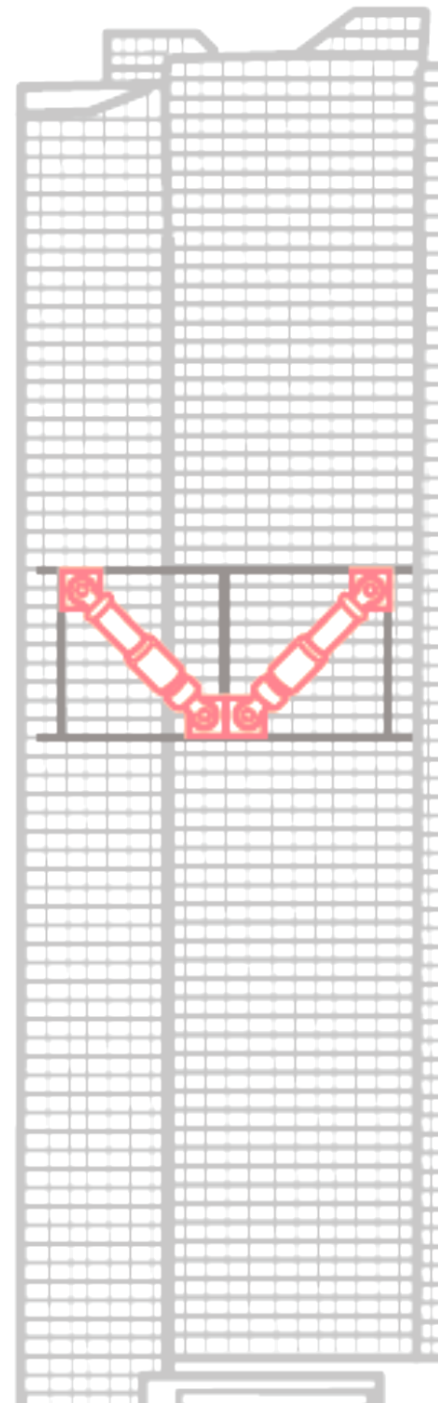
Overseas Sales Ratio

52.0% → 51.9%



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2. Consolidated Financial Forecast for FY2015



2-1. Consolidated Financial Forecast for FY2015 (1)



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(¥ Billion)

	FY2014	FY2015			Differences
	Actual	1H Forecast	2H Forecast	Forecast	
Net Sales	370.4	181.0	196.0	377.0	6.6
Operating Income	13.6	5.5	8.2	13.7	0.1
Ordinary Income	15.9	5.8	8.6	14.4	(1.5)
Net Income	7.1	3.7	5.5	9.2	2.1
Net Income per Share (¥)	27.60	14.48	21.53	36.01	8.41

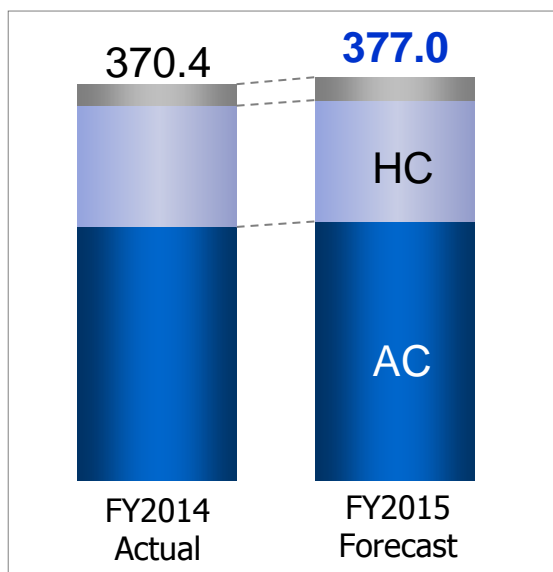
■ FOREX (Average) (¥)

	FY2014 Actual	FY2015 Forecast
JPY / US\$	109.93	115.00
JPY / EUR	138.77	125.00

2-2. Consolidated Financial Forecast for FY2015 (2)

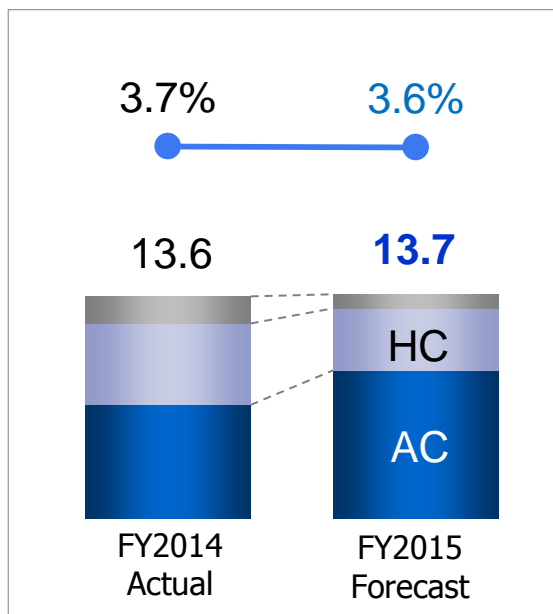


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Net Sales (¥ Billion)

	FY2014	FY2015	Differences
	Actual	Forecast	
AC Operations	237.1	242.3	5.2 / 2.2%
HC Operations	113.2	113.3	0.1 / 0.1%
Special-purpose Vehicles and Systems	20.1	21.4	1.3 / 6.6%
Total	370.4	377.0	6.6 / 1.8%



Operating Income (Margin) (¥ Billion)

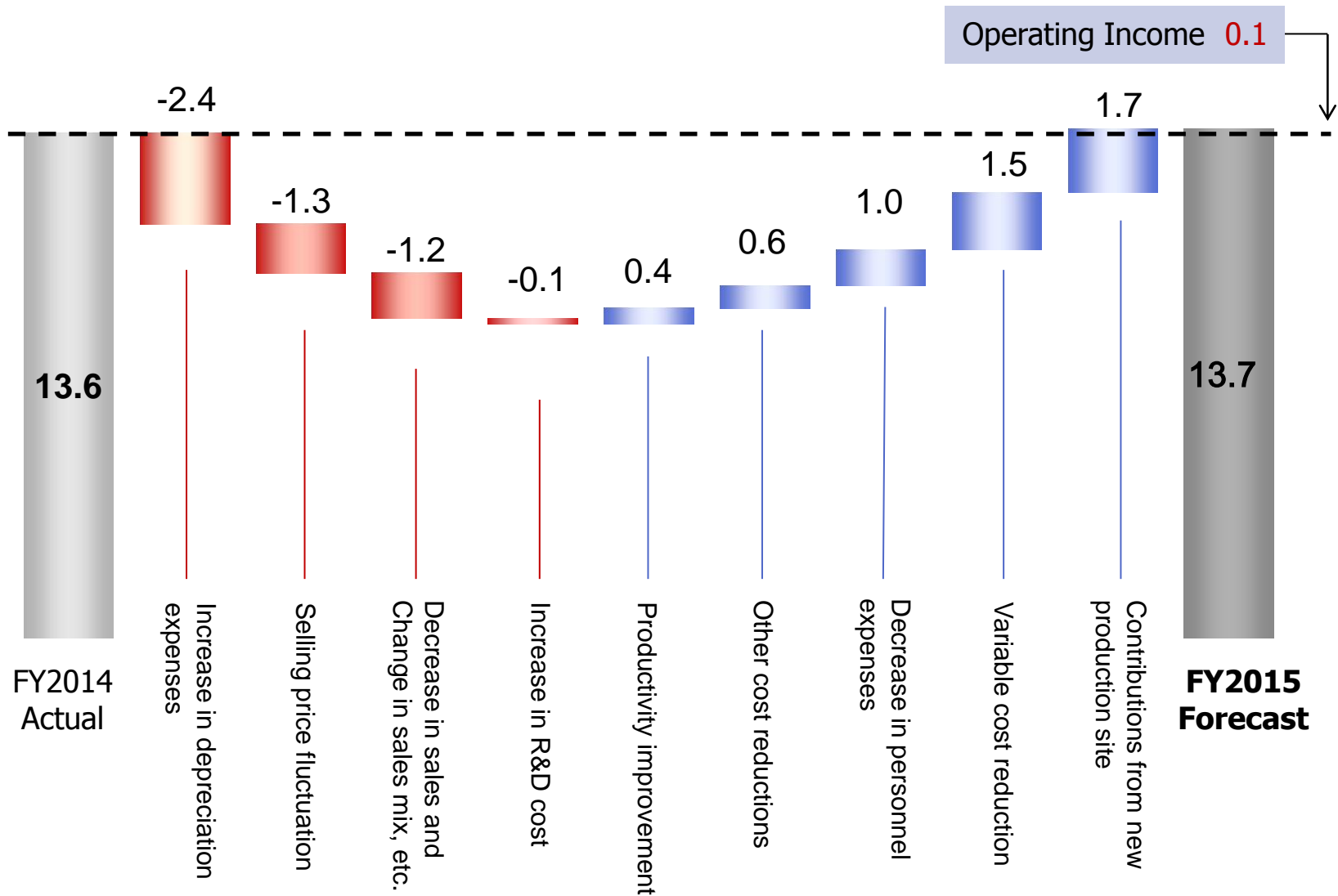
	FY2014	FY2015	Differences
	Actual	Forecast	
AC Operations	6.9	9.0	2.1 / 30.5%
HC Operations	5.0	3.8	(1.2) / (24.3%)
Special-purpose Vehicles and Systems	1.7	0.9	(0.8) / (47.9%)
Total	13.6	13.7	0.1 / 0.8%

2-3. Analysis of Consolidated Operating Income for FY2015



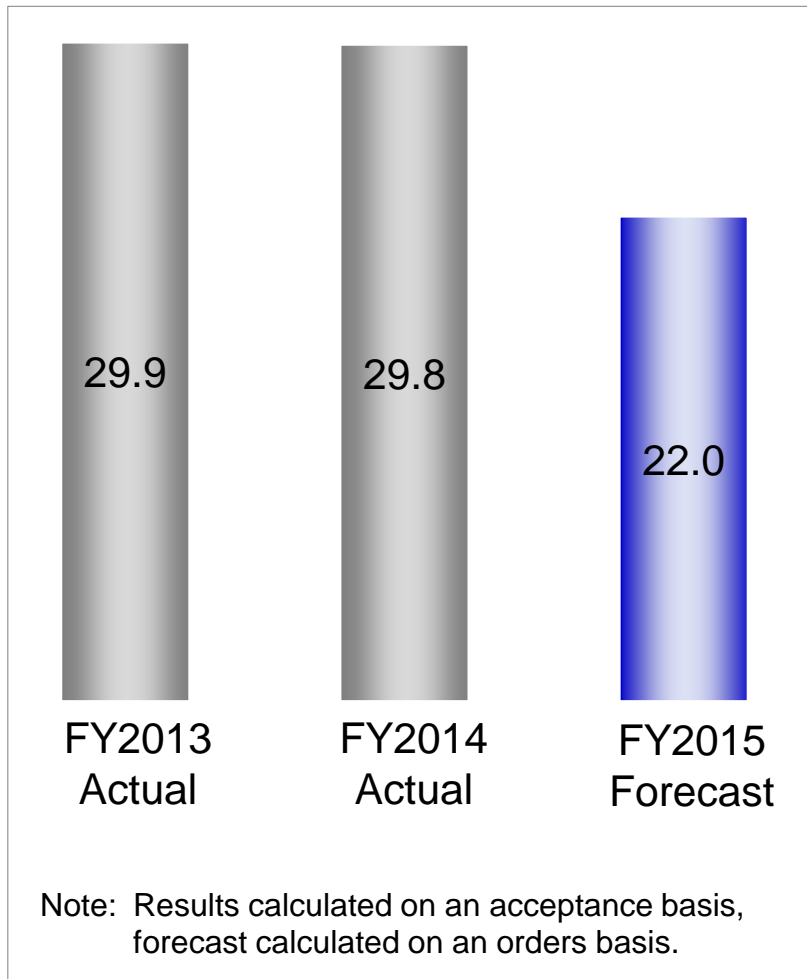
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■ **Causes** (¥ Billion)



2-4. Capital Expenditures

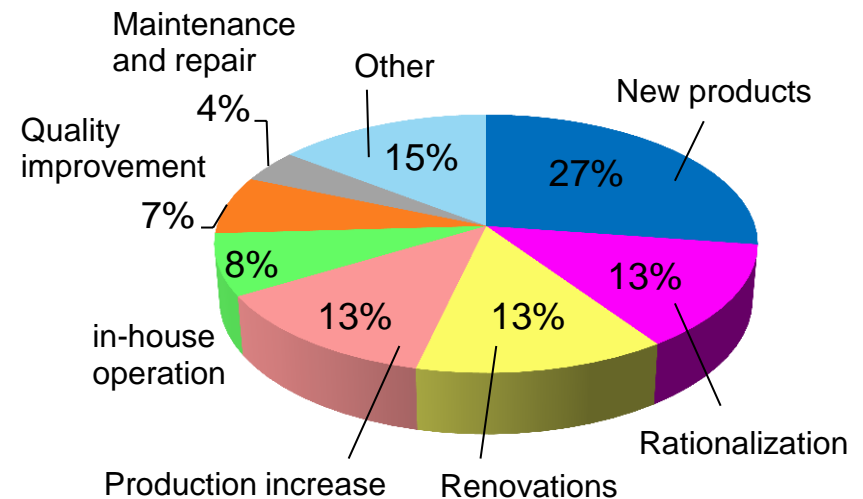
■ Capital Expenditures for FY2015 (¥ Billion)

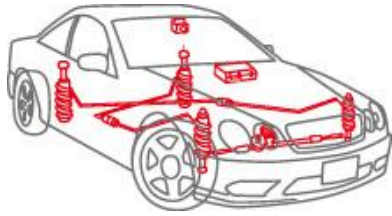


■ Major capital expenditure items

- Mexico: Shock absorber plant production equipment
- U.S.: Aftermarket line expansion
- Vietnam: Production equipment for new product

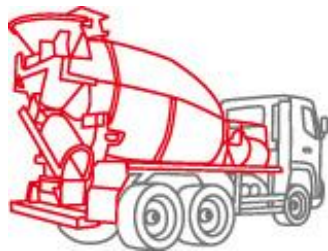
■ Capital investment breakdown





KYB

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Thank you

For further information, please contact to:

Mr. Takada
Investor Relations Sect., Finance Dept.
Tel: +81-3-3435-3580



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Cautionary Statement

This 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.