

Meeting Material 1H of FY2018 Briefing—Question and Answer Session

Date: Friday, November 9, 2018

KYB panel: Yasusuke Nakajima, Representative Director, Chairman and President Executive Officer

Takaaki Kato, Representative Director, Chief Financial Officer

[Questions about seismic isolation/mitigation oil dampers]

1. Capacity increase

Q. Please tell us the exact timing of the production capacity increase at Mie Plant from 100 units a month to 500 a month. Also, we'd like to know the schedule for replacement work.

A. In January 2019, we will enhance coating and processing lines to manufacture replacement components, and starting in April 2019 we will have two shifts working on assembly. At the same time we will ensure procurement of components, and put into place a system the produces 500 units per month.

The actual replacement work will not depend on KYB alone. We will have to make adjustments for the schedules of construction companies and owners. For the time being, we are giving priority to buildings and structures for which construction has not been completed.

2. Breakdown of the provision for product warranties

Q. We'd like to see the itemization of the ¥14.4 billion provision for product warranties related to seismic isolation/mitigation oil dampers.

A. Seismic isolation oil dampers: Replacement component manufacturing costs are ¥6.5 billion, and replacement work related costs are ¥6.3 billion.

Seismic mitigation oil dampers: Replacement component manufacturing costs are ¥1.7 billion.

3. Replacement work related costs for seismic mitigation oil dampers

Q. We'd like an explanation about replacement work related costs for seismic mitigation oil dampers, including past examples for reference.

A. There are differing structures and conditions among existing buildings in which seismic mitigation oil dampers are installed. Also, we have never undertaken such replacements before. Therefore, it is currently not possible to calculate a reliable forecast of the replacement work related costs.

4. Future appropriations of provisions for product warranties

Q. We'd like to know if there will be additional provisions for the second half or thereafter related to seismic isolation/mitigation oil dampers.

A. We forecast that additional costs will occur, caused by construction cost calculations, insurance premiums necessary for replacement work and costs to cover compensation.



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5. Non-conforming seismic isolation/mitigation oil dampers

Q. We'd like to check if the number of non-conforming dampers has been confirmed, and whether or not the number will increase.

A. While we are still conducting our investigations into some unclear matters, we believe that the total number has largely been ascertained.

6. Replacement schedule

Q. We understand that the Company will focus on manufacturing replacement components for the next two years, but we'd like to know more about the replacement schedule.

A. Our plan is to increase production capacity to 500 units per month and work on replacement manufacturing until September 2020. However, there is a labor shortage in the construction industry. We hope to make progress with replacement work upon making the necessary adjustments with construction companies and owners. Regarding the results of structure calculations, rather than simply release the calculation values, we hope to have information sessions in which we will explain what kind of effect will be had on the building.

7. Estimated time of completion of replacement work

Q. You plan to have replacement work finished in September 2020. Is there a possibility that you will not be able to meet that deadline?

A. We believe that putting the production system in place will allow us to deal with manufacturing the replacement components. However, with the labor shortage in the construction industry, it is possible that replacement work may fall behind schedule.

8. Future estimate of provisions for product warranties

Q. When will it be possible to calculate an estimate of the costs related seismic isolation/mitigation oil dampers?

A. In the current term, there are some things for which we can calculate an estimate, and some for which we cannot.

Regarding replacement costs for seismic mitigation oil dampers, we'll be able to give an estimate that is accurate, to a degree, once we get some replacements finished and use them as examples for our calculations. We are currently making progress on construction cost calculations, so we will be able to release an estimate of those costs comparatively soon. For costs related to compensation, we are unable to make any calculations at the present time.

9. Investments for production increase

Q. What is the scope of investments necessary for the production increase?

A. We anticipate investments of approximately ¥300 million to increase production on coating and processing lines.



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10. Fund procurement

Q. We assume that the amount of funds used for the provision for product warranties is going to impact the Company's capital. Do you plan to cover the replacement expenses with the Company's own funds, or to borrow funds for that purpose?

A. Expenditures for manufacturing replacement components and for replacement work are expected to occur over time. Currently, we have a target for funding in this fiscal year. In the future, we will consider the situation in light of our funding plan.

[Questions about business divisions]

11. AC Operations and HC Operations in the next term and onward

Q. Please tell us about the direction you will take in AC and HC Operations in the next term and the future.

A. We foresee no major changes from this fiscal year in external environment factors, such as trends in demand. In HC Operations, it does appear that the operating ratio of construction machinery itself is declining, but the amount of inquiries we are receiving is not changing. However, based on the current severe state of affairs, we believe we will need to compress our total assets and review unprofitable businesses both domestically and overseas.

12. Impact on AC Operations

Q. How have automobile manufacturers reacted to the issue of non-conforming acts involving seismic isolation/mitigation oil dampers for buildings? Has there been any progress on talks regarding global specification integration?

A. Automobile manufacturers and construction machinery manufacturers both have checks for the quality of our products, and we have explained our processing methods. They understand that this issue does not affect them. We also had some manufacturers visit a plant to check our manufacturing procedures for themselves.

As for global specification integration, we plan to explain to our customers that it will not only benefit KYB, but more importantly will provide benefits for their companies.

[Questions about dividends]

13. Resumption of dividends

Q. When do you plan to resume dividends?

A. We are continuing with our previously stated dividend policy: aiming for a consolidated dividend payout ratio of 30% and at least 2% (annual rate) of shareholders' equity on a consolidated basis. At the present stage, we have yet to determine an exact timeframe for the resumption of dividend provision, but we will do so while taking into account future losses and total net assets.