



Meeting Materials for First-Half of FY2018

November 9, 2018

KYB Corporation
(Stock Code: 7242; First Section of Tokyo Stock Exchange)

About nonconforming acts in the inspection process for seismic isolation/mitigation oil dampers for buildings



Our Precision, Your Advantage

It has come to light that some of our seismic isolation/mitigation oil dampers products that do not conform to performance evaluation standards approved by the Ministry of Land, Infrastructure, Transport and Tourism (MLIT), or the standards of our customers where installed in buildings through falsification of performance inspection record data.

We deeply apologize for all concerns and inconvenience this may bring to the owners, residents, and construction and design companies of the Target Properties.

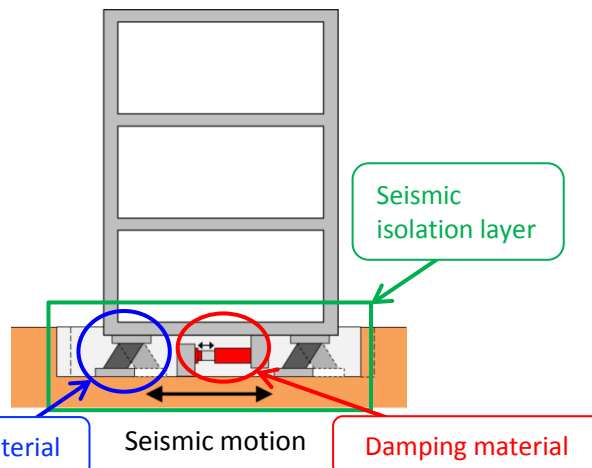
About nonconforming acts in the inspection process for seismic isolation/mitigation oil dampers for buildings



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Seismic isolation/mitigation

Seismic isolation

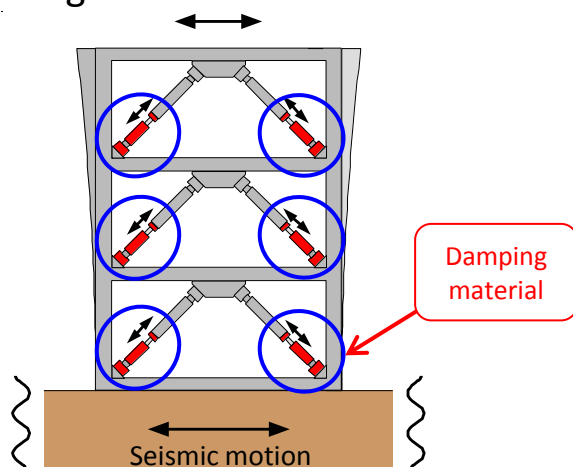


Structure that prevents transmission of underground vibrations by establishing a **seismic isolation layer** and connecting the building to the ground using **support materials** and assisting **damping materials**.

Support materials made of laminated rubber, etc. prevent the transmission of power to the building by being deformed by the power of the ground and moving horizontally.

Depending on the scale and structure of a building, **damping materials** such as oil dampers are added to support materials, thereby curtailing vibration and excessive deformation of the seismic isolation layer.

Seismic mitigation



Structure that mitigates vibration of the building by wind or earthquake through the placement of **damping materials** on each floor.

Damping materials such as oil dampers mitigate vibration by absorbing power from the wind or an earthquake, therefore curtailing the deformation of each floor of the building.

About nonconforming acts in the inspection process for seismic isolation/mitigation oil dampers for buildings



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How the incident happened

- If a product failed to meet the standard values during the performance inspection process, the products were dismantled and adjusted until they were within those values. However, the numbers that did not meet the standard values were falsified and presented on the inspections record.

The number of nonconforming and unknown products

(As of November 2, 2018)	Nonconforming products *1		(3) Unknown (including those for which surveying is continuing)*2	(1)-(3) Total
	(1) Nonconforming to certification by Minister	(2) Out of customer standards		
Seismic isolation oil damper	499	1,912	5,139	7,550
Seismic mitigation oil damper	—	146	3,232	3,378
Total	499	2,058	8,371	10,928

*1 There is no minister certification system for seismic mitigation oil dampers.

*2 Investigation is continuing on products for which the falsification of performance inspection record data cannot be currently confirmed.

Verification of safety

- Based on the instructions from MLIT, of the nonconforming products we have selected seven properties that have oil dampers particularly different from the standard values, and performed safety verification (structural calculation) through a third party.
- We confirmed that our products can sufficiently withstand earthquakes with a seismic intensity ranging from upper 6 to about 7.

About nonconforming acts in the inspection process for seismic isolation/mitigation oil dampers for buildings



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How we will respond

- Set up an internal task force led by the President and an external examination committee, investigate all facts of the case and analyze the causes.
- Upon exchanging opinions and making adjustments with all affected parties (such as owners, residents, construction companies and building designers), we will basically replace nonconforming products and products for which it is not clear if the data was falsified.

Impact on performance

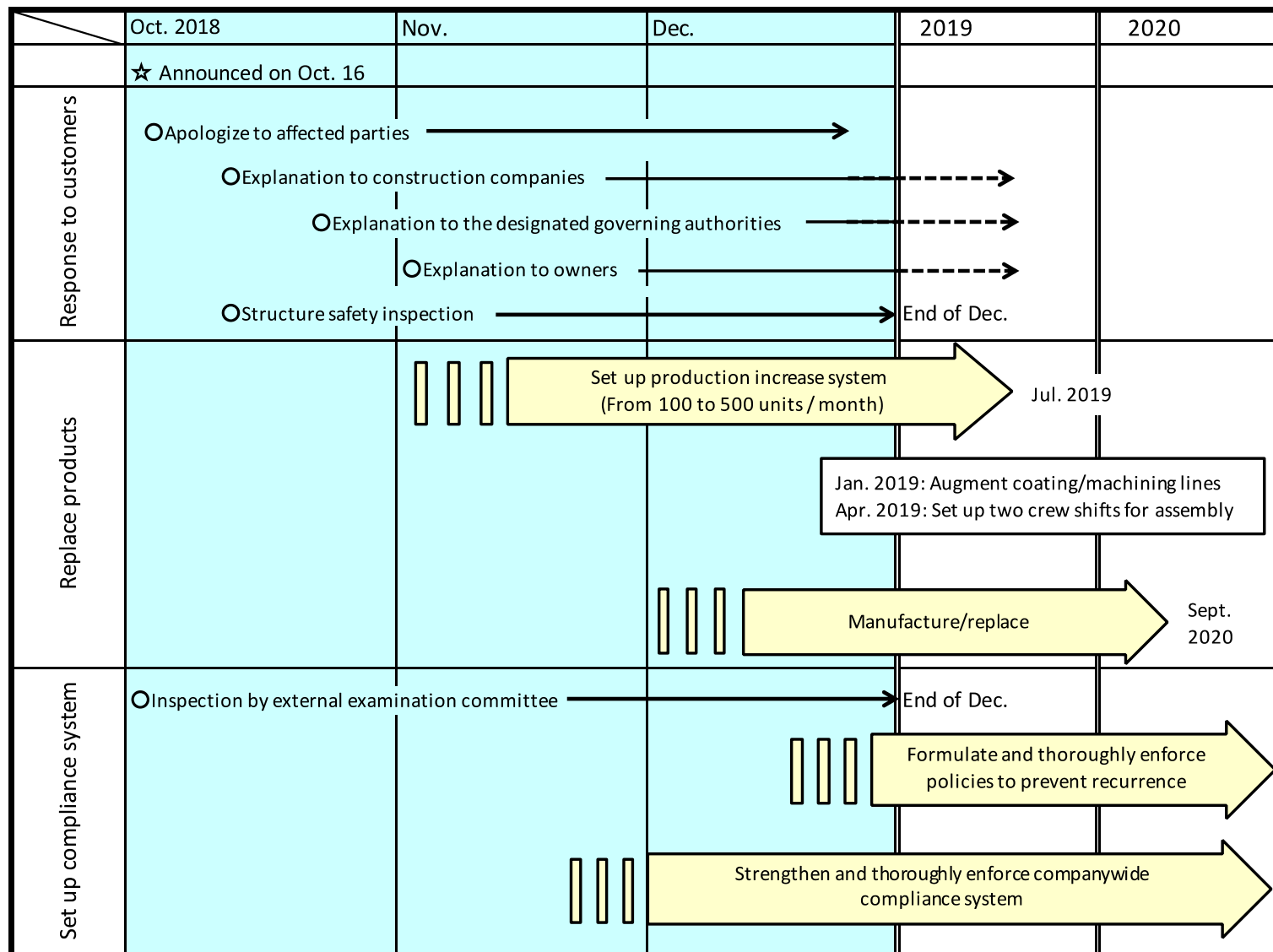
- Recording cost of the provision for product warranties related to the incident at **¥14,425 million** in the 1H of FY2018.
- The amount mentioned above is calculated based on the total of 10,928 nonconforming products and products for which conformance is unknown (seismic isolation: 7,550, mitigation: 3,378) (as of November 2).
- At present, we are accounting only for potential costs that can be credibly estimated. Once progress is under way, it will become possible to develop a credible estimate for costs involved in replacing products and compensation necessitated due to the replacement work. It is likely that the costs will have a significant impact on our consolidated performance.

About nonconforming acts in the inspection process for seismic isolation/mitigation oil dampers for buildings



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Schedule for incident response

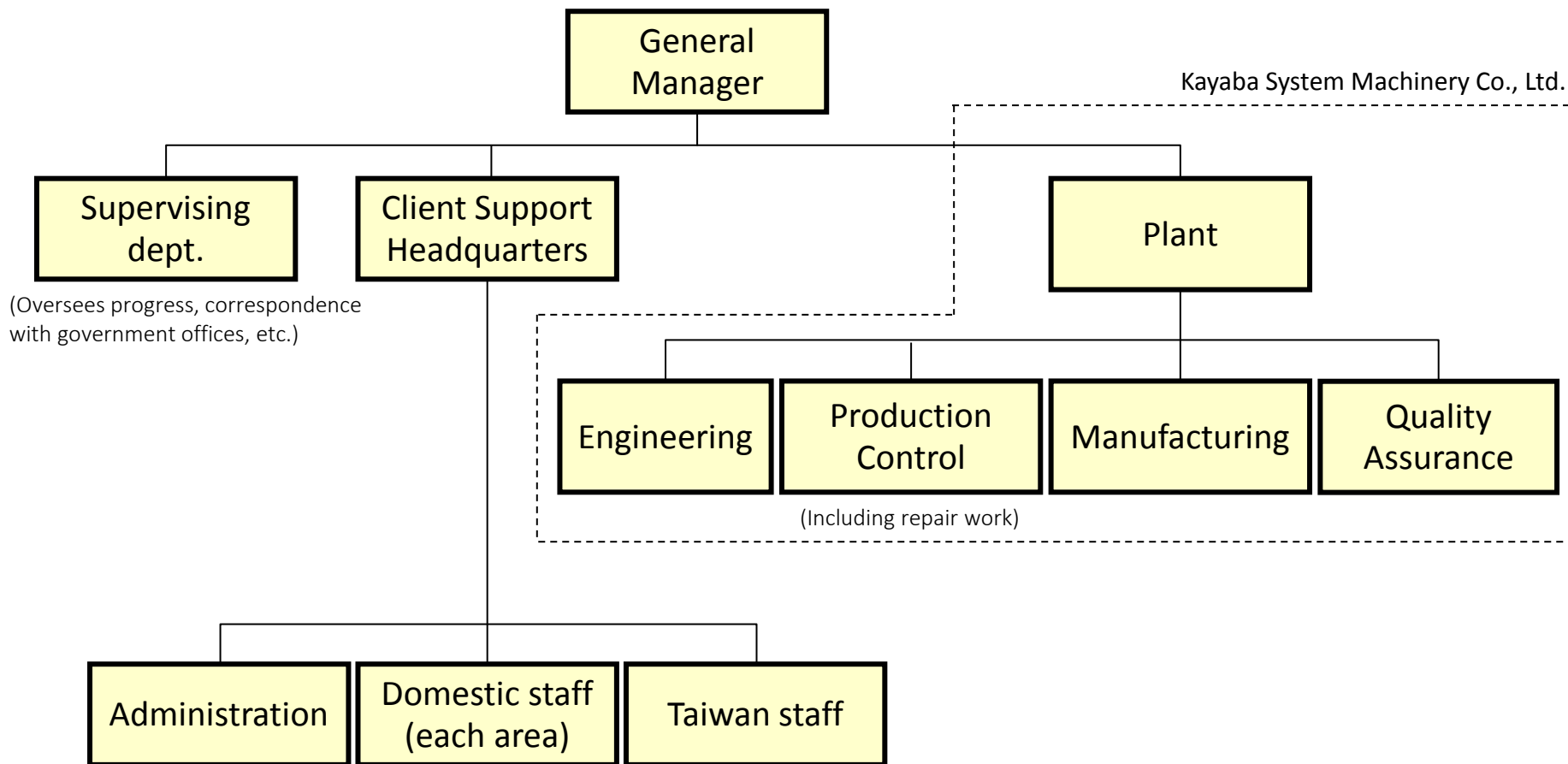


About nonconforming acts in the inspection process for seismic isolation/mitigation oil dampers for buildings



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Internal task force organization (Proposal) (January 2019 onward)



Mid-term Policy

Plan long-term growth trajectory by reorganizing plants/companies to match the shifts in customer demand areas and development and sales promotion of value-added products

Key Activities

Accomplish drastic structural reforms

- ✓ **Structural reform for the EPS business**
- ✓ Construct the **optimum production system separated by region** with strengthened cost competitiveness (Europe and Americas)
- ✓ Accelerate reorganization for motorcycles (concentrate in Vietnam and India) / sales promotions at other companies

Stabilize revenue base

- ✓ Global specification integration for volume sale shock absorbers
- ✓ Increase productivity through innovative shock absorber *monozukuri*

Sustainable growth

- ✓ Receive orders from the three major German premium car manufacturers, centered on the Europe Technical Center
- ✓ Development / sales of high-value-added products for the future

2017 Mid-term Plan Activities (HC Operations)



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Mid-term Policy

Stable sales unaffected by market changes, ensure profits

Strengthen sales promotions for growth markets which we were not active while staying based in excavators

Key Activities

Accomplish drastic structural reforms

- ✓ Control valve relocation of business
 - May 2018: Assembly / coating process relocation completed, relocation of machining operations facilities under way
 - Oct. 2019: Relocation scheduled to be completed (as planned)
- ✓ Concentration of motor products: Reorganization layout determined, including China plant, work started on establishing operations
 - Sept. 2020: Reorganization to achieve concentration scheduled to be completed

Stabilize revenue base

- ✓ Establish manufacturing/delivery system that can deal with high demand
 - Augment in-house component processing equipment, expand assembly lines, increase existing customer support and suppliers

Sustainable growth

- ✓ Sales promotions for hydraulic loader equipment
 - Orders confirmed for control valves for compact truck loader



First-Half of FY2018 Financial Information

Consolidated performance

- In the 1H of FY2018, sales went up as product volumes increased, particularly for construction machinery. However, segment profits declined compared to the previous period. When factoring in all expenses, profits for the quarter totaled a ¥12.0 billion loss.
- In FY2018, we forecast a total net loss of ¥2.3 billion.

AC Operations

- In the 1H of FY2018, product volumes increased in Europe and China. However, there was a decline in the U.S. market, and our Brazilian consolidated subsidiary was in deficit. As a result, sales increased but profits decreased compared to the previous period.
- In FY2018, we forecast an increase in product volumes yet a decrease in segment profits compared to the previous period.

HC Operations

- In the 1H of FY2018, the construction machinery market was favorable, with sales increasing compared to the previous period. However, due to costs related to the increase in production, segment profits increased slightly compared to the previous period.
- In FY2018, we forecast a decrease in profits due to continued increases in costs.

1H of FY2018 Financial Summary



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(¥ Billion)	IFRS			Differences	
	FY2017	1H of FY2018			
	1H actual	Forecast (Aug. 7, 2018)	Actual	Previous period	Previous forecast
Net Sales	189.4	205.2	202.8	13.3	(2.4)
Segment profits*	10.7	9.9	9.5	(1.2)	(0.4)
(Segment profits ratio)	5.6%	4.8%	4.7%	(0.9)%	(0.1)%
Operating profit	11.0	10.2	(11.3)	(22.3)	(21.5)
Profit (loss) attributable to owners of the parent	7.2	6.9	(12.0)	(19.2)	(18.9)
ROE	8.5%	7.6%	—	—	—
Dividend (¥)	70	70	0	(70)	(70)
FOREX(Average) (¥)					
JPY/ US\$	111.07	107.04	110.26		
JPY/ EUR	126.28	129.03	129.84		

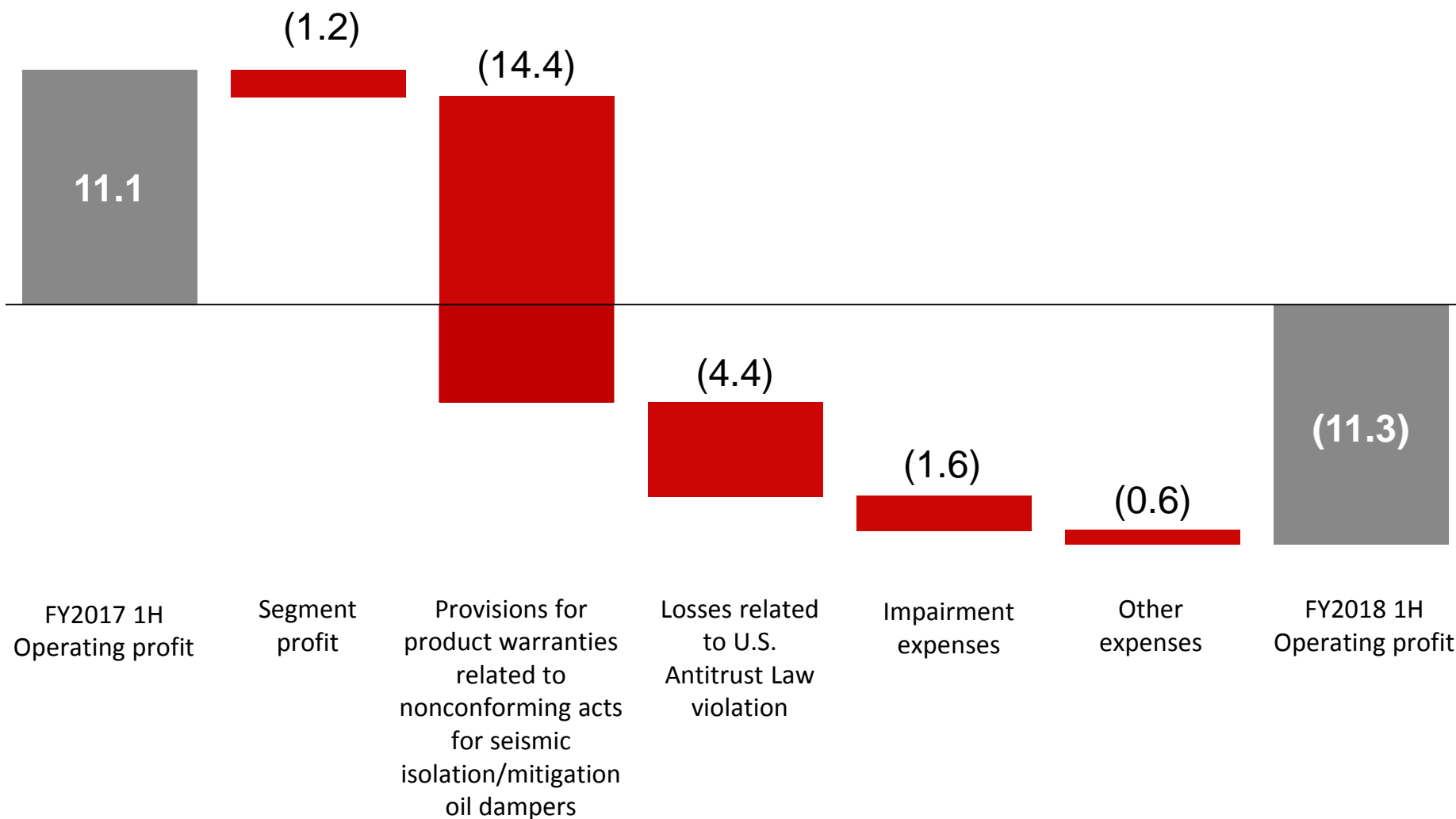
*Segment profits correspond to operating income in JGAAP

1H of FY2018 Changes in Operating Profits



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(¥ Billion)



1H of FY2018 Net Sales and Segment Profits



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(¥ Billion)	(IFRS)	FY2017 1H actual	FY2018 1H actual	Differences
AC Operations	Net Sales	119.6	123.7	4.1
	Shock absorbers for automobiles	79.5	85.1	5.6
	Shock absorbers for motorcycles	15.0	14.1	(0.9)
	Hydraulic equipment for automobiles	22.3	21.9	(0.4)
	Others	2.8	2.7	(0.1)
	Segment Profits	5.3	4.4	(0.9)
HC Operations	Net Sales	57.5	67.2	9.8
	Hydraulic equipment for industrial use	53.2	63.2	10.0
	Others	4.3	4.0	(0.2)
	Segment Profits	5.3	5.6	0.3
SV,A&S	Net Sales	12.4	11.8	(0.6)
	Special-purpose Vehicles	4.3	4.4	0.1
	Hydraulic equipment for aircraft	3.0	2.9	(0.1)
	System products and electronic components, etc.	5.1	4.6	(0.5)
	Segment Profits	0.2	(0.5)	(0.7)
Total	Net Sales	189.4	202.8	13.3
	Segment Profits	10.7	9.5	(1.2)

AC: Automotive Components HC: Hydraulic Components

SV, A&S: Special-purpose vehicles, hydraulic equipment for aircraft, and system product and electronic components

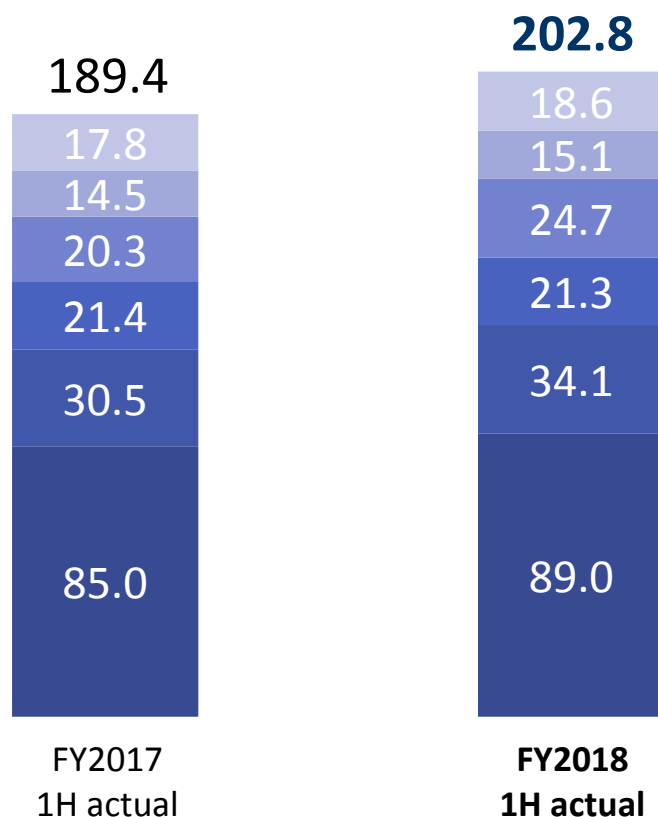
1H of FY2018 Net Sales by Region



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(¥ Billion)

Differences
Previous period



Other	4.8%
Southeast Asia	4.4%
China	21.4%
America	(0.6)%
Europe	12.0%
Japan	4.7%

Overseas Sales Ratio
55.1% → 56.1%

Financial Forecast for FY2018



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(¥ Billion)	IFRS			Differences	
	FY2017	FY2018			
	Actual	Forecast (Aug. 7, 2018)	Forecast	Previous period	Previous forecast
Net Sales	393.7	416.0	416.0	+22.3	±0
Segment profits*	22.9	22.5	21.3	(1.6)	(1.2)
(Segment profits ratio)	5.8%	5.4%	5.1%	(0.7)%	(0.3)%
Operating profit	20.9	23.9	0.7	(20.2)	(23.2)
Profit (loss) attributable to owners of the parent	15.2	16.0	(2.3)	(17.5)	(18.3)
ROE	8.8%	8.6%	—	—	—
Dividend (¥)	150	150	—	—	—
FOREX(Average) (¥)					
JPY/ US\$	110.85	106.02	107.63		
JPY/ EUR	129.70	128.52	128.92		
	2H assumed rate	JPY/ US\$	105.00		
		JPY/ EUR	128.00		

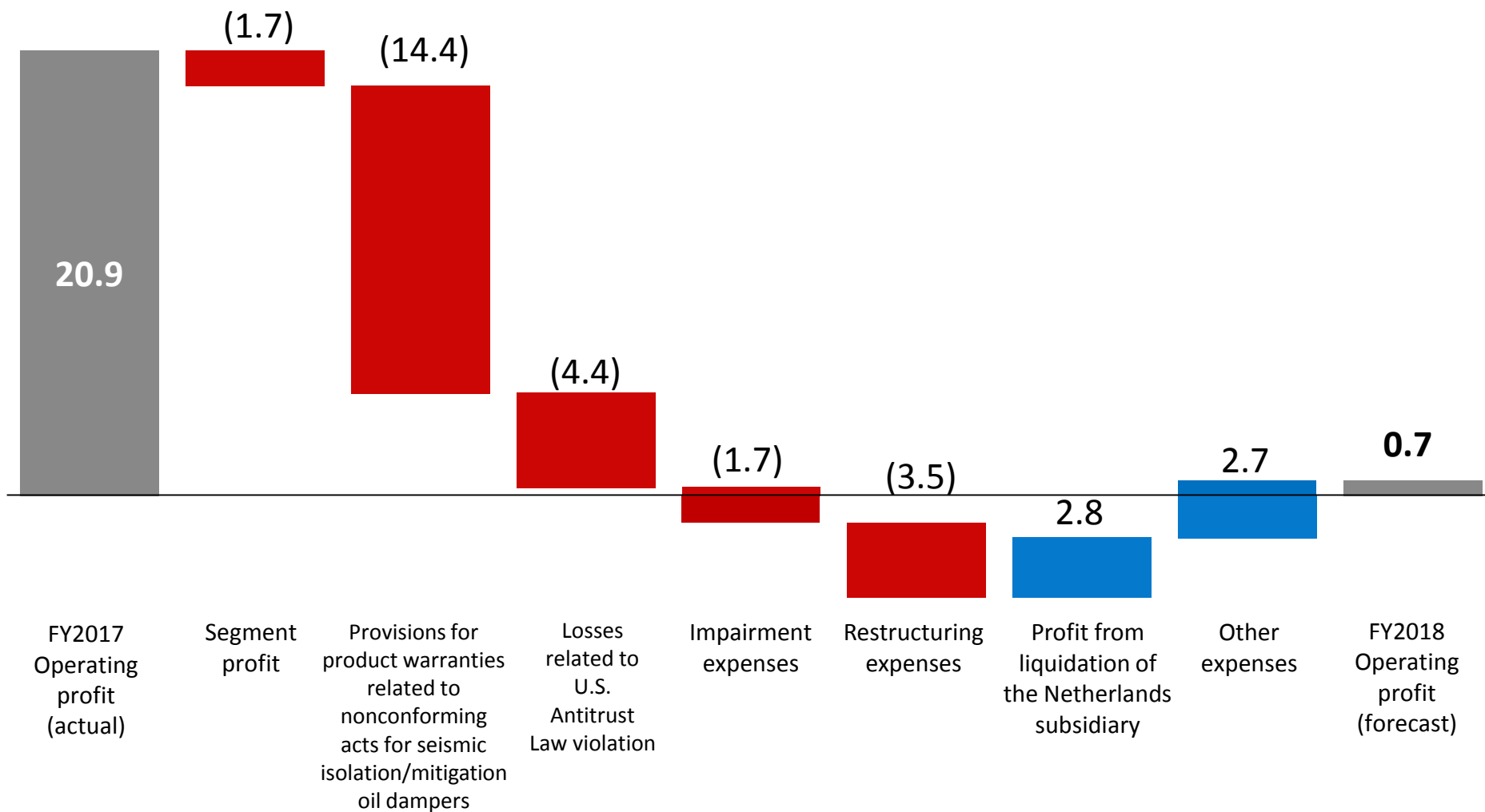
*Segment profits correspond to operating income in JGAAP

FY2018 Changes in Operating Profits



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(¥ Billion)



FY2018 Net Sales and Segment Profits Forecast

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(¥ Billion)	(IFRS)	FY2017 actual	FY2018 Forecast	Differences
AC Operations	Net Sales	243.7	251.5	7.7
	Shock absorbers for automobiles	163.1	172.8	9.7
	Shock absorbers for motorcycles	30.0	29.0	(1.0)
	Hydraulic equipment for automobiles	45.7	44.3	(1.4)
	Others	4.9	5.4	0.5
	Segment Profits	10.6	9.5	(1.1)
HC Operations	Net Sales	122.8	136.7	(13.9)
	Hydraulic equipment for industrial use	114.3	128.8	14.5
	Others	8.5	7.9	(0.6)
	Segment Profits	11.3	10.8	(0.5)
SV,A&S	Net Sales	27.2	27.8	0.6
	Special-purpose Vehicles	9.6	10.7	1.1
	Hydraulic equipment for aircraft	6.4	6.0	(0.4)
	System products and electronic components, etc.	11.3	11.2	(0.1)
	Segment Profits	1.0	1.0	+0.0
Total	Net Sales	393.7	416.0	22.3
	Segment Profits	22.9	21.3	(1.6)

AC: Automotive Components HC: Hydraulic Components

SV, A&S: Special-purpose vehicles, hydraulic equipment for aircraft, and system product and electronic components

We initially set the interim dividend for the current period at ¥70 per share.

However, our performance for the first half of fiscal year ending in March 2019 is expected to fall far short of our initial forecast, largely due to the loss caused by the nonconforming acts with seismic isolation/mitigation oil dampers. Additionally, it is currently difficult to accurately forecast the impact of a future downturn in performance triggered by the costs involved in replacing products and compensation necessitated due to the replacement work. Therefore, it is with great regret that we decided not to pay the interim dividend.

We have not yet determined the year-end dividends, given uncertainty about the future outlook for the business environment.

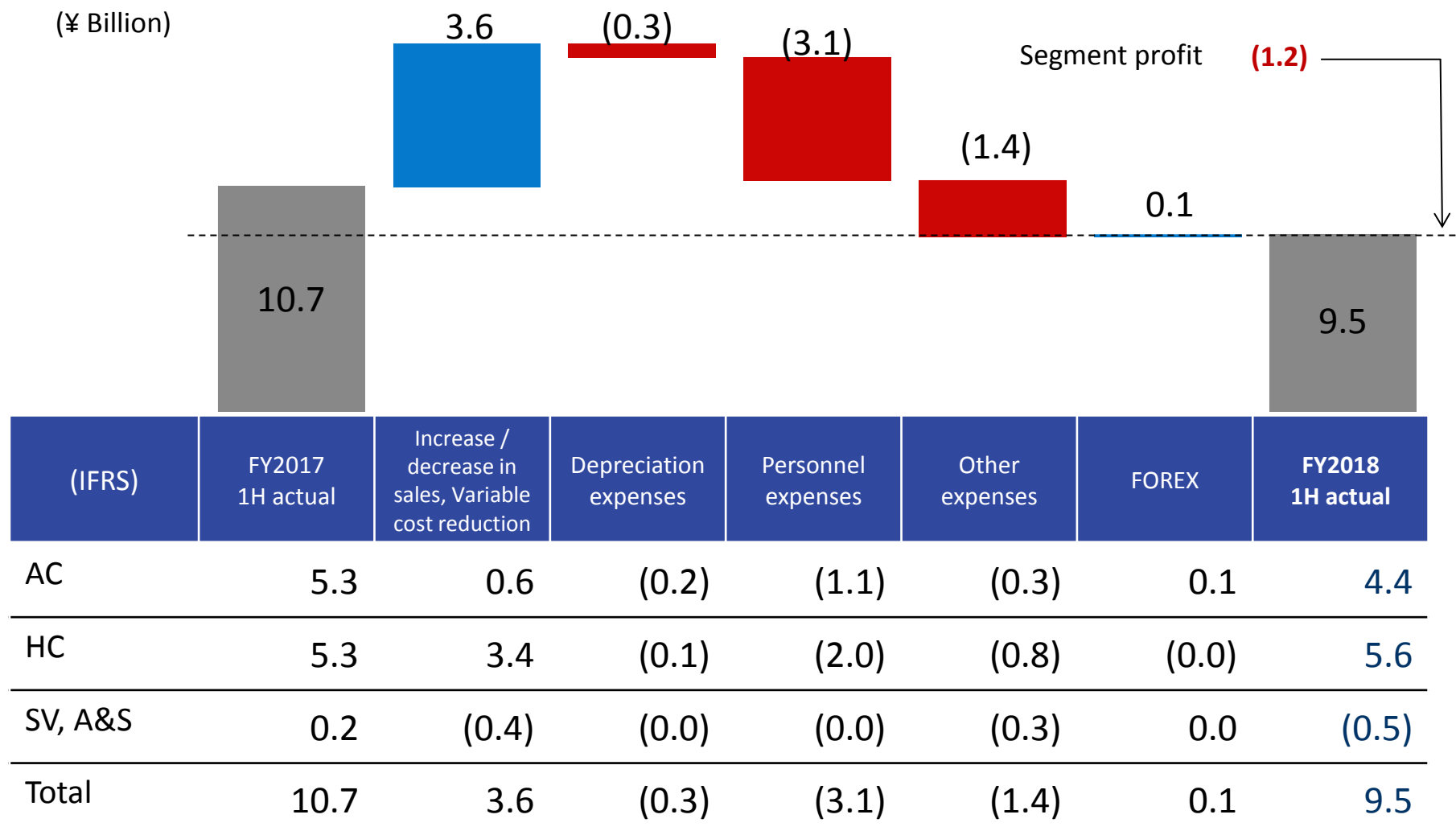


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Cautionary Statement

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.

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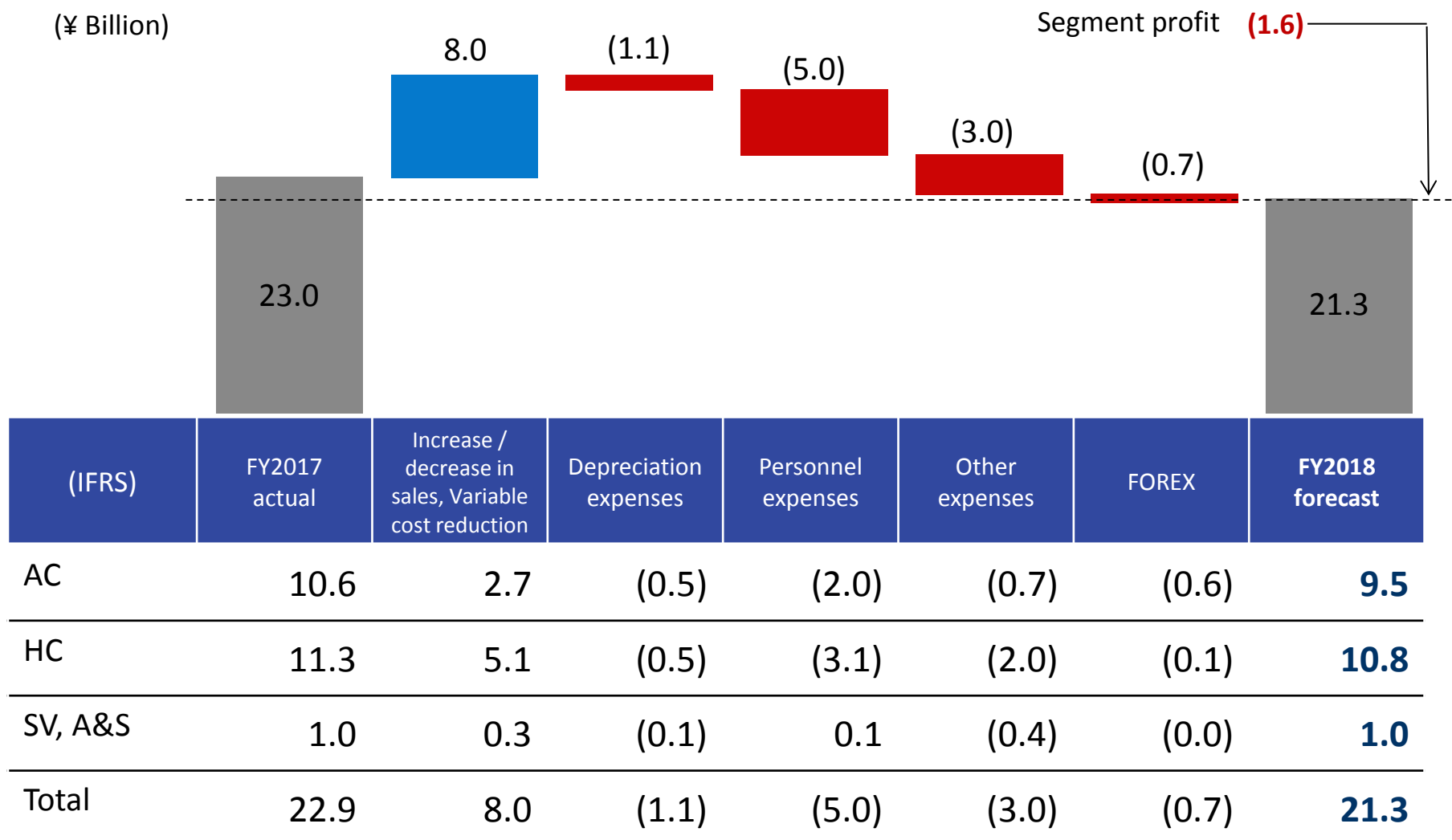


AC: Automotive Components

HC: Hydraulic Components

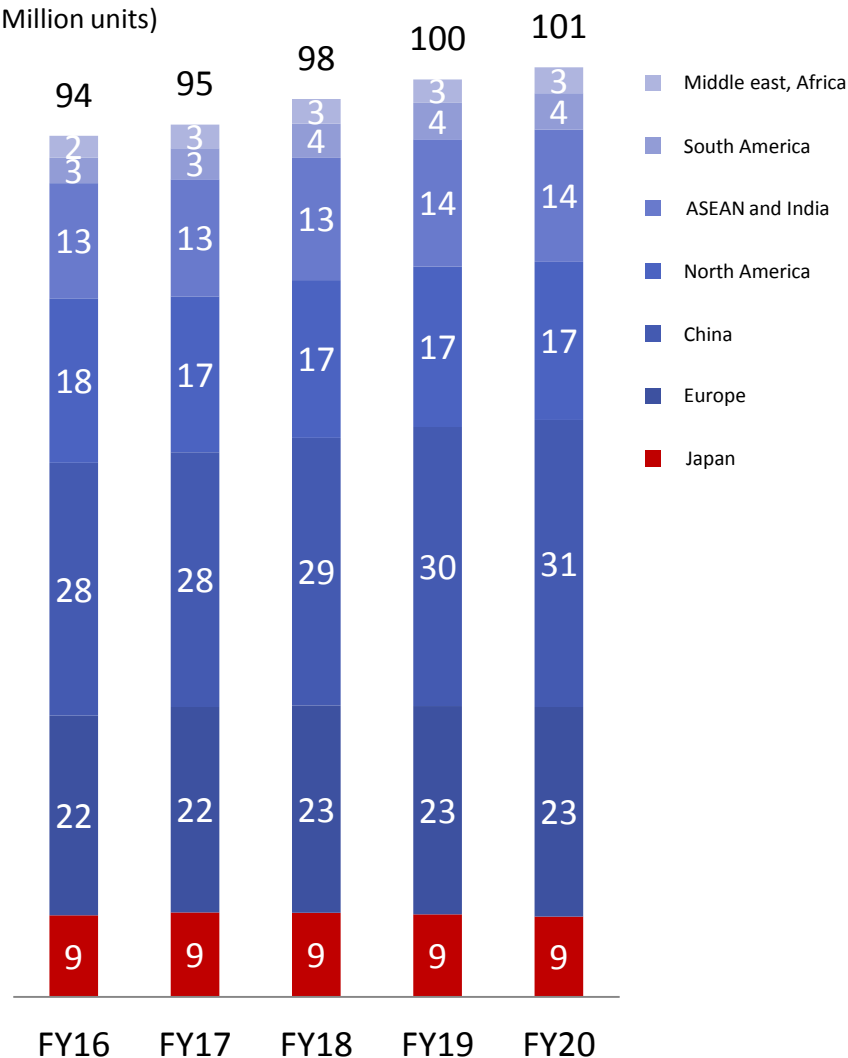
SV, A&S: Special-purpose vehicles, hydraulic equipment for aircraft, and system product and electronic components

FY2018 Changes in Segment Profits



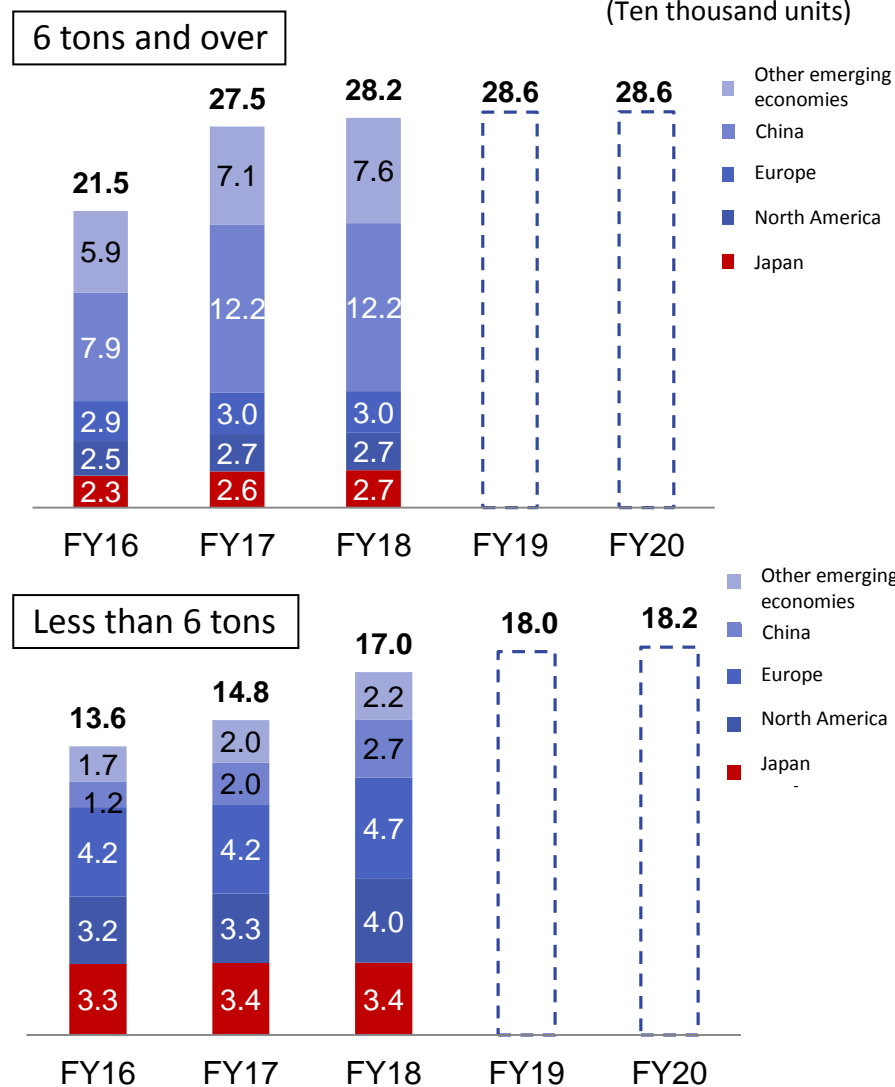
Automobile Production Forecast

(Million units)



Demand for Hydraulic Excavators Forecast

(Ten thousand units)



Appendix

Financial Data



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Adoption of IFRS since FY2015

Capital Expenditure, Depreciation

(¥ billion)

	FY'15 1st Half	FY'15 2nd Half	FY'16 1st Half	FY'16 2nd Half	FY'17 1st Half	FY'17 2nd Half	FY'18 1st Half	FY'18 Total
Capital Expenditure	8.92	12.38	8.84	9.36	8.72	9.77	9.92	22.50
Depreciation Exp.	8.60	8.47	7.75	8.17	8.18	8.81	8.58	18.20

"Capital expenditure" and "Depreciation exp." = invested and depreciated in property, plant and equipment

(*1) The estimation of "Capital Expenditure in FY2018 Total" is on order basis. Actual figures were calculated on inspection basis.

(Est.)

Interest-bearing Debt

(¥ billion)

	FY'15 1st Half	FY'15 2nd Half	FY'16 1st Half	FY'16 2nd Half	FY'17 1st Half	FY'17 2nd Half	FY'18 1st Half
Interest-bearing Debt	90.40	91.69	91.13	93.56	93.92	94.64	94.67

R&D Expenses

(¥ billion)

	FY'15 1st Half	FY'15 2nd Half	FY'16 1st Half	FY'16 2nd Half	FY'17 1st Half	FY'17 2nd Half	FY'18 1st Half
R&D Expenses	7.76	0.00	3.74	3.88	3.40	4.70	3.55

Number of Employees

	FY'15 1st Half	FY'15 2nd Half	FY'16 1st Half	FY'16 2nd Half	FY'17 1st Half	FY'17 2nd Half	FY'18 1st Half
Number of Employees	13,771	13,796	14,192	14,350	14,657	14,754	15,556

Foreign Exchange Rate

	FY'15 1st Half	FY'15 2nd Half	FY'16 1st Half	FY'16 2nd Half	FY'17 1st Half	FY'17 2nd Half	FY'18 1st Half	FY'18 2nd Half
Average FOREX Rate - JPY/USD	121.80	118.50	105.29	111.48	111.07	110.64	110.26	105.00
Average FOREX Rate - JPY/EUR	135.06	130.09	118.15	119.43	126.28	133.12	129.84	128.00
Average FOREX Rate - JPY/CNY	19.43	18.27	15.94	16.27	16.42	17.07	16.74	15.90
Average FOREX Rate - JPY/THB	3.56	3.32	3.00	3.16	3.28	3.43	3.40	3.20
Average FOREX Rate - JPY/RUB	2.12	1.70	1.61	1.84	1.91	1.92	1.73	1.80

(Est.)

Net Sales by Region

(¥ billion)

		FY2016				FY2017			
		AC	HC	Others	Total	AC	HC	Others	Total
Japan	1st Half	35	40	10	85	36	44	9	89
	2nd Half	0	0	0	0	0	0	0	0
	Total	35	40	10	85	36	44	9	89
Europe	1st Half	28	3	0	30	30	4	0	34
	2nd Half	0	0	0	0	0	0	0	0
	Total	28	3	0	30	30	4	0	34
America	1st Half	18	3	0	21	17	4	0	21
	2nd Half	0	0	0	0	0	0	0	0
	Total	18	3	0	21	17	4	0	21
China	1st Half	10	10	0	20	11	14	0	25
	2nd Half	0	0	0	0	0	0	0	0
	Total	10	10	0	20	11	14	0	25
South East Asia	1st Half	13	1	0	15	14	1	0	15
	2nd Half	0	0	0	0	0	0	0	0
	Total	13	1	0	15	14	1	0	15
Others	1st Half	15	1	2	18	16	1	2	19
	2nd Half	0	0	0	0	0	0	0	0
	Total	15	1	2	18	16	1	2	19
Total	1st Half	120	57	12	189	124	67	12	203
	2nd Half	0	0	0	0	0	0	0	0
	Total	120	57	12	189	124	67	12	203