May 18, 2017

KYB Corporation

Stock Code: 7242; First Section of Tokyo Stock Exchange

Meeting Material FY2016 Briefing—Question and Answer Session

Date: Thursday, May 18, 2017

KYB panel: Yasusuke Nakajima, Representative Director, President Executive Officer
Takaaki Kato, Member of the Board of Directors, Senior Managing Executive Officer
Masao Ono, Senior Managing Executive Officer
Shizuka Sakai, Managing Executive Officer

1. Main causes for profit fluctuations in HC segment

Q. Despite an increase in revenue, the sales and variable cost factors of HC segment profits are almost zero for fiscal 2017. Could you please explain this?

A. Net sales will increase ¥6.7 billion compared to the previous period, particularly due to the China and Japan markets. However, a weakening of product composition will cause a loss of ¥1.0 billion, and there was no return on provisions for product warranties last year, which will result in a ¥600 million loss. Meanwhile, the sharp rise in steel material prices will cause profitability to deteriorate, bringing about a loss of ¥800 million. This resulted in a forecast of nearly zero for sales and variable cost factors.

2. Drastic structural reforms

Q. Could you please give us some details on the "drastic structural reforms" that are mentioned in the 2017 mid-term plan?

A. We made a capital investment in the Casting Plant in Nagano prefecture in light of our original forecast for high demand. However, with the decline in demand in China's construction machinery market, the space has become redundant. As such, we are transferring our control valve production line there, and planning to increase production efficiency as well as boost profitability.

3. Sagami Plant

Q. Once control valve production is transferred, what will happen with Sagami Plant?

A. In addition to control valves, Sagami Plant handles travel motors and products for railroad and aircraft. Also, after the transfer of control valves, some of the lines that are scattered around the vicinity of Sagami Plant will be consolidated in the plant.

4. Exchange rate sensitivity

Q. Please tell us about your exchange rate sensitivity for the 2017 Mid-term Plan.

A. For USD, ¥150 million per year, for Euro, ¥50 million per year.
(Reflects influence on segment profits when moving ¥1 each.)

5. HC Operations cylinder production schedule

Q. Could you tell us how many cylinders will be produced in the first half and second half of fiscal 2017?

A. In the first half, there is a global increase in demand for our KCH cylinders (mid-size and large-size), so our three production bases (Japan, China and Indonesia) will produce a total of about 16,000 units per month. In the second half, we anticipate a drop off from the rush of demand before the enactment of new exhaust gas regulations in Japan, which will trigger a projected 10% decrease compared to the first half.

6. In-house production of insufficient technology, alliances and M&A

Q. "In-house production, alliances and M&As for insufficient technology" are mentioned in the medium-term management plan. Which technologies exactly are insufficient? Also, what kind of businesses do you have targeted for M&As?

A. By insufficient technology, we are primarily referring to technology to systemize automated operations.
For M&As, we are considering possibilities in all business fields.