

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.

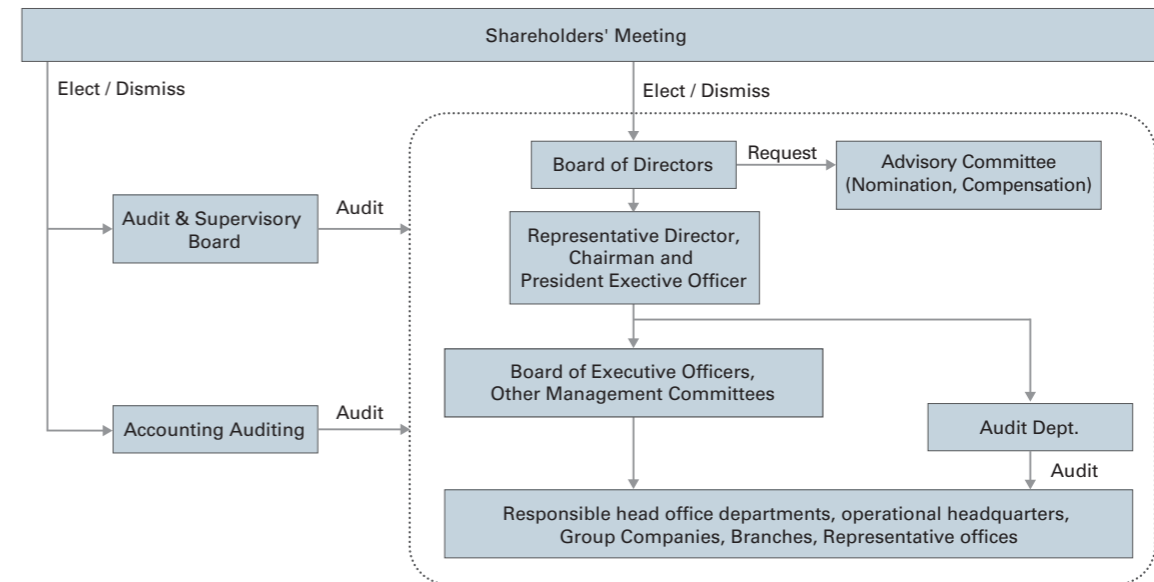
Basic Policies

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

Rokuro Tsuruta (Independent Director) 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.
Shuhei Shiozawa (Independent Director) 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

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



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.