November 11, 2016

KYB Corporation

Stock Code: 7242; First Section of Tokyo Stock Exchange

Meeting Material for 1H of FY2016 Briefing—Question and Answer Session

Date: Friday, November 11, 2016

KYB panel: Yasusuke Nakajima, Representative Director, President Executive Officer
Takaaki Kato, Member of the Board of Directors, Senior Managing Executive Officer
Keisuke Saito, Member of the Board of Directors, Senior Managing Executive Officer
Masao Ono, Senior Managing Executive Officer

1. Demand for Hydraulic Excavators Forecast

Q. Please tell us about your forecast for global excavator demand in fiscal 2017 and onward, particularly for developing countries.

A. The volume of construction work in China is rising, and we sense that the market has bottomed out. In developing countries, particularly India, infrastructure investment is favorable, so we expect further growth. Looking at other regions, we have a positive outlook for Europe, including the southern part of the continent. In North America, public investment is trending downward, so we anticipate slack demand. In Japan, inventory adjustments are complete, and we anticipate a slight recovery.

2. Inventory at excavator manufacturers in China

Q. Please tell us about current inventory levels at excavator manufacturers in China.

A. The general sense in the market is that production amounts are increasing, including for local manufacturers. We're receiving many inquiries, and our production schedule is filling up. As for inventory levels, a sudden demand decrease for five to six months in the previous fiscal year left construction machinery makers with some excess inventory, but it decreased to a reasonable level in two months, and we can see production and sales following suit.

3. Exchange rate sensitivity

Q. Please tell us about your exchange rate sensitivity.

A. For USD, ¥150 million per year, for Euro, ¥40 million per year, for Yuan, ¥110 million per year. (Reflects influence on segment profits when moving ¥1 each.)

4. Second Half Plan for AC Operations

Q. Compared to the first half results, segment profits in the second half are decreasing. What is the cause of this?

A. There is a growth trend in the aftermarket business during every first quarter. Furthermore, there is an emerging sense of stagnation for the aftermarket business in the previously favorable Middle East and Africa markets, caused by the effects of the exchange rate and the declining price of crude oil. Therefore, we have forecast that sales and profits will not grow much during the second half of the current fiscal year.

5. Market share and production capacity of HC Operations

Q. By reducing your cylinder production capacity, is there any possibility that KYB will have insufficient capacity when the market rebounds?

A. Our production capacity before the reduction was put in place to respond to the sudden boom that was forecast in the China market during 2010 and 2011. As our current forecast does not foresee overall global demand reaching that level, we believe we have retained sufficient production capacity.

6. Situation with the EPS Business

Q. To what degree is the EPS business becoming a hindrance in your current business outlook?

A. We cannot offer specifics as this question involves customers, but we can say that EPS is an indispensable technology as we move into the era of automatic vehicle operation. As such, we shall continue this business and have no intention of altering our plans.
We will explain this in greater detail in the medium-term management plan scheduled for release in May of next year.

7. Cylinder production volume

Q. Please tell us the results and forecast for cylinder production volume by plant for the previous fiscal year.

A. There was a year on year increase at our China plants, and we are making progress toward our initial plan of 3,000 units per month. Our domestic plants are increasing to 8,000 units per month.

Our Precision, Your Advantage

8. Effects of business structural reforms

Q. Please tell us about the results of the business structural reforms implemented in China in the previous fiscal year. Also, please tell us about your progress with reducing personnel by 200. Will this includes personnel on production line?

A. Looking at results, we have cut approximately ¥300 million in the first half of FY2016 compared to the previous fiscal year. We forecast a result of ¥500 to ¥600 million for the entire fiscal year.

In personnel reductions at our China plants, we reduced positions by 100 in the previous fiscal year, and the remaining 100 are planned for this fiscal year. Reductions for personnel on production line have already been carried out, and this year we plan to streamline back office sections by integrating plants.