

Environmental and Social Activity Report 2018



Our Precision, Your Advantage

www.kyb.co.jp



Contact

KYB Corporation

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Considerations made for paper use



Forest Neighborhood Association
Paper used for this printing is useful for the effective use of thinning and timber from forest thinning that revive forests.



Use of FSC certified paper
We used paper made of timber from adequately managed forests.

Considerations made for printing



Green Printing
Environmentally friendly printing materials and printing methods were used to produce this report.



Use of Non-VOC ink
We used environmentally friendly 100% vegetable oil ink free from VOC (volatile organic compound).



Waterless printing
We adopted waterless printing with organic materials that generate less waste.

Top Message

Introduction

Since its establishment in 1935, KYB has provided a variety of products based on vibration and power control technologies, which has also propelled the company to grow on a global scale as a comprehensive hydraulic device manufacturer. This would not have been possible without the generous understanding and enormous cooperation of all stakeholders. We would like to express our deep gratitude to them.

This fiscal year is the second year of the 2017 midterm plan, and it is time for us to solve the unresolved issues from the previous year as we leap towards further growth. KYB plans to return to the basics of manufacturing and construct a solid foundation for a giant leap forward. We appreciate your ongoing support as we work toward this goal.

Looking back at fiscal year 2017

Looking back at the KYB group in fiscal 2017, which is the first year of the 2017 midterm plan, we achieved consolidated net sales of 392.3 billion yen exceeding the initial goal of 356.9 billion yen, thanks to the recovery of the Chinese market and the robust growth in the economies of the United States and emerging countries. Ordinary profits are also expected to exceed the planned value. We also accelerated efforts towards future growth through proactive

order winning activities and the construction of innovative manufacturing lines. On the other hand, the many challenges of a tight production capacity and fixed costs remained at a high level and remain unresolved.

In fiscal 2018, while positively overcoming the challenges from the previous fiscal year, we will steadily construct a management system capable of flexibly responding to a drastically changing external environment. In addition, we will develop a revenue base and unite as one as we work toward the achievement of the goal of the midterm plan.

KYB Group initiatives for society/environment

In fiscal 2017, the KYB group experienced labor accidents and quality issues. We sincerely apologize to our shareholders for any concerns and inconveniences that we may have caused. Following these considerations, we will further strengthen our efforts for safety and quality in order to regain the lost trust. In terms of safety, we reorganized the organization by reflecting the idea of safety comes first, and in terms of quality, we declared quality management based on the idea of quality is the foundation of management and started the process of bad news first efforts. Outside the company, a series of incidents disrupting safety and

quality, which are the core of the trust in Japan's manufacturing, occurred. The KYB group, having reconfirmed that the base of the company's survival lies in the trust of society through incidents inside and outside the company, will promote the building of a healthy and faithful company culture through changes in the attitude of each employee.

In terms of preservation of the natural environment and with the goal of constructing plants that minimize waste and conserve energy, the KYB group is involved in environment development and energy visualization for partial energy sharing and the promotion of waste reduction and recycling.

I will be very pleased if KYB Group initiatives for society and the environment become better understood through this report so that we can continue receiving support from increasing numbers of stakeholders. I also look forward to receiving your comments on this report, and hope that you will express your frank opinions regarding the KYB Group.

With the core of hydraulic integrate vibration technologies, and to contribute to creation of an

technologies, we will control, power control systemization technologies enriched society.



Yasusuke Nakajima
Representative Director and President Executive Officer
KYB Corporation

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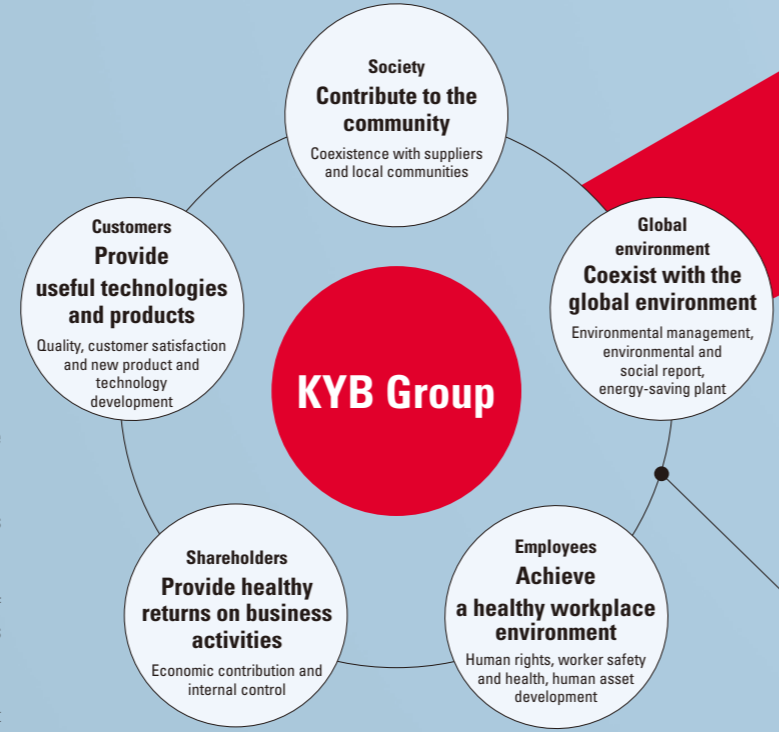
What KYB Aims to Be

Our Precision, Your Advantage

The KYB Group aims to satisfy its stakeholders at a time of increasing focus on corporate social responsibility. Based on KYB's management philosophy, each employee will maintain an awareness of our responsibility as a business, and manifest that awareness through actions that will always comply with the law. We will moreover work to enhance our corporate value so that our company continues to be a trusted.



Relationship between the KYB Group and stakeholders



Management principles

The KYB Group contributes to society providing technologies and products make life safe and comfortable.

1. Challenge higher objectives and construct 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.

Management Vision

Human Resources Development
To cultivate the talent to achieve the objectives with a thorough understanding of the principles and the strategy.

Technology and Product Development
To provide products that are impressive, comfortable and reliable to customers throughout the world.

Monozukuri (Japanese manufacturing expertise)
To make our plants enjoyable, dynamic places to work, and at the same time full of discipline based on the field priority doctrine, in order to produce products satisfactory to the customer.

Management
Always keep social responsibilities of the corporation in mind and provide efficient group management.

行動指針

- | | | | |
|--|---|---|---|
| (1) Corporate ethics | (9) Relationship with stakeholders | (17) Appropriate accounting and financial closing | (25) Creation of a worker-friendly work environment |
| (2) Compliance with laws and ordinances | (10) Business with customers | (18) Information disclosure | (26) Improvement of field capabilities through education and skills development |
| (3) Respect for human rights | (11) Business with suppliers | (19) Prohibition of insider trading | |
| (4) Respect for the rights of workers | (12) Supply chain | (20) Preservation of corporate secrets | |
| (5) Respect for corporate assets | (13) Pursuit of new technology | (21) Protection of personal information | |
| (6) Protection of intellectual property | (14) Provision of safe products | (22) Contribution to society | |
| (7) Emphasis on benefits to the customer | (15) Participation in the activities of groups and industry organizations | (23) Preservation of the natural environment | |
| (8) Pursuit of optimum quality | (16) Break from forces threatening society | (24) Safety and sanitationlabor | |

Social Responsibility in the KYB Group

Through our business activities, the KYB Group aims to contribute to the development of our customers, shareholders, suppliers and society through the constant pursuit of creativity.

Following our Corporate management philosophy and vision, units of the KYB Group incorporate CSR initiatives into their yearly action plans and put them into practice. They then follow up on these actions as part of an ongoing cycle of improvement and reform.

Employees carry the KYB Group's Action Guidelines with them to deepen their awareness of the importance of CSR (Corporate social responsibilities).

Vision What the KYB brand can do for the world
Monozukuri for human happiness

KYB's aim is to support the development of society through the joy of Monozukuri, and make people happier as a result.

Mission The mission of KYB brand
Monozukuri taken one step further

KYB will remain an enterprise able to bring value to our clients and markets thanks to the reliable technical expertise we have built up over the years.

Through our own efforts, we take Monozukuri one step further to provide our clients with new value and greater satisfaction than they have ever known.

Value Value made possible by the KYB brand
Technology for comfortable living

Sensory value : comfortable living, the joy of Monozukuri

Functional value : reliable quality

The value KYB promises its end users is a higher level of "comfortable living" that comes from creative technology and sincere product development.

The value KYB promises its clients is the "reliable quality" that comes from thinking of the end user as "our client".

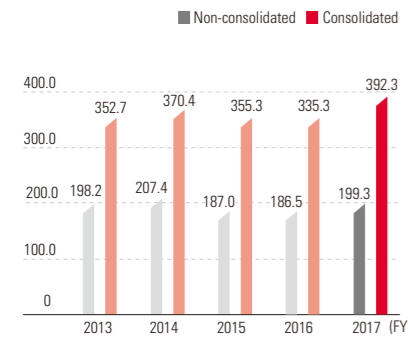
The value KYB promises each employee is "the joy of Monozukuri" that comes from knowing he or she is changing the world.

Outline of KYB Group

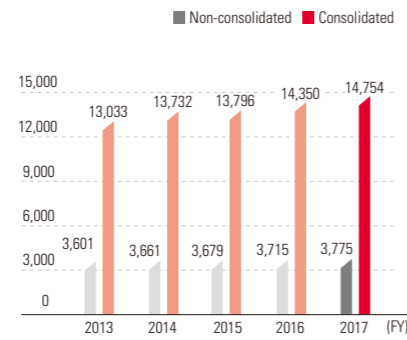
Company overview

Company Name	KYB Corporation	Plants	Kumagaya, Sagami, Gifu North, Gifu South, Gifu East
Founded	Kayaba Research Center, November 19, 1919	Laboratories	Basic Technology R&D Center, Production Technology R&D Center Developmental Experiment Center Machine Tools Center Electronics Technology Center
Established	Kayaba Manufacturing Co., Ltd. March 10, 1935	Number of Employees	14,754 persons (As of the end of March 2018, consolidated) 3,775 persons (As of the end of March 2018, non-consolidated)
Incorporated	November 25, 1948 (KYB Corporation)		
Head Office	World Trade Center Bldg., 2-4-1, Hamamatsu-cho, Minato-ku, Tokyo 105-6111, Japan		
Chief Representative	Representative Director, President Yasusuke Nakajima		
Capital	27,647,600,000 yen (As of the end of March 2018)		

Net sales (billion yen)



Number of employees (persons)

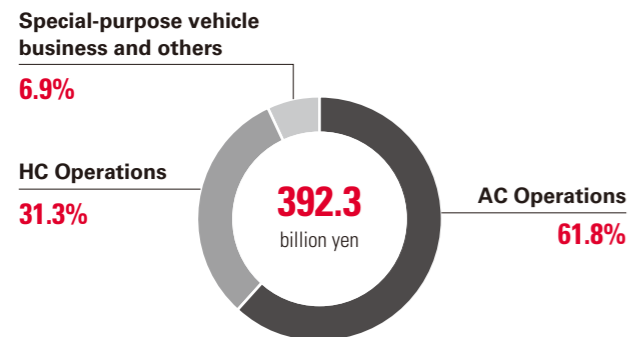


Major Products

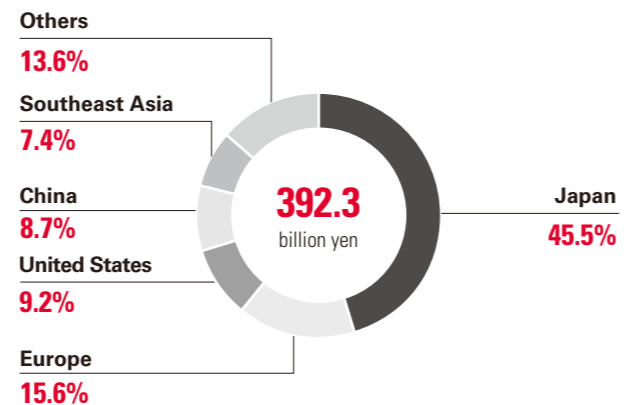
AC (automotive components) operations	Shock absorbers, suspension systems, power steering systems, vane pumps, front forks, oil-cushion units, stay dampers, free locks
HC (hydraulic components) operations	Cylinders, valves, oil dampers for railroad, collision bumpers, pumps, motors
Special-purpose vehicles, Aircraft components, system products and electronic equipment	Concrete mixer trucks, granule carriers, special-purpose vehicles., aircraft landing systems, aircraft pilot systems, aircraft control systems, aircraft emergency systems/motion, simulators, hydraulic systems, auditorium and stage control systems, naval ship equipment, tunnel boring machines, environmental devices, earthquake-resistant and vibration insulation dampers, seismic isolation systems and vibration control dampers, electronic applications

* AC business: abbreviation for Automotive Components Business, HC business: abbreviation for Hydraulic Components Business

Net sales by business segment in fiscal 2017 (Consolidated)



Net Sales by geographic region in fiscal 2017 (Consolidated)



* For details on sales figures and applicable range, please refer to our financial reports. Major Products

Affiliate companies in Japan

Kayaba System Machinery Co., Ltd.
KYB Trondule Co., Ltd.
KYB-YS Co., Ltd.
KYB Kanayama Co., Ltd.
KYB Motorcycle Suspension Co., Ltd.
Towa Japan Corporation
Takako Industries, Inc.



KYB Group production bases



Overseas affiliate companies

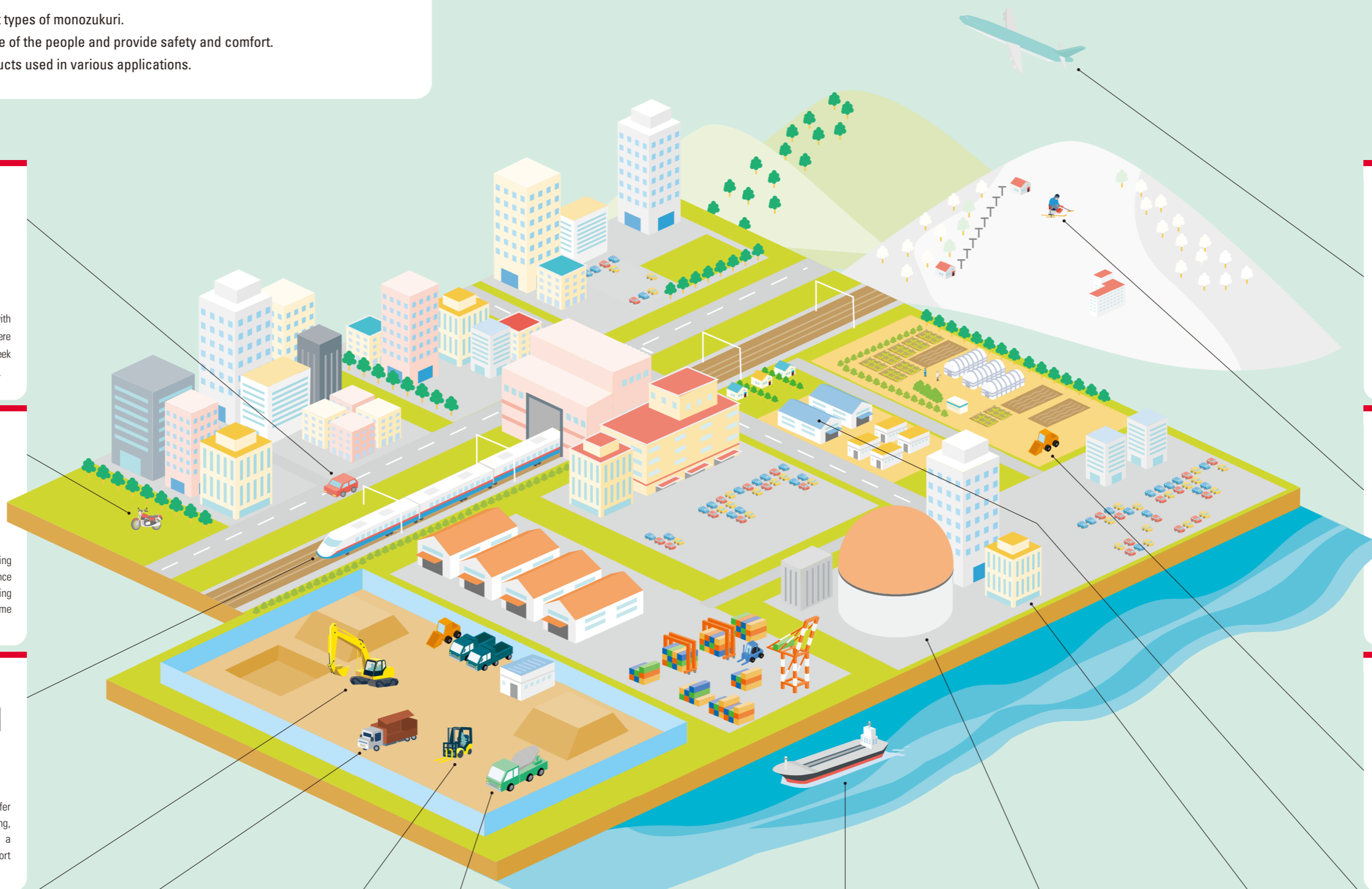
Americas	Asia	Europe
KAC: KYB Americas Corporation	KIMZ: KYB Industrial Machinery (Zhenjiang) Ltd.	KYBSE: KYB Suspensions Europe, S.A.U.
TAC: Takako America Co., Inc.	KWT: Wuxi KYB Top Absorber Co., Ltd.	KSS: KYB Steering Spain, S.A.
KMEX: KYB Mexico S.A. de C.V.	KLRC: Changzhou KYB Leadrun Vibration Reduction Technology Co., Ltd.	KAMS: KYB Advanced Manufacturing Spain, S.A.U.
KMB: KYB-Mando do Brasil Fabricante de Autopeças S.A.	CKMZ: CHITA KYB Manufacturing (Zhenjiang) co., Ltd.	KMCZ: KYB Manufacturing Czech s.r.o.
	HKE: 湖北恒凯德汽車電動轉向系統有限公司	KCME: KYB CHITA Manufacturing Europe, s.r.o.
	KMT: KYB Manufacturing Taiwan Co., Ltd.	
	KST: KYB Steering (Thailand) Co., Ltd.	
	KYBT: KYB (Thailand) Co., Ltd.	
	KHMI: PT.KYB Hydraulics Manufacturing Indonesia	
		PT.KYBI: PT. Kayaba Indonesia
		PT. Chita: PT. Chita Indonesia
		KMV: KYB Manufacturing Vietnam Co., Ltd.
		TVC: Takako Vietnam Co., Ltd.
		KMSB: KYB-UMW Malaysia Sdn. Bhd.
		KSMSB: KYB-UMW Steering Malaysia Sdn. Bhd.
		KMSI: KYB Motorcycle Suspension India Pvt. Ltd.
		KCPL: KYB-Conmat Pvt. Ltd.

History

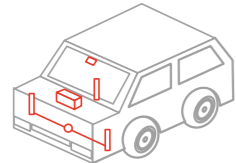
1919	Founded Kayaba Research Center	1999	Formulated the Corporate Guiding Principles
1927	Established Kayaba Seisakusho	2001	All KYB plants acquired ISO 14001 certification
1935	Established Kayaba Manufacturing Co., Ltd.	2005	Formulated new management principals and management vision Adopted "KYB" as a shared corporate name
1948	Incorporated Kayaba Industry Co., Ltd.	2008	Held company's first robot contest
1959	Company stock listed on the Tokyo Stock Exchange	2011	Established Developmental Experiment Center, started operating test course
1981	Unified production system under KPS name	2015	Changed trade name to KYB Corporation
1985	Changed trade name to Kayaba Industry Co., Ltd.		
1992	Set up the Environment and Safety Committee		
1993	Held first company-wide sports and culture interactive event		
1998	All KYB plants acquired ISO 9001 certification		

KYB Here and There

KYB products support different types of monozukuri. They help with the everyday life of the people and provide safety and comfort. Listed below are the KYB products used in various applications.

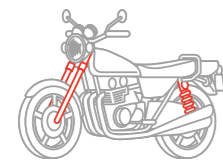


1 Automobiles



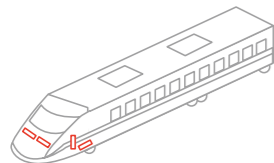
Whether it be for a comfortable drive with family or a motor sports scene with severe conditions, KYB automotive components seek a drivability level satisfactory for everyone.

2 Motorcycles



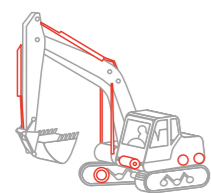
KYB strives for the highest level of driving stability and great driving performance with its motorcycle components by using race-proven technology built for extreme speed and stability.

3 Railroad Equipment



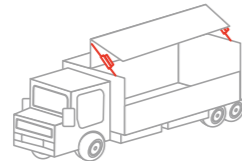
KYB railroad equipment works to buffer rolls from air pressure when cornering, passing oncoming trains, or entering a tunnel to achieve appropriate comfort levels at high speed travel.

4 Construction Machinery



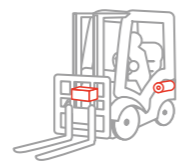
KYB components are widely used in construction machinery at the construction sites under severe conditions.

5 Industrial Machinery



KYB industrial machinery components, including opening/closing devices for trucks, are used to improve the environments of the plant, office, and home.

6 Industrial Vehicles



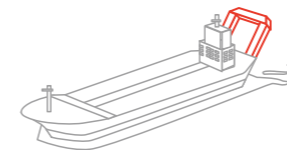
KYB demonstrates its hydraulic technology on forklifts and other industrial vehicles to provide the powerful support for improved operational efficiency.

7 Special-Purpose Vehicles



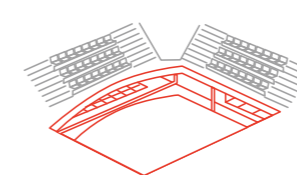
KYB special-purpose vehicles offer support for comfort in all living environments. KYB concrete mixer trucks hold the highest market share in Japan.

8 Marine Vessels



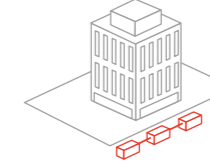
KYB hydraulic and tension control technologies add comfort to transport, supply, rescue and other work at sea for submarine explorers and mother ships.

9 Building and Stage Equipment



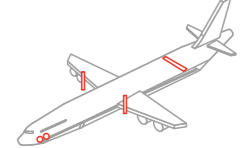
KYB technology provides stage performance spaces with rigging, acoustic reflectors, and other support equipment.

10 Seismic Isolation Dampers



Base isolation and seismic dampers utilizing KYB proprietary hydraulic technology hold the top share of the Japanese domestic market. In the spirit of extensive market-oriented production based on collaboration with our customers, KYB will protect safety.

14 Aircraft Components



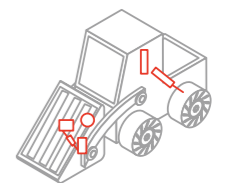
KYB provides a wide range of aircraft components meeting the high reliability standards demanded by the aerospace industry, including components for steering, landing, and hydraulic and pneumatic systems.

13 Sports, Environment, and Welfare



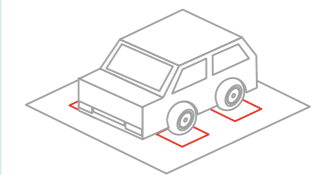
KYB core technologies are used to develop sports, environment, and welfare products.

12 Agricultural Machinery



KYB agricultural machinery components save space and energy for more efficient farming.

11 Testers



Our tester products are used in simulators to verify the durability and performance of parts and components.

2017 Action Highlights

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New establishment of the Motor Sports Division



Race vehicle for WRX EKS

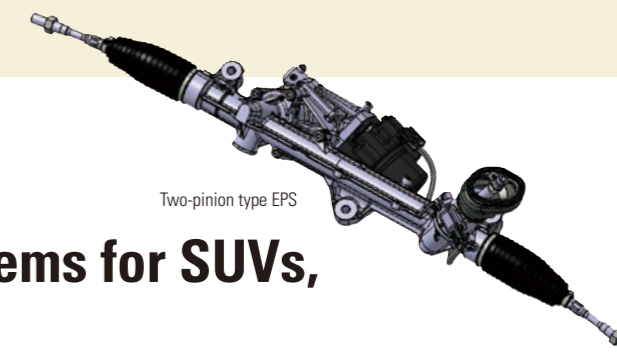


Race vehicle for Moto2 Class TECH3 Racing Team

To further enhance motor sports activities, we established the new Motor Sports Division on April 1, 2017. By integrating the activities for four-wheel shock absorbers, steering mechanisms, and two-wheel suspensions, we have provided products and technical support with the intention of taking part in the world's top categories in the World Rallycross Championship (WRX), World Endurance Championship (WEC), and MotoGP. In June 2017, we concluded a sponsorship support agreement with EKS, which has competed in the WRX. Through these activities, we promote weight reductions in conventional products and enhance product development capabilities and technical strengths in order to preserve the environment.



Signing ceremony at the conclusion of the sponsorship support agreement with EKS, which has competed in WRX



Two-pinion type EPS

By mass-producing high-output steering systems for SUVs, we contribute to society.

SUVs are generally heavier than ordinary sedans; consequently, a high-output hydraulic power steering has been conventionally employed in SUVs. Thanks to the employment of the two-pinion method where the input shaft linked to the steering mechanism is separated from the shaft transmitting the electric motor output, our electric power steering (EPS) system realizes both high output and quick handling, which had been considered difficult to balance. Thus, we contribute to improvements in fuel consumption. In addition, the EPS's fine control capability provides tall vehicle types with steering

equivalent to that of a high-class sedan, allows mode selection suitable for the driver, and contributes to preventive safety with the aid of the lane departure prevention support system. Furthermore, the two-pinion type EPS is compliant with ISO 26262, which is the international safety standard, and achieves that safety standard at an extremely high level for the mounted electronic system. We will further develop new products that balance the pleasures of driving, comfort, and safety at a high level to create a better society.

Lightweight strut type shock absorber

Against the backdrop of worsening environmental issues, further vehicle weight reduction is needed. In such circumstances, weight reduction of conventional parts through the employment of high tension steel plating and thinning is shifting to the employment of multiple materials in the process of using the right materials in the right location. In order for different materials to make up for deficiencies through the combination of materials while the advantages are fully utilized, it is important for weight reduction technology to enhance added value through the stable bonding of different materials.

We are now developing a damper for the strut structure where a hollow piston rod with a chrome-plated CFRP (carbon fiber reinforced thermosetting plastic) surface is combined with an injection-molded CFRTP (carbon fiber reinforced thermoplastic plastic) outer housing. By effectively using steel and resin materials, the product weight is expected to be reduced by approximately 40% compared to current mass-produced products. We will continue to promote damper weight reduction to improve fuel consumption and contribute to solving environmental issues by reducing CO2 emissions.



Lightweight strut type shock absorber

Semi-active suspension system introduced for the DS7 Crossback

The DS7 Crossback, which is the premium segment of the PSA group's luxury brand DS Automobiles, adopted the semi-active suspension system. We started mass production of the system at KAMS (in Spain), which is one of our production bases in Europe. This semi-active suspension system consists of a sensor, ECU, and damping force adjustable shock absorber. Similar to the human body, the sensor is like a sensory organ, whereas the shock absorber is like a muscle. The ECU, as the brains of the system, automatically makes adjustments for optimum damping force to control the vibrations in



Electronically controlled semi-active suspension system equipment



System model (DS7 Crossback)

the vehicle body so that drivers can enjoy driving on rough roads while experiencing a sense of ease and comfort. With this product, we launched Japan-developed technology at our overseas bases. The quality of the entire system has been well-received, which gives us the opportunity to play a part in a user experience unique to the flagship model. We will continuously pursue technology that delivers comfort and driving pleasure and offer products that support the sense of ease, safety, and comfort.



Limited Express Romancecar GSE

Fully active suspension for the Limited Express Romancecar GSE

Our fully active suspension system is adopted for the new Limited Express Romancecar GSE (Model 70000) of Odakyu Electric Railway Co., Ltd. The fully active suspension system consists of an acceleration sensor that converts the vibrations from a car into electrical signals, a control device that calculates forces to control lateral vibrations, and a motor-driven hydraulic actuator. This system actively controls vibrations by using the hydraulic energy converted from electricity to suppress vibrations and provide significantly improved ride comfort compared with conventional passive or semi-active suspensions. The actuator also functions as a passive damper

and a semi-active damper for appropriate switching with signals from the control device, which makes it possible to miniaturize the system for space-saving installation on the car. We will continue to manufacture products that provide safety and comfort to meet customer expectations.



Fully active suspension

Variable damping oil damper

A base isolation structure is intended to separate building and ground movement by installing laminated rubber or dampers so that severe earthquake vibrations are not directly transmitted to the building. Dampers designed to suppress excessive building movement under the assumption of a major earthquake, such as the Nankai or Sagami Trough earthquake, which may occur in the near future, will obstruct building movement during the frequent small and medium earthquakes and direct transmit vibrations from the ground to the building. Accordingly, in cooperation with Shimizu Corporation, we developed an oil damper for base isolation that can

Variable damping oil damper



suppress vibrations not only from a major earthquake, but also small and medium earthquakes. The oil damper has a function to switch to damper performance more suitable for the degree of damper movement so that the building moves smoothly during small and medium earthquakes while it does not move excessively during a major earthquake. The damper, which is adopted for the MM21-54 Block Area Project (a temporary name) under construction in Nishi Ward, Yokohama City, has a simplified switching function in the main unit designed to reduce resources and control material increases caused by the addition of functions.

Tsuppanda, an earthquake resistant damper unit to prevent office furniture from falling

Because of the high probability of a major earthquake, such as the Nankai Trough earthquake, occurring in the near future, devices to increase the earthquake resistance of buildings have been spreading rapidly. However, not many people are actually securing furniture because the furniture and walls may be scratched or there will be little effect. Therefore, we developed Tsuppanda, a fall-prevention device with a damper that can be installed without opening holes in the furniture, walls, and ceiling, to prevent the furniture from falling even in the event of an earthquake measuring 7 on the Japanese seismic intensity scale by using our core vibration control technology. Tsuppanda is usually pressed between the ceiling and the furniture

with the repulsive force (small force) of a spring. During an earthquake, Tsuppanda is continually pressed between the ceiling and furniture with the repulsive force to suppress the vibrations from the earthquake using the hydraulic damping force (large force) to prevent the furniture from falling. As a result of tests specified in the Performance Evaluation Criteria for Fall Prevention Instruments stipulated by the Japan Testing Center for Construction Materials,* we obtained the highest rating of ☆☆☆ (three stars). We will continue to develop products that contribute to safety.



*The Japan Testing Center for Construction Materials provides performance certification of fall-prevention instruments, such as for furniture, at the request of the Tokyo Fire Department.

Environmental Management

Basic environmental policy

Slogan

**Protect the Green Earth and
Create Products Gentle to the Environment**

Basic Environmental Policies

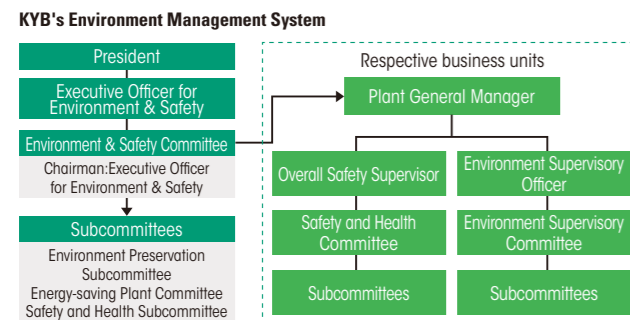
The KYB Group creates products gentle to both people and the earth. We are dedicated to the promotion of environmental activities as an important tool for evaluating management.

- Coordinates and builds up productive and corporate activities based on the recycling to reduce impacts on the environment.
- Strive to ensure long-term and sustainable operations throughout the entire KYB Group.
- Work to promote harmony with society and contribute to the global community as a good corporate citizen.
- Clarify every employee's role so that all employees can participate fully.

Environment & Safety Management system

The "Environment & Safety Committee" was organized with directors responsible for environment & safety as leaders to harmonize our intentions regarding environment and safety related approaches.

KYB has implemented the system shown below.



Message from Director in Charge

Aiming to be a corporation that can contribute to achieving a sustainable society

The new midterm policy started in 2017. In the situation where environmental preservation has become a global issue, companies are now required to promote a sustainable society. The KYB Group promotes energy conservation activities by adopting a new approach and introducing large compressors equipped with energy-saving technology and wastewater treatment equipment with high throughput capacity to reduce the environmental load. In addition, we will continue our efforts to achieve our target environmental load by implementing consistent activities to eliminate leaks of oil and air pressure used in production equipment and to control the temperature of air-conditioning equipment. However, we did not achieve our goals for activities to save manufacturing-related energy and could not reduce industrial waste. In fiscal 2018, based on reflection from activities in fiscal 2017, we will further work on the visualization of energy, waste reduction, and recycling to reveal and reduce waste. Finally, we would like to thank you for your interest in this report. We will continue to further enhance and improve our activities. We appreciate your continuous support and guidance.

(Masaru Tsuboi, Head of CSR Safety Headquarters)



Mid-term policy

Mid-term policy regarding the environment and safety

We have been formulating Phase 2 of our mid-term policy since fiscal year 2014.

We have started safety activities.

Environmental/Safety Mid-term Policy (2014 to 2016) Abstract below

1. Creation of factories aiming to minimize the energy consumption and waste

Reduce energy consumption per unit by 1% per year relative to 2013 levels, and reduce amounts of industrial waste per unit by 3% per year relative to 2013 levels.

2. Creation and expansion of industrial accident free production bases

The employees' awareness about the safety will be improved and critical hazards eliminated.

As of fiscal year 2017, the mid-term policy phase 3 will be developed, and we have started environment and safety activities based on the new mid-term policy formulated under the keywords: compliance with the rules, speed, and challenge.

Summary of the Environmental/Safety Mid-term Policy (2017 to 2019)

1. Creation of plants aiming to minimize energy consumption and waste

Environment development for partial supply of energy
Promotion of measures through energy visualization
Promotion of waste volume reduction and recycling

2. Creation and expansion of industrial and fire accident-free production bases

Risk assessment and promotion of measures for industrial accidents
Fire accident-free

Environmental conservation objectives

We developed the Environmental Management Activity Plan based on the company's environmental policy and implemented a variety of activities for each production base to achieve our goals. However, compared with fiscal 2016, which was the benchmark, we did not achieve our goals for CO2 emissions, zero emissions, and metal scraps. In fiscal 2018, we will further reduce energy consumption, improve productivity, and promote recycling.

Activity results of 2017

○: Goal attained ×: Goal not attained

Theme	Target values	Results of 2017	Evaluation	Publication page
Prevention of global warming	CO ₂ emission volume	95,581 t-CO ₂ or less	101,289 t-CO ₂	×
	Energy saving	Energy usage volume basic unit	0.71 kl/million yen or less	0.70 kl/million yen
Improvement of resource recovery and recycling rate	Recycle rate	91.3% or higher	90.1%	○
	Zero emission	4.7% or less	4.7%	×
Reduction of waste	General waste	519 t or less	504 t	○
	General waste per unit	2.15 kg/million yen or less	2.09 kg/million yen	○
	Metal scraps	17,751 t or less	19,755 t	×
	Metal waste per unit	249 kg/million yen or less	251.8 kg/million yen	×
	Industrial waste	1,678 t or less	3,539 t	×
Industrial waste per unit	28.36 kg/million yen or less	28.5 kg/million yen	×	

P31

Overview of major approaches in the fiscal year of 2018

Global warming prevention
Measures for replacing lighting with LEDs, LVDs, and other highly efficient devices, adopting inverter control for hydraulic units, reducing air consumption in plants, and reducing the air-conditioning load.

Waste material reduction
Paint gas volume reduction through biological treatment, introduction of waste treatment systems, and turning sludge and white gasoline into valuable products.

(Note) Basic units are calculated on the basis of marginal profit.

For energy, crude oil equivalent is calculated for electricity and fuel and the total value is displayed as total energy consumption. CO₂ emissions and energy consumption are calculated using methods determined by KYB.

Chemical substance management

Support for environmental controls on products

For protection of the environment, the REACH Regulations, other ELV and RoHS directives, and various laws and regulations are established under which stricter regulations are implemented. In order to address the stricter REACH and other regulations, we built a database of chemical substances subject to the regulations after conducting an investigation of the chemical substances contained in our products to accumulate the data. We can use this database to provide a rapid response to whether or not prohibited and restricted substances are used at the request of our customers and to respond to inquiries about highly concerned substances additionally registered to prohibited and restricted substances since the implementation of the REACH Regulations.

We will continue with activities that enable us to provide products that conform to the needs of our customers and of the market.

Risk assessment of chemical substances

In fiscal year 2015, we assessed the health risks of chemical substances at all of the production sites in Japan. In fiscal year 2016, we assessed the explosion and fire risk from chemical substances at the Gifu South Plant and Gifu East Plant. For the assessment, we submitted an explanation to all departments that handle chemical substances about the three elements for combustion (i.e., combustibles, oxygen, and ignition sources), flashpoint, and ignition temperature, which are the basic factors in explosion and fire phenomena. Chemi-

cal substances handled by the plants include invisible gaseous substances and those with a flashpoint below room temperature. We strive to provide useful information to those who handle chemical substances so that they understand through risk assessments the importance of eliminating ignition sources to prevent explosions and fires caused by chemical substances.

Response to PCB disposal

Transformers and other electrical equipment containing PCBs are stored securely at each business establishment. We concluded a disposal contract with a company specializing in detoxification processes and started disposal since fiscal year 2012. So far, we have completed the disposal of transformers stored at KYB-YS Co., Ltd., its Casting Center, and the KSM Mie Plant. We will proceed with disposal under the plan for each fiscal year.



PCB waste removed from KSM

Activities to reduce the environmental load

Activities to reduce the environmental load

Introduction of LED lights in plant

At the Gifu North plant, more than 10,000 lighting devices are used. In 2017, those installed in the upper positions, where replacing would be difficult, were preferentially replaced with LED lighting devices. Along with the replacements, the number of lighting devices was cut down since lighting devices are used at hand in some places at the plant. These efforts have led to energy-saving effects of a drop in the consumption of crude oil of about 150 kiloliters a year.



LED light devices in the high ceiling

LED lighting devices of the fluorescent tube type

Concerning chemical substance management

We developed a chemical substance database for chemical substance risk assessments and raised employee awareness of the hazards of chemicals to prevent accidents caused by chemical substances. In 2017, at the Gifu South and Gifu East plants, we re-implemented chemical substance risk assessments and conducted surveys on how to release chemical substances to reconfirm the hazards of chemicals and promote proper treatment methods. We also updated all safety data sheets (SDSs) in the database to cover the latest information on applicable laws and hazards. We will continue to regularly implement these measures to prevent accidents and compliance violations caused by chemical substances.

Reducing compressor power consumption by reducing air supply pressure

The Gifu East plant has been working on energy savings with regard to the air supply equipment by controlling the number of compressors and introducing inverters. In addition, we have been monitoring air use and air pressure at each site on a daily basis and found that we could save energy by decompressing the compressor's air feed pressure. However, because of concerns that an excessive decrease in the compressor's air feed pressure might cause problems in any equipment using air and trouble in the production processes, we determined the allowable range of air pressure by continuously measuring air pressure at sites with the longest pipelines from the compressor. Furthermore, we took careful precautions by compressing

the compressor's air feed pressure in two stages. As a result, we reduced the compressor's air feed pressure by 0.04 MPa without hindering production and thus reduced the compressor's power consumption by about 3%.



Before applying heat-shielding coating

Weeding by goats at the Gifu East plant

Approximately 30% of the total site area of the Gifu East plant is a green belt where we regularly maintain the scenery of the plant by weeding the green areas. In 2017, we introduced goats to do the weeding. Goats eat grass and make fertilizer, which contributes to weeding and soil improvement of the green belt. At a summer festival in the neighborhood housing complex, we provided weeds to the residents so that they could interact with goats by feeding them through the fence. We believe we offered good memories of summer vacation to the residents, especially the children. We were also interviewed on cable TV Kani for broadcast to the public. We will continue to use goats so that neighboring residents can enjoy our activities.



Interview by Cable TV Kani



Summer festival in the neighborhood housing complex



Preventing goats from escaping by using solar electric fences

Our new administration and welfare building ranked A in CASBEE

The administration and welfare buildings at the Kumagaya plant were integrated into a new building in August 2017, which was ranked A (BEE = 1.8) in the Comprehensive Assessment System for Built Environment Efficiency (CASBEE). As a comprehensive evaluation, we suppressed the height and volume of the building in consideration of the surrounding landscape and adopted top lights and high side lights using daylight. We also adopted several motion sensor lighting systems to address concerns for the in-house environment. Furthermore, we reduced the thermal load of buildings for efficient energy operation. In terms of resources and materials, we use recycled materials for items other than body materials and recycle components. The construction had been conducted during the period from November 2015 to August 2017 and ended successfully without major delays or accidents.



Reducing power consumption of small once-through boilers

At the Sagami plant, we are trying to reduce power consumption by the small once-through boilers to address the issue of global warming and to reduce the environmental load. We updated two boilers in 2017. A belt drive system was used for the blower fan of a small once-through boiler, which supplies steam to air conditioners and plating tanks but caused a lot of transmission loss of power owing to slipping and other symptoms. We therefore changed the drive system to a direct fan-driven high-efficiency electric motor and thereby reduced power consumption by about 25%.



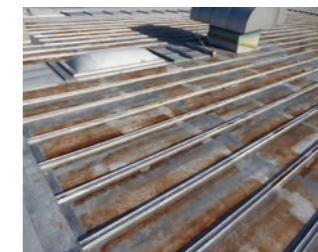
Small once-through boilers in general



High-efficiency electric motor

Heat-shielding coating applied to the plant's roof

The Gifu North plant started operation in 1968. One of the buildings is 50 years old and requires periodic repairs. We repair a predetermined area of the plant's roof every year. In 2017, we applied a heat-shielding coating to the roof. The coating resulted in a high heat-shielding effect of about 3.5° C in terms of the temperature difference in the attic of the plant. We will continue to apply heat-shielding coating systematically to improve the air-conditioning effect at the plant.



Before applying heat-shielding coating



After applying heat-shield coating



Comparison of heat-shielding coating

Adopting inverter control for cooling towers for production

The Gifu North plant has many cooling towers for production, one of which used a large motor. Accordingly, we installed multiple small motors to change the operation method to one that operates according to the load. In addition, we adopted inverter control for the motors to maintain a constant level of supplied water pressure. As a result, power consumption at light loads during break time and at night was reduced, which resulted in energy savings by about 30%.



Applying inverter control for cooling towers

Side by Side with the Customer

Activities for Customer Satisfaction Improvement

Basic quality policy

With quality management as the foundation of corporate activities at KYB, we set the basic quality policies to raise awareness of our social responsibility for product quality and to create a corporate culture of open communication by establishing the custom of "bad news first". Any abnormality should be quickly reported, and we sincerely strive to solve the problem, thereby providing products and services satisfactory to customers and society.



Badge for FY 2018

Quality Assurance System

We have built a quality assurance system that complies with the ISO 9001 standard, which places emphasis on the quality of work processes as well as quality of products and quality of services, and we have this system in operation. We also strive on an everyday basis to make improvements in those aspects of quality.

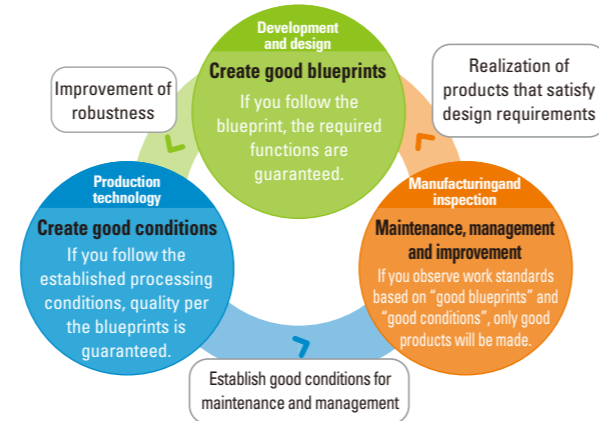
Quality at the development design stage, which includes the development of manufacturing methods and processes for producing our products, are determining factors in the market quality of our products. Furthermore, the degree of completeness of production shop floor work procedures and other such rules, together with the level of perfection in operation, will contribute to a reduction in process defects and other such quality losses that occur in skilled manufacturing.

At KYB, we implement what is called a three-step evaluation process for methods of developing and mass producing products, technologies, manufacturing methods, and so on. We make every effort for higher quality throughout the product life cycle, from the product planning stage to improvement of defects and change management after mass production and shipment. At our production bases, we take a variety of quality improvement measures under the leadership of the base managers and plant managers, and we are working to promote the unerring operation of our three-step evaluation system.

Development of products and technology through a 3-step evaluation process and the Declaration of Quality and Safety

Step	Goal of the 3 steps	Quality assurance steps
Prior/Model development DR0 evaluation meeting	Proof of possibility (Description/evaluation of developed quality)	Development quality
Order development DR1 evaluation meeting	Proof of mass production (Actual proof/evaluation of developed quality)	Start quality
Mass production development/ Production preparations DR2 evaluation meeting	Proof and serialization of applicability (Actual proof/evaluation of start evaluation)	Mass production quality
Mass production	Declaration of Quality and Safety There will be confirmation before the start of regular production that the mass product quality has been built into the design.	

What KYB Aims to Be: Quality problem prevention cycle



TOPICS

Activities of Full-Time Improvement Team

At each hub of the KYB Group, improvement activities have been carried out continuously in line with the policy of solving quality challenges. Under the leadership of the hub chief, the situation will be promptly established where quality satisfactory to our stakeholders, such as customers and partners, is created. If the hub fails to achieve a certain result, the hub chief will organize the Full-Time Improvement Team so that the time and budget necessary for improvement can be ensured in order to speed up the process.



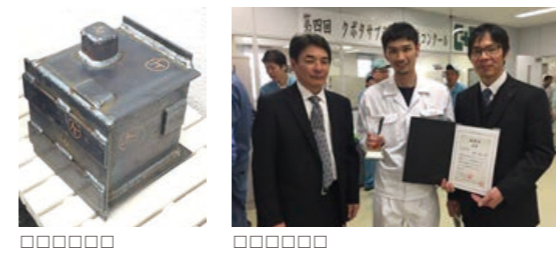
Activity of the Full-Time Improvement Team (plant in Indonesia)

Supplier Award List

Date	Hub	Award	Description	Customer
2017.4	HC Operational Headquarters	Kubota Supplier Skill Competition	Gold Award in Welding Section	Kubota Corporation
2017.4	HC Operational Headquarters	All Kubota Skill Competition	Achieved sixth place among 26 suppliers	Kubota Corporation
2017.5	KIMZ	Best Performance Award	Achievement of problem-free quality and delivery	Jatco Guanzhou Ltd.
2017.5	KAC	Supplier Excellence Award 2016	Achievement of excellent results in quality and delivery	Yamaha Motor Manufacturing Corporation of America
2017.5	Takako Industries, Inc.	Commendation for Excellent Company	Promotion of safety management and accident prevention	Association of Shiga Prefecture fire prevention and security
2017.7	Takako Industries, Inc.	Supplier Commendation	Achievement of problem-free quality and delivery	Bosch Group
2017.7	AC Operational Headquarters	Certificate of Appreciation	Contribution to and cooperation in referral sales	Toyota Home Corporation
2017.7	AC Operational Headquarters	Regional Quality Award	Achievement of defect-free products	Jatco Ltd.
2017.9	KYB-YS Corporation	Quality Excellence Award	Achievement of five consecutive years of defect-free product quality	Aichi Machine Industry Co., Ltd.
2017.9	KYBT	Supplier Quality Excellence Award 2016	Achievement of zero complaints for quality	General Motors, Thailand
2017.11	KIMZ	Supplier Commendation	Achieved full scores for quality, cost, and delivery	Caterpillar Inc
2017.11	KMSB	Excellent Supplier Award	Contributed to quality, delivery, and cooperation for cost	Hong Leong Yamaha Motor Sdn. Bhd.

Participation in the All Kubota Skill Competition

In April 2017, Yasuhiro Okumura of Manufacturing 2 Division, Manufacturing Department, South plant, participated in the Kubota Supplier Skill Competition sponsored by Kubota Corporation and won the Gold Award in the welding section. This competition by Kubota Corporation is intended to improve skills together with suppliers and thereby provide better products to customers. Because of the excellent result in the competition, Okumura participated in the All Kubota Skill Competition within Kubota Corporation as the only representative of the suppliers. Among the 26 skilled competitors from hubs all around the world, he won sixth place, and he was confident that he could apply the skills developed in the manufacturing workplace. He will continue to make further efforts to help improve the KYB brand reputation by aiming at further development of his skills.



Information supply to customers

We think that exhibitions are precious opportunities to directly hear customers' opinions. We will continue to positively participate in exhibitions.

Participated Exhibitions (partial)

Exhibition	Major Presentation
Convention for expanding sales	Parts/Processed products KMV (Vietnam)
The 42nd Japan Meat Industry Fair	Hydraulic Machine, Hydraulic System
Automec Brazil	Automobile components
Automotive Engineering Exposition	Communication and Image Terminals
Paris Air Show	Electric brake, electric actuator
Bangkok International Auto Salon	KYB shock absorber
Gunma Parts Show	Car participating in the rally
41st Plant Maintenance Show	Oil analysis of machines and equipment
Higashi Hiroshima Environmental Fair (see p. 22 for details)	Town Beaver
Eco Drive Championship	2017 Champion Car
China Auto Salon	Exhibition of KYB shock absorbers
China International Agricultural Machinery Exhibition	Hydraulic products for agricultural machines
Automechanika Shanghai	Commercial shock absorber
Fifth Mass-Trans Innovation Japan 2017	Brakes for railroad vehicles, Suspensions
Third IoT/M2M Exhibition (Autumn)	New products of communication terminals
EXCON 2017	Concrete mixer trucks
Tokyo Auto Salon 2018	Automobile equipment

2018 Interviews/Lectures List

Interviews and lectures are good opportunities for communication directly with customers and the media. We intend to continue taking such opportunities to participate in them. The following include some of the exhibitions we participated in:

Participated Exhibitions (partial)

Exhibition	Major Presentation
Efu (F), the organization publication of Fuyo Kondankai (social gathering Fuyo)	Interview with the president, Nakajima
Tokyo Shimbun	Interviewed regarding development of products for chair-skis
Tokyo Shimbun, Sankei Sports, NHK	Interviews with chair-skier, Takeshi Suzuki
KYB lecture	Explanation by the procurement headquarters about our policy for partner companies
Lecture on target costs	Lecture by an emeritus professor of a university on target costs
Tenth JFPS International Symposium on Fluid Power	Poster Presentation
47th Supplier QC Circle Convention	Attended by 133 supplier companies
KYB partner company shareholder meeting	From the top to the sixth-biggest shareholders participated
30th Kanagawa Prefecture Seminar on Quality Control	Lecture by Mr. Usui, special advisor, on quality management
Convention of the QC Circle, Kanagawa Section	Talk Show of Ukyo Katayama

With Business Partners

Establishment of Partnership

Basic policy for procurement

KYB is making an effort to take the corporate social responsibility (CSR) and continue to be a company relied upon by the society. Suppliers are important partners for us to continuously develop through craftsmanship and help realize a wealthy society. Our basic policy for procurement is described below: For detail, see our website

<http://www.kyb.co.jp/company/csr.html>

Activity results of 2017

- | | |
|---|---|
| 1 Procurement activities aiming at the coexistence and mutual prosperity of KYB and our suppliers | 6 Timely delivery |
| 2 Legal compliance | 7 Protection of natural environment |
| 3 Quality First | 8 Construction of global procurement system |
| 4 Safety and health, human rights and labor | 9 Risk management |
| 5 Continuous cost reduction activities | 10 Classified information management |
| | 11 Prevention of corrosion |

Fiscal Year 2017 Procurement Policy Briefing

In fiscal year 2017, we again held a KYB Procurement Policy Briefing in order to strengthen the collaboration between KYB and our suppliers. (Palace Hotel Tokyo: Chiyoda-Ku, Tokyo) On the day of the meeting, we welcomed suppliers from 224 companies, 10 more companies than in the previous fiscal year, to whom we presented explanations of company policy, procurement policy, and quality policy.

We also presented commendations to outstanding suppliers who had achieved results from their who have achieved an effect in QCD. After that, we also held a social reception for the suppliers as an occasion for friendly exchange.



Action against conflict minerals

Four kinds of minerals (tantalum, tungsten, tin and gold) produced in conflict

areas, including the Democratic Republic of Congo and its neighboring countries in Africa, are defined as conflict minerals. We have been required to confirm that purchasing or using the minerals extracted there will not fund armed conflicts or contribute to the infringement of human rights in the conflict area.

The KYB group companies is well aware of the CSR perspective and of the import of financial regulatory reforms (the Dodd-Frank Act) in the United States. We are acting on that basis to create our own corporate guidelines, and we are collaborating with our customers and suppliers on measures to prevent the use of conflict minerals that have been extracted illegally.

Activation of Improvement Activities by a Supplier QC Circle Convention

To improve the activities of suppliers, we sponsor a supplier QC Convention every year. In FY 2017, we held the 47th convention in Tokyo for the first time, with 173 participants from 133 companies. Among the 31 companies that applied, the best six gave presentations on good examples of improvement. Hekikai Kouki Co., Ltd., won the highest award (Gold Award) for the fourth consecutive year.

Survey of Status of Business Continuity Plan (BCP)

In preparation for the three anticipated interlocked earthquakes (Tokai-Tonankai-Nankai), an explanation was provided on the BCP at the meeting for the production trends at each plant. As we did last year, in consideration of the importance of understanding the BCP status of suppliers, we conducted a questionnaire that consisted of 100 items in seven categories (actions for anticipated risks, securing personal safety and emergency evacuation, disaster task force, confirmation of safety, confirmation of property damage, instructions for returning home and people who have difficulty returning home, and re-establishment task force) and had participants make a self-assessment. We asked all suppliers to grasp their action status and to take scheduled action hereafter for any items that have not been implemented.

VOICE

On winning the Gold Award in the Supplier QC Circle Convention < Hekikai Kouki Co., Ltd. >

In the presentation circle this time, the goal was to stabilize performance at a high level, and we worked on the theme of improving PPH and reducing costs. One good point was that as we proceeded with improvement activities, everyone came up with ideas for improvement. Thus, we successfully reduced machine time and hand time. We achieved our goals and eliminated work on holidays for great results. When we ran into a difficulty and overcame it, we achieved a sense of accomplishment and made greater efforts in daily activities. We decided to continue working to raise the level of all members and address new challenges to increase the satisfaction of customers.



Presenter: Atsushi Inoue (middle)
Assistant presenter: Daisuke Taguchi (right)

For the Community

Social Support Activities

Cleanup Campaign in the Shiba Area

In the Shiba area, where KYB is located, the Cleanup Campaign (Town with No Smoking on the Street!) was held with volunteers from KYB and participants from neighboring enterprises to clean the streets. Although the day was very cold, the volunteers worked hard to accomplish the task of making the town cleaner together with all participants. We will continue to promote activities that contribute to the local community with the participation of employees.



Cleanup activity

Donation to the Akaihane Central Community Chest drive

The Tokyo Metropolitan Social Welfare Convention was held at the Tokyo Metropolitan Government Office with about 500 participants, and commendations and certificates of appreciation related to social welfare were awarded. At this convention, KYB received a commendation from the chairperson of the Community Chest of Tokyo for the donations made for eight consecutive years.



Certificate of Commendation from the chairperson of the Community Chest of Tokyo

Plant Tour for Individual Shareholders

As was held last year, the plant tour for individual shareholders was held at the Gifu North plant in March 2018. About 30 shareholders joined us on the tour day and we showed them around the factory, the safety experience hall, and the exhibition area. After the tour, the question and answer session provided a valuable opportunity to obtain comments from the shareholders.



Plant Tour

We believe that positive information disclosure leads to open management and to a sense of security by the shareholders. We will continue to hold plant tours and make efforts to deepen the understanding of our company through dialog between shareholders and us.

Official Sponsor of SC Sagamihara

For the purpose of the revitalization of the local community and the promotion of sports, KYB is an official sponsor of the J3 league soccer team, SC Sagamihara, based in Sagamihara, Kanagawa, where our Sagamihara plant is located. The company has supported the team since 2012 by holding the annual official home game, KYB Special Support Match. All KYB

employees will continue to support SC Sagamihara and develop activities together with the local community.



KYB Employees' Children as Escort Kids

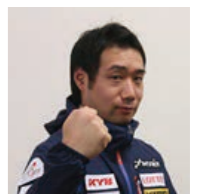
Group photo taken before the KYB Special Support Match

Joint Disaster Drill with Neighborhood Medical Organizations

In the event of a disaster, the KYB Gifu South plant has concluded an agreement to cooperate with the nearby Japan Community Health Care Organization (JCHO) Kani Tono Hospital and thus participates in the joint disaster drill every year. This drill is conducted by the Kani Tono Hospital to simulate a large-scale earthquake and then conduct an emergency response in cooperation with the staff members, area residents, and local businesses. In 2017, the firefighting team of the Gifu South plant headquarters participated in this drill and conducted an evacuation drill using the EVAC+CHAIR (stairway evacuation carrier for injured persons) and a water-discharge exercise, confirming the antidisaster measures of the cooperative structure in the event of a large-scale earthquake. KYB intends to increase the company's awareness of disaster prevention through these activities and to contribute to the local community.

Continued Support of the Para-Alpine National Ski Team

As an official sponsor and supplier of the Para-Alpine National Ski Team of the Japan Para-Ski Federation (Specified Nonprofit Organization), we develop and provide technical support for shock absorbers for the chair-skis of the Japanese team at their training camps and in the World Cup in various countries. Also a KYB employee, Takeshi Suzuki, who is a specially trained skier, has participated in races and practiced very hard while positively dealing with the media and giving lectures. The KYB Group will continue to positively promote sports as part of its contribution to society while making efforts to improve products.



Para-alpine skier, Takeshi Suzuki, a member of KYB



Chair-ski



Shock absorbers for chair-skis

▶ Social Support Activities

Setting up an Exhibition Booth at the 45th Tokyo Motor Show 2017

The 45th Tokyo Motor Show 2017 was held under the theme of "Feel the Passion, Feel the Future. Feel with KYB." Our booth had the theme "Passion for Motor Sports," "Introduction of Advanced Technology (Future)," and "Letting the Students and Children Who Will Create the Future Know About KYB Products Which Support Our Daily Lives (with KYB)," which made our exhibition very attractive. We introduced the development of the EPS coordinate control system and exhibited our newest shock absorbers to control vehicle attitude, holograms of KYB technologies, and a machine to experience EPS. We also held a talk show with Ukyo Katayama and attracted significant attention from the media. Compared with last year, the number of visitors to our booth increased, and we were thus able to publicize the KYB brand.



KYB booth



Talk show of Ukyo Katayama

Exhibition Booth at Higashi Hiroshima Environmental Fair 2017

We exhibited Town Beaver F to contribute to green recycling at the Higashi Hiroshima Environmental Fair 2017 sponsored by Higashi Hiroshima City. This year was the third consecutive time we participated. We gave a demonstration of the Town Beaver chipping pruned branches and enjoyed favorable reception from many of the visitors. Town Beaver F was delivered to Higashi Hiroshima City in November 2017. We will continue to publicize the Town Beaver in several areas in order to protect the natural environment so that the next generation can inherit towns rich in greenery.



Demonstration of Town Beaver F 1

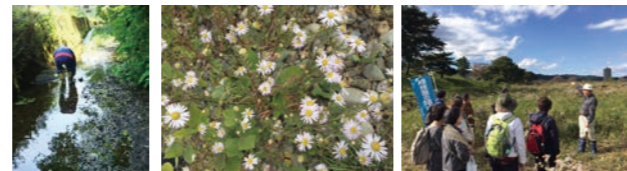


Demonstration of Town Beaver F 2

Environmental Conservation Organization of Sagami-hara

The Environmental Conservation Organization of Sagami-hara monitors changes in the environment in order to prevent pollution, protect the rich natural environment, and create a comfortable environment. For this purpose, the organization sponsors a variety of activities in all seasons every year, including bird-watching, an environmental class during the summer holidays, river bio-assessments, and nature observations. Our

company participates in conservation activities as a member of the organization, and in FY 2017, we participated in a survey of the changes in the condition and the kinds of riverine biota in the rivers in the city, observed the endangered Aster kantoensis and other riverside plants, and contributed to the maintenance of the riverside.



Survey of riverine biota Observation of the endangered Aster kantoensis and other riverside plants

KMSB (Malaysia): Visit to an Orphanage and Tree Planting

As part of the contribution to the local community, KMSB (Malaysia) visited an orphanage during Ramadan (fast). The 43 children, who seldom have a chance to shop, were taken to the shopping mall where they enjoyed buying clothes and having dinner in a restaurant together at night. As part of the tree-planting campaign, KMSB planted mango and banana trees around the fences of the plant. A total of 37 volunteers from KMSB took part in the activity.



With the children of the orphanage



Tree planting

Campaign for the Prevention of Railroad Crossing Accidents

The Gifu South plant is located next to Kanigawa Station of the Nagoya Railroad (Meitetsu) Hiromi Line, and the railroad crossing is in front of the plant's main entrance gate. This crossing is also on the route to the local Kota Elementary School. As the entrance and opening ceremonies of the school were held on April 6, the Campaign for the Prevention of Railroad Crossing Accidents was conducted with the slogan "Let's Eliminate Railroad Crossing Accidents!" With the cooperation of Nagoya Railroad Co., Ltd., and the local Kani police, an executive employee of the Gifu South plant gave a speech that called for securing safety for the schoolchildren and KYB employees when crossing. This activity was appreciated by Kani City, and the story was published in the city's public relations magazine as "Activity of Watching over Children." KYB will conduct this activity continuously from next year.



Awareness campaign by Nagoya Railroad Co., Ltd. and local Kani police

Cosponsor My Daddy-Long-Legs Project

As part of its corporate support of the arts, KYB cosponsors the My Daddy-Long-Legs Project hosted by the Kani Public Arts Center. This project invites local children to concerts of classical music or jazz, theaters, and yose by this center. Many letters of appreciation expressing pleasure at their first contact with theatrical arts have been received.



Ceremony to present tickets



Daddy-Long-Legs

Tour of Gifu North Plant by Kani City Dota Community Center

With the themes "Learn the history of KYB" and "Strengthening ties with the local community," a tour of the Gifu North plant was held by the Dota Community Center with 25 participants. In the beginning, a Kani City official explained how KYB started business in Kani City during the war. After the tour, there was an active question and answer session. At the end of the tour, participants had lunch at the restaurant used by the employees. KYB will continue to value the relationship with the local community.



Explaining the company



KMV (Vietnam): Support for a Local Elementary School

As an event commemorating the 15th anniversary, KMV (Vietnam) donated lockers, bookshelves, and notebooks and pencils to an elementary school near the plant. KMV received many compliments from the children and was awarded a plaque in gratitude from the elementary school.



With the children who were given stationery

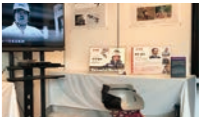


Exhibit Booth at the 11th Industrial Fair in Kani 2017

The Industrial Fair in Kani 2017 was held in spite of the bad weather from an approaching typhoon, and it was crowded with more than 16,000 visitors. The goal of this fair is to revitalize the local economy by introducing products, negotiating sales, and then selling the products. The fair is a good opportunity for visitors to learn about local business enterprises. KYB will continue to deepen its exchanges with local people through the industrial fair.



A view of KYB exhibit booth I



A view of KYB exhibit booth II



A view of KYB exhibit booth III

Participation in Kani City Environmental Festa

This year as well, KYB participated in the 18th Kani City Environmental Festa. This Festa is held to introduce the activities of citizens, business enterprises, and public administration to raise awareness of the environment and put the environmental basic plans into practice. As many as 30 groups, organizations, and business establishments set up booths with original ideas concerning the environment and, together with as many as 1,700 visitors, had the experience of thinking about the environment. Under the slogan "KYB Group contributes to society by providing the technology and products that make people's lives safer and more comfortable," KYB exhibited its own product, the Town Beaver (pruned branch chipping vehicle), and demonstrated chipping of 2.5 t of pruned cherry and hinoki cypress branches and then distributed the chips to visitors.



Full view of KYB booth



Chipping pruned branches

KMSI (India): Support for a Local Elementary School with Neighborhood Companies

KMSI (India), together with neighborhood companies, supported a local elementary school. In addition to giving every child an umbrella, rain gear, a canteen, and a lunchbox, the support included commemorative tree planting and medical diagnoses. It is an important social responsibility for the enterprise to support local children to study peacefully and enjoyably and thereby contribute to the local community. We will continue to engage in local contributions together with neighborhood companies.



Local elementary schoolchildren



Medical diagnoses

With Employees

Human Resource Utilization and Work Environment Improvement in Cooperation

Basic Concept

We are engaged in priority initiatives for the development of global human resources, construction of a global platform, and promotion of diversity. These are steps we are taking in order to utilize our diverse human resources to best advantage and to maximize Group capabilities.

Specifically, we are pursuing investigation of themes such as the development of professional human resources, sharing values across the whole Group, strengthening the development of human resources for skilled manufacturing, promoting work-life balance, and managing psychological and physical health. These are to further the creation of a workplace environment that is easy to work in.

Implementation of Employee Awareness Survey

KYB implemented employee awareness surveys for all employees in January 2018 as a first-time attempt. To obtain honest opinions from employees about the workplace culture, work environment, and management policies, we conducted an anonymous survey and asked an external organization to collect and analyze the results. We will use the data to develop an environment where every one of our employees can work with more enthusiasm through the whole company.

Activities Aiming to Further Promote the Advancement of Women

KYB endeavors to make the company a place where diverse human resources optimize their individuality and continue creating new value and competitive products. As a part of this engagement, we aim to develop an environment where every employee can have an active role by promoting the advancement of women. Accordingly, we embrace the following four pillars:

1. Training to develop skills and raise awareness
2. Cultivating a worker-friendly organizational culture
3. Support for employees on childcare leave
4. Support for diverse workstyles

In fiscal year 2017, we continued implementing Career Training for Women, Training for Managers Who Have Female Subordinates to change their mindset, and the Go Home Early campaign (Kaeru Campaign). We will not only promote the advancement of women but also widely promote and implement such activities from a diversified viewpoint.

Promoting Work from Home

As a part of the workstyle reform, we promote work from home by focusing on support for a balance between work and family for employees with childcare or nursing responsibilities. To begin with, we implemented a one-year pilot operation for eleven employees from the head and branch offices in November 2017. The program will lead to the reduction and effective use of commuting time and effort. Participants in the program are currently working from home up to twice a week. We would like to make improvements to make the system more accessible and expand the user base based on feedback from current users.

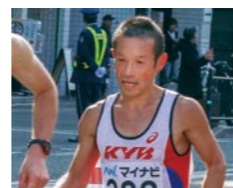
Mental Health Seminars

We held a mental health seminar for department managers, who play key roles in the organization. Mental health measures prevent employees from developing mental health issues and vitalize the organization. At the seminar, we had group discussions on the theme of what to do to create an environment that increases employee work engagement*. Through this training, we would like to help create a vibrant organization and increase the number of healthy KYB employees.

*Work engagement is the state where employees are motivated, feel rewarded regarding their jobs, and work with energy and enthusiasm.

KYB Track Club Activities

The KYB Track Club practices mainly on weekday nights and holidays. Everyone on the team practices and trains every day while balancing their work in a limited amount of time and focusing on improving performance. In September 2017, two athletes participated in and performed well at the 65th All Japan Industrial Track & Field Championships, where athletes compete for the title of Japan's number one. In December 2017, three athletes participated in the 71st Fukuoka International Open Marathon Championship, and Taniguchi set a new record for the most consecutive entries in the championship at 25. The KYB Track Club will continue working hard to achieve good results that will lead to the revitalization of other clubs.



Taniguchi set a new record for the most consecutive entries in the Fukuoka International Open Marathon Championship at 25



All Japan Industrial Track & Field Championships Long jump/Hanai



All Japan Industrial Track & Field Championships High jump/Tsukiji

Human Resource Development and Technical Capability Improvement

Global Engineer Training

We have been conducting global engineer training with the aim of upgrading skilled manufacturing capabilities at our production bases in other countries since 2006. This training is based on lectures in dialogue form, experiential exercises, and study tours of advanced plants, and is conducted on-site with actual equipment and materials for periods of two weeks to one month. After acquiring basic to applied techniques, trainees create proposals for improvements to their own bases and are assigned the implementation of those improvements on return to their countries.

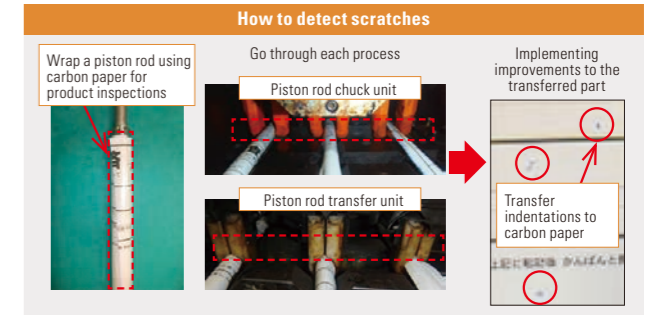
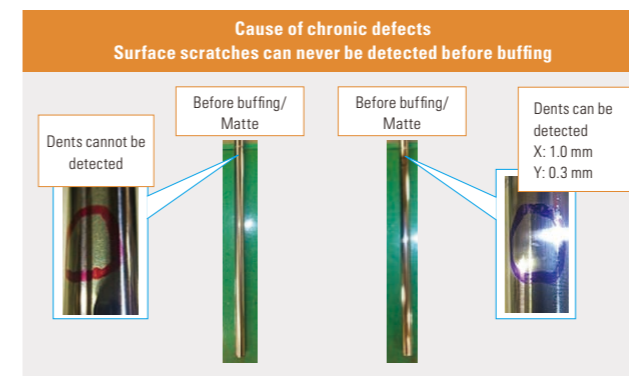


In FY 2017, 41 staff members from 15 bases in eleven countries participated in three courses (facility maintenance, plating, and KPS courses). We intend to continue these training sessions in the future and will promote the strengthening of skilled manufacturing capabilities at our production bases in other countries.

We intend to continue conducting these training sessions in the future, and will promote strengthening of skilled manufacturing capabilities at our production bases in other countries.

Quick Detection of Dents

The piston rod, the sliding part of the shock absorber, requires high quality because even a minute scratch will cause an oil leakage. Therefore, we perform visual inspections on all piston rods to determine whether they are defective.



It used to be difficult to detect surface scratches, which had caused chronic defects in the process for a long time. This problem was resolved by using a special technology to transfer scratches to carbon paper. As a result of continuous improvements until no transfer was made, dents were reduced by 80%, which we almost gave up trying to achieve. We are still pushing forward with this zero-dents activity.

KYB Global Production Meeting

In the KYB global production and quality meeting for FY 2017, 53 participants from 21 overseas bases presented examples of safety-, environment-, quality- and production-related improvements followed by enthusiastic question-and-answer sessions. On the first day, a KYB global improvement presentation session was held, and KYBSE (Spain) won the top prize with its presentation Safety -5 and Improvement of In-House Logistics Efficiency among 11 bases.

We are working to share information and issues related to safety, the environment, quality, and production at each production base; improve the respective functional levels; and contribute to future development.

LT50 Activities (improvement) Example

[Before improvement] To prevent rod screws from rusting, antirust oil was applied with a dipping method. However, there was oil dripping that needed to be cleaned and removed from products and boxes to prevent the dripping from being mistaken for accidental oil leakage.



[After improvement] To prevent from oil dripping, an appropriate amount of misted antirust oil was sprayed in the chamber in the antirust oil application process. Using an appropriate amount of antirust oil also reduced oil use and reduced labor hours for cleaning boxes and the use of waste cloths.



Occupational safety and health

Employee Communication

The 16th KYB Corporate Sports and Cultural Exchange Interactive Event

The 16th Sports and Cultural Exchange event was held in the Sagami area. A total of 1,047 contestants gathered at the site and competed in 10 categories for an exciting event. As special events, SC Sagami-hara and Ukyo Katayama, who KYB currently sponsor, participated in the event, where we held a futsal exhibition match and kart racing with them. Through sports competition and cultural exchanges, employees of the KYB Group can deepen their understanding and strengthen ties with colleagues. The competition has become a valuable annual event.



A view of the opening ceremony (Kagami biraki)



Special event (Kart racing with Ukyo Katayama)



Special event (Futsal exhibition match with SC Sagami-hara)

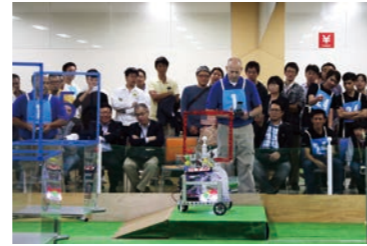
The 10th KYB Robot Contest

The 10th Robot Contest was held at the Sagami plant on October 21, 2017. Fifteen domestic teams and nine overseas teams entered the competition from the KYB Group. The heated competition was filled with excitement appropriate for the 10th commemorative contest and progressed to the cheers of a large audience that had gathered despite the rain. Participating teams competed in a ball-toss tournament; using remotely controlled robots, they picked up balls from a basket placed on their court and tossed them into several baskets placed at different heights on the opponent's court in a competition for total points.

An overseas team performed particularly well in the contest. KAC (USA) won its fourth overall championship title for two consecutive years beating Nhanh Nhanh TVC (Vietnam), which took 12th place last year. In the third-place final, Xomodo (Indonesia), which was second place last year, defeated KMSB (Malaysia), which was 10th place last year. Although KYB Manufacturing Taiwan (Taiwan) won the Idea Award, Japanese teams also performed greatly; LaboRobo (Basic Technology R&D Center) won the Technical Award, Karakuri System Machinery (KSM) won the President's Special Award, and ACES☆ (AC Products Planning

and Development Department and others) won the Convention Committee Chair's Special Award.

Robot Contest 2018 will be held at the Gifu East plant.



Competition where KAC team won the championship

Held a Marche to Support Areas Afflicted by the Great East Japan Earthquake

With the cooperation of the Miyagi prefectural government, KYB held the third Reconstruction Support Marche at the head office to support areas afflicted by the Great East Japan Earthquake in March 2011. Unlike previous marches, employees from KYB plants in areas other than Tokyo participated this time, which made the event company-wide. Although seven years have passed since the Great East Japan Earthquake, we would like to continue providing reconstruction support so that time will not erode people's memory of the earthquake.



Photo of Miyagi Prefecture Marche

Participated in Kanagawa Science Summer (KYB Museum)

Kanagawa Science Summer is an activity that Kanagawa Prefecture promotes for children to develop an interest in science technology and enhance learning motivation. KYB's four departments of the KYB Museum, PR, HR, and IR collaborated in the event for the first time and held three sessions between July and August 2017. The target audience was primary school students between 4th and 6th grades and their parents. We provided a lecture on Pascal's law followed by a workshop to create the front part of an excavator using a syringe, in addition to the test operation of a mini excavator. We attracted favorable comments from parents and children who experienced how interesting science can be and the joy of manufacturing. We would like to continue such activities and help develop the KYB brand.



Test operation of mini excavator



Lecture



Workshop

Industrial health and safety

Conducted BCP Drill with Blind Method

On June 29, 2017, we conducted the BCP drill with the blind method at the Gifu North plant on the assumption of the anticipated Nankai Trough earthquake. Prompt, appropriate responses to ever-changing situations were challenging. The president and other board members participated in the activity. Also, a situation-reporting drill between the local response headquarters and emergency response headquarters at the head office was held via a videoconference system. We would like to use the many issues identified through the drill to develop the BCP system for the future.



Gifu North Plant



Head office

Held by the Labor Standards Inspection Office Cooperation with Prevention of Getting Caught in Machinery Seminar

In FY 2017, many industrial accidents involved workers becoming caught in machinery within the jurisdiction covered by the Tajimi Labor Standard Inspection Office, which has jurisdiction over the Gifu area. The factors behind the accidents were thought to be undeveloped operating procedures and insufficient work training. A Work Safety Manual Creation Seminar was thus held by the Labor Standards Inspection Office on Wednesday, July 5.

As a hands-on workshop for this seminar, Cooperation in the Prevention of Being Caught in Machinery seminar was held at the Gifu South plant on Tuesday, August 8, and 31 employees from 25 companies within the jurisdiction of the Tajimi Labor Standard Inspection Office participated. We introduced health and safety initiatives from the Gifu South plant, provided site observations and Health and Safety Simulation Training, and had the participants see and experience our operating procedures and examples of safety



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measures for machinery and equipment. In the wake of this seminar, the Gifu South plant would like to actively exchange information with neighboring companies and promote health and safety activities with the local community.

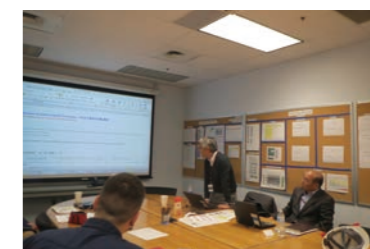
Occupational safety and health

Aiming for zero industrial accidents

With "Safety Takes Priority over Everything" as our slogan, all KYB companies have been working as one on safety since fiscal year 2012. An Environment and Safety Committee has been established as the KYB group organization chaired by the executive officer for Environment and Safety, and this is the focus of specific activities carried on at each KYB business establishment by the Safety and Health Committee. In FY 2017 for the various overseas production bases, we



Safety audit at the Brazil plant (KMB)



Safety audit at the US plant (KAC)

expanded the measures for risk assessment; stop, call, wait; repeated safety education; and implemented the safety gate as used in Japan the previous fiscal year. However, in FY 2017, although the number of occupational injuries increased compared with FY 2016, no serious industrial accidents occurred. We are committed to continuing these activities in order to move toward zero industrial accidents in the future.

Number of occupational accidents, Frequency rate, Severity rate



Corporate Management

Corporate governance

Principles

Our corporation is committed to fulfilling our corporate social responsibility as to contribution to society as well as to meeting shareholders' expectations by realizing sustainable and stable growth and increasing corporate value, and to that end we pursue a quick and efficient management structure, a highly fair and transparent management supervisory function, and continuous effort to strengthen and enhance our corporate governance by our corporate philosophy and the basic policies given below.

Basic Policies

1. Our corporation shall respect the rights of shareholders, and ensure the equal and fair treatment of all shareholders.
2. Our corporation shall take the benefits of shareholders and other stakeholders into consideration and endeavor to appropriately cooperate with those stakeholders.
3. Our corporation shall not only engage in information disclosure that is in compliance with the relevant laws and regulations, but shall also actively provide important 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. Our corporation shall engage in constructive dialogue with shareholders, and make efforts to obtain shareholders' support regarding the Company's Business Policies while also incorporating shareholders' opinions and concerns in our efforts to improve management.

Corporate governance system

Our corporation is a corporation with a board of auditors in terms of institutional design as specified by the Companies Act.

Board of Directors

The board of directors consists of eight members, including two outside directors, and makes decisions on critical matters concerning management and supervises the execution of the duties of directors in compliance with laws, regulations, the Articles of Incorporation, the rules of the board of directors, and other internal regulations. The general meetings of the board of directors are held once a month, in principle.

Board of Executive Officers

The board of executive officers discusses important matters concerning corporate management from a company-wide viewpoint as a preliminary deliberative body for projects submitted to the board of directors.

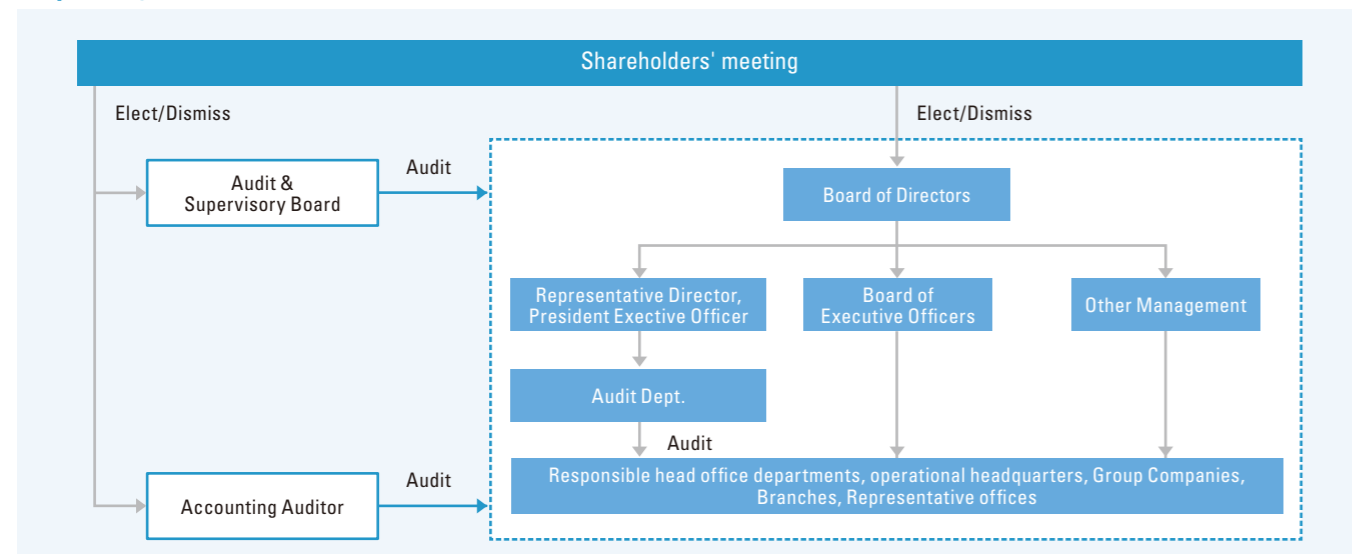
Other Management Committees

The Domestic Affiliated Company Management Committee and the Global Strategy Committee oversee the management practices of the domestic and overseas affiliated companies on a regular basis. There are other committees to enhance the monitoring system for KYB Group management, such as the Operations Review with the President where the president of the corporation visits plant worksites and follows important issues related to manufacturing.

Audit and Supervisory Board

The audit and supervisory board consists of four regular auditors, two of whom are outside auditors. Through audits by outside auditors, we expect effective management supervision and conclude that an effective governance system is in place. In addition, one of the outside auditors is registered as an independent director.

Corporate governance structure



Internal control

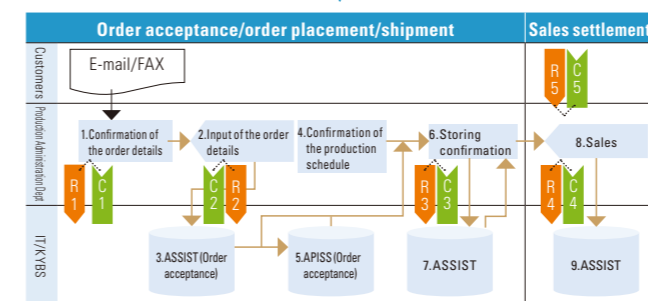
Corporate governance functions effectively on the premise of ensuring the reliability of financial reports and increasing work efficiency and compliance. To promote those functions, we consider it absolutely essential to focus on the development of an internal control system and the enhancement of internal control. For example, we have instituted the fundamental policy for an internal control system by the board of directors in accordance with the Companies Act, and we are promoting several measures for the development of a risk control system, group management system, and internal compliance system. Also under the Financial Instruments and Exchange Act, we operate the development and the management assessment of Internal Control over Financial Reporting by following the procedure specified in the act to secure the reliability of financial reports, as well as ensuring appropriate information disclosure.

Self-managing by "visualization"

KYB has applied the Internal Control over Financial Reporting pursuant to the Financial Instruments and Exchange Act since April 2008, whereby we promote the schematic expression and evaluation of operations that affect financial statements. Our business procedures and rules are defined in the company regulations and instructions, and by representing the flow of business operations in a more schematic form, we enable visualization so that operations that were only under-

Flow chart of work operation (example)

No.	Title	Operation Description
1	Confirmation of the order details	The person in charge checks up if there is any error with item number, delivery time and quantity.
2	Input of the order details	Input the order details according to its contents already confirmed
3	Order acceptance system	Handle using the sales management system
4	Confirmation of the production schedule	The person in charge confirms the production schedule required by customers
5	Production control system	Handle using the production information control system
6	Storing confirmation	Confirm the storing contents after the part arrives from supplier
7	Shipping system	Receive the shipment data
8	Sales	The person in charge accesses the system and records the sales
9	Sales system	Tally the sales results



stood by the people in charge could be made understandable to others. This visualization also makes apparent potential business risks, and we have incorporated this as a plan for self-management to determine how well the checking function reduces risk.

Compliance

We regard compliance as the adherence to laws, orders, and rules, as well as to articles of incorporation, company rules, and agreements associated with business activities, in addition to corporate ethics that promote healthy business activities.

Compliance

1. As the rule for the execution of business activities by directors and employees, we have developed Corporate Guiding Principle and are focusing on the establishment of legal compliance and corporate ethics.
2. We are implementing the compliance education through training sessions by job titles and sections, including directors.
3. We have established communication channels to management by using the Instant Report and Suggestion Box as a system for the company and all group companies to identify company risks in a prompt manner. In response to the implementation of the Whistleblower Protection Act, we established exclusive contact points as a whistle-blowing system.
4. We set the policy for the protection of personal information, developed company rules, and established the Personal Information Protection Committee. We also have a contact desk to respond to inquiries from outside the company.
5. The company and all group companies confirm in writing that suppliers have no relationship with antisocial groups, and we may terminate a contract if we find any violations.

TOPICS

Guidelines for Corporate Behavior were revised.

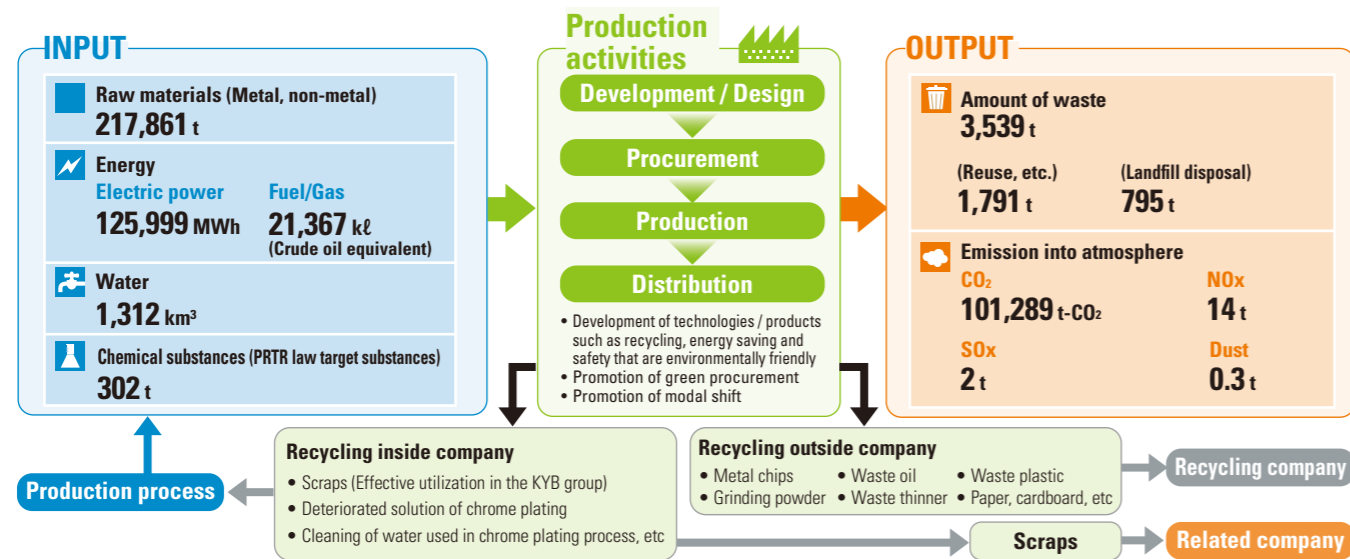
In recent years, global society demands strict compliance to the idea of corporate social responsibility, including respect for human rights and environmental conservation. To respond to this demand, we dramatically revised our Guidelines for Corporate Behavior in November 2017. The new guidelines aim to further improve corporate values by reviewing and sharing our group values among everyone in the group. To achieve this, we are engaged in supporting 14 languages used by employees in the KYB Group.

Environmental data compilation

Influence on environment associated with business activities

KYB uses energy, water, chemicals, and other such diverse resources. In order to make efficient use of limited resources in production, we take steps to reduce waste, CO₂, and other emissions.

INPUT / OUTPUT



State of ISO14001 certification acquisition

In order to develop our actions for environment preservation systematically, we are carrying out the introduction and the promotion of ISO14001 environmental management system. We will shift to the 2015 edition sequentially in the renewal examination.

● Japan

KYB	Certification registered year
Gifu South Plant (Including Gifu East plant, Production Technology R&D Center, Machining Tool Center, KMS)	2000.2
Sagami plant (Including the Basic Technology R&D Center, the Electronic Engineering Center)	2000.12
Kumagaya Plant	2000.12
Gifu North Plant (Including KYB Kanayama)	2001.12
Affiliated companies in Japan	Certification registered year
KSM Mie Plant	2000.12
Takako Industries, Inc. (Shiga Plant)	2003.2
KYB-YS	2004.4
KYB Trondole Co., Ltd.	2008.11

● Overseas

Company name	Certification registered year	Company name	Certification registered year
KMT (Taiwan)	2001.6	TVC (Vietnam)	2007.1
KSS (Spain)	2001.6	KMB (Brazil)	2007.3
KYBSE (Spain)	2001.12	KIMZ (China)	2009.4
KAC (United States)	2002.5	KMCZ (Czech Republic)	2009.8
KYBT (Thailand)	2003.7	KLRC (China)	2010.1
KST (Thailand)	2003.8	KWT (China)	2013.11
PT.KYBI (Indonesia)	2004.11	TAC (United States)	2013.2
KMSB (Malaysia)	2005.5	KMV (Vietnam)	2013.5
KSMSB (Malaysia)	2005.5	KAMS (Spain)	2015.6

Editorial Policy

We compile this report with reference to environmental reporting guidelines so that information regarding our business operations as relating to the environment and society can be conveyed to our stakeholders in readily understandable form.

In the 2018 edition of the report, we introduce numerous specific cases of new environment-friendly technologies and energy-saving programs, utilization

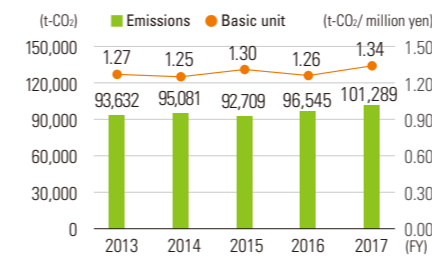
of human resources, and collaboration with local communities.

We will try to edit our reports to make them easier to understand. Therefore, our stakeholders' candid opinions will be much appreciated. The content of this report has been posted on our website, so please take a look.

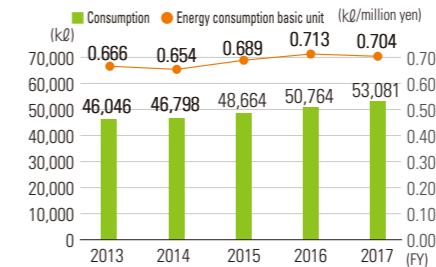
<http://www.kyb.co.jp/company/csr.html>

Environment-related Data

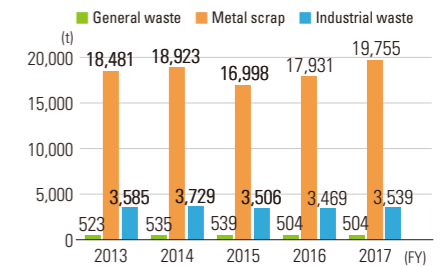
● CO₂ emissions



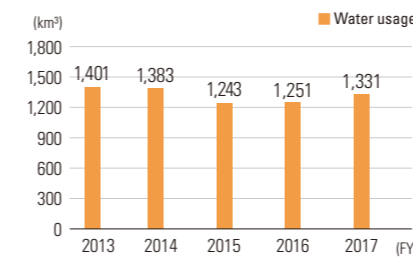
● Energy consumption



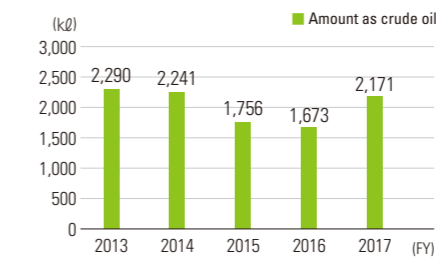
● Waste emissions volume



● Water usage/Wastewater



● Energy consumption for transportation



Environmental preservation cost

The amounts of investment and cost were separately calculated with reference to the Environmental Accounting Guidelines, 2005, presented by the Ministry of Environment.

Cost type		Major contents	Invested amount	Cost
(1) Cost within business area	(1)-1 Pollution prevention cost	• Atmospheric pollution and water pollution prevention activities • Maintenance and inspection of pollution prevention facilities • Analysis and measurement of atmosphere and water quality	9.2	121.7
	(1)-2 Earth's environment preservation cost	• Energy conversion • Energy saving activities	0.0	16.8
	(1)-3 Resource circulation cost	• Recycling of plant wastes • Reduction of industrial wastes	162.4	239.4
(2) Upstream/downstream cost			0.0	0.0
(3) Management activity cost			22.8	47.3
(4) R&D cost			0.0	54.4
(5) Social activity cost			0.0	13.3
(6) Environmental remediation cost			0.0	0.0
(7) Other cost			0.0	76.3
Total			194.4	569.3
Grand total			763.7	

Categories and definitions of environmental preservation costs

[Invested amount] Expense for the purpose of environmental preservation during the target period with effect that continues for a number of terms and cost running for those periods. (Amount acquired during the current term of the depreciable asset)

[Cost] Cost or loss generated from expenditure of finance/service for the purpose of environmental preservation.

● Period covered

From April 2017 to March 2018

(A part of our activities and reports outside of the period are also posted.)

● Scope

KYB Corporation and the affiliated companies inside and outside of Japan are included. Regarding environmental data, that of KYB Corporation (Sagami plant, Kumagaya Plant, Gifu North plant, Gifu South plant and Gifu East plant) is shown unless otherwise annotated.

● Time of publication

June 2018 (The next report is scheduled to be published in June 2019, with the previous one published in June 2017.)

● Referenced guidelines

■ This report was drafted and edited using the Ministry of the Environment "Environmental Reporting Guidelines 2012"

● Notes related to future prospects

This report includes our plans and prospects as of the issued date, and future prospects based on our business plans and business policies. We evaluate these future prospects based on information obtained when the report is drafted and thus the prospects may differ depending on changes in various conditions. We appreciate your understanding of the statement above.