



Our Precision, Your Advantage

KYB Group Report 2020

(April 1, 2019 - March 31, 2020)



Message from the President



During KYB's next 100 years, we will continue to create new value as a leader in hydraulics based on our spirit of creativity.

Masao Ono
Representative Director,
President Executive Officer

Our 100th Anniversary and the First Year of KYB's Recovery

We will use the occasion of our 100th anniversary to return to the tenets of our founder and combine the collective strengths of the KYB Group.

In November 2019, we celebrated the major milestone of the 100th anniversary of Shiro Kayaba's founding of the Kayaba Research Center. The spirit of vitality, love and creativity that Shiro Kayaba made his basic philosophy then as manager has been passed down in our current Corporate Spirit—"By serving technologies and products that make people's lives safe and comfortable, KYB group dedicates to the society"—and contributes to the growth of KYB today. We consider it our mission to continue providing an unbroken link between our past and our future.

However, as we announced in FY2018, the nonconforming acts associated with seismic isolation/mitigation oil dampers and improper claims to the Ministry of Defense have significantly impaired the trust we have earned since our founding.

The KYB Group made a new start in FY2019, which it viewed as "the first year of KYB's recovery," and worked

tirelessly to bring its nonconforming dampers into conformity as quickly as possible and prevent a recurrence. We are also constantly working to foster awareness of compliance. We are sequentially replacing nonconforming dampers and conducting other measures to bring them into conformity. As of June 30, 2020, we have completed approximately 60% of the replacements and aim for full completion by March 31, 2021. In addition, so we do not repeat the same mistakes, we will return once again to the tenets of our founder and combine our collective strengths to complete implementation of our measures to prevent a recurrence.

I want to protect the heritage that has been passed down since our founding so that the KYB Group remains attractive to its stakeholders. To achieve this, I will also focus on improving the working environment in the belief that it is crucial for each employee to work with vitality, love and creativity.

New Medium-Term Management Plan and Company Policies

We have developed a three-year management plan to regain trust and restore our pride with the aim of being a company that is attractive to its stakeholders.

The three years covered by our previous medium-term management plan were a very difficult period for us, albeit with many positives that give rise to optimism and hope for future growth. I hope that *KYB Group Report 2020* will serve as a medium to convey our various initiatives to stakeholders.

In FY2020, we begin a new three-year medium-term management plan that continues to place awareness and practice of compliance at the core of our management as we aim to transform into a highly profitable structure under the slogan "Recovering trust and pride." In addition to strengthening governance by spreading awareness and the practice of compliance, the plan's basic policy entails making a clear shift in emphasis from net sales to high profitability. In doing so, we will build a robust, sustainable

corporate structure capable of generating the innovative manufacturing and products that will support us in the future. Along with pursuing profitable and sustainable businesses, we will focus on creating a workplace where employees can take pride in work they find worthwhile, with a stance of meeting the expectations of customers and society as the basis of our corporate activities. I intend to change our previous ways of thinking and working in order to create new value.

The COVID-19 pandemic continues with no end in sight. Nevertheless, the entire KYB Group will continue to diligently and actively communicate with its stakeholders to regain their trust as soon as possible.

Thank you for your continued guidance and support.

KYB's Heritage

**“The intellect of humans knows no bounds,
nor does their passion.**

Nothing is perfect.

**However, the unique ability of humankind to
progress lies in its constant search for perfection.**

**A top does not fall when it is spinning,
and flowing water remains pure.**

**I cannot help but think that reflecting on every
aspect of management and improving ingenuity
underpins the ongoing growth of a company.”**

(The words of founder Shiro Kayaba)

100th Anniversary

Centenary of the Founding of the Kayaba Research Center

The origins of KYB date back to 1919 at the Kayaba Research Center, which inventor Shiro Kayaba founded at the young age of 21. Since then, we have continued to improve our technologies and celebrated our 100th anniversary in November 2019.

“The unique ability of humankind to progress lies in its constant search for perfection” — These words left by Shiro Kayaba have become part of KYB's heritage of continuing to take on challenges without being satisfied with the status quo.

Shiro Kayaba was fascinated by hydraulic technology, and one of his numerous inventions was hydraulic buffers (oleo struts) for aircraft in the 1920s, which he developed utilizing the most advanced hydraulic technology at the time. Oleo struts clearly demonstrate Shiro Kayaba's philosophy of design in which “simplicity is the best technology.” Repeated increases in production paved the way for the

subsequent growth of KYB. The technology acquired during the development of oleo struts was used in the creation of automobile shock absorbers after World War II. In addition, the hydraulic components for aircraft control systems that were developed at the same time significantly improved control, which previously relied on physical force. This control technology has become the basis of modern construction machinery and industrial cylinders.

Today, backed by the hydraulic technology-centered research it has accumulated since its founding, KYB has developed into a comprehensive manufacturer of hydraulic equipment that supplies products and services to manufacturers around the world. “A top does not fall when it is spinning, and flowing water remains pure.” We will continue to devise and improve products to contribute to the sustainable development of society.

History

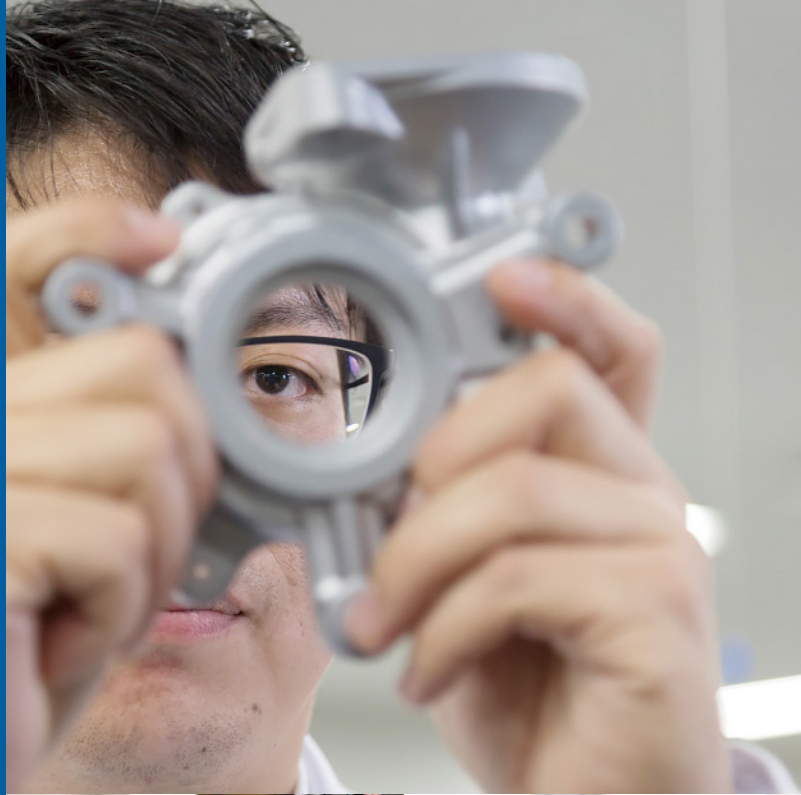
1919 Kayaba Research Center founded by Shiro Kayaba
1927 Kayaba Seisakusho established
1935 Kayaba Manufacturing Co., Ltd. established
1948 Kayaba Industry Co., Ltd. established
1959 Listed on the Tokyo Stock Exchange

1973 Overseas headquarters established with the aim of full-scale overseas expansion
1985 Company name in Japanese changed from kanji (Chinese characters) to katakana (Japanese characters)
2015 Company name changed to KYB Corporation

A Spirit and Technologies That Pass On “Vitality, Love and Creativity”

Shiro Kayaba imbued the company he founded with the basic tenets of vitality, love and creativity. This expresses his belief that creative ideas are born in a workplace with boundless vitality, and that we can use that power to contribute to people worldwide. Ever since then, KYB has taken a perspective and approach unique to an independent company in order to grow by accumulating experience and technologies while working with a wide variety of manufacturers to flexibly respond to customer issues and contemporary needs.

KYB also passes on Shiro Kayaba’s belief that the development of new technologies is the basis of corporate development through the Kayaba Award, which was established in 1975. The award is given to employees who make remarkable achievements from a creative perspective in the area of technology development. Technicians grapple with their chosen themes on a daily basis while addressing the needs of customers and society with the aim of winning the award. Our ability to achieve superior quality backed by technological expertise is the cumulative work of each of our employees. Our founder’s aspirations still serve as the bedrock of the KYB Group today and are our driving force in untiringly taking on new challenges.



The metal plating of oleo struts on the sliding components of a Japanese Zero fighter plane discovered on the bottom of Japan’s Seto Inland Sea in 1977 was still shiny after more than 30 years underwater, demonstrating the sophistication of KYB’s technologies.



**“Always look outward toward the world.
Do not fall behind progress.
Lead progress if you can.
And take a philosophical approach.”**

Continuing to Change as a Leading Company

The original philosophy that Shiro Kayaba espoused has been passed down as an attitude of going beyond focusing solely on technological innovation to take a heuristic approach of trial and error in all aspects and continuing to explore without giving up.

Examples include our research and development on our test track that reproduces different road surface conditions around the world, our production line that continuously enhances our leading manufacturing expertise, and our product lineup that consistently incorporates customer feedback for repeated innovation. The process of trial and error supports KYB’s unique product development capabilities.

In turbulent times, KYB will pursue the true essence of things from the elevated standpoint of its founder as it continues to take on the challenge of creating high-value-added products as an independent company with a focus on creativity.



Distinctively Creative Development That Meets Contemporary Needs

Automobiles

1948

Standard (twin-tube) shock absorbers



The cylindrical shock absorber developed by applying the mechanism of the hydraulic buffers (oleo struts) for aircraft offered superior performance in terms of cost, durability, and drivability compared with the mainstream products at the time, and was widely adopted by automobile manufacturers in Japan, who were expanding production. These products played a part in improving the performance of Japanese passenger vehicles.

Special-purpose vehicles

1952

Hi-Lo* concrete mixer truck



The post-World War II boom in construction required the production and transportation of high-quality ready-mixed concrete, and this product's strong reputation for its excellent mixing performance helped KYB grow quickly into a top manufacturer.

* Brand name derived from "High Quality, Low Cost," which was used as a slogan.

Construction machinery

1972

Multilayer valve/MS valve



We succeeded in downsizing the controller at the heart of a hydraulic system to create a more sophisticated, component-based system. The existing large and complicated piping was redesigned. It was hailed as a revolutionary hydraulic valve, and provided a foothold for KYB to enter the field of industrial-use hydraulic equipment.

Construction machinery

1984

KCH high-pressure cylinder for construction machinery

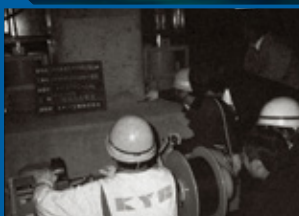


This high-pressure cylinder for construction machinery with a new structure was developed to achieve the world's highest quality. The seal, which was developed in-house, maintains the high level of airtightness and durability required for the high-pressure, high-speed operation characteristic of construction machinery. Ongoing improvements have been made to this mainstay product, and the latest model is KCH-7.

System products

1989

Differential settlement modification system

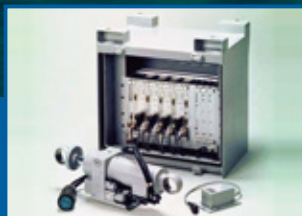


The differential settlement modification system utilizes the electronics technology we have been involved with since the 1970s. The system automatically measures settlement at approximately 800 locations in a building to correct its inclination by jacking up the pillars. It is used to support Kansai International Airport, where the ground is soft.

Railroad equipment

1996

Semi-active suspension system

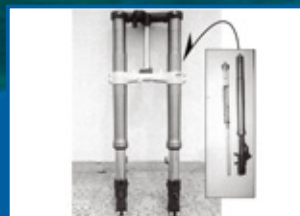


KYB developed the world's first electronically controlled railway suspension system for mass-produced vehicles, consisting of a control unit, acceleration sensor and semi-active damper. Even at high speeds, it controls sway caused when trains cross paths and wind pressure when entering tunnels, earning a positive evaluation for its riding comfort and stability.

Motorcycles

2002

Lightweight, high-performance front fork for extreme-performance sports motorcycles



KYB developed the world's lightest high-performance front fork, introducing many new technologies, materials and structures that dramatically improve operability, with optimal damping force to achieve a riding experience that offers both performance and comfort. The product has been adopted by several motorcycle manufacturers to meet the needs of extreme-performance sports motorcycles.

Automobiles

2004

Vane pump for continuously variable transmissions (CVTs)



We developed this vane pump for use in CVTs in response to the success of our vane pump for power steering. It meets demands for space saving, high efficiency, low noise and low cost, and we thoroughly eliminated contamination throughout the production line.



Corporate Spirit (What KYB Aims to Be)

By serving technologies and products that make people's lives safe and comfortable, KYB group dedicates to the society.

1. We shall follow all rules and face all issues with honesty.
2. We shall build a corporate culture full of vitality, and hold high goals.
3. We shall value sincerity, cherish nature and care for the environment.
4. We shall constantly pursue creativity to contribute to the prosperity of customers, shareholders, suppliers and society.

Corporate Statement

Our Precision, Your Advantage

In moving ahead with its business, KYB will continue to offer reliable quality to its end users and clients. We believe this not only results in an "advantage" to our stakeholders, but also lets our employees feel that they are changing the world for the better through the quality they help create. The wish to give our employees the "advantage" of the joy of *monozukuri* is incorporated in our corporate statement.

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Editorial Policy

The KYB Group has issued this integrated report since FY2019 to communicate its management policies, business strategies and CSR activities to shareholders, investors and all other stakeholders. We hope to create new opportunities for dialogue by covering business performance, management strategies and other financial information, as well as the environment, society, governance (ESG) and other non-financial information in order to inform readers about our efforts to increase corporate value over the medium to long term. For a better reading experience, we will continue to improve the report based on stakeholder feedback. We welcome your suggestions.

Reporting Period

FY2019 (April 1, 2019 to March 31, 2020)

(Includes efforts that are outside the above reporting period)

Scope

The report covers KYB Corporation and subsidiaries and affiliates in Japan and around the world. Environmental data is for KYB Corporation (Sagami Plant, Kumagaya Plant, Gifu North Plant, Gifu South Plant and Gifu East Plant) unless otherwise annotated.

Date of Issue

November 2020

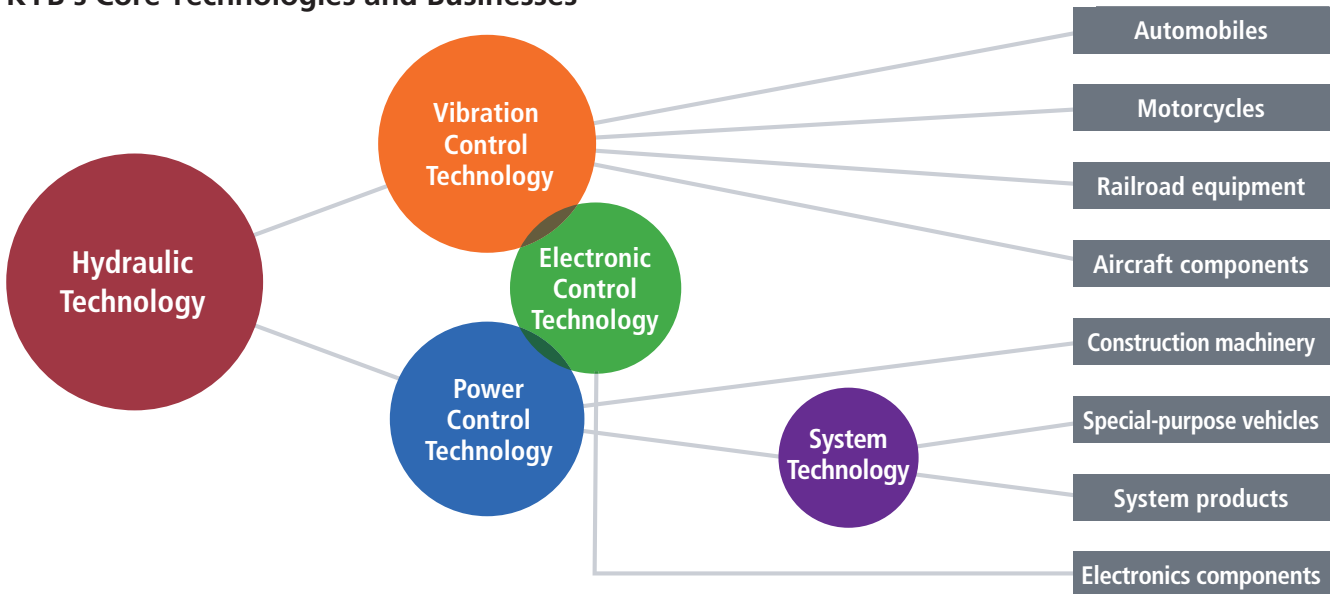
Forward-Looking Statements

This report includes plans and forecasts as of the issue date, and estimates based on our business plans and management policies. Forward-looking statements are based on information available at the time of report preparation, and actual results may differ depending on changes in relevant conditions.

KYB Group Business Overview

KYB provides products to customers in various fields by combining electronic control and systems technologies that apply its two core technologies for vibration control and power control. KYB's business and product segments are divided into Automotive Components Operations, Hydraulic Components Operations, the Special-Purpose Vehicles Division, the Aircraft Components Division, and the System Products and Electronic Components Business.

KYB's Core Technologies and Businesses



Main Businesses

Automotive Components Operations



Ultra-low velocity valves for shock absorbers



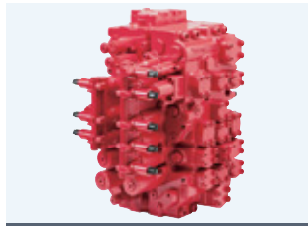
Air-oil-separate system (AOS) for the front forks of motocross motorcycles

This business primarily develops and supplies a wide variety of products for automobiles and motorcycles. Leveraging vibration control technology, it serves market requirements for comfort, safety and maneuverability in day-to-day driving and motorsports.


Major Products

- Shock absorbers for automobiles:** Shock absorbers (original equipment (OE), aftermarket)
- Shock absorbers for motorcycles:** Front forks, rear cushion units
- Hydraulic equipment for automobiles:** Vane pumps, vane pumps for continuously variable transmissions (CVT), hydraulic power steering systems, electric power steering (EPS)
- Others:** Stay dampers, shock absorbers for all-terrain vehicles, free locks

Hydraulic Components Operations



Control valves



Active suspension systems for railroad cars

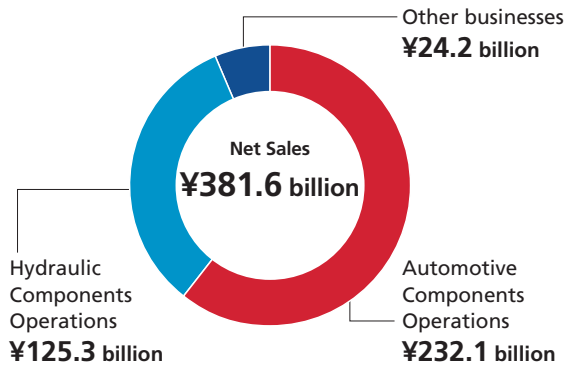
This business develops and supplies a variety of hydraulic equipment for construction machinery, industrial vehicles and railroad cars. It also leverages vibration control technology to meet the needs of onsite *monozukuri* and railroad infrastructure for precision miniaturization, digitalization and systemization.

Major Products

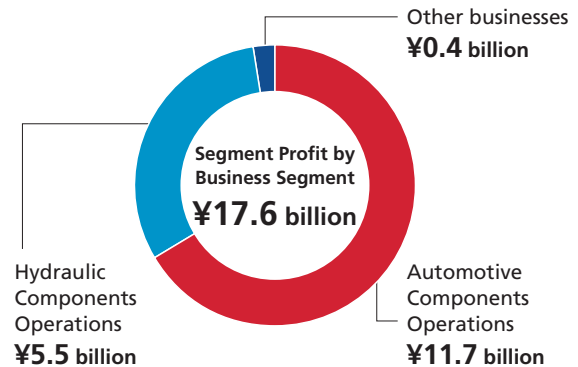
- Hydraulic equipment for industrial use:** Cylinders, valves, pumps, motors, mini-motion packages (MMP), hydrostatic transmissions (HST)
- Others:** Dampers for railroad cars, brakes for railroad cars, active suspension systems for railroad cars, seals

Sales Composition by Product for Fiscal 2019 (Consolidated)

Net Sales by Business Segment

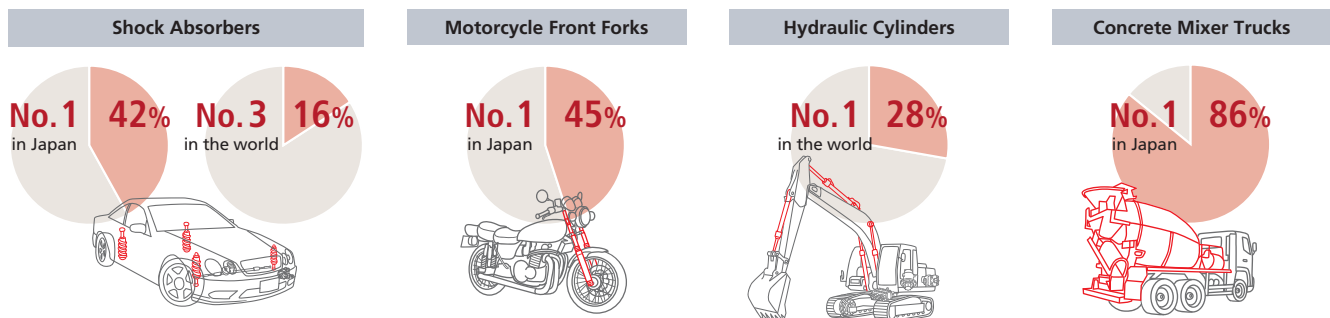


Segment Profit by Business Segment*

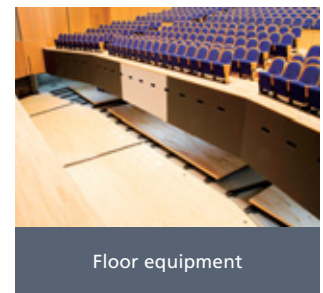
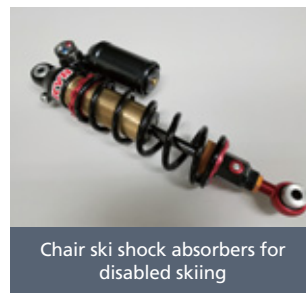


* Segment profit corresponds to operating profit under JGAAP

Market Share of Major Products Source: KYB data (As of March 31, 2020)



Other businesses (system products, aircraft components, special-purpose vehicles, electronic components, etc.)



• Special-Purpose Vehicles Division

This business develops and manufactures special-purpose vehicles, focusing on a lineup of small to large concrete mixer trucks that have the largest market share in Japan. The excellent mixing, discharging, environmental performance and other features of our products boost work efficiency.

• Aircraft Components Division

This business supplies flight control systems, landing systems, hydraulic and pneumatic systems and other hydraulic equipment for aircraft. In the aerospace technology market, which requires outstanding reliability, we leverage cutting-edge hydraulic technology to support flight safety and comfort.

• System Products and Electronics Components Business

We are opening up new possibilities for hydraulic technology, such as auditorium and stage control systems that support

theater performances. In addition to hydraulic technology, we are also focusing on electronic control technology to develop products such as electronic control units (ECU) for automobiles and other uses.

Major Products

System products: Theater equipment, equipment for military vessels, seismic isolation and vibration suppression devices, simulators, hydraulic systems, tunnel boring machines, and environmental devices

Aircraft components business: Devices for take-off and landing of aircrafts and steering components, control devices, and emergency equipment

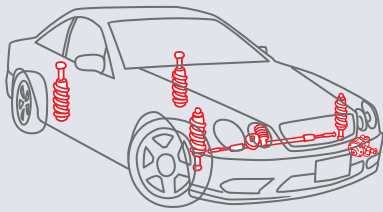
Special-purpose vehicles: Concrete mixer trucks, granule carriers, special-function vehicles

Electronic components, etc.: Electronic devices

Product Lineup

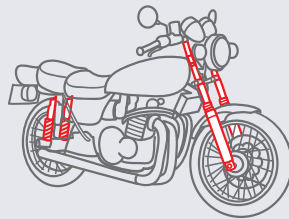
We support daily life by providing safety and comfort. The products presented here are used in a broad range of fields.

Automotive



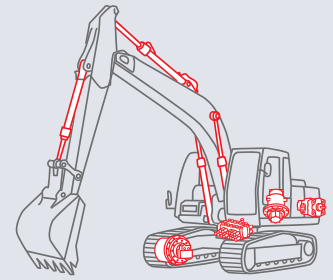
KYB makes automotive components that give users the drivability they want in any situation, from a family outing to a challenging motorsports event.

Motorcycles



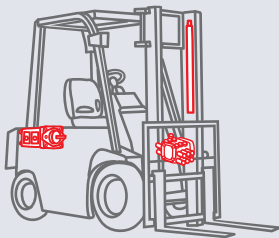
KYB makes motorcycle components for the highest level of riding stability and superior maneuverability by using race-proven technology designed for extreme speed and safety.

Construction Machinery



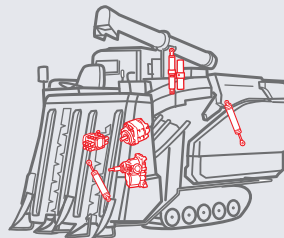
KYB construction machinery components are widely incorporated in equipment used at construction sites under severe conditions.

Industrial Vehicles



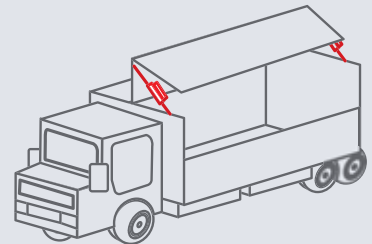
KYB puts its components to work in forklifts and other industrial vehicles to provide powerful support for improved operational efficiency.

Agricultural Machinery



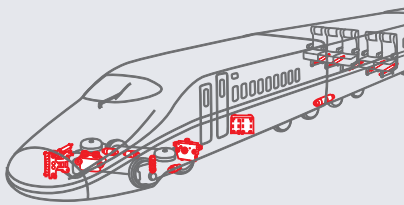
KYB agricultural machinery components save space and energy for easier farming.

Industrial Machinery



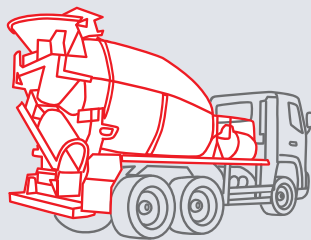
KYB supplies components for industrial machinery from elevators to factory equipment to help accelerate production.

Railroad Equipment



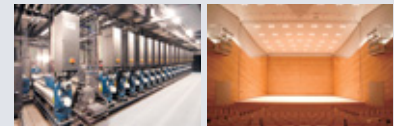
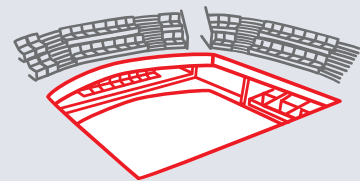
KYB railroad equipment helps achieve comfortable high-speed travel by buffering rolls from air pressure when cornering, passing oncoming trains or entering tunnels.

Special-Purpose Vehicles



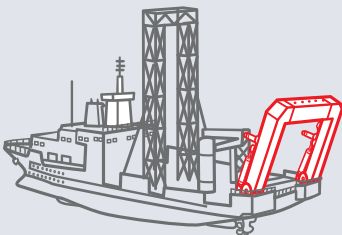
KYB special-purpose vehicles support comfort in all environments. KYB concrete mixer trucks have the highest market share in Japan.

Theater Equipment and Equipment for Theater Construction



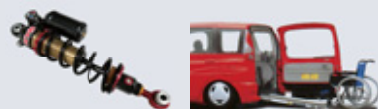
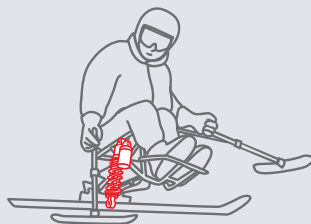
KYB technology supports theatrical productions by providing rigging, acoustic reflectors and other essential equipment for performance venues.

Marine Products



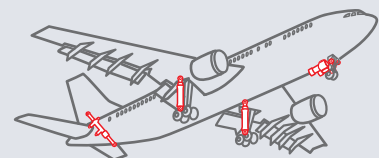
KYB hydraulic and tension control technologies make work at sea easier, including for ships operating remote devices for deep sea exploration, as well as for transport ships, supply ships and rescue ships.

Sports and Welfare



KYB uses its core technologies to develop products for sports and welfare.

Aircraft Components



KYB provides a wide range of aircraft components that meet the strict reliability requirements of the aerospace technology market, including components for flight control and landing, and for hydraulic and pneumatic systems.

KYB's Manufacturing

KYB's Technology Development

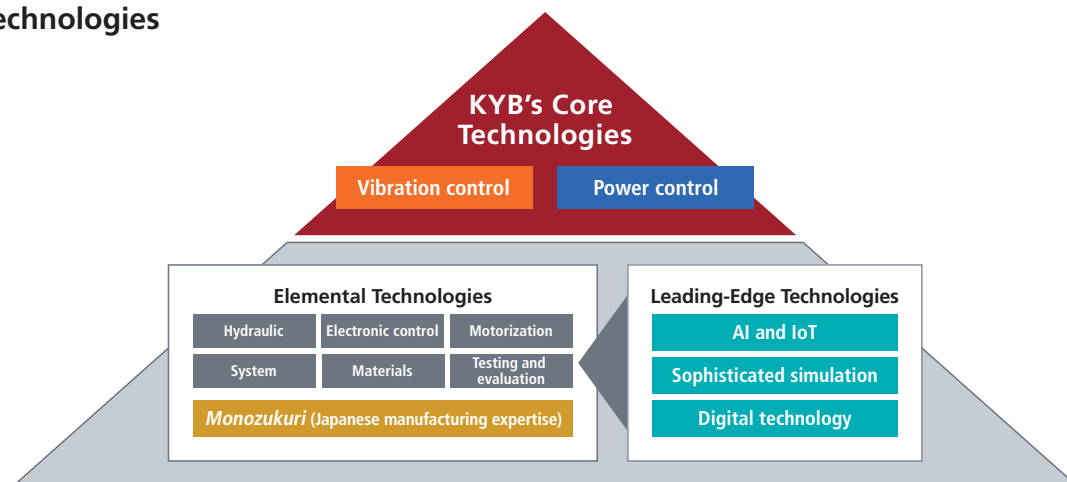
We incorporate cutting-edge technologies centered on hydraulic vibration control and power control to continue taking on the challenges facing the next generation.

The origin of KYB is the Kayaba Research Center, which was established by the inventor Shiro Kayaba in 1919. Since the founding of the center, we have spent a century refining hydraulic and other technologies. Our shock absorbers have earned a strong reputation among customers worldwide for their advanced technology and high quality, achieving market shares of about 40% in Japan and about 15% globally.

A major feature of hydraulic pressure is the ease with which it produces a larger output than electric, pneumatic or other driving methods. The ease of control due to its superior responsiveness is another reason for its wide use. For example, an automobile shock absorber that absorbs impact from the road surface is a good example of the use of the viscosity of oil to exert an appropriate damping force, and hydraulic pressure is considered the best system for construction machinery because of the large output required.

KYB has created a variety of hydraulic products in combination with other technologies such as electronic control, centering on the two core technologies of hydraulic vibration control and power control. Even with today's rapidly advancing technologies, we have confidence in the meaningful contribution that hydraulic technology can make to the development of society. In response to changing times, we therefore utilize cutting-edge technologies such as AI, IoT and advanced simulations to further evolve our core technologies, while promoting the electronic control and systemization of equipment to address changing social conditions and customer needs for environmental protection, safety and comfort. In doing so, we are taking on the challenge of developing the next generation of hydraulic equipment.

KYB's Technologies



Products That Utilize Our Original Technologies



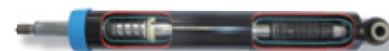
Vane pump for CVT in light and compact automobiles

This vane pump for the hydraulic power source in the continuously variable transmission (CVT) that is used exclusively in light and compact vehicles achieves low cost and a smaller footprint while maintaining performance equal to existing products. Despite the conflict between cost reduction and miniaturization, we succeeded in achieving both by integrating production, technology and sales from the initial stages of development. As a result, KYB received a Global Special Award from JATCO Ltd. in July 2019.



Prosmooth™ (sliding parts for shock absorbers)

Prosmooth™ is a newly developed series of sliding parts for shock absorbers that deliver the next level of both luxurious "magic carpet ride" comfort with fine vibration control and line trace performance for cornering with a slight steering stroke. It has received a high evaluation from experts and has been adopted by a number of automobile manufacturers. In June 2018, Prosmooth™ received a Toyota Project Award in the Engineering Division from Toyota Motor Corporation.



Double hydraulic stop (DHS) suspension

DHS suspension shock absorbers generate high damping force throughout the full suspension travel. It features improved riding comfort during normal driving and high running performance on rough roads, and has been adopted in many models by numerous manufacturers. In June 2018, it received a Supplier Award from Groupe PSA.

KYB's Technology Development System

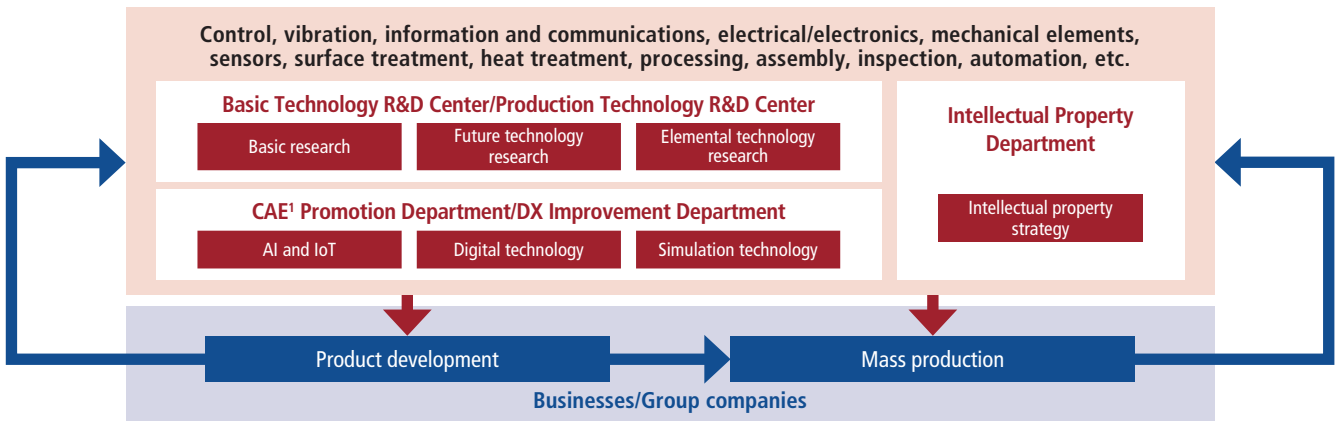
We aim to generate new value, with the Basic Technology R&D Center and the Production Technology R&D Center at the core.

KYB conducts research and development of its highly original and advanced technologies with the Basic Technology R&D Center and the Production Technology R&D Center at the core.

These R&D centers handle basic research and development of elemental technologies, while the technical departments of each business develop new products and make improvements to existing products in areas such as performance or cost reductions. In addition, the R&D centers and technical departments of each business and Group company work together to conduct projects across divisions. Moreover, for smooth, timely and efficient continuity from R&D to manufacturing, we consider future technologies based on long-term environmental changes and research, analysis and forecasting of the associated social and customer needs. We have established and implemented this approach as the roadmap for a sustainable growth strategy.

At the same time, we are reviewing our existing system for R&D and commercialization, and have started initiatives to respond to the new era. Engineers at our representative offices in Europe (Europe Technical Center) collect the most up-to-date information from around the world so we can identify technological trends and incorporate them in our R&D. In addition, we established a new Digital Transformation (DX) Improvement Department in 2019 to promote and cultivate digital technologies such as AI and IoT throughout the Company. By building an IoT platform, improving productivity and quality, conducting manufacturing using AI, developing products and rolling out new services, the KYB Group aims to provide products that customers can use with an even greater sense of reliability.

Technology Development Structure



The original R&D conducted at the Basic Technology R&D Center and the Production Technology R&D Center is carried out efficiently using the latest digital and simulation technologies under a multi-faceted intellectual property strategy. The businesses and Group companies conduct product development and mass production, fully utilizing the R&D done at the laboratories to deliver products to customers with appeal in every aspect of QCD² that other companies cannot match.

The process from R&D to product development and mass production does not proceed in only one direction. Through regular feedback, all employees share information and continue to update our products.

1. CAE: Computer Aided Engineering. The use of computer simulations to resolve issues faced by technical departments.
2. QCD: Quality, cost and delivery

Developmental Experiment Center

The Developmental Experiment Center is an extensive in-house facility on a scale rarely seen among independent manufacturers. The site is approximately 595,000 m² and includes a large-scale test track consisting of three types of road—straight, mountainous and circular—that reproduces different road surface conditions around the world. In addition to anticipating needs and taking the lead in conducting independent road tests of items including suspensions, steering devices and electronic devices for automobiles and motorcycles, we can also collect data on differences due to specification changes for evaluation jointly with customers. These and other capabilities have earned the Developmental Experiment Center a positive review as it enables us to fine-tune actual vehicles on-site. By expediting developmental experiments, we can shorten the development period and conduct development more efficiently.



Developmental Experiment Center
(Kamo-gun, Gifu Prefecture)

KYB's Production Technologies

We will leverage the manufacturing expertise we have honed over many years and integrate it with digital technologies to further raise its level.

KYB develops and mass produces items in a wide range of fields including automobiles, motorcycles, construction machinery, railroad equipment, special-purpose vehicles and aircraft components. Factors such as size, quantity, cost and quality control are different for each product field, requiring separate handling, and manufacturing must also be responsive to social changes in the global situation, the economy and other conditions. Under these circumstances, KYB has been responding to customer requests by developing production line, processing and assembly technologies tailored to each product field.

More specifically, we started manufacturing shock absorbers, which are a mainstay product, in an era of low variety, high volume production (to 1998), then transitioned to simplification

of the production line through product standardization (2000-2005), the creation of a line optimized for production volume and product characteristics (2006-2011) and a compact line that handles changes in number of units produced and product types (2012 to present).

Going forward, we will promote innovative manufacturing utilizing digital technologies such as AI and IoT and integrate it into our existing manufacturing (processing/assembly) technologies to further raise the level of our technologies.

As one aspect of our innovative manufacturing, we aim to create the world's most advanced factory for producing shock absorbers. Based on the roadmap shown in the figure below, we will proceed steadily toward a fully automated production system in the future.



Gifu North Plant

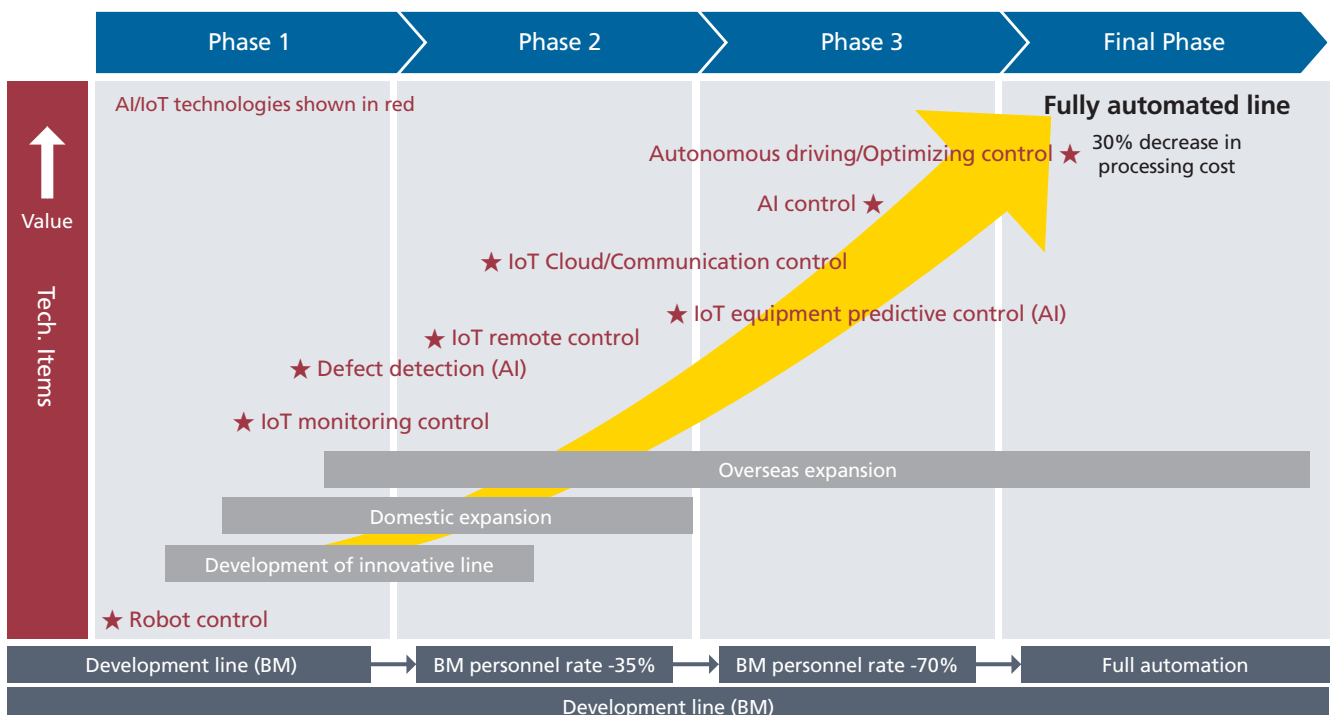


Gifu East Plant



Sagami Plant

Innovative Manufacturing Roadmap



Outlook

We aim to help resolve social issues through greater competitiveness and innovative manufacturing.

As an independent company, KYB has been conducting its own R&D and improving its technical and product development capabilities through interactions with customers around the world. We have applied and developed core technologies to enter diverse fields including automobiles, construction machinery, industrial machinery, special-purpose vehicles, railroad equipment and aircraft components. In addition to the technologies we have accumulated and our many years of experience and expertise, we have continued to respond to difficult requests from our customers with a can-do attitude and a sense of pride. These factors have made KYB what it is today.

We have raised four issues to be addressed in the future: promotion of electrification/electronic control and system support; utilization of digital technology (AI/IoT) and big data processing; realization of innovative manufacturing; and further improvement of competitiveness.

* Regulations that came into effect in the EU in June 2007 with regard to registration, evaluation, authorization and restrictions on chemicals

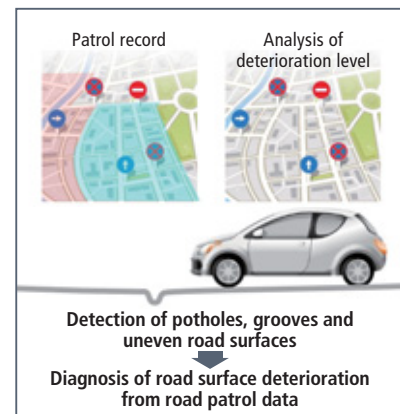
We will also more explicitly address social issues. Amid calls for environmental protection and clamor over the labor shortage in Japan, we are aware of the major role KYB has to play. For example, we believe we can make a contribution in areas such as dealing with the environmental aspects of the REACH regulations,* pursuing higher efficiency through electronic control for energy conservation and safety, and working toward automatic operation of construction machinery.

The KYB Group's global development network currently spans the five regions of Japan, the United States, Europe, China and ASEAN. However, to succeed in these volatile times, we are searching for more efficient development methods and reconsidering the appropriateness of our organizational structure. In addition, we will place a greater emphasis on cultivating engineers who can respond flexibly to changes as we continue working to create the hydraulic technologies of the future.

Main Presentations and Lectures at Academic Conferences in FY2019

The Future of Smart Road Monitoring	Second SmartCity Technology Forum
Case Study of Use of CAE for Prediction of Electric Power Steering Characteristics	NewtonWorks Corporation Nonlinear Analysis Forum 2019
Anisotropy Analysis of Pierced Hole Shapes on Thin Steel Pipes	The 2019 Japanese Spring Conference for the Technology of Plasticity
Development of a Single-Joint Detachable Modular Hydraulic Robot	The 37th Annual Conference of the Robotics Society of Japan
Design and Experimental Verification of a High Force Density Tubular Permanent Magnet Linear Motor for Aerospace Application	AEROTECH EUROPE

Smart Road Monitoring



Engineer Education Programs

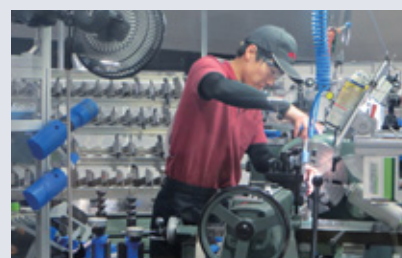
At KYB, it is important that engineers are involved not only in theoretical work, but also in trial and error in actual situations and with actual products. That is why our engineer education is focused on developing human resources who can act independently in other technical fields. We have 50 unique engineer education programs taught by employees. To respond flexibly to diversifying social and customer needs, we are developing engineers with skills in a variety of fields beyond hydraulics, mechanics and vibration, such as electronics and language education. We are also involved in industry-academia collaboration with several universities in Japan and overseas, and engineers from research institutes and universities from around the world visit our Company and engage in engineer exchanges.

Main Fields of Engineering Education Programs

- Mathematics/Physics/Quality assurance
- Statistics
- Material strength
- Hydraulics
- Shared fields
- Mechanics and vibration
- Electronics
- Production technology

Participation in the National Skills Competition

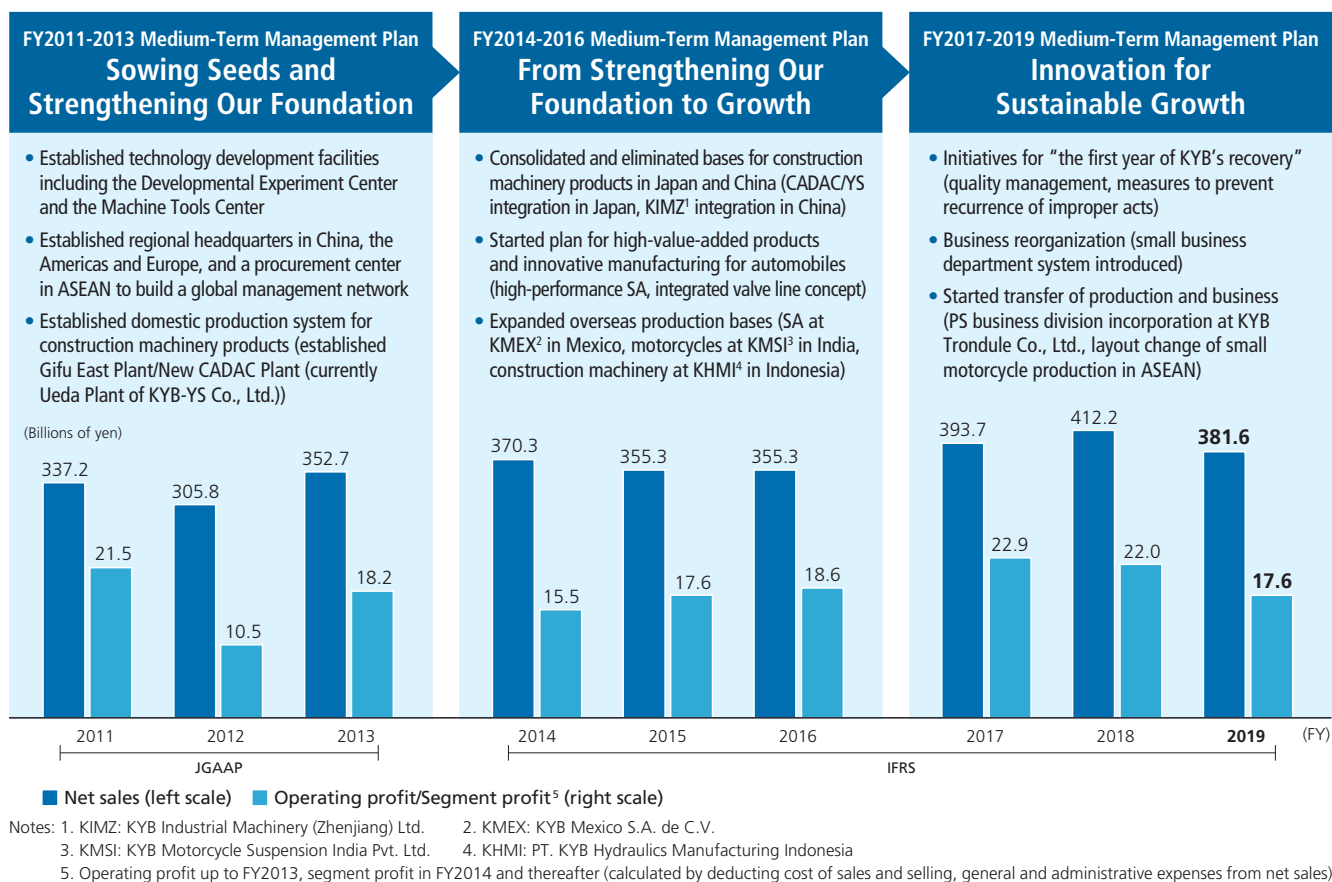
As part of its training for young skilled workers, KYB participates in the "Manual Turning" section of the National Skills Competition held by the Ministry of Health, Labour and Welfare and the Japan Vocational Ability Development Association. In 2019, KYB won its first award for "Fighting Spirit." We will continue to take advantage of this opportunity to develop skilled workers with processing skills, judgment, critical thinking and perseverance.



The 57th National Skills Competition

Previous Management Plans

Management Plans and Business Results



Review of the FY2017-2019 Medium-Term Management Plan

The FY2017-2019 Medium-Term Management Plan started as our final medium-term management plan in our aim for annual Group net sales of ¥500 billion, a target we conceived in 2010 as part of our vision for 2020. The development of high-value-added products and the implementation of measures to ensure the profitability of our bases had been issues since the FY2014-2016 Medium-Term Management Plan. By introducing small business departments under the control of the operational headquarters, we ensured flexibility and made shared responsibilities clearer, which enabled us to launch high-value-added products for automobiles and set a tentative timetable for transferring and consolidating production of construction machinery products.

On the other hand, matters for further reflection include the nonconforming acts associated with seismic isolation/mitigation oil dampers announced in October 2018 and the improper claims to the Ministry of Defense announced in January 2019. These matters caused particularly great inconvenience to all those involved and made us realize our lack of an awareness of compliance, which should be at the core of the Company's operations.

Under these circumstances, we made FY2019 "the first year of KYB's recovery." As the Company's foremost task, we worked to thoroughly establish a corporate culture that gives the highest priority to compliance and safety, and added awareness of compliance to our Corporate Spirit in October 2019, with a focus on promptly bringing nonconforming seismic isolation/mitigation oil dampers into conformity.

Future Direction

The various measures we implemented during "the first year of KYB's recovery" in FY2019 enabled us to pave the way for practicing thorough compliance and preventing a recurrence of our improper acts related to seismic isolation/mitigation oil dampers and the Ministry of Defense. Using this as a foundation, we will bring every last damper into conformity during the period of the FY2020-2022 Medium-Term Management Plan. We will also implement each measure of the plan while strengthening compliance.

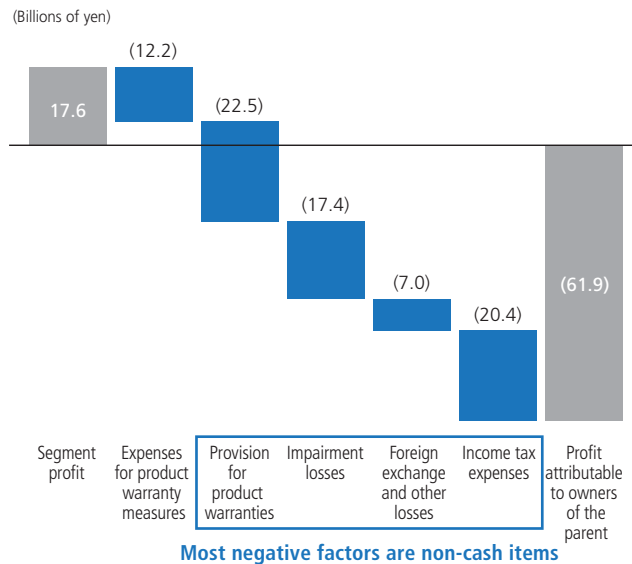
In addition, we have changed our Company policy and are making a clear shift in emphasis from net sales to high profitability. In the current situation, where the COVID-19 pandemic has made forecasts impossible, we intend to begin by increasing profitability with a focus on our current businesses.

► For details, see the Investor Relations section of the Company website.
<http://www.kyb.co.jp/english/ir/index.html>

FY2019 Performance

In FY2019, net sales were ¥381.6 billion, a decrease of ¥30.6 billion from ¥412.2 billion in the previous year, segment profit was ¥17.6 billion, a decrease of ¥4.4 billion from ¥22.0 billion in the previous year, and loss attributable to owners of the parent was ¥61.9 billion, an increase of ¥37.1 billion from a loss of ¥24.8 billion in the previous year, for a second consecutive fiscal year with a net loss. The decreases in net sales and segment profit were mainly caused by weakening economic growth in China due to trade friction with the United States and a decline in sales volume due to the COVID-19 pandemic in the fourth quarter. The main reasons for the net loss were ¥12.2 billion in expenses incurred during the fiscal year to bring seismic isolation/mitigation oil dampers into conformity, ¥22.5 billion in provision for estimated future expenses under product warranties for such oil dampers, ¥17.4 billion in impairment losses at multiple plants, ¥20.4 billion in income tax expenses for the partial reversal of deferred tax assets, and ¥7.0 billion in foreign exchange and other losses. Of these expenses, the only items entailing actual or expected cash outflows are ¥12.2 billion in expenses for product warranty measures to bring seismic isolation/mitigation oil dampers into conformity and ¥22.5 billion in provision for product warranties; the other items are all evaluation losses.

Analysis of Losses in FY2019

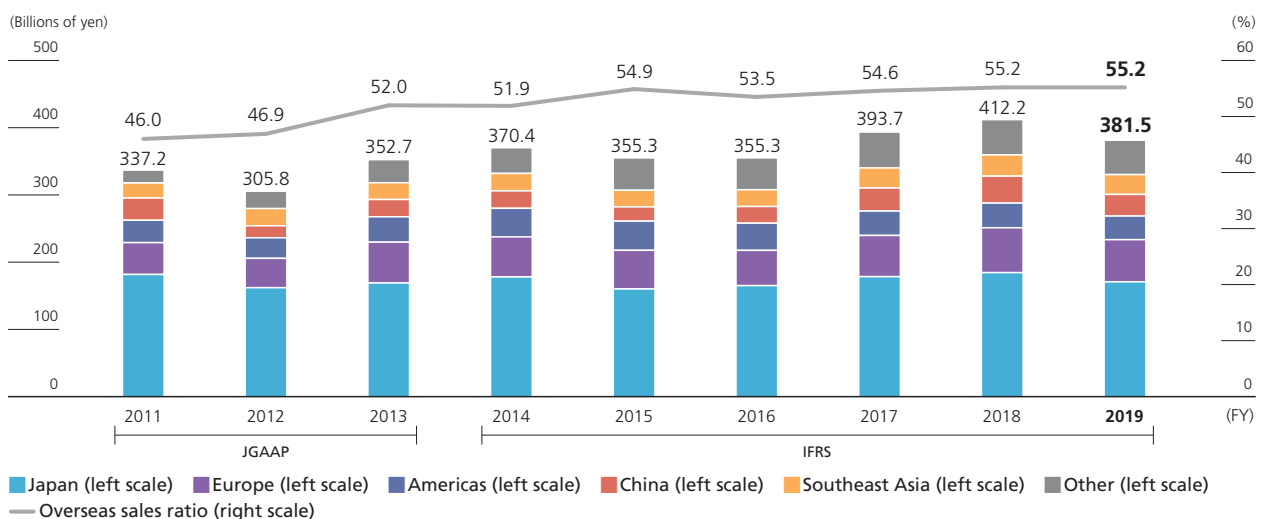


Overseas Expansion

KYB's aspirations for overseas expansion began at an early stage, when it established a long-term management vision in 1966 to become a global player as a comprehensive manufacturer of hydraulic equipment. In 1973, we accelerated our activities outside Japan by establishing an Overseas Business Division to accommodate our customers' overseas expansion and increase our product export ratio. As a result, the KYB brand spread widely outside Japan, centering on shock absorbers, and in 1981 our export ratio reached 10.1% with a value exceeding ¥10 billion.

Since 2000, we have expanded our global supply system as well as our provision of products, technologies and services to emerging countries. Since 2013, our overseas sales ratio has exceeded 50%, and we are working to create high-quality products tailored to the needs of each region. Going forward, we will conduct optimal procurement through local production for local consumption that is able to respond to risks from uncertainties such as exchange rate fluctuations, and aim to improve profitability by establishing a production system that responds to changes in customer demand.

Sales by Region and Overseas Sales Ratio



Overview by Segment

Automotive Components Operations

Strategy under the
FY2017-2019 Medium-Term
Management Plan

For long-term growth, map out plan for consolidating bases and companies to match geographical shifts in customer demand, and for developing and promoting sales of high-value-added products.

Review of the FY2017-2019 Medium-Term Management Plan

Under the FY2017-2019 Medium-Term Management Plan, Automotive Components Operations aimed to optimize production by consolidating bases and focused on developing and expanding sales of high-value-added products to provide a foothold for sustainable growth.

Over the three years of the medium-term management plan, we achieved some success in restructuring unprofitable products and bases. In the electric power steering (EPS) systems business, where profitability has become an issue, we leveraged the knowledge we have accumulated in Japan to establish a joint venture in China, and we are rolling out sales activities. We also decided to close our production base in Spain for hydraulic power steering systems, which is a shrinking market. On the other hand,

we laid the foundation for building a production system for automobile and motorcycle shock absorbers that is optimized for transferring products among bases, but faster setup is necessary.

While bolstering this foundation, we have worked to extend the business into high-value-added products and fields where we expect demand to increase, with the aim of future growth. High-value-added products and products for future growth fields such as SUVs, electric vehicles and pickup trucks are already being installed in some mass-produced vehicles, and we expect more widespread use going forward. We also established the Europe Technical Center in Germany to strengthen our technological capabilities and cultivate new customers.

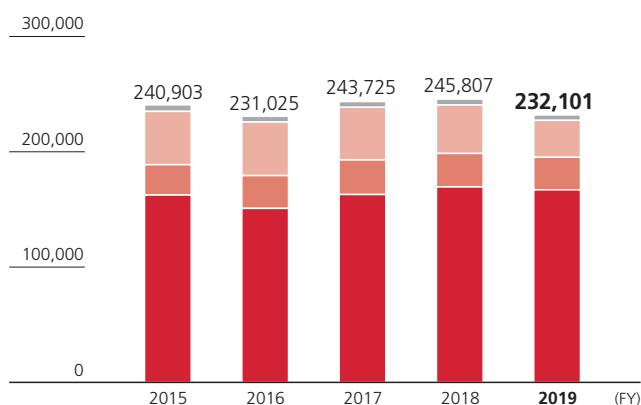
FY2019 Overview

In FY2019, despite increased sales volume of automobile shock absorbers in North America and the Middle East, net sales decreased 5.6% year on year due to the impact of the appreciation of the yen, the chilling effect of a consumption tax rate hike on the domestic market and a decrease in sales volume of electric power steering and hydraulic equipment for automobiles, mainly electric power steering products and vane

pumps for the continuously variable transmission (CVT). On the other hand, segment profit increased year on year due to growth in sales volume of highly profitable products. Our shift over the past few years to highly profitable products and the expansion of sales of high-value-added products are generating results. We have now established a structure that can secure profits even when sales decline.

Net Sales¹

(Millions of yen)



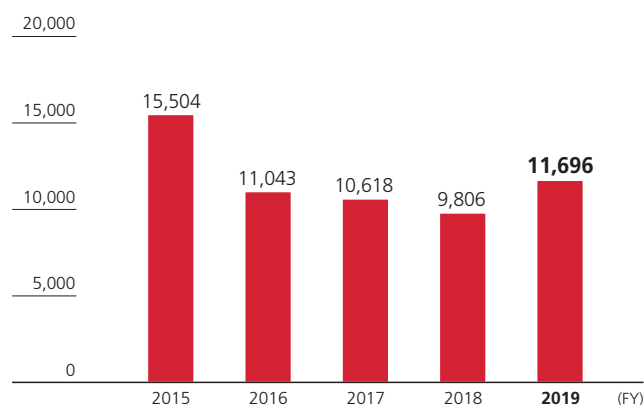
■ Shock absorbers for automobiles ■ Shock absorbers for motorcycles
■ Hydraulic equipment for automobiles ■ Others

Notes: 1. As of FY2017, "Royalty income" and "Revenue related to mold compensation," which were previously recorded in "Other income" in the Consolidated Statements of Income, are included in "Net sales."

2. Segment profit is calculated by deducting cost of sales and selling, general and administrative expenses from net sales.

Segment Profit²

(Millions of yen)



Hydraulic Components Operations

Strategy under the
FY2017-2019 Medium-Term
Management Plan

Ensure stable sales and profit that are unaffected by market fluctuations, and maintain foundation in hydraulic excavators while promoting sales in growth markets in which we were not fully active.

Review of the FY2017-2019 Medium-Term Management Plan

Under the FY2017-2019 Medium-Term Management Plan, in order to secure stable sales and profits resilient to market fluctuations, the Hydraulic Components Operations segment bolstered its foundation in mainstay products for hydraulic excavators and worked to expand sales in growth markets for products other than excavators where we were not fully active. We have been transferring production of products for hydraulic excavators in Japan, as well as reorganizing production of control valves over the past three years to create an integrated line. In addition, we aim to shorten the development period and enhance product capabilities by integrating development and production bases, and we are working to improve production efficiency by consolidating production of hydraulic motors at a single base. In the mini and ultra-large excavator markets, where demand is expected to remain stable, we have maintained high

market share by expanding production capacity.

As for growth markets other than hydraulic excavators, we also worked to expand sales of products for agricultural machinery, skid-steel loaders (SSL) and compact track loaders (CTL). The SSL/CTL and small construction machinery and agricultural machinery markets are expected to grow, mainly in emerging countries, and we introduced new products to the market, establishing a foothold for future sales expansion.

Despite this progress in bolstering our foundations, conditions were severe in FY2019 as cost reductions were not enough to compensate for the decrease in sales volume due to a decline in demand and the occurrence of large-scale disasters. Securing stable sales and profits will require faster implementation of structural improvements.

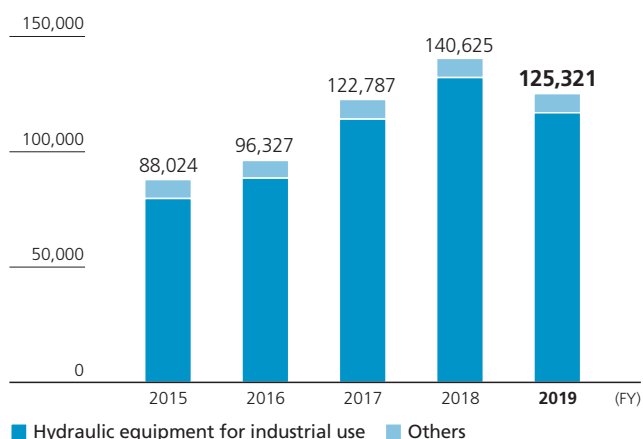
FY2019 Overview

Net sales in FY2019 decreased 10.9% year on year due to a decline in demand caused by weakening economic growth in China, worsening market conditions in Europe and the Americas, natural disasters in Japan and the slump in economic activity as a result of the COVID-19 pandemic. Cost reductions were not enough to compensate for the rapid decline in demand, resulting in a year-on-year decrease in segment profit. It was a challenging

year for the Hydraulic Components Operations segment, with a series of unforeseen events. On the other hand, we have made steady progress in transferring production of control valves and concentrating production of motor products. By working to make production lines more flexible, we are creating a structure that is resilient to fluctuations in volume.

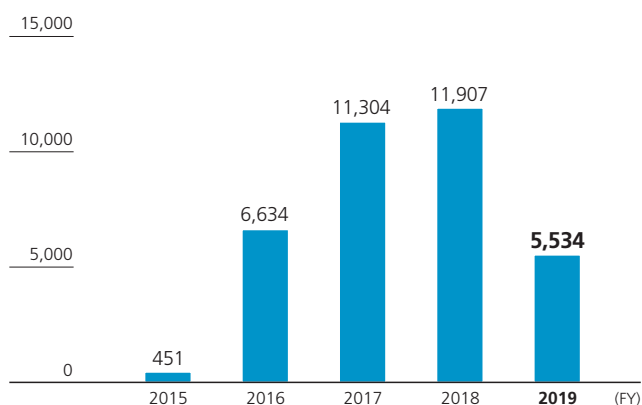
Net Sales¹

(Millions of yen)



Segment Profit²

(Millions of yen)



Notes: 1. As of FY2017, "Royalty income" and "Revenue related to mold compensation," which were previously recorded in "Other income" in the Consolidated Statements of Income, are included in "Net sales."
2. Segment profit is calculated by deducting cost of sales and selling, general and administrative expenses from net sales.

Other businesses (system products, aircraft components, special-purpose vehicles, electronic components, etc.)

FY2019 Overview

Other businesses include system products, aircraft components, special-purpose vehicles and electronic components. Sales decreased in each business, resulting in a 6.3% year-on-year decrease in net sales for the segment. On the other hand, segment profit increased and the profit margin improved.

As announced in October 2018, the system products business was involved in nonconforming acts in the inspection process for seismic isolation/mitigation oil dampers, causing great inconvenience for all those involved. We are currently working to bring all nonconforming dampers into conformity, aiming for completion by March 31, 2021. In the aircraft

components business, we completed payment of refunds for overcharges associated with improper claims regarding working hours for defense equipment announced in January 2019.

In the special-purpose vehicles business, we are working to secure sales and market share by steadily capturing domestic demand in fields including public works and urban development, and our mainstay concrete mixer trucks maintain stable sales with a market share around 80% in Japan. We are working to establish a network that can respond promptly to fluctuations in demand and strengthen after-sales service in Japan, as well as to establish a global network for special-purpose vehicles.

e-Mixer Computer Controlled Concrete Mixer Truck

The e-Mixer is an environmentally friendly concrete mixer that achieves low noise, low exhaust and energy efficiency through computer controlled operation. Optimal computer control of the flow rate of the hydraulic transmission system according to the level of load capacity reduces engine speed to about half that of a manual mixer. In addition, eliminating the operating lever and replacing it with a hand-held rear controller substantially improves operability. Use of the radio controller enables minute adjustments during concrete discharge. Other functions that meet the needs of users include programmed auto-clean and auto-mixing functions, automatic stirring during running, and a function to prevent reverse rotation.

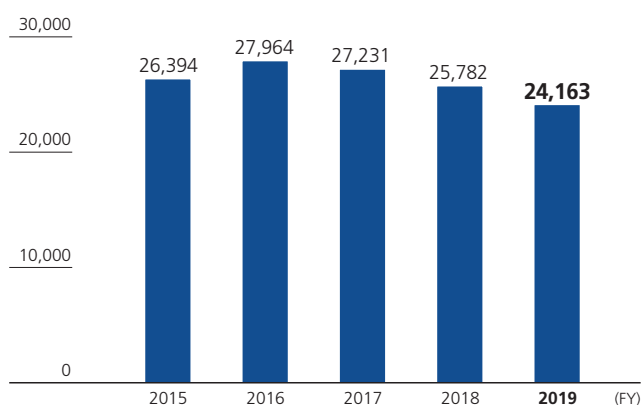
The initial model e-Mixer that was launched in 2004 was upgraded to the e-Mixer II in 2011. We are currently incorporating further advances to develop the e-Mixer III.



Remote control operation near the discharge chute

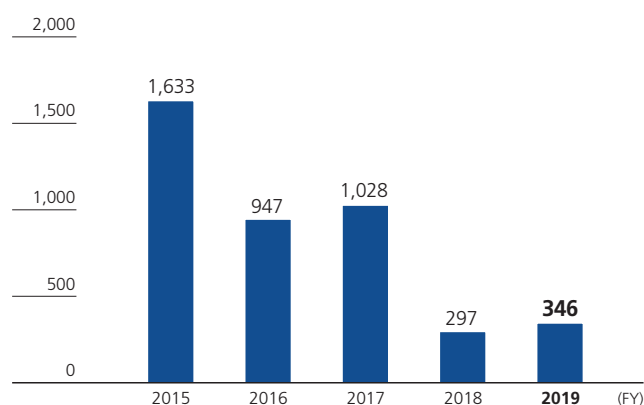
Net Sales¹

(Millions of yen)



Segment Profit²

(Millions of yen)



Notes: 1. As of FY2017, "Royalty income" and "Revenue related to mold compensation," which were previously recorded in "Other income" in the Consolidated Statements of Income, are included in "Net sales."

2. Segment profit is calculated by deducting cost of sales and selling, general and administrative expenses from net sales.

Contributing to Social Issues through Our Business

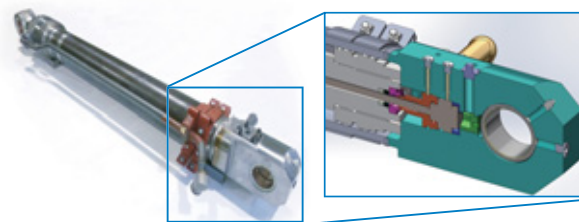
Approaches to ICT and IoT in Hydraulic Equipment

Support for ICT and IoT in Hydraulic Equipment

In recent years, computerized operation using information and communication technology (ICT) and monitoring functions using the Internet of Things (IoT) have increased in the construction industry. Combining traditional hydraulic equipment with advanced electronic equipment requires overcoming challenges in terms of cost, durability and systemization, but we are continuing our development initiatives, mainly in sensing technology.

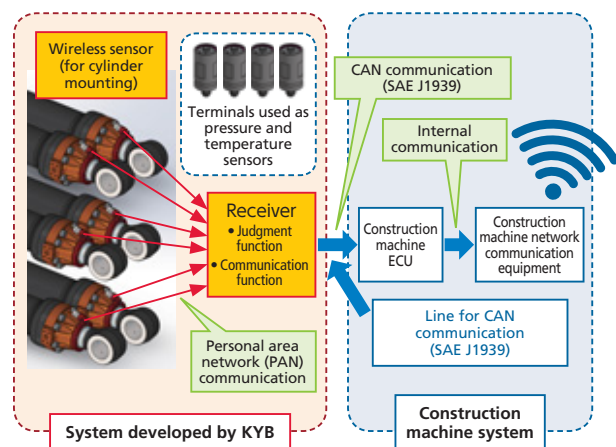
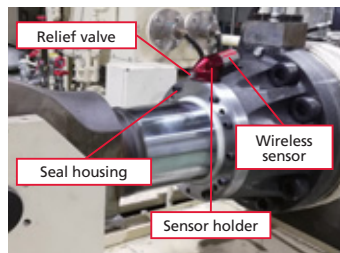
Launch of Hydraulic Cylinder Compatible with ICT (Stroke Sensing Cylinders for ICT Construction Equipment)

We have launched a cylinder with a stroke sensing function as a product for computerized construction equipment. In the case of an external sensor, there is a risk of damage due to contact with soil or other substances. However, a built-in sensor that is interchangeable with standard cylinders can prevent damage. For ease of use and high accuracy, the stroke sensing cylinders support controller area network (CAN) communication and utilize absolute output (absolute position detection).



Development of Monitoring System for Hydraulic Cylinders and Other Equipment

We are developing a cylinder failure detection system as a product for monitoring systems utilizing IoT. A fully wireless sensor mounted on the cylinder monitors the inside of the cylinder and reports malfunctions. KYB has continued to make advances in its hydraulic cylinders to improve their durability. Moreover, by providing advance notice of the inevitable deterioration of consumable items or accidental failures, this system minimizes the effect on the operation of construction machines, thus contributing to the maintenance operations of construction machine manufacturers. The product is in the evaluation stage of the development process as a subsystem that provides data to the construction machines.



Joint Development of a Next-Generation Modular EV Platform

KYB has entered into a strategic partnership with REE Automotive of Israel, a company with advanced electric vehicle (EV) platform technologies, to develop suspension capabilities for future EV platforms. Our suspension technologies will contribute significantly to improving the performance of REE Automotive's next-generation EV platform, providing cost-effective, scalable solutions in e-mobility.

The new platform features a high degree of design freedom and is expected to enable innovations in EV design, with all drivetrain components, including steering, braking, suspension and e-motor, integrated into the wheel. Through this partnership, we will promote the development of a suspension subsystem that supports the needs of tomorrow's mobility ecosystem to revolutionize methods of transporting people, goods and services.



Progress of Measures to Prevent Recurrence of Seismic Isolation/Mitigation Oil Damper Problems

Following the announcement on the KYB website entitled “Investigation into the causes of nonconforming acts in the inspection process, etc. for seismic isolation/mitigation oil dampers for buildings manufactured by KYB Corporation and its subsidiary, and measures to prevent their recurrence” dated February 13, 2019, we have been taking preventive measures and working to restore trust.

As of June 30, 2020, approximately 70% of the measures to prevent recurrence have been addressed, and we are continuing our efforts to complete unfinished measures.

On its website, KYB periodically posts reports of its progress in preventing the recurrence of improper acts and measures to identify and address such acts.

<https://www.kyb.co.jp/company/progress/index.html> (Japanese only)

Progress of Measures to Prevent Recurrence (As of June 30, 2020)

Foster strict compliance awareness and reform the corporate culture	Establish compliance management	Establish compliance awareness at KYB Corporation and KSM*	Completed	
		Foster compliance awareness throughout the Group	Completed	
		Revise the Corporate Guiding Principles and other guidelines	Completed	
		Emphasize the importance of compliance regularly	Completed	
		Implement personnel evaluations and related measures	Completed	
	Change the mindset of all officers and employees	Conduct education and training to raise awareness of social responsibility	In progress	
		Conduct education that incorporates numerous case studies and best practices from other companies	Completed	
		Conduct education on laws and regulations specific to businesses and products	In progress	
Make education regarding quality mandatory		Completed		
Evaluate business feasibility, and revise business operations, information-sharing systems and other matter	Establish a balanced business operation system	Ensure appropriate business management at KSM	In progress	
		Review how decisions to accept orders are made at KSM	Completed	
		Develop business systems	Completed	
		Revise use of mass-production evaluation procedures for individual and small-batch products	Completed	
	Ensure personnel are rotated	Nurture successors and increase the transparency of operations by sharing expertise/know-how in the Company through effective job rotation.	In progress	
	Collect information and establish a feedback system	Ensure thorough documentation of meetings, reports and instructions at KSM	Completed	
		Ensure that internal regulations are applied in the event of an emergency	Completed	
		Review the internal whistleblowing system to improve its effectiveness	Completed	
		Clarify the actions to be taken when quality misconduct is detected	In progress	
		Create a mechanism for extracting information	Completed	
	Improve inspection systems and methods	Implement inspection systems	Strengthen the independence of quality assurance	In progress
			Improve methods for onsite oil damper inspections with the customer present	In progress
Review inspection manual			In progress	
Implement preventive measures against fraudulent operation of inspection machines		Tighten internal procedures for changing the software of oil damper inspection machines	Completed	
		Regularly monitor the software of oil damper inspection machines	Completed	
		Automatically record inspection results without human involvement	In progress	
		Automate inspection processes	In progress	
		Tighten controls on access to oil damper inspection machines	In progress	
		Ensure traceability of performance test data	In progress	
Strengthen internal audit and control systems	Enhance internal quality inspection system	Perform audits that consider quality misconduct	Completed	
		Perform audits that effectively verify inspection data	In progress	
		Institute audits by KYB Corporation	Completed	
		Leverage the support of experts	Completed	
	Tighten the subsidiary management system	Strengthen systems for sharing information and collaborating among Group companies	Completed	
		Review management systems for Group companies	In progress	
		Analyze and monitor Group companies' business risks	In progress	
		Reorganize Group companies	In progress	

* Kayaba System Machinery Co., Ltd.

Stakeholder Communications

Basic Policy

Our Corporate Spirit states, “By serving technologies and products that make people’s lives safe and comfortable, KYB group dedicates to the society.” To fulfill this we must comply with the following:

1. We shall follow all rules and face all issues with honesty.
2. We shall build a corporate culture full of vitality, and hold high goals.
3. We shall value sincerity, cherish nature, and care for the environment.
4. We shall constantly pursue creativity to contribute to the prosperity of customers, shareholders, suppliers and society.

In this spirit, we will deepen our dialogue with all stakeholders and help them gain a better understanding of our company. Through dialogue, we will clarify the issues we should address and solve them one by one, thus earning the trust and meeting the expectations of stakeholders.

In addition, as we strive to become a better company we will contribute to the development of a sustainable society through the creation of products that are friendly to people and the Earth, based on the technological capabilities that we have enhanced through ceaseless, creative and innovative research and development.

Current Status of Stakeholder Communications

Engagement Policy	Impact on Business Activities	Approach	Frequency	Details
Customers (Manufacturers and end users) Provide quality products and services that satisfy customers at the right time and price to earn the trust of society.	Collect information on customer needs and improve customer satisfaction	Answer phone inquiries	As needed	Phone call or e-mail form
		Communicate via the Company website	As needed	Company information and business announcements
		KYB Technical Review	Twice a year	Introduction of technologies and products
		KYB Group Report	Once a year	Disclosure of financial and non-financial information
		KYB Museum	As needed	Museum displaying KYB products and other materials
Shareholders Disclose business details, management policies, business forecasts and results to shareholders in a timely and appropriate manner.	Increase corporate value through dialogue	General Meeting of Shareholders	Once a year	Business report that includes consolidated financial statements, financial statements, report on audit results, deliberation and resolution of matters to be resolved
		Reports (Annual Securities Report, Flash Report, etc.)	Once a year or more	Report to shareholders
		Plant tours for shareholders	Once a year	Promote dialogue through plant tours
Business Partners Respect our suppliers as valuable business partners, and build relationships of prosperity and trust.	Strengthen relationships based on mutual trust	Procurement policy information meetings	As needed	Policy sharing
		Regular visits	As needed	Various meetings
Employees Contribute to the sustainable development of companies and the creation of a prosperous society, which are common interests for labor and management.	Strengthening labor management relations/ Improve employee motivation	Labor-management meetings	Several times a year	Various meetings between labor and management
		President’s messages	Twice a year or more	New Year convocation and speech
		Employee Satisfaction Survey	Once a year	Questionnaire survey
		Internal newsletter	Once a month	Communication via internal newsletter
Local Communities Contribute to the development of local communities through active engagement, and by energetically participating in volunteer activities, local events, and other activities.	Coexist with local communities	Invitations to KYB events	As needed	Events held at each plant
		Participation in local community events	As needed	Interaction with community residents

FY2019 Highlights

Contributing to the Development of Chair Skis and Sports for People with Disabilities

KYB first became involved in the development and improvement of shock absorbers for chair skis in the early 1990s. Before that, Japanese-made chair skis used commercially available motorcycle shock absorbers, which the skiers tuned themselves. Because of the similar configuration, we received an order. Thereafter, a development project in 1998 related to supporting alpine skiing competitions led us to work together more closely with the Para-Alpine National Ski Team of the Japan Para-Ski Federation on the development of a shock absorber specifically for chair skis. The team won a gold medal at the Nagano Olympic Games in 1998, and in 2015 we stepped up our support for chair skis as part of our social contribution activities by becoming a sponsor of the Federation. In addition to product development, we provide technical support for team camps and competitions held

in various countries. Product development depends on understanding the skiers' impressions of the product and converting that feedback into numerical values to be reflected in product settings. Engineers therefore regularly conduct development by talking directly with athletes and teams, and these activities also play an important role in engineer training. In recent years, chair skis have advanced in tandem with improvements in the level of competition and skiers' abilities, requiring precise adjustments in accordance with conditions. Based on the product development and technical support know-how we have cultivated with motorcycle shock absorbers, we will continue to work with athletes to develop and improve high-performance products as we contribute to the development of sports for people with disabilities.



Shock absorbers for chair skis



Technical support for skiers

Takeshi Suzuki Wins Asian Cup Gold Medals

Para-skier Takeshi Suzuki joined KYB in 2015 and remains active in competitions around the world. He is also a skier chosen by the Japan Para-Ski Federation to compete in Paralympic games. During FY2019, he won bronze medals at the first slalom in Italy and first and second slaloms in Slovenia as part of the World Para Alpine Skiing World Cup held in January 2020. He also won gold medals for the first giant slalom and the first slalom at the World Para Alpine Skiing Asian Cup held in Nagano Prefecture, Japan in February 2020.



Takeshi Suzuki at the Asian Cup



Asian Cup awards ceremony

Parent-Child Event Held

We held our first parent-child event at five factories in Japan, where participants worked on making syringe-operated excavators. A maximum of 20 families were allowed to attend, and through the event children learned about the mysteries of hydraulics as they deepened family ties by getting to know the company where their parents work. The many comments on post-participation questionnaires ranged from "They looked cool at work" and "The big factory was great" to "I enjoyed learning about Pascal's law."



Factory Tour for Elementary School Students

We invited 68 children from Seki City Shimouchi Elementary School in October 2019 and 104 children from the Gifu University Faculty of Education Affiliated Elementary School in November 2019 to tour the KYB Gifu North Plant. On tour days, we provided an overview of KYB and its products through storytelling with pictures, showed students actual production lines and a safety awareness training facility, and presented KYB's environmental efforts. After the tour, the students asked many questions, creating a fun opportunity for everyone to get to know one another better.



Exhibit at the Industrial Fair in Kani 2019

The Industrial Fair in Kani 2019 was held in October 2019. The fair aims to revitalize the local economy, and in 2019 many visitors flocked to the Taiga Drama (historical drama) exhibit associated with the start of broadcast of the NHK taiga drama *Kirin ga Kuru*. KYB was highly regarded for its shock absorber display and for providing visitors with a hands-on experience of the principle of hydraulics through operation of a syringe excavator, as well as for accepting high school students as volunteers to gain corporate experience.



Marché to Support Areas Afflicted by the Great East Japan Earthquake

Following an event at the head office, we held exhibitions of local products from the Tohoku area at the Sagami and Kumagaya plants. The Sagami Plant cafeteria also provided about 300 Tohoku-style meals. We will continue to support reconstruction so that memories of the earthquake never fade.



Letter of Appreciation from the Tokyo Metropolitan Government Community Chest

In February 2020, we received a letter of appreciation from the Tokyo Metropolitan Government Community Chest (Central Community Chest of Japan) for KYB's fundraising activities spanning more than 20 years. We will continue our support for social welfare projects.



Quality Management

KYB Group Basic Policy for Quality

KYB and its Group companies are committed to restoring the trust they have lost, and have established a medium-term action plan for compliance with the KYB Group Basic Policy for Quality to do so. To prevent a recurrence of quality-related misconduct, we will continue to foster and establish an awareness of compliance as the prerequisite for and foundation of quality management.

The KYB Group shall:

1. Address quality improvement with honesty driven by the belief that quality is the basis for business.
2. Deliver safe and secure products in compliance with promises to customers as well as with laws and regulations.

Quality Assurance System

We have built and operate an ISO 9001-compliant quality assurance system that emphasizes the quality of work processes as well as the quality of products and services. We strive each day to make improvements in all aspects of quality.

At KYB, we implement what is called a three-step evaluation system for the development and mass production of products, the development of technologies, manufacturing methods, and so on. We make every effort to achieve high quality throughout the product life cycle, from the product planning stage, to defect reduction and change management after mass production and shipment. At our production bases, we take a variety of quality improvement measures under the leadership of base managers and plant managers, and we are working to promote the unerring operation of our three-step evaluation system. Furthermore, to ensure the quality of mass-produced products, we also follow this system for single, small-lot orders and when production is moved to another production base.

Development of Products and Technologies through a Three-Step Evaluation System and the Quality Safety Audit

Step	Goal of the Three Steps	Quality Assurance Step
Prior and model development DR0 evaluation meeting	Proof of possibility (Description and evaluation of development quality)	Development quality
Order development DR1 evaluation meeting	Proof of mass production (Description and evaluation of development quality)	Start quality
Mass-production development and production preparations Quality Safety Audit	Proof of applicability and serialization (Demonstration and evaluation of start quality)	Mass-production quality
DR2 evaluation meeting	Bad News First Execute (until the reporter receives feedback) When abnormalities arise: Stop, Call, Wait	

Quality Safety Audit
Evaluate manufacturing site, manufactured products and data to confirm that mass-production quality is problem-free and that reliable production and shipment are possible.

Strengthening the Quality Audit System

KYB is strengthening its quality audit system to thoroughly prevent quality-related misconduct. Quality audits evaluate the materialization of risks of quality-related misconduct, improvement of such risks, and the effectiveness of the improvement measures taken. In addition, we are working to achieve our goals by evaluating whether our plans for quality assurance and quality control activities are being implemented effectively and systematically, and the effectiveness of our measures, among other factors.

Revision of Quality Audit Regulations (March 2020)

We conduct quality audits to prevent quality-related misconduct and to identify the actual conditions of quality assurance and quality control activities. We reflect the results in our business management, and work to improve the level of our quality assurance and quality control activities.

Establishment of Procedures for Dealing with Quality-Related Misconduct (April 2020)

We newly established procedures to strengthen compliance in management and maintain social credibility by establishing a

framework for appropriate response to reports of organizational or personal quality-related misconduct from employees or other parties and by conducting early detection and correction of quality-related misconduct.

Improvement of Quality Division Structure

Within the Quality Division, a functional division at the head office, the Quality Control Department was previously responsible for quality auditing and quality control operations. The QF Promotion Department was newly established within the division as the core of quality improvement operations from analyzing quality data to taking measures against quality defects. By separating the functions of management and practical execution, we intend to strengthen the functions of our quality maintenance management and improvement activities.

New Structure of Quality Division



Supply Chain Management

Basic Policy for Procurement

KYB works to fulfill its corporate social responsibility (CSR) and continues to be a company that society can rely upon. Suppliers are important partners for us in continuously developing our business through *monozukuri* (Japanese manufacturing expertise) and contributing to the realization of an affluent society.

Our basic policy for procurement is described below.

Basic Approach to Procurement

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

► For details, please see the Company website.

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

Specific Initiatives

FY2019 Procurement Policy Briefing

We held the FY2019 Procurement Policy Briefing in April 2019 in Tokyo and Nagoya. Suppliers involved in manufacturing were invited, and to strengthen cooperation, the Chairman, President Executive Officer and other members of KYB senior management explained our corporate policy, procurement policy, quality policy and the policies of each of our businesses to representatives of our suppliers. They also recognized excellent suppliers who contributed greatly to QCD,* and presented commemorative shields and mementos.

* Quality, cost and delivery



At the Tokyo briefing

Supplier QC Circle Convention

In November 2019, the 49th Supplier QC Circle Conference was held at Atsuta Shrine Hall in Nagoya. This competition is held every year to encourage improvement activities among our suppliers. This year, 237 people from 152 companies attended. Representative teams from each company announced the results of their activities for the year, and NTN Corporation was awarded the gold medal.



At the awards ceremony

Theme Study Group Improvement Activities

Thirty suppliers who participate in our theme study groups worked on improvement activities throughout FY2019 under the themes of quality and business continuity plans (BCP). Results included reduction of quality defects and the creation of a BCP crisis management system, and the groups also obtained approval from the Ministry of Economy, Trade and Industry for tax incentives, financial support and manufacturing subsidies for the BCP activities of small and medium-sized enterprises. We will use the results of these activities to improve quality and BCP management systems at our suppliers.

In FY2020, the name will be changed to Keneikai and a new team will be used to conduct improvement activities.

Survey of Status of BCP

To understand the BCP status of suppliers we conducted a questionnaire for self-assessment consisting of 100 items in seven categories (actions for anticipated risks; securing personal safety and emergency evacuation; emergency measures taskforce; confirmation of employee safety; confirmation of property damage; instructions for returning home and measures for people who have difficulty returning home; and restoration taskforce). Moreover, we surveyed the status of readiness of the entire supply chain with regard to a major earthquake. In this way, we have all suppliers review the status of their BCPs and encourage them to study issues requiring improvement and systematically implement BCP activities.

Initiatives to Prevent Human Rights Violations in the Supply Chain

In recent years, there has been growing demand for companies to prevent human rights violations globally, including in their supply chains.

For example, under the Dodd-Frank Wall Street Reform and Consumer Protection Act, companies are required to perform due diligence and identify whether their products contain tantalum, tungsten, tin or gold purchased from mines in the Democratic Republic of Congo (DRC) and nine neighboring countries, where the extraction of such mineral resources may be used to finance or benefit armed groups that are causing human rights violations and environmental destruction. The aim of the Dodd-Frank Act is to indirectly cut off financial sources from these "conflict minerals" to prevent such human rights violations. The EU has taken a broader approach to restricting conflict minerals by requiring all companies importing mineral resources into the EU to take similar actions.

In light of the Dodd-Frank Act, the KYB Group annually checks its products with the cooperation of its suppliers, summarizes the results and reports to customers that request such information.

In addition, in accordance with the U.K. Modern Slavery Act 2015 we annually release a statement on KYB Group business activities and initiatives to prevent slave labor and human trafficking in our supply chain, including the above-mentioned conflict mineral measures. We will carry on with our awareness-raising activities on prohibiting human rights violations and slavery labor.

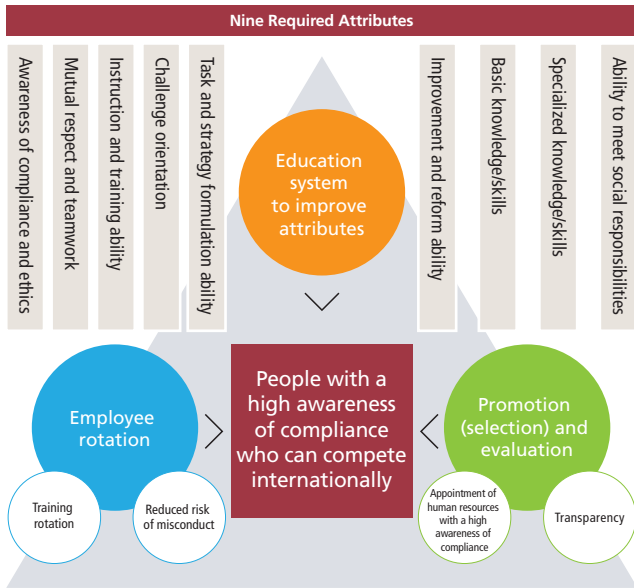
► For details, see the "Supply Information" section of the Company website.
https://www.kyb.co.jp/english/company/supply_information.html

Human Resources Management

Human Resources Development

We nurture people with a high awareness of compliance who can compete internationally by linking (1) our education system, (2) employee rotation and (3) promotion and evaluation to improve the attributes of each employee.

The KYB Human Resources Development System



Specific Initiatives

Compliance Awareness Education

The KYB Group is committed to an open corporate culture in which management and employee communication is energized by sharing perceptions of the current state of affairs.

We promote quality management, which is fundamental to management, by positioning compliance awareness as the foundation of the KYB Group. We are working to foster a mindset of following moral, ethical, legal and societal rules among not only senior management but all employees.

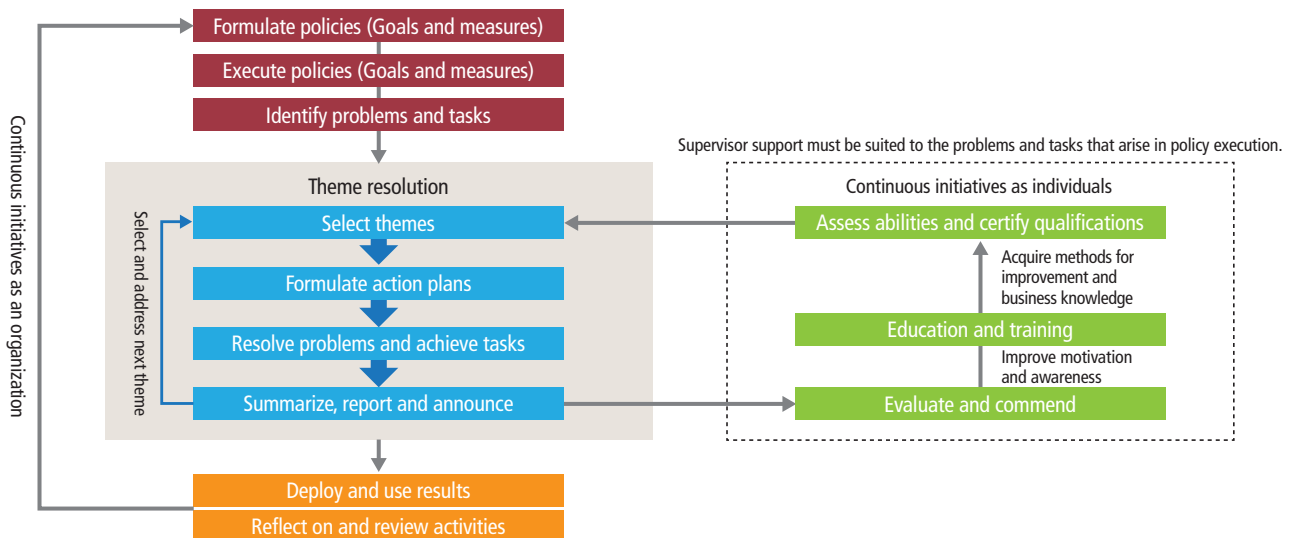


* Mindset of abiding by moral, ethical, legal and social rules

Small Group Activities

In each workplace, we form small teams that have been optimized for specific objectives. Guided by a supervisor, they work to establish compliance awareness and improve safety, quality and productivity. The goal of these Companywide activities is to help prevent improprieties, enhance corporate performance, energize the workplace and improve communication, and to develop our people by enhancing their ability to make improvements.

Basic Approach for Small Group Activities



Promoting Health Management

KYB Health Declaration

KYB sees the health of employees and their families as an important management resource and a source of corporate vitality, and is working to achieve sustainable growth through the creation of an environment in which all employees can work in good health both physically and mentally.

We are committed to actively supporting employees who are engaged in health promotion activities and to promoting organizational measures for health promotion in order to live up to our Corporate Spirit by “building a corporate culture full of vitality and holding high goals.”

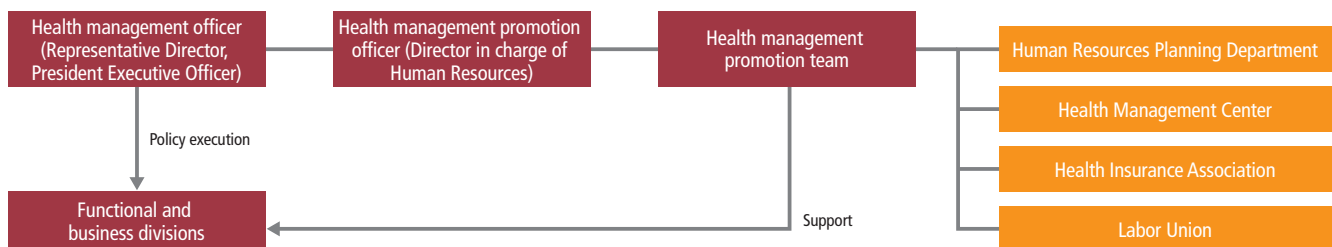
November 1, 2019

Masao Ono

Representative Director and President Executive Officer



Organizational Structure for Promoting Health Management



Key Initiatives

1. Measures for Lifestyle-Related Diseases

(Collaboration with Health Insurance Association)

- Creating an environment that facilitates exercise

We have installed walking courses and hold Companywide walking events.



- Initiatives to keep the percentage of employees undergoing scheduled health checkups at 100% and to improve the percentage of employees undergoing specified health checkups

Percentage of Employees Undergoing Health Checkups

	Regular Health Checkups	Specified Health Checkups
FY2017	100%	73.5%
FY2018	100%	77.4%
FY2019	100%	88.3%

- Health seminars

Visiting lecturers give annual health seminars at all of our business locations in order to raise health consciousness among employees.



2. Mental Health Measures

- Promoting mental health education

We promote class-specific education for primary prevention of mental health issues in the workplace.

Class-Specific Education in FY2019

	Seminars Held in FY2019	Attendance Rate
Supervisors	–	Postponed to the following fiscal year as a COVID-19 countermeasure
Managers	4	76.4%

- Activities for promoting freedom from harassment in cooperation with functional and business divisions

Based on the belief that freedom from harassment is essential for creating a vibrant and rewarding workplace, we have made freedom from harassment a corporate priority and are executing policies for all functional and business divisions.

3. Passive Smoking Countermeasures

- Smoking environment countermeasures

Based on the secondhand smoke prevention policy established in April 2020, we are in the process of prohibiting smoking in all areas in stages.

April 2020: Abolition of indoor smoking areas
 January 2021: No smoking during working hours (no tobacco break)
 April 2022: Complete prohibition of smoking and discontinuation of tobacco sales at all business sites



- Support for smoking cessation

We provide ongoing support for employees who want to quit smoking.

Promoting Work Style Reform

Basic Approach

We are focusing on building and enhancing systems using the themes shown on the right to achieve a rewarding workplace in which diverse individuals can contribute over the long term.

In addition, in FY2018 we began conducting an Employee Awareness Survey for all KYB employees regarding workplace climate, working conditions, management policy and other matters. Answers are anonymous, and an external organization compiles and analyzes the results. Consequently, response rates have been high (95.6% for the first survey in 2018, 97.1% for the second survey in 2019) and we have learned the true opinions of employees.

We will continue to conduct this survey regularly and use the data to promote Companywide initiatives for employee work style reform.

1. Support for work-life balance

Flexitime system, encouragement of taking annual paid leave in a continuous block, etc.

2. Consideration of diverse work styles

Promotion of telecommuting, shortened working hours to accommodate childcare, etc.

3. Promotion of employee health

See "Promoting Health Management" on page 27 for details.

4. Improvement of work process efficiency

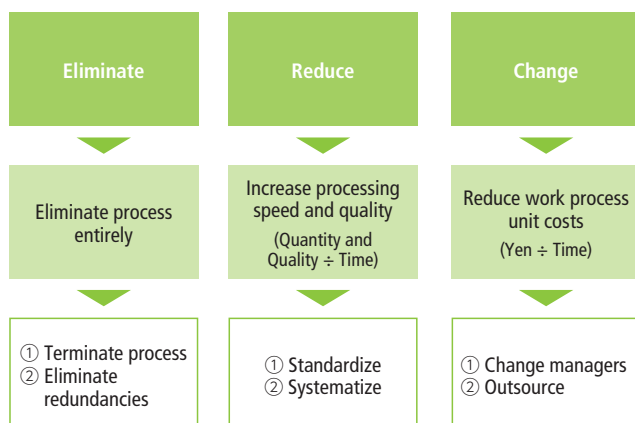
Includes projects to streamline operations

Specific Initiatives

Enhancing the Productivity of Administrative Operations

In FY2017, we launched the Administrative Operations Productivity Improvement Project and are working to improve efficiency and added value in administrative operations, including general affairs, accounting, human resources and production management.

Each administrative department aims to improve work process efficiency through a transition to higher added value by reviewing existing work from the perspectives of Eliminate, Reduce and Change. As part of this initiative, we have introduced robotic process automation (RPA) tools to automate routine work processes and we are conducting activities to shorten internal meetings (30 smart meeting activities). We will continue to study and verify all measures to increase efficiency in order to improve the productivity of administrative operations.



Support for Work-Life Balance

KYB supports work-life balance for its employees as a means to create an environment in which employees can participate with enthusiasm. In April 2018, we extended the childcare leave period

to the end of April after the child turns three in order to support employees raising children. Employees had indicated that the childcare leave period stipulated by law made it difficult to place children in nursery school because the leave period ended in the middle of the fiscal year, before the start of the school year.

Furthermore, we revised the flexitime system in April 2019 by extending the period of the workday available for flexitime work and applying the system uniformly at all business locations. This enables flexible work styles that match employees' private lives and work schedules.

Promoting Telecommuting

One of our work style reform initiatives has been to promote telecommuting, with the goal of reducing time and energy spent in commuting, and using the time saved more effectively. In November 2017, we launched a trial program focused on supporting work-life balance for employees raising children or providing nursing care for family members. Following a series of reviews of eligibility and system improvements, the program became an official system as of April 2020. We have now expanded its scope to cover administrative operations at all business sites, including plants, allowing employees to telecommute up to twice a week.

In addition, we registered with the organization implementing the Telework Days 2019 and Winter Smooth Biz Practice Period programs conducted by government ministries and the Tokyo Metropolitan Government, and encouraged employees to telecommute.

Based on employee feedback, we plan to improve our telecommuting system by making it more user-friendly, and to broaden eligibility.



Winter Smooth Biz Practice Period

Diversity

Empowering Diverse Human Resources

The entire KYB Group accepts and respects diversity regardless of gender, nationality, disability or other attributes. To be able to support the active participation of our diverse human resources, we are working to create an environment where all employees can play an active role while gaining satisfaction from their work. To that end, we are stepping up job rotation and encouraging the use of annual paid leave.



Key Initiatives

Stepping Up Job Rotation

- Stepping up job rotation in cooperation with each /business division/function

To facilitate women’s career planning, we are proactively promoting career development and new career opportunities through job rotation.

Encouraging Use of Annual Paid Leave

- Manager-led encouragement of use of annual paid leave

To help support work-life balance through the use of paid leave, we are conducting activities to encourage managers to take the lead in using their annual paid leave.

Certification as a 2020 Health & Productivity Management Organization

In March 2020, KYB received certification under the Health & Productivity Management Organization Recognition Program as a company that considers employee health management strategically. We view the health of employees and their families as an important management resource and the source of corporate vitality, and we will continue to strive to create a work environment where each employee is physically and mentally healthy and can work enthusiastically to achieve the sustainable growth of the Company.



Environmental Management

Basic Approach

KYB launched a new medium-term strategy in FY2020. Environmental initiatives are a global issue, and countries worldwide are working to reduce CO₂ emissions to prevent global warming. The KYB Group has introduced solar power generation systems and improved the efficiency of heat source equipment. We have also reduced CO₂ emissions by adopting energy-saving technologies such as LED lighting. Furthermore, with the cooperation of external experts, we are steadily making other improvements such as visualizing wasted energy through diagnostics, reducing leakage

of air and steam used in production equipment, and decentralizing air compressors.

Overseas, we are implementing 100% green power purchases of wind and solar power at our base in Spain, and we are also considering introducing green energy at our base in Mexico. We will continue to work toward achieving environmental impact targets, and in so doing contribute to a sustainable society. One measure will be to further promote energy-saving activities that support the reduction of CO₂ emissions, and to boost waste volume reduction and recycling.

Basic Environmental Policy

Slogan

Protect the Green Earth and Create Environmentally Friendly Products

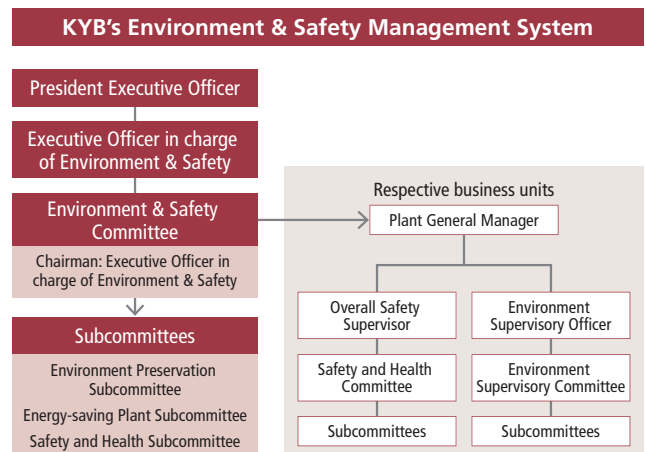
Basic Environmental Policies

The KYB Group creates user- and earth-friendly products. We actively promote environmental conservation activities as an important tool for evaluating management.

1. Develop and build up production and corporate activities based on recycling to reduce impacts on the environment.
2. Strive to ensure long-term and sustainable operations throughout the entire KYB Group.
3. Work to promote relationships with local communities and contribute to society as a good corporate citizen.
4. Clarify the role of each employee and encourage the participation of all employees.

Environment & Safety Management System

We established the Environment & Safety Committee, and have positioned officers responsible for environment and safety as leaders. Under the following system, KYB works to promote unity in environment and safety initiatives.



Environmental & Safety Mid-Term Policy

Phase 1 (2011-2013)

1. **Creation of energy-saving plants**
 - Reduce CO₂ per basic unit by 1% each year and cut CO₂ emissions by 25% compared with FY1990 levels by 2020
2. **Creation of waste-free plants**
 - Reduce final disposal amount of industrial waste by 65% compared with FY2000 levels by 2015
3. **Creation of accident-free plants**
 - Prevent industrial accidents through risk assessment
 - Develop safety simulation facilities, etc.

Phase 2 (2014-2016)

1. **Creation of plants that aim to minimize energy consumption and waste**
 - Reduce energy consumption per basic unit by 1% compared with FY2013 levels
 - Reduce amount of industrial waste per basic unit by 3% compared with FY2013 levels
2. **Creation and expansion of production bases with zero industrial accidents**
 - Improve employees' awareness of safety and eliminate critical hazard sources

Phase 3 (2017-2019)

1. **Creation of plants that aim to minimize energy consumption and waste**
 - Develop environment for partial supply of energy
 - Promote measures through energy visualization
 - Promote waste volume reduction and recycling
2. **Creation and expansion of production bases with zero industrial and fire accidents**
 - Promote risk assessment and countermeasures against industrial accidents
 - Promote measures for zero fire accidents

Phase 4 (2020-2022)

1. **Creation of plants that aim to minimize energy consumption and waste**
 - Consider environmental friendliness by reducing energy consumption and CO₂ emissions
 - Utilize energy sources with low CO₂ emissions and promote initiatives to prevent global warming
 - Promote measures through energy visualization
 - Contribute to creation of sustainable society while considering ESG initiatives and develop energy and facilities that are environmentally friendly
 - Promote waste volume reduction and recycling
2. **Creation and expansion of production bases with zero industrial and fire accidents**
 - Promote risk assessment and countermeasures against industrial accidents
 - Promote measures for zero fire accidents

Results of Environmental Conservation Efforts and Future Initiatives

We developed the Environmental Management Activity Plan based on the Company's environmental policy and implemented a variety of activities at each production base to achieve our targets. However, compared with FY2016 levels, which was the benchmark, we failed to achieve our targets for CO₂ emissions, due in part to an increase in production volume. For industrial

waste, until FY2018 we presented it as the amount of overall emissions, but from FY2019 we clarified the definition of recycling and presented it as the volume of actual emissions. In addition, we will work to improve the efficiency of production facilities, further reduce energy consumption, improve productivity and promote recycling.

Results for FY2019

○: Goal attained ×: Goal not attained

Theme		Target Value	FY2019 Result	Evaluation
Prevention of global warming	CO ₂ emission volume	93,650 t-CO ₂ or less	96,745 t-CO ₂	×
	Energy saving	Energy consumption per basic unit	0.69 kl/million yen or less	0.75 kl/million yen
Improvement of resource recovery and recycling rate	Recycling rate	92.8% or higher	91.8%	×
	Zero emission	4.6% or less	3.4%	○
Reduction of waste	General waste	489 t or less	515 t	×
	General waste per basic unit	2.03 kg/million yen or less	2.25 kg/million yen	×
	Metal scrap	17,393 t or less	19,319 t	×
	Metal scrap per basic unit	244 kg/million yen or less	285.0 kg/million yen	×
	Industrial waste	3,157 t or less	3,557 t	×
	Industrial waste per basic unit	25.94 kg/million yen or less	28.8 kg/million yen	×

Overview of Major Initiatives in FY2020

Global Warming Prevention

Measures include replacing lighting with LEDs, LVDs, and other highly efficient devices, adopting inverter control for hydraulic units, upgrading to high-efficiency compressors, eliminating leakage of air, reducing air consumption in plants, and implementing activities for environment impact reduction by installing high-efficiency air conditioning equipment and controlling facility temperatures.

Waste Material Reduction

Measures include reducing paint dust through biological treatment, introducing waste treatment and reduction systems, turning waste into valuable products and promoting recycling.

Notes: 1. Basic units are calculated using marginal profit.

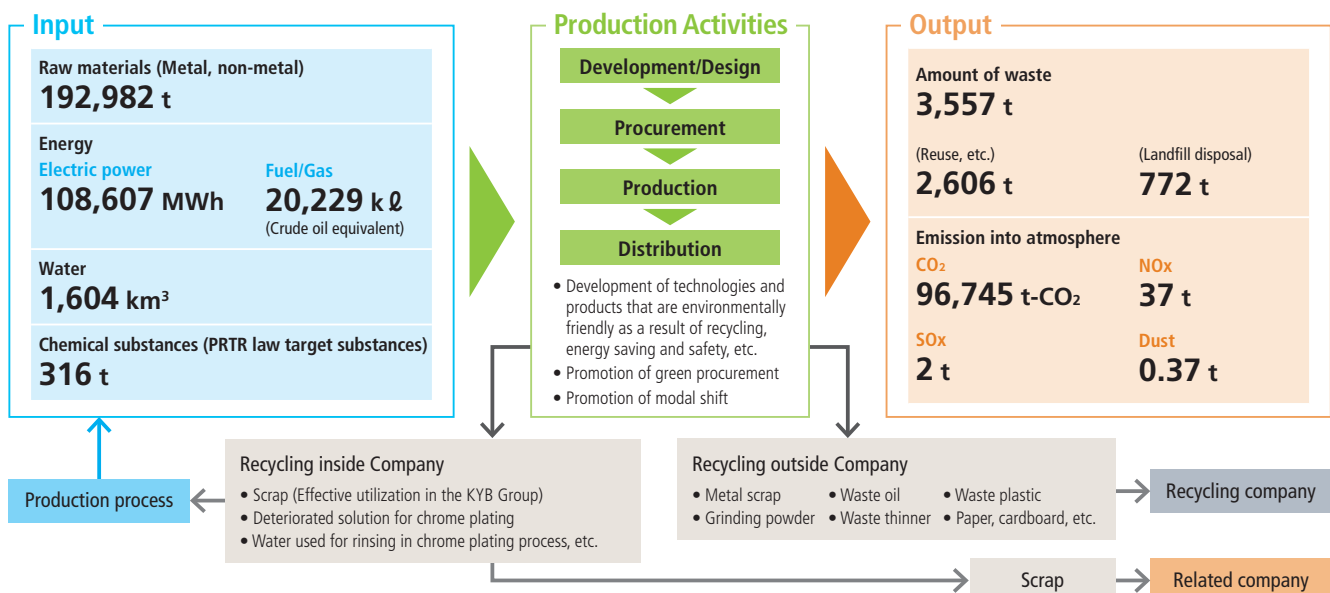
2. For energy, crude oil equivalent is calculated for electricity and fuel, and the total value indicates energy consumption.

3. CO₂ emissions and energy consumption per basic unit are calculated using methods determined by KYB.

4. We have been promoting recycling activities to reduce industrial waste since FY2019. Therefore, recycling that turns waste into valuable products has been excluded.

Environmental Impact by Business Activity

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



Chemical Substance Management

Response to Environmental Controls on Products

For the protection of the environment, the REACH Regulations, other ELV¹ and RoHS directives,² and various laws and regulations, which contain increasingly stringent provisions, have been established and are being implemented. In order to address stricter REACH and other regulations, in FY2013 we built a chemical substance database, which is a breakdown of each of our products containing chemical substances subject to the regulations. By FY2015, we had implemented its use throughout the KYB Group, conducted investigations of the relevant substances contained in our products, and collected relevant data. By using our database, we can rapidly respond to requests from clients to determine the presence or absence of not only banned substances and restricted-use materials but also of substances of very high concern, which have been periodically added to the REACH Regulations since the enforcement of the rule.

We will continue to provide products that meet client and market needs.

Notes: 1. A directive that came into effect in the EU in October 2000 to reduce environmental impact caused by end-of-life vehicles.
2. A directive that came into effect in the EU in July 2006 that restricts the use of specific hazardous substances found in electrical and electronic products.

Risk Assessment of Chemical Substances

In FY2015, we assessed the health risks related to chemical substances at all of our production bases in Japan. In FY2016, we

assessed risk of explosion and fire from chemical substances at the Gifu South Plant and Gifu East Plant. For the assessment, we explained to all of our 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 explosions and fires. Chemical substances handled by the plants include invisible gaseous substances and those with flashpoints below room temperature. By conducting risk assessments and sharing information Groupwide through the chemical substance database, we strive to provide useful information to those who handle chemical substances so that they understand 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 of our business establishments. We concluded a disposal contract with a company specializing in detoxification processes and started disposal in FY2012.

We have been promoting the disposal of transformers at each Group company, and will complete the disposal of the electrical equipment we have stored by the end of summer 2020. We will continue with appropriate disposal of equipment that exhibits low concentrations of PCBs.

ISO 14001 Certification Acquisition

In order to systematically develop initiatives for environment conservation, we are introducing and promoting an ISO 14001 environmental management system. We will shift to the 2015 edition sequentially in renewal examinations.

Japan

KYB	Year of Certification Registration
Gifu South Plant (Including Gifu East Plant, Production Technology R&D Center, Machine Tools Center, KYB Motorcycle Suspension Co., Ltd.)	Feb. 2000
Sagami Plant (Including the Basic Technology R&D Center and the Electronics Technology Center)	Dec. 2000
Kumagaya Plant	Dec. 2000
Gifu North Plant (Including KYB Kanayama Co., Ltd.)	Dec. 2001
Group Companies in Japan	Year of Certification Registration
Kayaba System Machinery Co., Ltd. (Mie Plant)	Dec. 2000
Takako Industries, Inc. (Shiga Plant)	Feb. 2003
KYB-YS Co., Ltd.	Apr. 2004
KYB Trondule Co., Ltd.	Nov. 2008

Overseas

Group Companies Overseas	Year of Certification Registration
KYB Manufacturing Taiwan Co., Ltd. (Taiwan)	Jun. 2001
KYB Steering Spain, S.A.U. (Spain)	Jun. 2001
KYB Suspensions Europe, S.A.U. (Spain)	Dec. 2001
KYB Americas Corporation (United States)	May 2002
KYB (Thailand) Co., Ltd. (Thailand)	Jul. 2003
KYB Steering (Thailand) Co., Ltd. (Thailand)	Aug. 2003
PT. Kayaba Indonesia (Indonesia)	Nov. 2004
KYB-UMW Malaysia Sdn. Bhd. (Malaysia)	May 2005
KYB-UMW Steering Malaysia Sdn. Bhd. (Malaysia)	May 2005
Takako Vietnam Co., Ltd. (Vietnam)	Jan. 2007
KYB Manufacturing do Brasil Fabricante de Autopeças S.A. (Brazil)	Mar. 2007
KYB Industrial Machinery (Zhenjiang) Ltd. (China)	Apr. 2009
KYB Manufacturing Czech, s.r.o. (Czech Republic)	Aug. 2009
Changzhou KYB Leadrun Vibration Reduction Technology Co., Ltd. (China)	Jan. 2010
Wuxi KYB Top Absorber Co., Ltd. (China)	Nov. 2013
Takako America Co., Inc. (United States)	Feb. 2013
KYB Manufacturing Vietnam Co., Ltd. (Vietnam)	May 2013
KYB Advanced Manufacturing Spain, S.A.U. (Spain)	Jun. 2015

OSHMS and ISO 45001 Certification Acquisition

In order to systematically implement initiatives to build an occupational health and safety management system and strengthen its foundation, we are introducing and promoting OSHMS ISO 45001. We introduced OSHMS at the Gifu North Plant in FY2004, and we have been rolling it out Groupwide (OSHMS in Japan and ISO 45001 overseas).

Our overseas bases have acquired OHSAS 18001 certification. We will gradually promote the shift to the international standard ISO 14001 environmental management system.

Bases with OSHMS and ISO 45001 Certification (As of April 2020)

Japan (OSHMS)

Gifu North Plant (Including KYB Kanayama Co., Ltd.)
Gifu South Plant (Including Gifu East Plant, Production Technology R&D Center, Machine Tools Center, KYB Motorcycle Suspension Co., Ltd.)
Sagami Plant (Including the Basic Technology R&D Center and the Electronics Technology Center)
Kumagaya Plant
Takako Industries, Inc. (Shiga Plant)
KYB-YS Co., Ltd.
KYB Trondule Co., Ltd.

Overseas (OHSAS 18001 and ISO 45001 Certification)

KYB Americas Corporation (United States)
KYB (Thailand) Co., Ltd. (Thailand)
PT. Kayaba Indonesia (Indonesia)
KYB-UMW Malaysia Sdn. Bhd. (Malaysia)
KYB-UMW Steering Malaysia Sdn. Bhd. (Malaysia)
KYB Industrial Machinery (Zhenjiang) Ltd. (China)
KYB Manufacturing Czech, s.r.o. (Czech Republic)
Changzhou KYB Leadrun Vibration Reduction Technology Co., Ltd. (China)
Wuxi KYB Top Absorber Co., Ltd. (China)
KYB Manufacturing Vietnam Co., Ltd. (Vietnam)

Environmental Accounting

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

(Millions of yen)

Cost Type	Major Contents	Invested Amount/Cost
(1) Business area cost	(1)-1 Pollution prevention cost <ul style="list-style-type: none"> • Air pollution and water pollution prevention activities • Maintenance and inspection of pollution prevention facilities • Analysis and measurement of atmosphere and water quality 	305.9
	(1)-2 Global environmental conservation-cost <ul style="list-style-type: none"> • Energy conversion • Energy-saving activities 	19.5
	(1)-3 Resource circulation cost <ul style="list-style-type: none"> • Recycling of plant waste • Reduction of industrial waste 	367.4
(2) Upstream/downstream cost	Not available	0.0
(3) Management activity cost	<ul style="list-style-type: none"> • Maintenance and management of ISO 14001 • Monitoring of environmental impact 	91.7
(4) R&D cost	<ul style="list-style-type: none"> • Environmentally friendly product development • Lightweight products and products containing less hazardous chemical substances 	77.0
(5) Social activity cost	<ul style="list-style-type: none"> • Support of non-profit environmental protection • Afforestation and maintenance of scenery around plants 	20.2
(6) Environmental remediation cost	Not available	0.0
(7) Other cost	<ul style="list-style-type: none"> • Internal environmental conservation • Welfare conservation 	22.7
Grand total	Not available	904.3

Note: Classification and Definition of Environmental Conservation Costs

Invested amount: Expense for the purpose of environmental conservation during the target period with effect that continues for a number of terms and running cost for those periods.

Cost: Cost or loss generated from expenditure of finances/services for the purpose of environmental conservation.

Activities at Production Bases

Energy Savings by Introducing Inverter Pumps for Coating Equipment Pretreatment

KYBT (Thailand) is moving ahead with replacement of inverter pumps when upgrading pretreatment pumps. By switching to inverter pumps, we were able to reduce CO₂ emissions by 87.75 t-CO₂ annually. Furthermore, the equipment is expected to reduce maintenance costs due to its few components.



Reducing Material Transportation through In-house Production

At KYB Advanced Manufacturing Spain, total truck mileage driven was shortened by moving manufacturing in-house in FY2019 and reducing material transportation. As a result, we were able to reduce CO₂ emissions by 55% and annual emissions to 14 tons.

Improvement of Local Environment (Reduction of Neighborhood Noise)

KYB Suspensions Europe in Spain is near a residential area, and we have reduced noise levels in the daytime by 55 dBA and by 50 dBA at night. We measured at 33 points, made a soundproofing plan, tested effectiveness in advance, and then implemented the initiative. As a result, noise was reduced at all measurement points. Significant noise reduction was achieved at all of the most important peripheral points, especially at night. The initiative was also approved by the government of Navarre.

Reducing Environmental Impact by Upgrading Cationic Electrodeposition Coating Equipment

The Kumagaya Plant now employs zirconium conversion coating, a first in the special-purpose vehicle industry, as the pretreatment for undercoating. In 2018, we upgraded cationic electrodeposition coating equipment and started

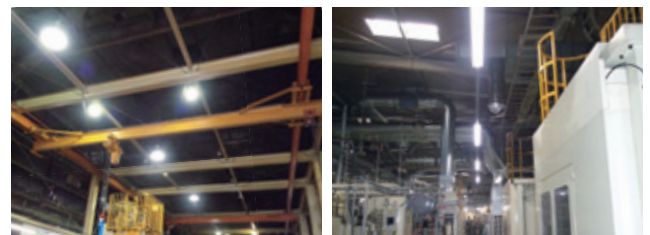


full-scale operation in May 2019. Compared to the zinc phosphate coating used by many companies with cationic electrodeposition coating equipment for chemical conversion coating, sludge was reduced by about 90%, and since heavy metals, phosphorus and nitrogen dioxide are not used, the amount of environmentally hazardous substances generated was greatly reduced. In addition, the upgrades improve the paint quality for concrete mixer trucks, which need an exterior that is both highly durable and attractive.

We will make further efforts to create products that are environmentally friendly and contribute to society.

Reducing Environmental Impact with LED Lighting in Plants

The Gifu North Plant has been phasing in LED lighting since FY2017. In FY2020, we also reduced lighting in conjunction with the move to 2,500 LED spotlights in offices and plants. The use of LED lighting reduces energy consumption by the crude oil equivalent of approximately 160 kℓ per year. We will promote the shift to LED lighting at other Group plants.



Industrial Waste Reduction by Extending the Cleaning Liquid Replacement Cycle

Plant No. 1 of KYB Kanayama Co., Ltd. made cleaning liquid replacement quantitative rather than periodic in FY2018. As a result, the plant was able to reduce the amount of effluent by one-third. KYB Kanayama also broadened deployment of this system to Plant No. 2 in FY2019 to further reduce industrial waste.

Compressor Operation Review to Save Energy

KYB Kanayama reviewed air supply operations due to oversupply at certain times of day. The resulting improvements reduced monthly electricity consumption by 21,120 kwh from 311,680 kwh to 290,560 kwh, and reduced CO₂ emissions by 11,088 t-CO₂.



Waste Reduction by Introducing Garbage Processing Equipment

Approximately 350 kg of garbage was discharged from the cafeteria at the Sagami Plant per month. A garbage processor was introduced to enable in-house garbage disposal, resulting in zero emissions and reduction of processing costs. In addition, this device uses microorganisms to decompose food waste into water and carbon dioxide, thus contributing to environmental protection.

"Special Award for Outstanding Foremen in Occupational Safety" from the Minister of Health, Labor and Welfare

In January 2020, the assistant manager of the Manufacturing Department of Hydraulic Components Operations at the Gifu South Plant received the "Special Award for Outstanding Foremen in Occupational Safety" from the Minister of Health, Labor and Welfare. This was the fourth time a KYB Group employee has received this award, which recognizes an outstanding foreman who has practiced appropriate safety guidance with a high level of safety awareness. We will continue to put the safety of our employees first as we strive for zero occupational accidents.

Corporate Governance

Basic Policies

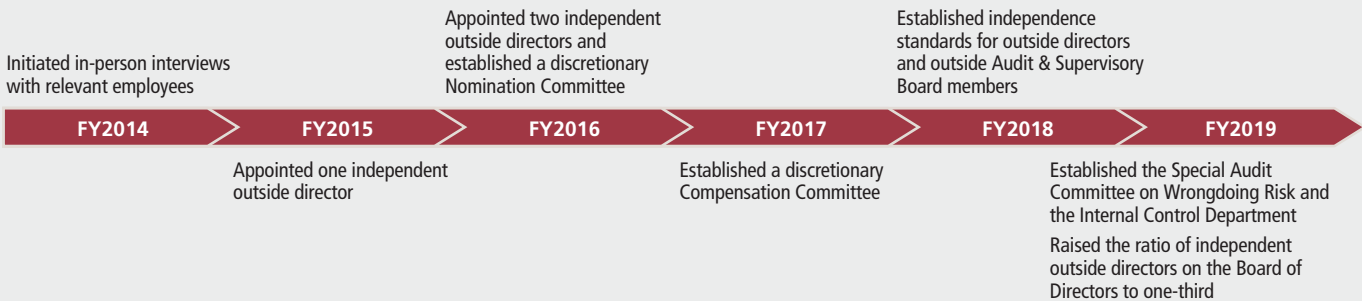
1. We shall respect the rights of shareholders, and ensure the equal and fair treatment of all shareholders.
2. We shall take the interests of shareholders and other stakeholders into consideration and endeavor to appropriately cooperate with those stakeholders.
3. We shall disclose not only information in compliance with the relevant laws and regulations, but also actively provide important and/or useful information to stakeholders to enable well-informed decision-making.
4. The Board of Directors shall be cognizant of its fiduciary responsibility and accountability to shareholders, and shall appropriately fulfill its roles and responsibilities in order to promote sustainable and stable corporate growth and increase corporate value, profitability and capital efficiency.
5. We shall engage in constructive dialogue with shareholders, and make efforts to obtain their support regarding the Company's Business Policies and also reflect their opinions and concerns in efforts to improve management.

Basic Approach for Regaining Trust

We have established the Corporate Guiding Principles to demonstrate our values regarding appropriate cooperation with stakeholders, respect for their interests and sound business ethics. We have inculcated these principles and make efforts to ensure that compliance extends to the front lines of business activities in Japan and overseas. For example, we hold briefings on the Corporate Guiding Principles, conduct various types of compliance education, set compliance education as a requirement for promotions, conduct in-person reviews of relevant employees, and ensure that everyone in the Company is aware of the whistleblowing system. Through these and other initiatives we have endeavored to broadly instill a sense of urgency among employees, making them keenly aware that the products and services that we supply through our businesses are connected to people's safety, physical wellbeing and financial position, and that

they are involved in quality management both directly and indirectly, and that laxity in any aspect of their work could impact society at large. In addition, we have widely communicated our Bad News First reporting system for identifying and resolving issues when they are still minor. It calls for reporting any workplace abnormalities whether favorable or unfavorable. However, improper acts occurred. As announced on October 16, 2018, performance inspection data records were falsified for some of the seismic isolation/mitigation oil dampers shipped by KYB and a subsidiary. Products that did not conform to performance evaluation standards approved by the Minister of Land, Infrastructure, Transport and Tourism, and did not meet the standards of our customers, were installed in buildings. In addition, there were improper claims in connection with a contract with the Ministry of Defense for defense equipment.

Initiatives to Strengthen the KYB Group's Governance



Non-Financial Corporate Governance Achievements

Corporate Guiding Principles now available in 13 languages

(Japanese, English, Chinese (simplified and traditional script versions), Portuguese, Vietnamese, French, German, Czech, Russian, Thai, Indonesian, Spanish (European and Latin American versions), and Tagalog)



Ratio of independent outside directors on the Board of Directors now one-third

Independence standards for outside directors and outside Audit & Supervisory Board members formulated

To prevent recurrence of the improper acts and demonstrate our commitment to regaining trust, we revised our Corporate Spirit by adding the item "Follow all rules and face all issues with honesty," and, based on the revised Corporate Spirit and Basic Policies, we will work to strengthen and enhance corporate

governance. Having clearly codified the prevention of quality-related misconduct in our Corporate Guiding Principles, we will deeply inculcate these principles in all of our people at the front line of business operations in Japan and overseas, and will resolutely ensure compliance.

Overview of the Corporate Governance System

The corporate governance of KYB, which is structured as a company with an Audit & Supervisory Board in accordance with the Companies Act, centers on the Board of Directors and the Audit & Supervisory Board and its individual members. In addition, KYB has instituted an executive officer system to expedite decision-making and streamline business execution.

Three of the seven members of the Board of Directors are independent outside directors, and two of the four members of the Audit & Supervisory Board are independent outside members. KYB believes it has strengthened independent and objective management supervision by the Board of Directors because one-third of the board consists of independent outside directors. KYB determines whether outside directors and outside Audit &

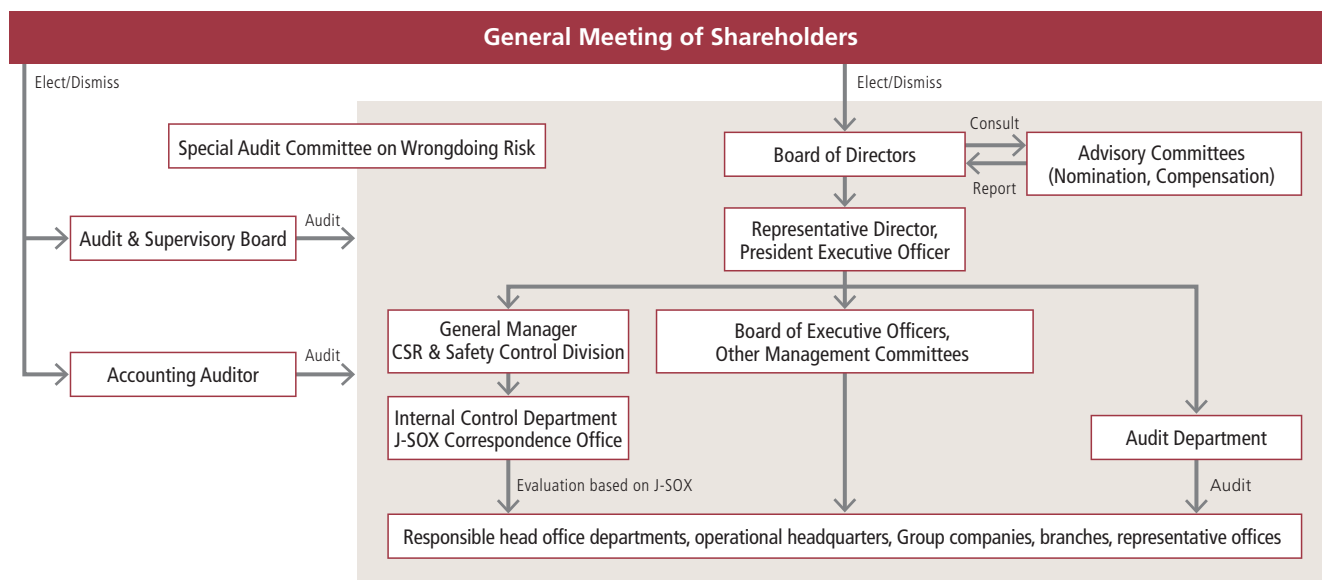
Supervisory Board members are independent based on KYB's independence standards, and only selects individuals who can be independent of other members of management.

Furthermore, the Internal Control Department is the organization responsible for overall planning and coordination of global governance and compliance, and the J-SOX Correspondence Office within the Internal Control Department conducts evaluations based on Japan's Financial Instruments and Exchange Law (J-SOX). We have also established the Special Audit Committee on Wrongdoing Risk, which is chaired by an outside director and has broad responsibility for detecting signs of misconduct and situations that give rise to it.

► Please refer to the Corporate Governance section on our Company website for details on independence standards.

<https://www.kyb.co.jp/english/company/governance.html>

Corporate Governance Structure



Evaluation of the Effectiveness of the Board of Directors

KYB defines the effectiveness of the Board of Directors as fulfillment of its expected roles and functions to achieve sustainable growth of the Company and improve corporate value. Committed to a highly effective Board of Directors, we analyze and evaluate the effectiveness of the Board of Directors once a year.

Based on the results of the FY2017 evaluation, in FY2018 KYB fully verified the appropriateness of the agenda and the ease of understanding of meeting materials in advance through channels including the Council of General Managers and the Corporate Strategy Council.

In FY2019, we administered written self-assessment questionnaires for all directors and Audit & Supervisory Board members. We used the questionnaire responses to identify issues

we need to address after obtaining third-party analysis and evaluation by external experts.

Questionnaire Methodology

Respondents: 10 respondents, comprising 6 directors (including 2 independent outside directors) and 4 Audit & Supervisory Board members (including 1 independent member)

Survey period: September to November 2019

Methodology: External experts administered a self-assessment questionnaire, analyzed and evaluated the results, and interviewed officers

Key questionnaire items

1. Roles and responsibilities of the Board of Directors
2. Composition of the Board of Directors
3. Roles and qualities of Directors
4. Administration of the Board of Directors
5. Level of satisfaction among outside directors

Number of survey questions

66 (75 for outside directors)

Questionnaire methodology

Evaluation of the current situation: 4-level evaluation

Specific suggestions for improving the current situation: open-ended response

2019 Results

We have identified the following specific issues for resolution in FY2020:

- 1) Further improve information sharing (between outside directors and Audit & Supervisory Board members, and between the Board of Directors and the Nomination Committee and the Compensation Committee)
- 2) Improve the ease of understanding of meeting materials for the Board of Directors

Future Actions

In order to strengthen the supervisory function of the Board of Directors, the Board of Directors and Audit & Supervisory Board members provided multiple opinions on matters to be discussed at Board meetings and the composition of the Board of Directors, and shared their awareness of issues. We will continue to discuss both internal and external issues in order to improve effectiveness.

Takeover Defense Measures

Countermeasures to Large-Scale Purchase of the Company's Shares (Takeover Defense Measures) is a KYB initiative to increase corporate value and thus ensure the common interests of shareholders for the medium and long term. The 97th Ordinary

General Meeting of Shareholders on June 25, 2019 approved a resolution to renew this initiative until the end of the 100th Ordinary General Meeting of Shareholders scheduled for June 2022.

Officer Compensation

Compensation Structure

Officer compensation consists of fixed monthly compensation (basic compensation) according to position and responsibilities, and performance-linked compensation (bonus) that varies depending on the Company's business results. Outside directors and Audit & Supervisory Board members only receive fixed compensation according to their respective roles, and in view of their independence do not receive performance-linked compensation.

Type of Compensation	Eligible Officers	Maximum Total Compensation	Date of Resolution of the General Meeting of Shareholders	Calculation Process
Fixed compensation	Directors	¥30 million per month (¥360 million per year)	June 27, 1997 75th Ordinary General Meeting of Shareholders	Consultation with Compensation Committee
	Audit & Supervisory Board members	¥8 million per month (¥96 million per year)	June 24, 2011 89th Ordinary General Meeting of Shareholders	—
Performance-linked compensation	Directors (Excluding outside directors)	40% or less of total compensation (Fixed compensation + Performance-linked compensation)	Approval annually by resolution at the Ordinary General Meeting of Shareholders	Consultation with Compensation Committee

Note: The limit on total fixed remuneration for directors does not include salary for employees concurrently serving as directors.

Compensation Decisions

For director compensation, the discretionary Compensation Committee composed of representative directors and outside directors verifies the propriety of the criteria for calculating fixed and performance-linked compensation and reports the propriety of criteria to the Board of Directors.

Fixed compensation for directors is determined by resolution of the Board of Directors upon receiving the report from the Compensation Committee, within the limit on total

compensation decided at the Ordinary General Meeting of Shareholders. Payment of performance-linked compensation for directors (excluding outside directors) is approved annually by resolution at the Ordinary General Meeting of Shareholders.

Fixed remuneration for Audit & Supervisory Board members is determined in consultation with Audit & Supervisory Board members, within the limit on total compensation decided at the General Meeting of Shareholders.

Calculation and Determination of Performance-Linked Compensation to Be Paid

1. Criteria and Business Results That Serve as the Basis for Calculation

Performance-linked compensation is calculated according to the degree of achievement in the preceding fiscal year (the "base fiscal year") of the consolidated performance forecast according to the following calculation criteria (four items).

Calculation Criteria	Target	Result
Segment profit (Millions of yen)	20,600	17,575
Segment profit margin (%)	5.02	4.61
Profit (loss) attributable to owners of the parent (Millions of yen)	14,000	(61,879)
Profit (loss) margin attributable to owners of the parent (%)	3.41	(16.22)

Note: The targets are the consolidated financial results forecast for the base fiscal year (FY2019, or the fiscal year ended March 2020) described in the financial statements at the end of the fiscal year prior to the base fiscal year (FY2018, or the fiscal year ended March 2019). The first consolidated performance forecast will be the baseline if the announcement of results for the recently ended fiscal year does not include a consolidated performance forecast.

2. Calculation of Amount to Be Paid

Total performance-linked compensation is limited to 1.0% of profit attributable to owners of the parent. Moreover, the ratio of performance-linked compensation to total compensation

(fixed compensation + performance-linked compensation) of directors (excluding outside directors) shall not exceed 40%.

The total amount to be paid is calculated by multiplying the maximum amount payable by a payout ratio derived from the number of calculation criteria targets in 1. that were achieved. Performance-linked compensation is not paid in the case of a loss attributable to owners of the parent.

Calculation Criteria Targets Achieved	4	3	2	1	0	Loss Attributable to Owners of the Parent
Payout ratio	100%	80%	60%	40%	20%	0%

3. Determination of Amount to Be Paid according to Position

The amount of performance-linked compensation to be paid to individual directors (excluding outside directors) is calculated based on proportional distribution of the total amount to be paid in 2. to each director according to the following payment points for each position. Amounts are rounded down to the nearest ¥100,000.

Position	Chairman	Vice Chairman	President	Vice President	Senior Managing Executive Officer
Payment points	8	7	10	6	5

Total Compensation for Each Officer Category, Total Compensation by Type, and Number of Eligible Officers

Category	Total Compensation (Millions of yen)	Compensation by Category (Millions of yen)		Number of Eligible Officers
		Fixed Compensation	Performance-linked Compensation	
Directors (Excluding outside directors)	155	155	—	6
Outside directors	16	16	—	2
Audit & Supervisory Board members (Excluding outside members)	44	44	—	2
Outside Audit & Supervisory Board members	45	45	—	3

Notes: 1. Total compensation for directors (excluding outside directors) does not include salary for employees concurrently serving as directors.

2. The above data includes two directors and one Audit & Supervisory Board member who retired at the conclusion of the 97th Ordinary General Meeting of Shareholders on June 25, 2019.

3. KYB abolished the retirement benefits system for directors at the conclusion of the 89th Ordinary General Meeting of Shareholders on June 24, 2011, but the payment of retirement benefits according to tenure as of the close of that meeting was also approved. Based on this approval, in addition to total compensation shown above, the following retirement benefits for directors (excluding outside directors) were paid for FY2019. ¥44.8 million (two directors)

Note: This amount includes the payment of ¥41.0 million to two directors, which was disclosed in previous years as allowance for retirement benefits.

4. FY2019 retirement benefits for directors did not increase because the retirement benefit system for directors was abolished as described above.

Internal Control and Compliance

Internal Control System

Basic Policy

The Board of Directors of the Company ensures effective corporate governance by adhering to the Basic Policy for Internal Control System¹ in accordance with the Companies Act, and by implementing various measures including a risk management system, a Group management system and an internal compliance system. The KYB Group also maintains and assesses the implementation of internal control over financial reporting using the procedures stipulated by the Financial Instruments and Exchange Act. In this way, the KYB Group ensures reliable financial reporting and appropriate information disclosure through internal control reports.

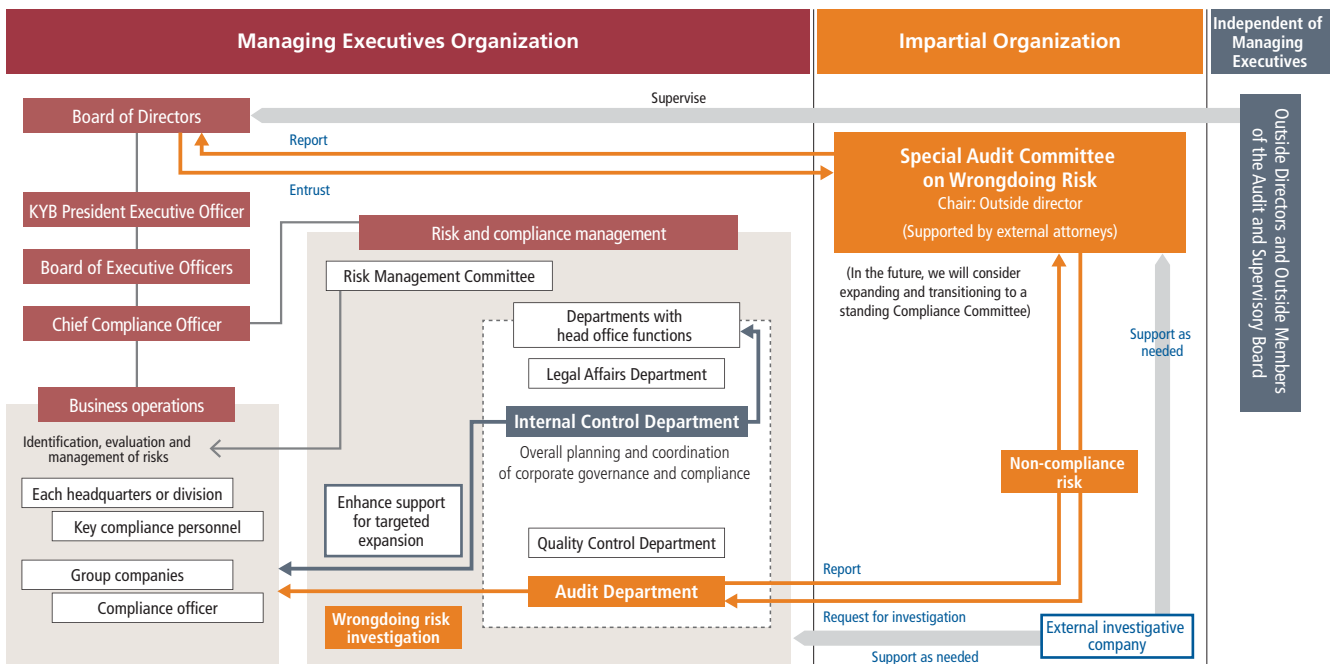
Key Points for Internal Control

1	KYB Group Risk Management	The Risk Management Committee reports to the Board of Directors. Based on the Risk Management Rules, it designates responsible departments to conduct risk management activities for major risks such as quality problems and occupational accidents during the fiscal year.
2	KYB Group Information Protection	Based on the Basic Policy for Information Security, KYB shall implement a system to protect information assets and take measures against the risk of information leaks and information system failures caused by cyberattacks.
3	Rigorous Application of Internal Regulations during Emergencies	We inform all employees of Group companies of their reporting obligations to ensure rigorous reporting under internal reporting rules that include the Rule of Prompt Report ² and Bad News First system, which calls for employees of Group companies to immediately notify the Company should they become aware of a potentially serious problem.
4	Review to Improve the Effectiveness of the Whistleblowing System	We carefully explain the internal reporting system to indirectly related departments and frontline workers. We have also made whistleblowing compulsory for improper acts related to product quality and safety.

Notes: 1. Please refer to the Company website for additional details.
<https://www.kyb.co.jp/english/company/governance.html>

2. A core component of the KYB Group's crisis management system, in which department heads and production base managers promptly and accurately report important information to the president of the Company.

Internal Control System



Compliance

Basic Policy

We regard compliance as adherence to the laws, orders and rules of society at large, as well as to the Company's Articles of Incorporation, rules and agreements associated with business activities, in addition to corporate ethics that promote sound business activities.

1. We have developed the Corporate Guiding Principles as rules for the execution of business activities by officers and employees, and are focusing on initiatives including establishing legal compliance and corporate ethics. In response to the improper acts related to the damper problem, we revised our Corporate Spirit and Corporate Guiding Principles in October 2019 to clearly state that quality fraud will never recur.



Publicity poster for the whistleblowing system

2. We are implementing compliance education through training sessions by job title and section.
3. We have established communication channels to management by using the Rule of Prompt Report and Suggestion Box as a system for the Company and all Group companies to identify company risks in a prompt manner. We have also established and are operating contact points for whistleblowers.



A meeting of compliance officers and key compliance people in Japan



A gathering of employees for Compliance Improvement Week

Key Points for Compliance

1	Fostering Compliance Awareness in the KYB Group	To improve compliance awareness, officers of the Company and Group companies regularly attend lectures on compliance awareness at training sessions for senior management. We also foster compliance awareness for employees of the Company and the Group through e-learning, lecture transcripts and videos.
2	Education and Training to Raise Awareness of Social Responsibility	We will systematize repeated top-down education on corporate ethics. We are also proactively reviewing the content of teaching materials to incorporate multiple case studies that lead to change in the awareness of all executives and employees, including frontline employees.
3	Emphasize the Importance of Compliance Regularly	Top management of the Company communicates internally through channels including speeches in January, April and October.
4	Personnel Evaluations and Related Measures	Personnel evaluations include a system for evaluating attitudes among employees, managers and executive officers toward compliance initiatives, such as compliance with laws and internal rules.
5	Organizational Upgrade	We have established compliance officers and key compliance people at Group companies and Company business units. They manage and lead the compliance activities of the company or business unit to which they belong to facilitate compliance activities.
6	Initiatives to Prevent Recurrence of Antitrust Violations	We are working on the following measures to prevent violations of antitrust laws based on lessons learned from violations in the United States. <ol style="list-style-type: none"> 1) Establishing an anti-monopoly compliance policy 2) Securing written pledges from sales personnel that they will not violate antitrust laws 3) Formulating rules for contact with competitors 4) Conducting educational activities related to antitrust laws 5) Conducting in-person interviews with sales personnel
7	Initiatives to Prevent Bribery-related Violations	We are working on the following measures to prevent violations of bribery-related laws and regulations. <ol style="list-style-type: none"> 1) Establishing an anti-bribery policy 2) Establishing internal regulations 3) Conducting educational activities related to bribery-related laws 4) Conducting in-person interviews with sales personnel
8	Initiatives to Raise Awareness of the Whistleblowing System	We have complemented internal contact points with external contact points for reporting from outside the Group in order to detect corporate scandals early and prevent them from occurring. Regarding the whistleblowing system, we also provide e-learning education and posters to Company and Group employees. The publicity posters are available in Japanese, Tagalog and Portuguese.

Management Team (As of June 25, 2020)

Directors



Yasusuke Nakajima¹
Director, Chairman



Masao Ono¹
Representative Director, President
Executive Officer



Takaaki Kato¹
Representative Director, Executive Vice
President Executive Officer



Keisuke Saito¹
Member of the Board of Directors,
Executive Vice President Executive Officer



Rokuro Tsuruta^{1, 3}
Member of the Board of Directors (Outside)



Shuhei Shiozawa^{1, 3}
Member of the Board of Directors (Outside)



Masakazu Sakata^{1, 3}
Member of the Board of Directors (Outside)

Audit & Supervisory Board Members



Tomoo Akai²
Audit & Supervisory Board Member
(Full Time)



Junichi Tanaka^{2, 3}
Audit & Supervisory Board Member
(Full Time) (Outside)



Eiji Hisada²
Audit & Supervisory Board Member
(Full Time)



Masahiko Sagara^{2, 3}
Audit & Supervisory Board Member
(Full Time) (Outside)

- Notes: 1. Term of office: One year from the conclusion of the Ordinary General Meeting of Shareholders held on June 25, 2020.
2. Term of office: Four years from the conclusion of the Ordinary General Meeting of Shareholders held on June 25, 2020.
3. Members of the Board of Directors Rokuro Tsuruta (Outside), Shuhei Shiozawa (Outside) and Masakazu Sakata (Outside), and full-time Audit & Supervisory Board Members Junichi Tanaka (Outside) and Masahiko Sagara (Outside) are independent officers as prescribed in Rule 436-2 of the Securities Listing Regulations of the Tokyo Stock Exchange.

Please refer to the "Notice of the 98th Ordinary General Meeting of Shareholders" on our Company website for more detailed information, including brief career histories.
▶ https://www.kyb.co.jp/english/ir/stock_meeting.html

Executive Officers

Representative Director, President Executive Officer	Masao Ono		Masahiro Kawase	In charge of Global Production (Automotive Components Operations Relations); General Manager, Suspension Headquarters; General Manager, Steering Headquarters, Automotive Components Operations
Executive Vice President Executive Officers	Takaaki Kato	In charge of Global Corporate Finances	Takashi Tezuka	General Manager, Quality Division
	Keisuke Saito	General Manager, Seismic Isolation/Mitigation Correspondence Operations	Ryuji Uda	In charge of China; Chairman & President, KYB (China) Investment Co., Ltd.; Chairman, KYB Industrial Machinery (Zhenjiang) Ltd.; Chairman, Wuxi KYB Top Absorber Co., Ltd.
Senior Managing Executive Officers	Hiroshi Ogawa	In charge of European Operations; President, KYB Europe GmbH	Minoru Ishikawa	General Manager, CSR & Safety Control Division
	Toshihiko Hatakeyama	In charge of Technology and Quality	Ichio Nemoto	In charge of Global Corporate Planning and Domestic Affiliated Companies; In charge of Aircraft Components Divisions; General Manager, Corporate Planning Division; General Manager, Corporate Planning Department
	Hitoshi Nitta	In charge of Cost Planning; General Manager, Production Division; Deputy General Manager, Seismic Isolation/Mitigation Correspondence Operations	Takashi Saito	In charge of auditing; In charge of President's Office
	Ikuo Inagaki	General Manager, Engineering Division; General Manager, Engineering Planning Department	Koji Yamamoto	General Manager, Gifu South Plant, Hydraulic Components Operations
	Hajime Sato	In charge of North, Central & South American Operations (Automotive Components Operations); General Manager, Automotive Components Operations; General Manager, Motorcycle Headquarters	Takashi Kondo	Deputy General Manager, Seismic Isolation/Mitigation Correspondence Operations; Deputy General Manager, Customer Correspondence Headquarters
Managing Executive Officers	Kenji Yamanouchi	President, KYB Americas Corporation	Kimiro Sudo	In charge of India; General Manager, Chennai (India) Branch
	Hideki Nonoyama	In charge of Purchasing; Deputy General Manager, Seismic Isolation/Mitigation Correspondence Operations; General Manager, Promotion Headquarters	Tomoki Takaoka	General Manager, Purchasing Division
	Osamu Kunihara	General Manager, Finance & Accounting Division	Ukuru Tsuchida	General Manager, Special Purpose Vehicles Division
	Kazuaki Shoji	In charge of Special Purpose Vehicle Division; General Manager, General Affairs & Human Resources Division	Shozo Amano	General Manager, Hydraulic Components Operations
			Minoru Tamai	General Manager, Sagami Plant, Hydraulic Components Operations
			Toshimichi Izeki	Deputy General Manager, Engineering Division; General Manager, Basic Technology R&D Center; Curator, KYB Museum

Risk Information

This section explains the major risk factors relevant to the KYB Group's operating results and financial condition that may have a significant effect on decisions by investors. The KYB Group's Risk Management Committee reports to the Board of Directors. Based on the Risk Management Rules, it identifies material risks the Group must address and the business units responsible for managing them, and also addresses large-scale natural disasters through Groupwide BCP initiatives. Business units are responsible for managing their risk exposure while the Risk Management Committee monitors their actions.

Forward-looking statements in this section represent the judgments of the KYB Group (KYB and its consolidated subsidiaries) as of March 31, 2020.

1. Nonconforming Acts in the Inspection Process for Seismic Isolation/Mitigation Oil Dampers

The Company and its subsidiary Kayaba System Machinery Co., Ltd. manufacture and sell seismic isolation/mitigation oil dampers for buildings. Some did not conform to performance evaluation standards certified by the Minister of Land, Infrastructure, Transport and Tourism (the "Minister"),* or to the standards of customers, because of falsification of performance inspection record data (the "Incident"). We reported the Incident to the Ministry of Land, Infrastructure, Transport and Tourism (MLIT) and announced the status of our response on October 16, 2018.

* There is no Minister's certification system for seismic mitigation oil dampers.

Since July 5, 2019, we have announced the status and progress of measures to prevent recurrence and countermeasures regarding this issue once every three months on the following website of the Company. For details, please refer to Progress of Measures to Prevent Recurrence on page 20.

Status and progress of measures to prevent recurrence:
<https://www.kyb.co.jp/company/progress/prevent.html>
(Japanese only)

Status of countermeasures:
https://www.kyb.co.jp/company/progress/exchange_progress.html
(Japanese only)

Also related to the Incident, the Company records provisions for product warranties for seismic isolation/mitigation oil dampers using information and facts currently available and considered reliable. Provisions have been recorded in our accounts for costs to produce seismic isolation/mitigation oil dampers, to replace seismic isolation/mitigation oil dampers, to make structural modifications, and to cover compensation expenses. At this point, however, no provision has been recorded for litigation costs related to this matter, for which a reliable and reasonable estimate is difficult. Therefore, additional provision recorded as a result of future events could have a significant impact on the business results of the Group.

2. Important Events Related to Going Concern Premise

The Company recorded a significant operating loss for FY2019, which resulted in a breach of the financial covenants of the syndicated loan agreements that the Company has with all

applicable financial institutions. To resolve this situation, the Company negotiated with the applicable financial institutions, which have agreed not to demand immediate redemption due to the default event pursuant to a breach of financial covenants. Based on the above, the Company has determined that any significant uncertainty regarding the premise of its standing as a going concern is not justified.

3. Risk Due to the COVID-19 Pandemic

Due to the global COVID-19 pandemic, national and local governments worldwide have implemented measures that include lockdowns and restrictions on movement. Adverse effects on the Group's business performance have included suspension of operations and production adjustments due to production cuts by major customers. In addition, the future remains difficult to predict due to the possibility of secondary and tertiary outbreaks even in areas where life is returning to normal. As a result, the pandemic could have a significant impact on the KYB Group's operating results and financial position.

Given these circumstances, the Group will promote flexible measures such as ensuring liquidity and expanding local production for local consumption. In addition, to prevent the spread of COVID-19, each Group company is implementing measures that include thorough hygiene management, restricting domestic and overseas business trips, and expanding telecommuting and web conferencing in accordance with the requests and guidelines of national and local governments worldwide.

4. Risks in Business Operations

4-1. Demand Trends

Sales of the KYB Group's Automotive Components and Hydraulic Components Operations segments depend heavily on the global production volume of automobiles and construction machinery. The Group's main products are components supplied to manufacturers of automobiles, construction machinery and industrial vehicles. A decline in demand for these products due to a global economic downturn could have a significant impact on operating results. The KYB Group sells most of its system products, aircraft components, special-purpose vehicles and electronics components in Japan. In particular, demand for the

KYB Group's special-purpose vehicles, which are primarily concrete mixer trucks, can fluctuate significantly due to changes in the amount of construction activity, which is closely correlated with the economic outlook.

4-2. Prices and Quality

The KYB Group's products are subject to intense price competition in both domestic and international markets.

Customers regularly request cost cuts and lower prices. Quality is also critical. The Group supplies vital automotive components, such as shock absorbers that maintain vehicle stability and power steering systems. For construction machinery and commercial vehicles, the Group supplies key functional components such as motors and hydraulic cylinders that drive the main unit. Consequently, the Group may incur substantial expenses, including the payment of damages demanded by customers, if it supplies defective products. Furthermore, sales volume and prices for aftermarket automotive shock absorbers are subject to the impact of regional economic conditions and competition.

4-3. Procurement of Materials and Components

The KYB Group purchases materials and components from a large number of suppliers. Prices of these items are closely linked to prices on international commodity markets. The KYB Group may not be able to fully reflect an increase in the cost of materials or components in its selling prices, or to reduce prices of materials and components sufficiently to reflect a reduction in selling prices, which could have a significant impact on operating results.

4-4. Funding

The KYB Group obtains loans mainly from financial institutions in Japan and other countries to fund capital expenditures and to secure working capital. The Group obtains these loans while carefully monitoring financial markets. However, it may be unable to procure funds when needed at favorable terms due to events including a broad decline in the prices of the Group's products, an economic recession, a credit crunch, or a decline in the Group's credit rating, which could affect the Group's financial condition and operating results.

4-5. Business Downturn

Bankruptcy at KYB Group overseas production or sales bases caused by factors including a decline in orders or profitability could significantly impact the Group's operating results.

4-6. Counterparty Credit Risk

The KYB Group sells its products to automobile and construction machinery manufacturers and many other customers. An unexpected problem involving customer credit could affect the Group's operating results.

5. Risks Associated with Natural Disasters, Accidents, Etc.

An earthquake, wind and flood damage, fire, conflict, act of terrorism or other event in Japan or an area outside of Japan where the KYB Group has a plant could cause a substantial decline in the Group's production capacity. In Japan, many plants of the KYB Group and many of its suppliers are located in the Chubu area. A major earthquake, wind and flood damage or other event in this area that prevents these plants from operating could cause a substantial decline in the Group's production capacity. In addition, many plants of the KYB Group produce hydraulic products that utilize the properties of oil. In addition, some plants have coating equipment that uses organic solvents, and storage tanks for hydraulic oil, chemicals and other substances. A fire or hazardous substance leak could temporarily shut down manufacturing activity.

6. Risks Associated with Fluctuations in Exchange Rates and Interest Rate Increases

With an overseas sales ratio of 55.2%, the KYB Group relies heavily on markets outside of Japan. As a result, fluctuations in foreign exchange rates have a significant impact on the Group's exports from Japan and the performance of Group companies in other countries. An increase in interest rates in Japan or other countries could have a significant impact on the KYB Group's operating results.

7. Risks Associated with Significant Lawsuits or Other Legal Action

If the KYB Group is the defendant in a lawsuit and the outcome is unfavorable, the resulting payment and other demands may have a significant impact on the Group's operating results.

Financial and Non-Financial Highlights

FY	2009	2010	2011	2012
Accounting standards applied	JGAAP	JGAAP	JGAAP	JGAAP
Net sales	252,020	320,082	337,158	305,752
Segment profit ¹	—	—	—	—
Operating profit	3,896	24,152	21,538	10,473
Profit before tax [Income (loss) before income taxes and minority interests]	1,671	24,440	21,760	12,994
Profit (loss) attributable to owners of the parent [Net income (loss)]	661	17,014	13,898	7,789
Capital expenditures	10,082	8,916	27,173	39,215
Depreciation and amortization	15,318	13,427	13,508	14,554
R&D expenses	2,817	3,218	4,035	5,468
Cash flows from operating activities	22,655	35,433	17,399	18,984
Cash flows from investing activities	(12,828)	(7,233)	(20,000)	(36,125)
Cash flows from financing activities	(6,646)	(16,968)	(3,455)	8,529
Cash and cash equivalents at end of period	37,664	48,123	42,010	35,215
Total assets	269,361	285,134	301,349	327,912
Interest-bearing debt ²	98,145	81,641	80,518	95,338
Total equity [Total net assets]	78,489	89,964	102,762	116,435
Basic earnings per share [Net income (loss) per share] ³ (Yen)	3.03	77.54	62.87	35.24
Cash dividends per share applicable to the year ³ (Yen)	2.50	8.00	9.00	8.00
Return on equity attributable to owners of the parent [Return on equity] (ROE; %)	0.9	21.1	14.8	7.3
Ratio of equity attributable to owners of the parent [Equity ratio] (%)	27.3	30.6	33.2	34.5
P/E ratio (Times)	113.9	8.6	8.0	13.1
Number of employees	10,977	11,440	11,975	12,306

KYB Corporation and Consolidated Subsidiaries

Notes: 1. Segment profit is calculated by deducting cost of sales and selling, general and administrative expenses from net sales.

2. Interest-bearing debt = Short-term borrowings + Current portion of long-term borrowings + Current lease obligations + Long-term debt + Non-current lease obligations + Guarantee deposits received

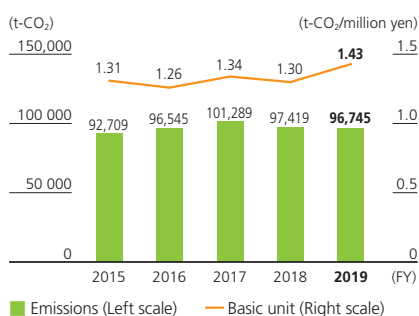
3. The Company carried out a 1-for-10 reverse stock split effective October 1, 2017.

Items in brackets are Japanese Generally Accepted Accounting Principles (JGAAP) line item names applied prior to the year ended March 31, 2015 (FY2014).

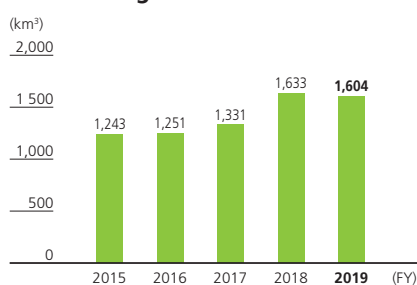
*JGAAP

Environment-related Data

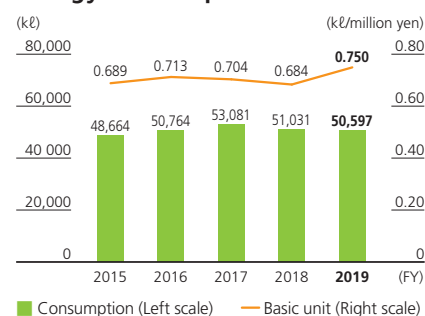
CO₂ Emissions



Water Usage



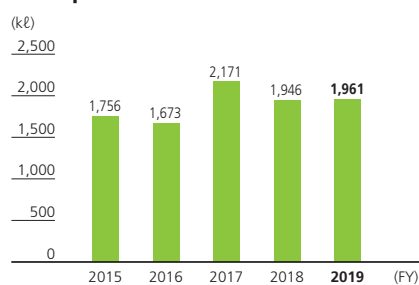
Energy Consumption



(Millions of yen)

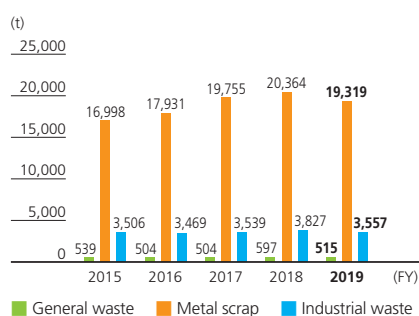
2013		2014		2015		2016		2017		2018		2019	
JGAAP		IFRS		IFRS		IFRS		IFRS		IFRS		IFRS	
352,710		370,327		355,320		355,316		393,743		412,214		381,584	
—		15,506		17,588		18,624		22,949		22,010		17,575	
18,170		14,461		4,327		19,247		20,885		(28,496)		(40,298)	
21,032		14,892		2,825		18,852		20,881		(29,510)		(41,419)	
12,761		8,036		(3,161)		14,544		15,202		(24,757)		(61,879)	
29,908		30,087		21,300		20,578		20,956		25,345		23,347	
17,294		15,191		17,075		15,922		16,988		17,581		20,615	
6,917		8,910*		7,760		7,621		8,102		6,750		6,312	
28,788		22,335		19,958		31,153		29,252		17,047		(4,999)	
(36,078)		(30,658)		(20,320)		(21,337)		(16,386)		(13,616)		(21,505)	
5,709		(555)		(3,395)		(969)		(4,482)		10,418		22,576	
38,132		30,510		25,296		33,988		42,702		56,092		50,423	
361,083		387,877		359,002		381,326		412,493		441,074		410,454	
88,813		92,448		91,685		93,563		94,641		108,634		154,608	
153,997		175,256		153,381		169,771		186,651		155,643		79,815	
55.25		31.45		(12.37)		56.93		595.09		(969.18)		(2,422.53)	
9.00		12.00		11.00		12.00		150.00		0.00		0.00	
9.7		5.1		(2.0)		9.3		8.8		(15.0)		(55.4)	
41.2		43.6		41.3		43.1		43.7		33.9		18.1	
7.9		14.0		—		10.2		8.5		—		—	
13,033		13,732		13,796		14,350		14,754		15,427		15,439	

Energy Consumption for Transportation*



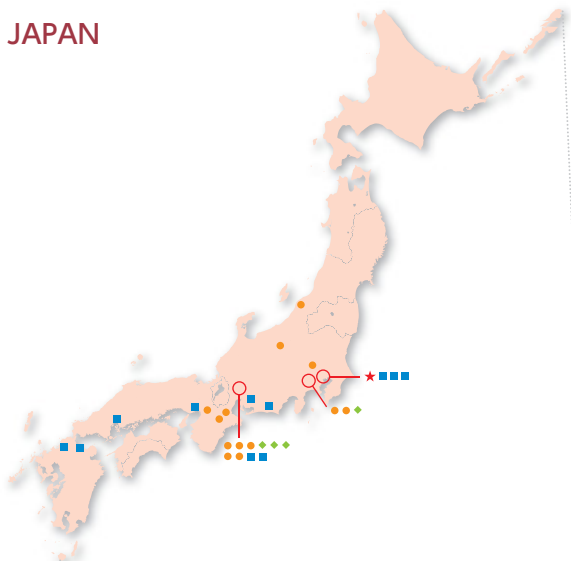
* Amount as crude oil

Waste Emissions



Global Network (As of August 1, 2020)

JAPAN



KYB Corporation

- ★ KYB Head office
- Kumagaya Plant
- Sagami Plant
- Aikawa Plant
- Gifu North Plant
- Gifu South Plant
- Gifu East Plant
- ◆ Basic Technology R&D Center
- ◆ Production Technology R&D Center
- ◆ Machine Tools Center
- ◆ Developmental Experiment Center
- Hamamatsu
- Nagoya
- Osaka
- Hiroshima
- Fukuoka
- KYB Trondule Co., Ltd.
- KYB-YS Co., Ltd.
- KYB Kanayama Co., Ltd.
- KYB Motorcycle Suspension Co., Ltd.
- Kayaba System Machinery Co., Ltd.
- KYB Stage Engineering Co., Ltd.
- Takako Industries, Inc.
- KYB Engineering and Service Co., Ltd.
- Japan Analysts Co., Ltd.
- Kensiyuu Co., Ltd.
- KYB Logistics Co., Ltd.
- KYB Systemerit Co., Ltd.
- Chikuyo Seiki Kogyo Co., Ltd.

EUROPE

- ★ ◆ KYB Europe GmbH
- ★ KYB Europe GmbH (Navarra Branch)
- KYB Europe GmbH (Düsseldorf Branch)
- KYB France
- KYB Iberia
- KYB Italy
- KYB Poland
- KYB Romania
- KYB Turkey
- KYB UK
- KYB Ukraine
- KYB Suspensions Europe, S.A.U.
- KYB Steering Spain, S.A.U.
- KYB Advanced Manufacturing Spain, S.A.U.
- KYB Manufacturing Czech, s.r.o.
- KYB CHITA Manufacturing Europe s.r.o.
- LLC KYB Eurasia
- KYB Eurasia Vladivostok
- KYB Middle East FZE

ASIA

- ★ KYB (China) Investment Co., Ltd.
- KYB Industrial Machinery (Zhenjiang) Ltd.
- KYB Industrial Machinery (Zhenjiang) Ltd. (Shanghai Branch)
- ■ Wuxi KYB Top Absorber Co., Ltd.
- Changzhou KYB Leadrun Vibration Reduction Technology Co., Ltd.
- Hubei Henglong & KYB Automobile Electric Steering System Co., Ltd.
- CHITA KYB Manufacturing (Zhenjiang) Co., Ltd.
- KYB Manufacturing Taiwan Co., Ltd.
- KYB Steering (Thailand) Co., Ltd.
- KYB (Thailand) Co., Ltd.
- KYB Manufacturing Vietnam Co., Ltd.
- Takako Vietnam Co., Ltd.
- PT. KYB Hydraulics Manufacturing Indonesia
- PT. Kayaba Indonesia
- PT. Chita Indonesia
- KYB-UMW Malaysia Sdn. Bhd.
- KYB Motorcycle Suspension India Pvt. Ltd.
- KYB-Conmat Pvt. Ltd.
- KYB Asian Pacific Corp. Ltd.
- KYB Asian Pacific Corp. Ltd. (Amata Nakorn Branch)
- Kayaba System Machinery Co., Ltd. Taiwan Office
- KYB Corporation Chennai Branch

AMERICAS

- ★ ● KYB Americas Corporation (Indiana)
- KYB Americas Corporation (Chicago)
- KYB Americas Corporation (Detroit Branch)
- KYB Americas Corporation (Greenwood)
- Takako America Co., Inc.
- KYB Mexico S.A. de C.V.
- KYB Manufacturing do Brasil Fabricante de Autopeças S.A.
- KYB International America, Inc.
- KYB Latinoamerica, S.A. de C.V.
- Comercial de Autopeças KYB do Brasil Ltda.

Corporate Information/Shareholder Information (As of March 31, 2020)

Corporate Information

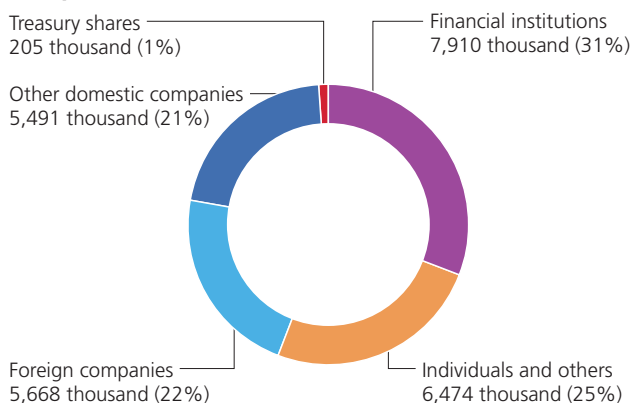
Company Name KYB Corporation
Head Office World Trade Center Bldg.,
 4-1, Hamamatsu-cho 2-chome,
 Minato-ku, Tokyo 105-6111, Japan
 TEL: +81-3-3435-3511
 FAX: +81-3-3436-6759
 URL: <https://www.kyb.co.jp/english/>

Date of Establishment March 10, 1935
Fiscal Year April 1 to March 31
Paid-in Capital ¥27,647.6 million
Number of Employees 15,439 (Consolidated basis)
Securities Traded Tokyo Stock Exchange (First Section)

Shareholder Information

Common Stock Issued 25,748,431
Number of Shareholders 14,965
Transfer Agent and Registrar Mizuho Trust & Banking Co., Ltd.
 2-1, Yaesu 1-chome, Chuo-ku,
 Tokyo 103-8670, Japan

Composition of Shareholders



Major Shareholders

Name	Shareholdings (Thousands)	Percent of Total Shares Issued (%)
Toyota Motor Corporation	1,965	7.7
The Master Trust Bank of Japan, Ltd. (Trust Account)	1,258	4.9
Meiji Yasuda Life Insurance Company	1,004	3.9
Hitachi Construction Machinery Co., Ltd.	892	3.5
KYB suppliers' stock ownership	825	3.2
Trust & Custody Services Bank, Ltd. as trustee for Mizuho Bank, Ltd. Retirement Benefit Trust Account re-entrusted by Mizuho Trust and Banking Co., Ltd.	611	2.4
Ogaki Kyoritsu Bank, Ltd.	591	2.3
Government of Norway	499	2.0
Mizuho Bank, Ltd.	490	1.9
Japan Trustee Services Bank, Ltd. (Trust Account 5)	455	1.8

Notes: 1. The shareholding ratio is calculated after the deduction of own shares (205,222 shares).
 2. The number of shares held has been rounded down to the nearest thousand shares.

Monthly Stock Price Range (Tokyo Stock Exchange)



Note: The Company carried out 1-for-10 reverse stock split on the effective date of October 1, 2017. Numbers for the prior fiscal years are as recorded after the reverse stock split.



Contact

KYB Corporation

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