

# 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

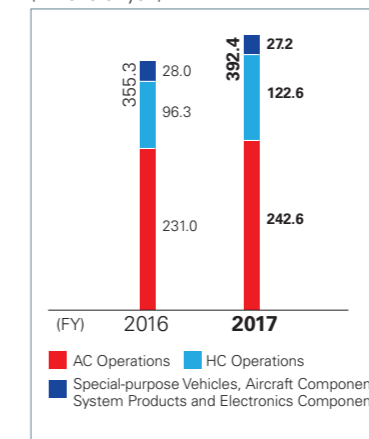
- Started production on innovative production lines in Japan and Mexico
- Constructed a globally optimized local production system by consolidating products and transferring control
- Plant and company reorganization, including making a Brazilian joint venture a wholly owned subsidiary



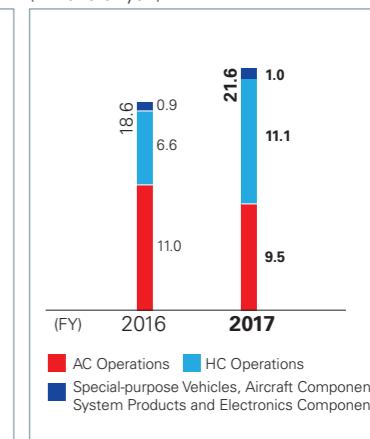
**Yasusuke Nakajima**  
Representative Director,  
Chairman and President Executive Officer

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