

Meeting Material FY2017 Briefing—Question and Answer Session

Date: Tuesday, May 15, 2018

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1. AC Operations: sales of shock absorber for automobiles

Q. In AC Operations, sales of shock absorber for automobiles saw a slight YOY increase in FY2017 when adjusting for fluctuations in the foreign currency exchange rate. What was the cause of the large YOY increase in FY2018 when adjusting for fluctuations in the foreign currency exchange rate?

Reference: Sales of shock absorber for automobiles: ¥162.5 billion in FY2017

(YOY +¥11.5 billion, of which +¥8.0 billion was from foreign currency exchange, +¥3.5 billion was from quantity increase)

¥170.3 billion in FY2018

(YOY +¥7.8 billion, of which –¥6.1 billion was to foreign currency exchange, +¥13.9 billion was from quantity increase)

A. FY2017 saw challenging conditions in one of KYB's major markets, North America. Firstly, in components for new cars, amidst the predominance of SUVs, we mostly received orders for Sedan components, while the market cooled overall for aftermarket sales components. In FY2018, we started sales of products for SUVs from the second half, and we anticipate a recovery in demand for aftermarket sales components. We see a recovery in the North American market in the future.

2. HC Operations cylinder production

Q. I'd like to know the production volume and production capacity for mid-sized cylinders in Japan and China.

A. 1) Production volume

Japan FY2017 2H: 10,500 per month

FY2018 1H: 11,500 per month, 2H: 11,700 per month

China FY2017 2H: 6,400 per month

FY2018 1H: 6,500 per month, 2H: 6,000 per month



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2) Production capacity

Japan 12,000 per month

China 7,500 per month (Before FY2017 4Q: 6,000 per month)

3. FY2017 Mid-term plan achievement forecast

Q. Is it possible you will achieve the FY2019 profit plan described in the FY2017 mid-term plan?

A. We've seen drastic changes in the demand environment since the time of the announcement of the mid-term plan, particularly for HC Operations. While sales have grown, profits have not done the same. With our several actions involving the transfer the control valve business, we hope to achieve a segment profit ratio of 6.5%.

4. Upswing since February announcement of FY2017 forecast

Q. In segment profits, KYB could not achieve its forecast in February ¥-800 million while we've seen a ¥200 million improvement in operating profits. What is the cause of this?

A. At the time of the announcement, we were anticipating losses under "other expenses," such as the cancellation of our joint contract in Brazil (¥1.2 billion), and restructuring costs in Spain (¥700 million). However, the actual amounts of these expenses were less than the amounts we expected.

5. Consolidation of AC Operations' Brazil joint venture

Q. Will there be any impact on FY2018 sales or segment profits due to consolidating the Brazil joint venture as a subsidiary?

A. We forecast sales of around ¥3.0 billion, and segment losses of around -¥200 million.

6. Profitability of AC Operations

Q. We've heard about the restructuring in Spain and other factors. Why isn't the profitability of AC Operations improving?

A. We forecast an improvement of ¥400 million as a result of the restructuring. However, AC profit will be a slight increase because of consolidating the Brazil joint venture as a subsidiary and assuming exchange rate trend of an appreciating yen.

7. FY2020 Ideal Status

Q. How long will it take to achieve profitability for businesses listed under "low profitability" (particularly EPS) in Ideal Status after FY2020 (Meeting Materials for FY2017, p. 25)?

A. Difficult conditions continue for the domestic EPS business. We consider technology for components for the coming automatic operation era to be indispensable. We plan to draw out synergistic effects with the new China EPS company, and achieve profitability at an early stage.



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8. Forecast for sub-segments of AC Operations

Q. In the FY2018 plan, what is the forecast for profits in the sub-segments of AC Operations?

A. We have not released specific numbers, but the direction for each is as follows.

In shock absorbers for automobiles, we anticipate an increase in sales in North America, which should drive profits up.

Shock absorbers for motorcycles are expected to remain flat.

In hydraulic equipment for automobiles, we forecast a decrease in sales of CVT pumps, causing a slight reduction in profitability.

9. EPS company in China

Q. Will the investment in the China EPS company have any impact on FY2018 performance?

A. Impact on FY2018 performance will be an equity method investment gain of ¥40 million.

If sales increase as planned (for details, see Meeting Materials for FY2017, p. 17), we forecast equity method investment gain of nearly ¥3.0 billion in FY2025.

10. Increase in personnel costs in HC Operations

Q. Could you tell us why personnel expenses in HC Operations increased in FY2018?

A. The increase was largely due to an increase in personnel necessitated by production increases and the transfer of business for control valves.

11. Increase in other fixed costs in HC Operations

Q. Why did other fixed costs in HC Operations increase in FY2018? Also, what did these costs entail?

A. The main causes were a ¥1.4 billion increase in expenses and a ¥500 million increase in indirect material costs related to dealing with increased production.