



Meeting Materials for First Half of FY2019

November 15, 2019

KYB Corporation
(Stock Code: 7242; First Section of Tokyo Stock Exchange)

Corporate Spirit

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

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

Revised on Oct. 1, 2019

Basic Policy for Quality

KYB Group shall:

- address quality improvement with honesty driven by the belief that **quality is the ground for business**.
- deliver safe and secure products in compliance with promises with customers as well as laws and regulations.

Established on Oct. 1, 2019

KYB Quality Management



1. About nonconforming acts in the inspection process for seismic isolation/mitigation oil dampers for buildings

2. Business situation

3. Financial Information

1. About nonconforming acts in the inspection process for seismic isolation/mitigation oil dampers for buildings

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How the incident happened

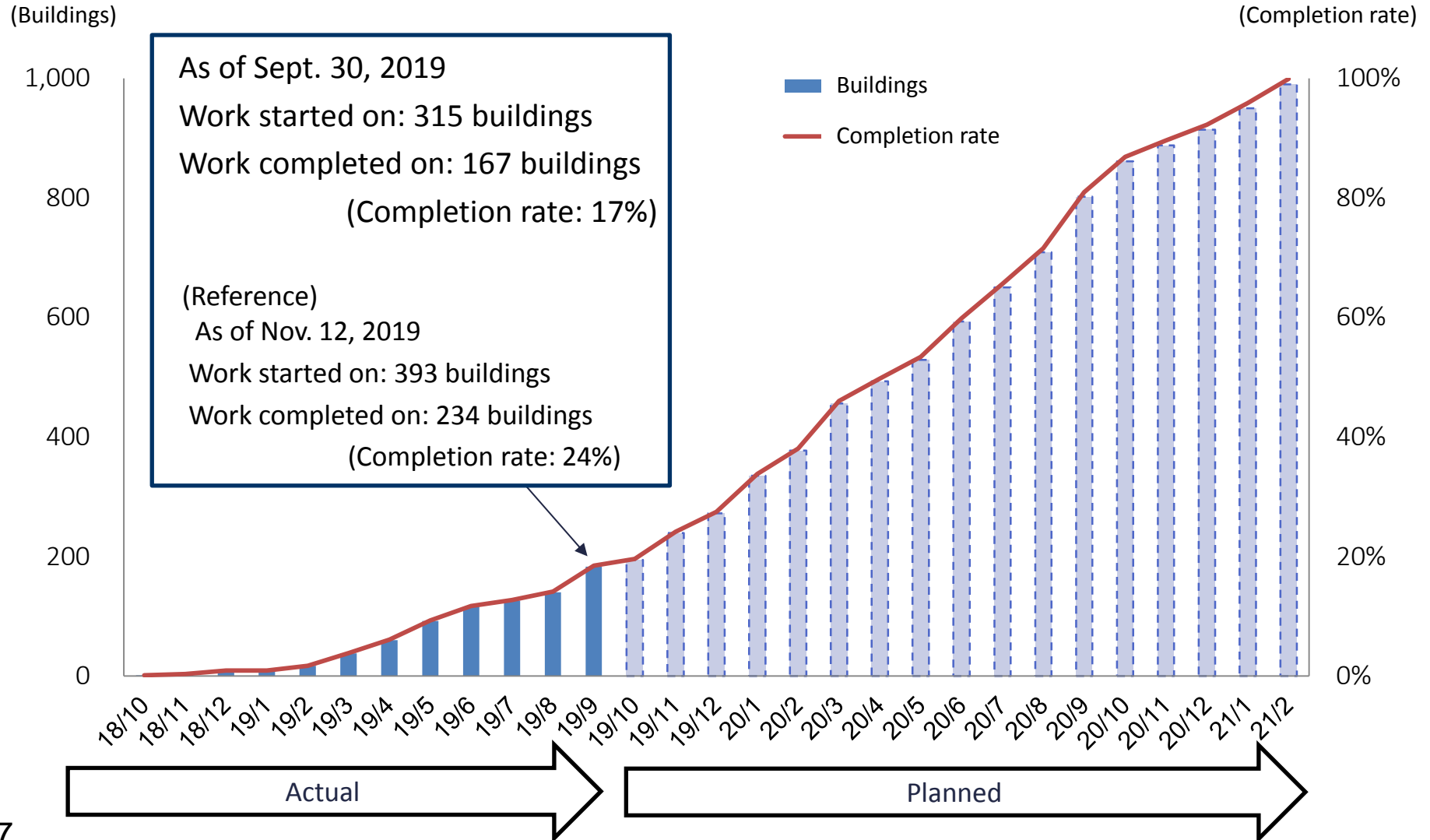
For some seismic isolation/mitigation oil dampers, coefficients were falsified, or measurement results were arbitrarily increased or decreased by adjusting the starting point and made to vary so as to fall within the intended range. Due to this improper act, products that did not conform to the standards set by Japan's Ministry of Land, Infrastructure, Transport and Tourism, or did not meet the standard values set by customers, were installed in buildings.

Number of nonconforming and unknown products as well as affected buildings

	Nonconforming products *1		(3) Unknown	(1)-(3) Total
	(1) Nonconforming to certification by Ministry	(2) Out of customer standards		
Seismic isolation oil dampers	245 buildings	370 buildings	237 buildings	852 buildings
	1,056 units	3,014 units	3,388 units	7,458 units
Seismic mitigation oil dampers	—	30 buildings	109 buildings	139 buildings
	—	253 units	4,402 units	4,655 units
Total	245 buildings	400 buildings	346 buildings	991 buildings
	1,056 units	3,267 units	7,790 units	12,113 units

*1 There is no Ministry certification system for seismic mitigation oil dampers.

Progress Plan for Bringing Nonconforming Seismic Isolation/Mitigation Dampers up to Conformity



Cause Analysis

Prevention Policies and Progress (As of Oct. 16)

*1. Launch: Determining a concrete plan
*2. Underway: Preparations complete, operations continuing

		Number of applicable items	Progress		
			Launch*1	Underway*2	Completed
1. Lack of compliance awareness	→	17	3	8	6
2. Corporate culture looks away from inconvenient truths					
3. Management focused on receiving orders	→	22	6	9	7
4. Lack of inspections					
5. Lack of nonconforming act preventions in inspection machines	→	12	0	10	2
6. Incomplete information sharing system					
7. Monopolization of important business	→	16	4	10	2
8. 1) Deficient quality inspections 2) Lack of inspections for similar nonconforming instances related to quality					
9. Problems related to commercialization	→				

1. About nonconforming acts in the inspection process for seismic isolation/mitigation oil dampers for buildings

2. Business situation

3. Financial Information

1H of FY2019 Net Sales and Segment Profits



Our Precision, Your Advantage

(¥ Billion)	(IFRS)	FY2018 1H actual	FY2019 1H actual	Differences
AC	Net Sales	123.7	118.9	(4.8)
	Segment Profits	4.4	6.9	2.6
HC	Net Sales	67.2	66.5	(0.7)
	Segment Profits	5.6	4.1	(1.5)
SV, A&S	Net Sales	11.8	12.2	0.4
	Segment Profits	(0.5)	0.9	1.4
Total	Net Sales	202.8	197.6	(5.2)
	Segment Profits	9.5	11.9	2.5

AC: Automotive Components HC: Hydraulic Components

SV, A&S: Special-purpose vehicles, hydraulic equipment for aircraft, and system product and electronic components

FY2019 Net Sales and Segment Profits Forecast



Our Precision, Your Advantage

(¥ Billion)	(IFRS)	FY2018 Actual	FY2019 Forecast	Differences
AC	Net Sales	245.8	232.9	(12.9)
	Segment Profits	9.8	11.9	2.1
HC	Net Sales	140.6	131.7	(8.9)
	Segment Profits	11.9	7.6	(4.3)
SV, A&S	Net Sales	25.8	25.4	(0.4)
	Segment Profits	0.3	1.1	0.8
Total	Net Sales	412.2	390.0	(22.2)
	Segment Profits	22.0	20.6	(1.4)

AC: Automotive Components HC: Hydraulic Components

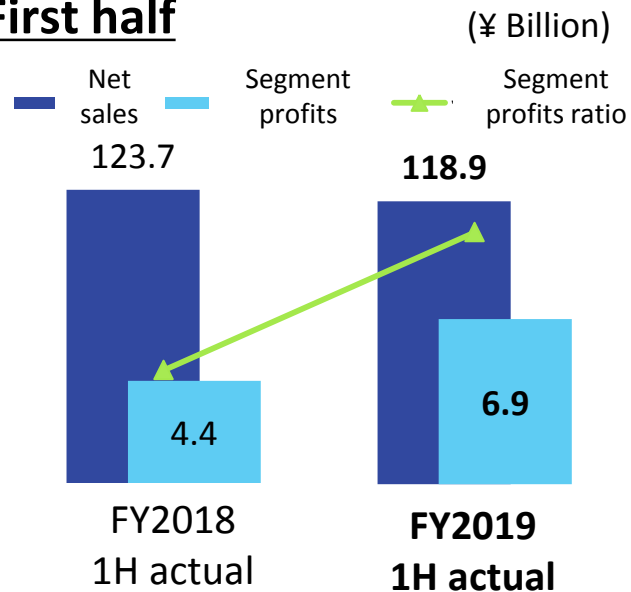
SV, A&S: Special-purpose vehicles, hydraulic equipment for aircraft, and system product and electronic components

FY 2019 Performance Outline by Business Division (AC Operations)



Our Precision, Your Advantage

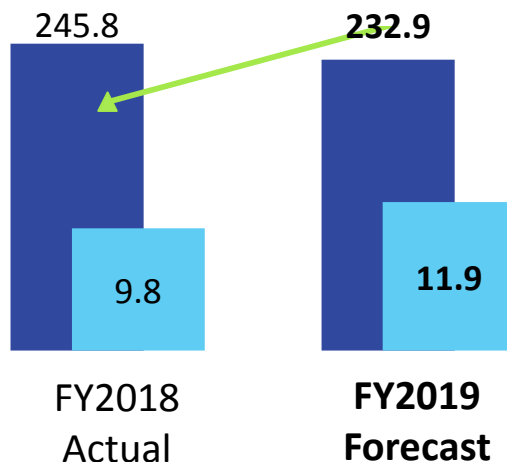
First half



1H of FY2019

- ▶ Net sales: ¥118.9 billion
Segment profits: ¥6.9 billion
- ▶ Despite a strong yen applying downward pressure, there was an increase over the same period of the previous fiscal year due to an improvement in the profitability of OEM shock absorbers and fixed cost reductions.

Full year



FY2019

- ▶ Net sales: ¥232.9 billion
Segment profits: ¥11.9 billion
- ▶ The trend toward increases over the previous periods continued, driven by the increase on a volume basis of automotive shock absorbers.
- ▶ A slowdown was seen in the automotive market, and growth in the profit ratio is forecast to lose momentum.

FY 2019 Performance Outline by Business Division

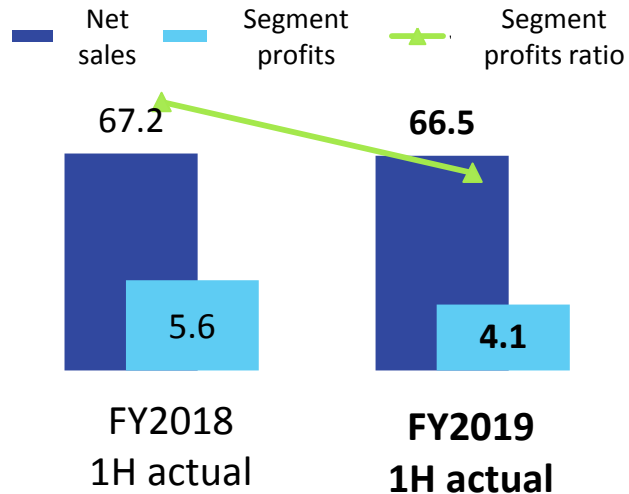
(HC Operations)



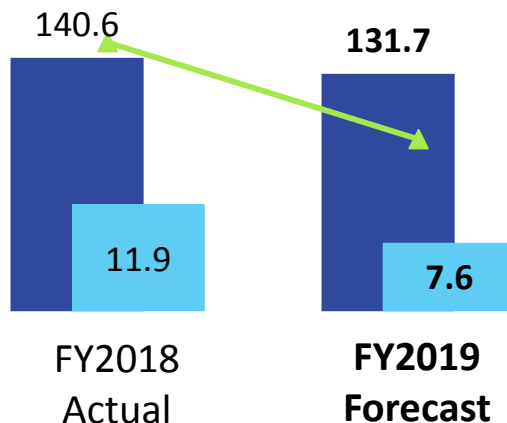
Our Precision, Your Advantage

First half

(¥ Billion)



Full year



1H of FY2019

- ▶ Net sales: ¥66.5 billion
Segment profits: ¥4.1 billion
- ▶ Profits decreased compared to the same period of the previous year as fixed cost reductions were not able to keep pace with decreases in orders from major customers.

FY2019

- ▶ Net sales: ¥131.7 billion
Segment profits: ¥7.6 billion
- ▶ We forecast a year on year decrease in sales and profits, due mainly to a slowdown in construction machinery demand in China/Southeast Asia and a decline in shares of major customers in the Chinese market.

Efforts to focus on in FY 2019

Safety first

Respond quickly

Collective
reorganization

Strengthening
competitiveness

- Compliance awareness, and thoroughly ensure that “safety has maximum priority” is entrenched in the corporate culture
- Quickly respond to the seismic isolation/mitigation oil dampers incident
- Policy decisions including withdrawing from unprofitable businesses/ subsidiaries, collective reorganization, and specialization in core business
- Develop new competitive product lines and promote innovative *monozukuri*

➤ **Overcome reforms that may be painful, shift to a business constitution that generates profits**

2017 Mid-term Plan Initiatives (AC Operations)



Our Precision, Your Advantage

Mid-term Policy

Plan long-term growth trajectory by reorganizing plants/companies to match the shifts in customer demand areas and development and sales promotion of value-added products

Collective reorganization

Progress

*KSS: Hydraulic pump production plant in Spain

**Accomplish
drastic
structural
reforms**

Production optimization

- Reorganization in Europe:
Shock absorbers: transfer between plants to be completed by FY2021
Start transfer of products of pump production from KSS* and to be completed by FY2021.
- Motorcycle reorganization:
Transfer small-sized products from Thailand to Vietnam, to be completed by FY2020
Transfer of Indian motorcycle manufacturer TVS models from China to India to be completed in FY2019
- EPS reorganization:
Discontinue unprofitable domestic models, shift toward Chinese production, progress with division reorganization
- SA aftermarket:
Unification of Chinese sales subsidiaries into Chinese production base
Formulate structural reform proposal for engineering, sales and technology (cost reductions/sales channels), to be completed in FY2019.

**Strengthening
competitiveness**

**Stabilize
revenue base**

- Global specification integration for volume sale SA:
Preparations for unified standard specs underway, complete in FY2019
- Increase productivity through innovative SA line:
Equipment specs planning underway, commence equipment roll out in FY2020

**Sustainable
growth**

- Secure orders / promote sales for value-added products: 64 proposals, 9 inquiries, 7 mass production, Start new technology presentation for the three German premium automakers
- Products for SUVs, EVs, and pickup trucks: 2 inquiries, 5 received orders, 2 mass production

Mid-term Policy

Stable sales unaffected by market changes, ensure profits

Strengthen sales promotions for growth markets in which we were not active while staying based in excavators

Accomplish
drastic
structural
reforms

Stabilize
revenue
base

Sustainable
growth

Progress

Collective
reorganization

- Transfer of medium-sized excavator control valves: To be completed by Oct. 2019
- Concentration of motor products: To be completed by Sep. 2020

Strengthening competitiveness

[Efficiency by transferring and concentrating]

- **Reduce number of lines without losing production capacity:**

Create a system that is resistant to changes in production volume by making lines more flexible

Number of production lines	Processing line		Assembly line	
	2016	2019	2016	2019
Medium-sized control valves	8	6	6	5
Motors	48	40	11	11

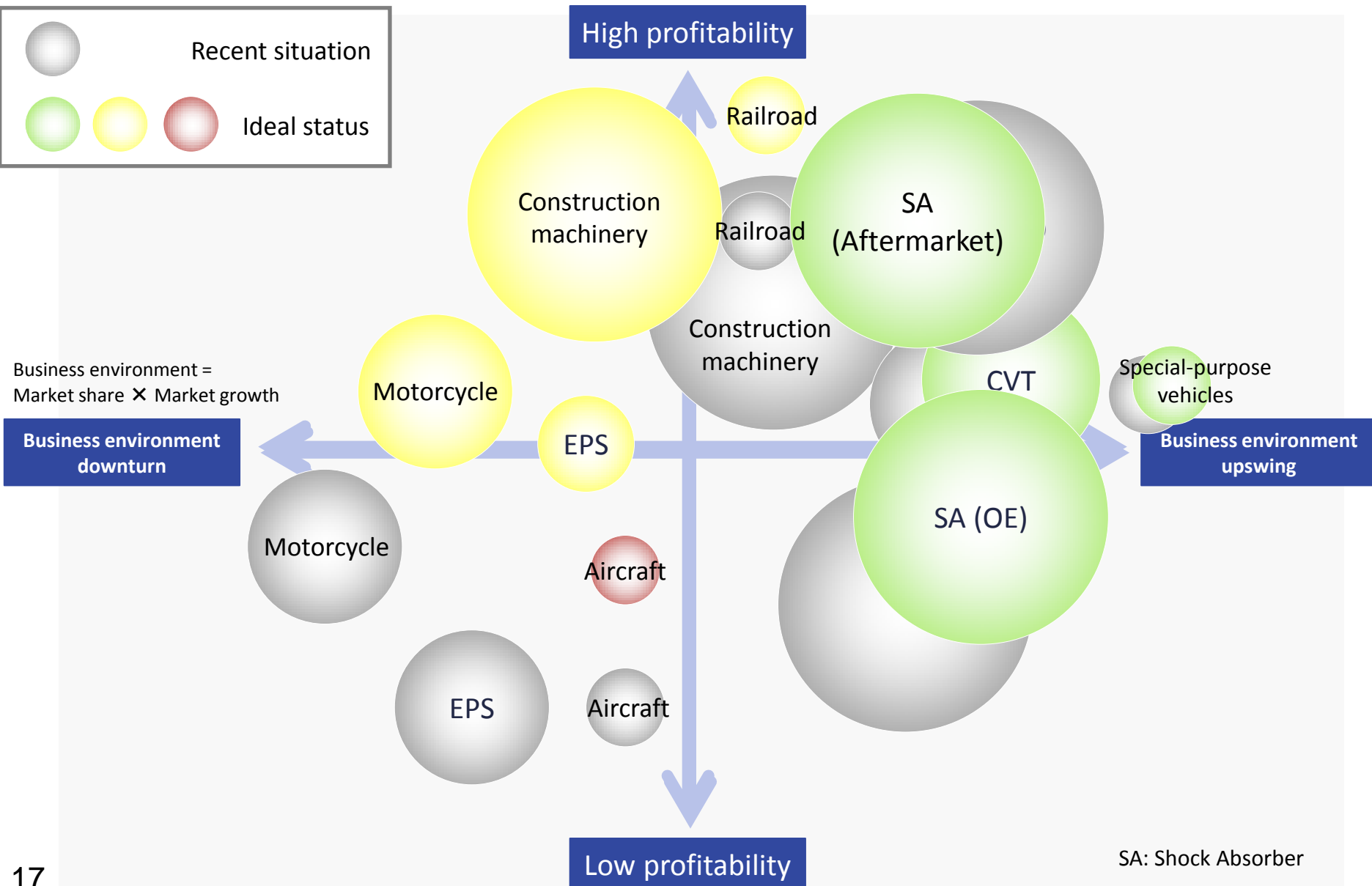
- Mini and large-sized excavators: Maintain a high share, continue stable demand through increasing volume

- Promote sales activities for non-production machinery products
New orders / Start up → Rotor valves / Agricultural machinery HST for Indian market / Forklift gear pump

Ideal Status: Next Mid-term Management Plan



Our Precision, Your Advantage



1. About nonconforming acts in the inspection process for seismic isolation/mitigation oil dampers for buildings

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1H performance

- Although net sales for FY2019 first half was down compared to the previous fiscal year because of a strong yen, there was an increase due to profitability improvements in segment profits. Operating profit increases sharply due to reduction in costs related to the seismic isolation/mitigation oil dampers issue.

Financial forecast

- Our full year forecast for FY2019 is a year on year decrease in sales and profits caused by a decline in volume triggered by uncertainty, particularly in the construction machinery market. As with the first half, we forecast that we will achieve a profit through a reduction in costs related to the seismic isolation/mitigation oil dampers issue.

1H of FY2019 Financial Summary



Our Precision, Your Advantage

(¥ Billion)	IFRS			Differences
	FY2018	1H of FY2019		Previous period
	1H actual	Forecast (May 14, 2019)	Actual	
Net sales	202.8	205.0	197.6	(5.2)
Segment profits*	9.5	9.6	11.9	2.5
(Segment profits ratio)	4.7%	4.7%	6.0%	1.3%
Operating profit	(11.3)	8.9	4.5	15.8
Profit (loss) attributable to owners of the parent	(12.0)	6.7	1.7	13.6
ROE	—	8.4%	2.3%	—
Dividend (¥)	0	—	0	±0
FOREX (Average) (¥)				
JPY/ US\$	110.26	105.00	108.62	
JPY/ EUR	129.84	122.00	121.41	

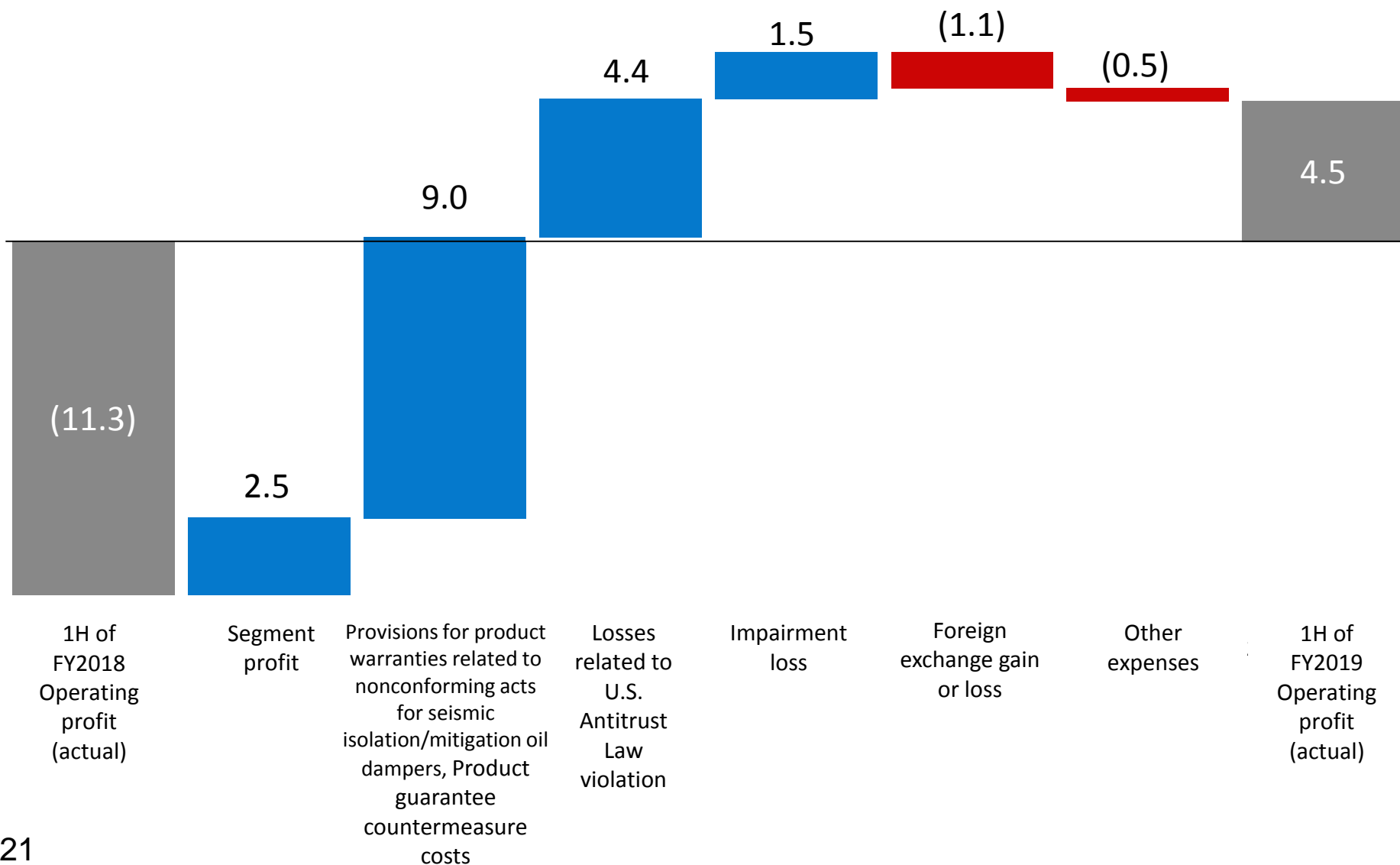
*Segment profits correspond to operating income in JGAAP.

1H of FY2019 Changes in Operating Profits



Our Precision, Your Advantage

(¥ Billion)



Impact of Nonconforming Acts Related to Seismic Isolation/mitigation Oil Dampers on Performance



Our Precision, Your Advantage

Cost amount

(¥ Billion)

	FY2018				FY2019			
Items	2Q	3Q	4Q	(1) FY2018 Total	1Q	2Q	(2) 1H of FY2019 Total	(1)+(2)
Provision for product guarantee	14.4	11.4	9.3	35.1	0.3	0.1	0.4	35.4
Product guarantee countermeasure costs	0.0	1.0	5.0	6.0	2.2	2.9	5.0	11.0
Total	14.4	12.4	14.3	41.1	2.5	3.0	5.4	46.5

Impact on cash

	FY2018				FY2019			
Items	2Q	3Q	4Q	(1) FY2018 Total	1Q	2Q	(2) 1H of FY2019 Total	(1)+(2)
Reversal of provision for product warranties	0.0	0.0	0.0	0.0	1.9	2.8	4.7	4.7
Product guarantee countermeasure costs	0.0	1.0	5.0	6.0	2.2	2.9	5.0	11.0
Total	0.0	1.0	5.0	6.0	4.1	5.6	9.7	15.7

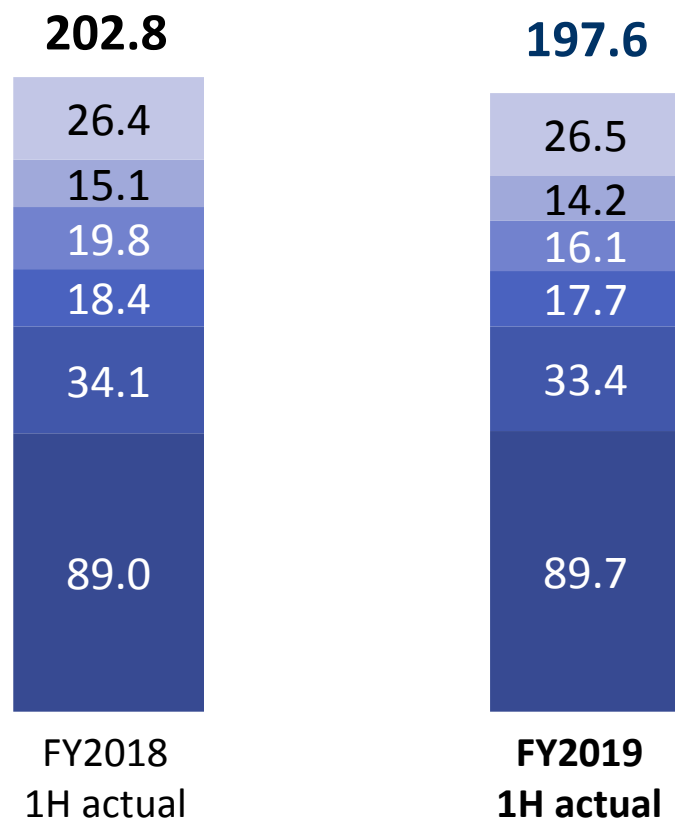
1H of FY2019 Net Sales by Region



Our Precision, Your Advantage

(¥ Billion)

Differences
Previous period



Other	0.4%
Southeast Asia	(6.2)%
China	(18.7)%
America	(3.4)%
Europe	(1.9)%
Japan	0.8%

Overseas Sales Ratio
56.1% → 54.6%

Financial Forecast for FY2019



Our Precision, Your Advantage

(¥ Billion)	IFRS			Differences
	FY2018 Actual	FY2019 Forecast (beginning of the year)	FY2019 Forecast	Previous period
Net sales	412.2	410.0	390.0	(22.2)
Segment profits*	22.0	20.6	20.6	(1.4)
(Segment profits ratio)	5.3%	5.0%	5.3%	±0
Operating profit	(28.5)	19.4	6.5	35.0
Profit (loss) attributable to owners of the parent	(24.8)	14.0	2.8	27.6
ROE	—	8.4%	1.9%	—
Dividend (¥)	0	—	—	—
FOREX (Average) (¥)				
JPY/ US\$	110.91	105.00	106.81	
JPY/ EUR	128.40	122.00	118.21	
		Assumed rate for 2H	105.00 115.00	

*Segment profits correspond to operating income in JGAAP.

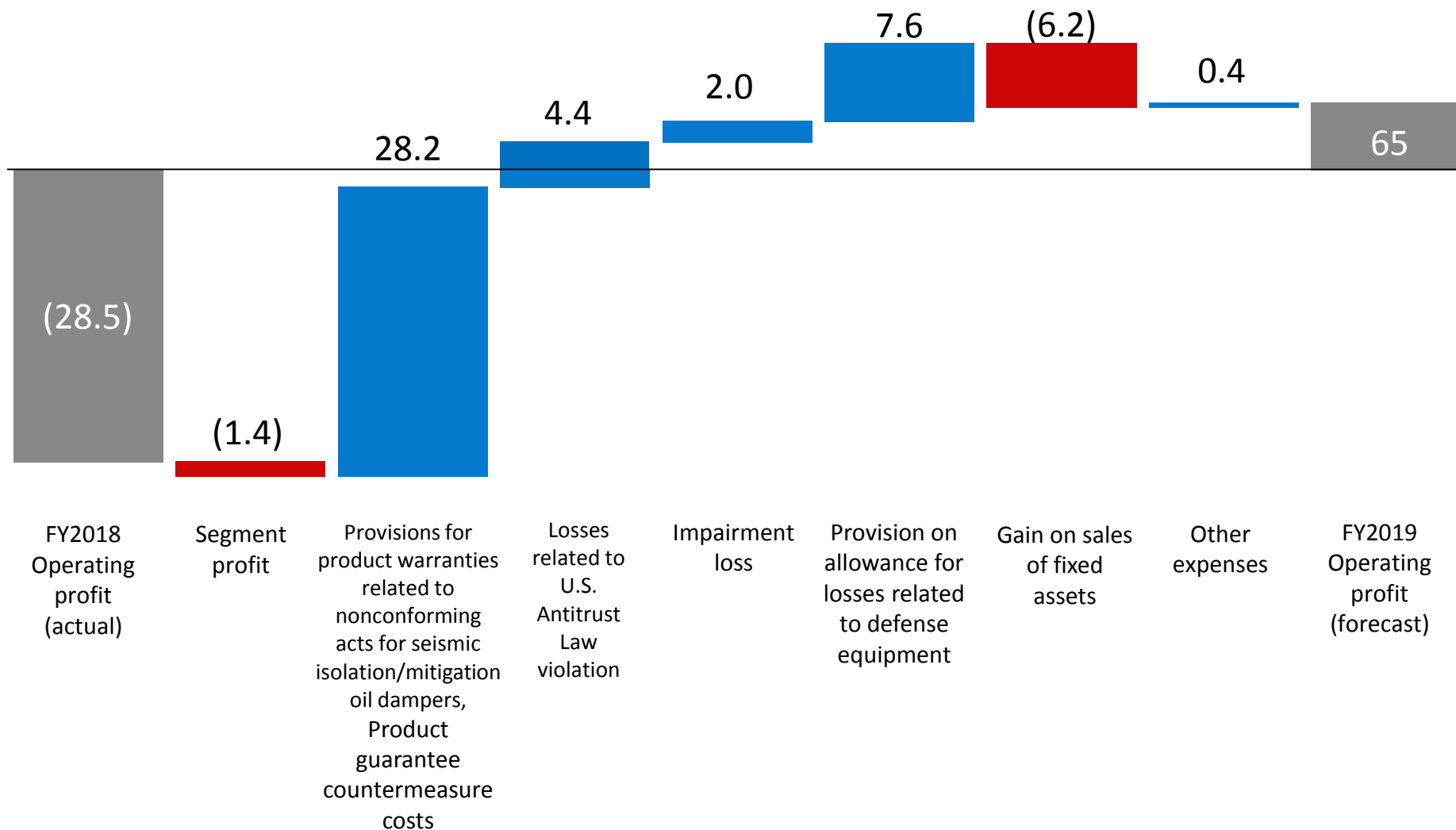
If costs occur due to the nonconforming acts in the inspection process for seismic isolation/mitigation oil dampers, it is possible they will have a major impact on consolidated performance.

FY2019 Changes in Operating Profits Forecast



Our Precision, Your Advantage

(¥ Billion)

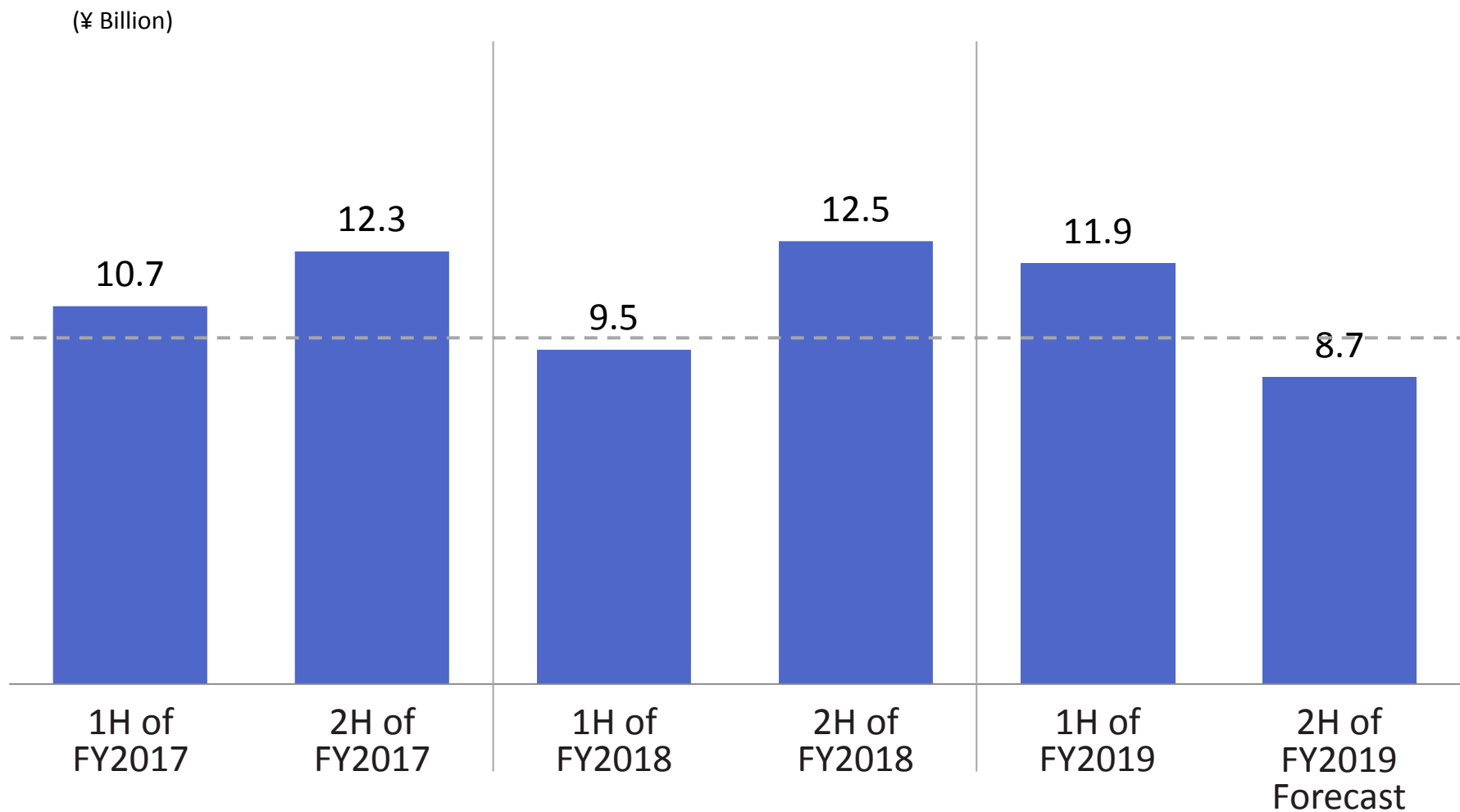


Segment Profits



Our Precision, Your Advantage

■ Trend for segment profits are stable at the ¥10 billion level per half period



Profit (Loss) Attributable to Owners of the Parent

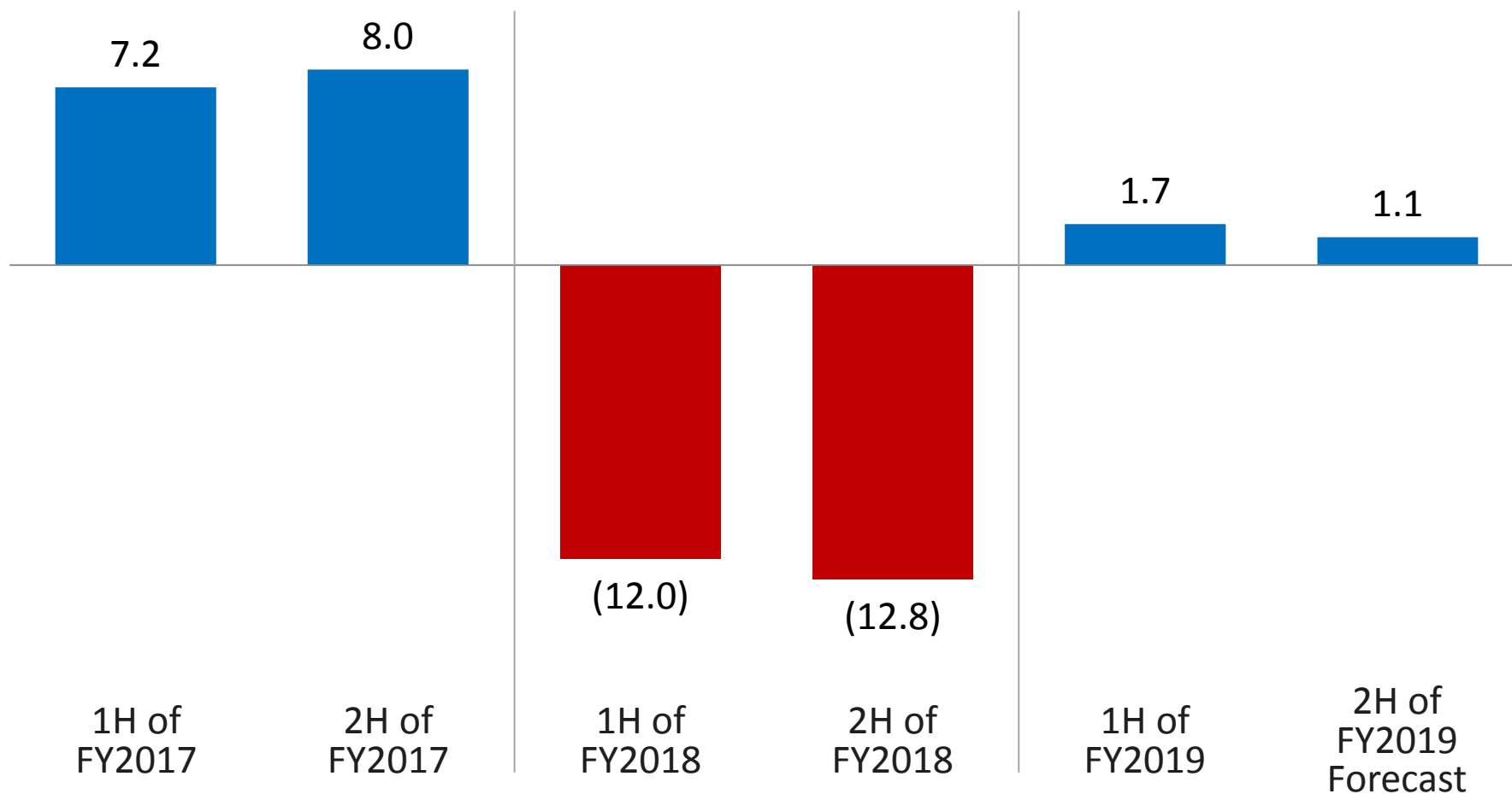


Our Precision, Your Advantage

■ Forecast for FY2019 is returning to profit

Profit (loss) attributable to owners of the parent

(¥ Billion)





Our Precision, Your Advantage

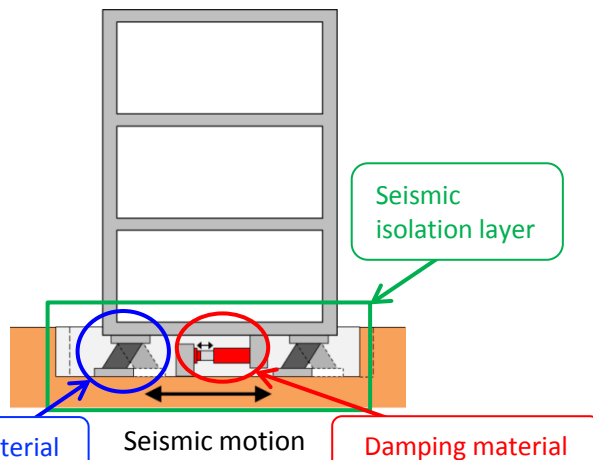
Cautionary Statement

This report contains forward-looking statements, including KYB's plans and strategies, as well as statements that report historical results. Forward-looking statements involve such known and unknown risks and uncertainties as economic conditions; currency exchange rates; laws, regulations, and government policies; and political instability in principal markets.

For further information, please contact:
Investor Relations Sect., Finance Dept.
Tel: +81-3-3435-3580

Seismic isolation/mitigation

Seismic isolation

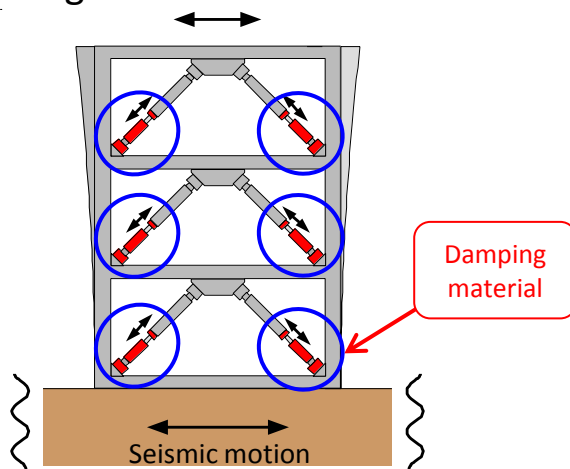


Structure that prevents transmission of underground vibrations by establishing a **seismic isolation layer** and connecting the building to the ground using **support materials** and assisting **damping materials**.

Support materials made of laminated rubber, etc., prevent the transmission of power to the building by being deformed by the power of the ground and moving horizontally.

Depending on the scale and structure of a building, **damping materials** such as oil dampers are added to support materials, thereby curtailing vibration and excessive deformation of the seismic isolation layer.

Seismic mitigation



Structure that mitigates vibration of the building by wind or an earthquake through the placement of **damping materials** on each floor.

Damping materials such as oil dampers mitigate vibration by absorbing power from the wind or an earthquake, therefore curtailing the deformation of each floor of the building.

Outline of Prevention Policies

Strictly build a compliance awareness, reform corporate culture	1) Establish compliance management	<ul style="list-style-type: none"> • Establish awareness of norms at KYB and KSM • Build awareness of norms in the KYB Group • Revise corporate activity principles • Send periodic message stressing the importance of compliance • Human resource evaluations, etc.
	2) Change in thinking for all Directors and Executives	<ul style="list-style-type: none"> • Carry out education and training for self-awareness of social responsibility • Carry out education that incorporates case studies and examples from other companies • Education related to laws and regulations specific to businesses and products • Make quality education compulsory
Evaluate business feasibility, revise our business operation systems as well as information sharing systems	1) Balanced business operation system	<ul style="list-style-type: none"> • Proper project operations at KSM • Revise order acceptance judgment at KSM • Establish business system • Revise mass production evaluation procedure for individual and small-lot products
	2) Carry out personnel rotations	<ul style="list-style-type: none"> • Improve replacement training and work transparency through joint ownership within the company of knowledge and know-how through effective human resources rotation.
	3) Establish information absorption/feedback system	<ul style="list-style-type: none"> • Thorough documentation of meetings, reports, and the details of instructions within KSM • Thoroughly carry out in-house rules for times of emergency • Revise internal reporting system to improve effectiveness • Clarify response for times when a quality defect is detected • Create a system to absorb information
Improve inspection systems/methods	1) Improve inspection systems	<ul style="list-style-type: none"> • Strengthen independence of quality assurance function • Improve method of examination when inspecting oil dampers on the spot • Prepare inspection manual
	2) Prevention measures for inspection machines	<ul style="list-style-type: none"> • Make strict procedures for changing software of oil damper inspection machines • Periodic monitoring for software of oil damper inspection machines • Automate logging of inspections results in a manner which does not involve the work of people • Promote automation of the inspections process • Ensure traceability of performance test data
Strengthening internal audits/regulation systems	1) Strengthen internal quality inspection system	<ul style="list-style-type: none"> • Inspections that keep in mind quality fraud • Enforce inspections that effectively check the details of inspection data • Original inspections by KYB • Support from outside specialists
	2) Strengthen subsidiary management system	<ul style="list-style-type: none"> • Strengthen information coordination system with group companies • Revise management system for group companies • Analyze/understand the business risks of group companies • Reorganize group companies

Our Response to Nonconforming Acts

We've announced "Progress with prevention policies" and "Our response to nonconforming acts" on the KYB website (Japanese only).

Top page → Our response to nonconforming acts
<https://www.kyb.co.jp/company/progress/index.html>



免震・制振用オイルダンパー問題への対応について

免震・制振用オイルダンパー問題についてのご報告

再発防止策の進捗状況

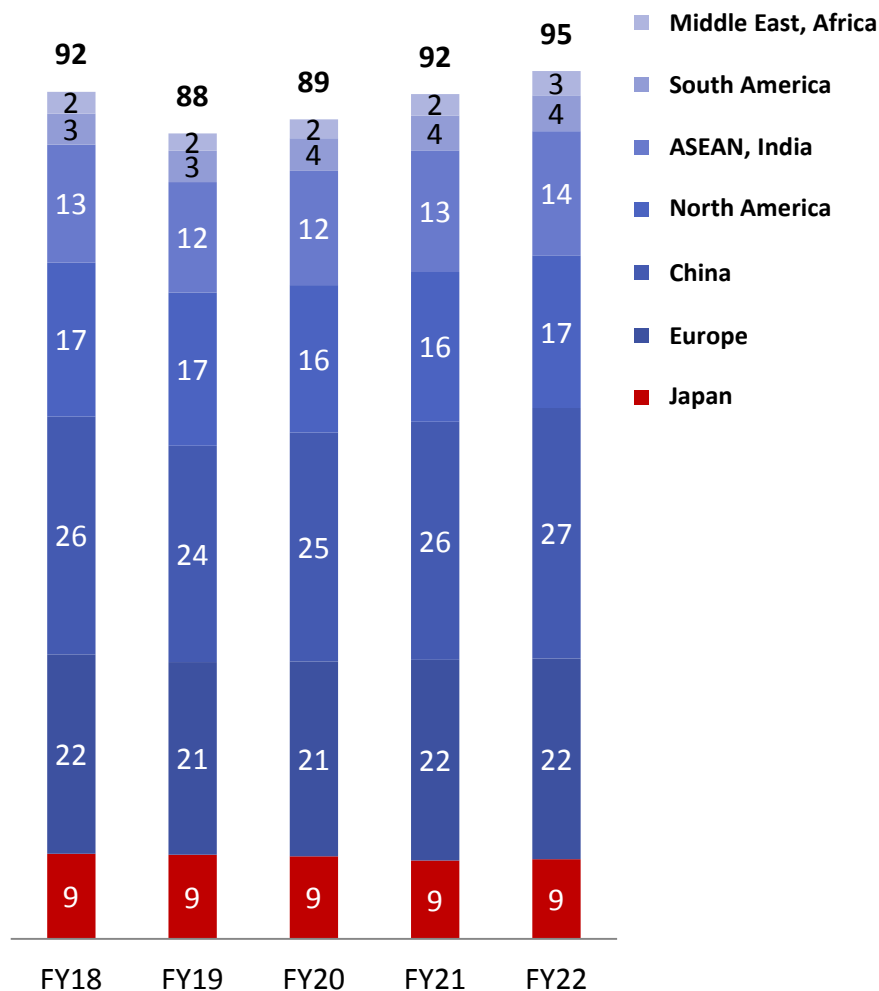
対応についての進捗状況

免震・制振用オイルダンパー問題に関するプレスリリース

- | | | |
|------------|---|---|
| 2019.10.11 |  | 当社及び当社の子会社が製造した建築物用免震・制振用オイルダンパーの検査工程等における不適切行為に関する物件名の公表について |
| 2019.8.23 |  | 不適切行為に関する公表物件の判定結果訂正について |
| 2019.8.8 |  | 当社及び当社の子会社が製造した建築物用免震・制振用オイルダンパーの検査工程等における不適切行為に関する物件名の公表について |
| 2019.6.7 |  | 当社及び当社の子会社が製造した建築物用免震・制振用オイルダンパーの検査工程等における不適切行為に関する物件名の公表について |

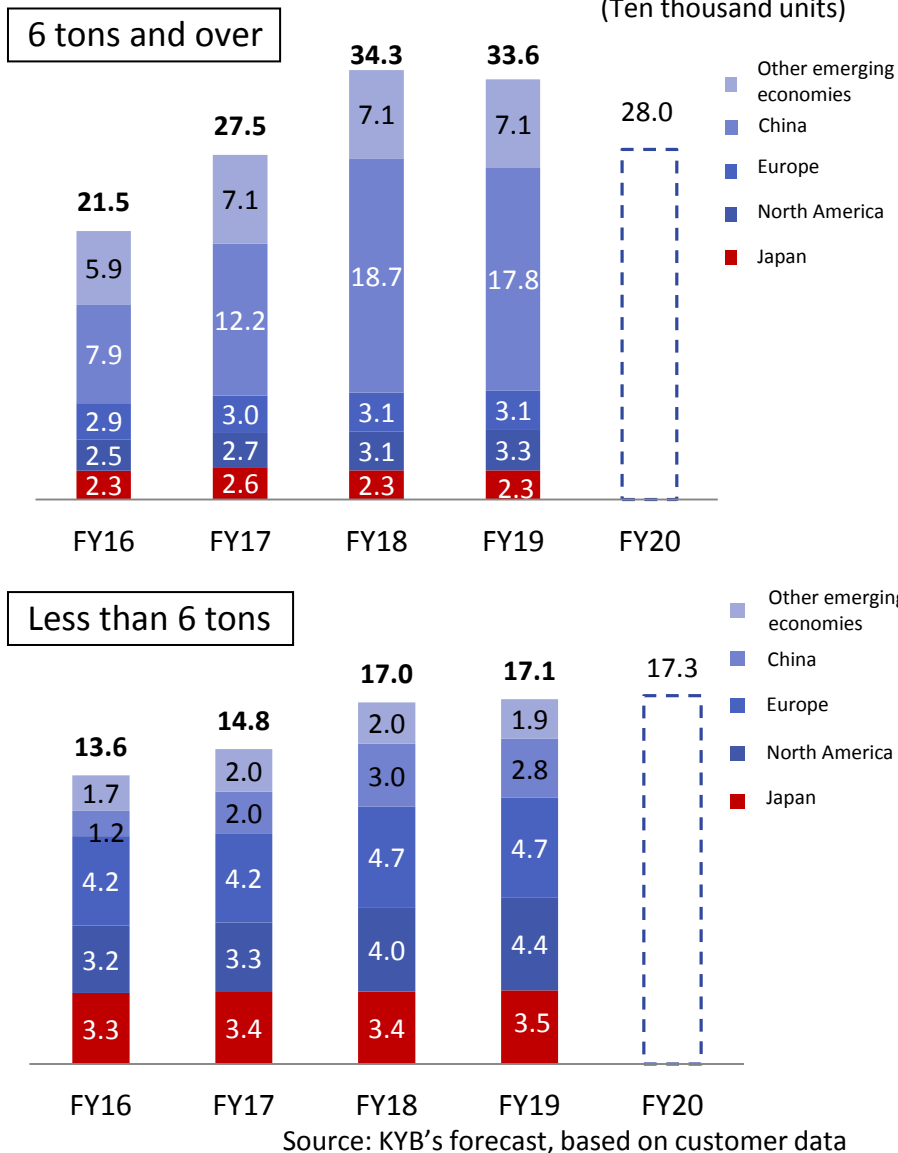
Automobile Production Forecast

(Million units)



Demand Forecast for Hydraulic Excavators

(Ten thousand units)



Source: IHS (the end of Sep. 2019)

Source: KYB's forecast, based on customer data

1H of FY2019 Net Sales and Segment Profits

(¥ Billion)	IFRS	FY2018 1H actual	FY2019 1H actual	Differences
AC	Net Sales	123.7	118.9	(4.8)
	Shock absorbers for automobiles	85.1	86.0	0.9
	Shock absorbers for motorcycles	14.1	12.7	(1.3)
	Hydraulic equipment for automobiles	21.9	17.5	(4.4)
	Others	2.7	2.6	(0.1)
	Segment Profits	4.4	6.9	2.6
HC	Net Sales	67.2	66.5	(0.7)
	Hydraulic equipment for industrial use	63.2	62.1	(1.1)
	Others	4.0	4.4	0.4
	Segment Profits	5.6	4.1	(1.5)
SV, A&S	Net Sales	11.8	12.2	0.4
	Special-purpose vehicles	4.4	4.3	(0.1)
	Hydraulic equipment for aircraft	2.9	2.6	(0.3)
	System products and electronic components, etc.	4.6	5.4	0.8
	Segment Profits	(0.5)	0.9	1.4
Total	Net Sales	202.8	197.6	(5.2)
	Segment Profits	9.5	11.9	2.5

AC: Automotive Components HC: Hydraulic Components

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Financial Forecast for FY2019

(¥ Billion)	IFRS	FY2018 Actual	FY2019 Forecast	Differences
AC	Net Sales	245.8	232.9	(12.9)
	Shock absorbers for automobiles	169.7	167.9	(1.8)
	Shock absorbers for motorcycles	29.1	28.2	(0.9)
	Hydraulic equipment for automobiles	42.1	31.9	(10.2)
	Others	5.0	5.0	(0.0)
	Segment Profits	9.8	11.9	2.1
HC	Net Sales	140.6	131.7	(8.9)
	Hydraulic equipment for industrial use	132.3	123.3	(9.0)
	Others	8.3	8.4	0.1
	Segment Profits	11.9	7.6	(4.3)
SV, A&S	Net Sales	25.8	25.4	(0.4)
	Special-purpose vehicles	9.1	9.6	0.5
	Hydraulic equipment for aircraft	5.6	5.7	0.1
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Total	Net Sales	412.2	390.0	(22.2)
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Capital Expenditure, Depreciation

(¥ billion)

	FY'16 1st Half	FY'16 2nd Half	FY'17 1st Half	FY'17 2nd Half	FY'18 1st Half	FY'18 2nd Half	FY'19 1st Half
Capital Expenditure(*1)	8.84	9.36	8.72	9.77	9.92	12.75	11.91
Depreciation Exp.	7.75	8.17	8.18	8.81	8.58	9.00	10.38

"Capital expenditure" and "Depreciation exp." = invested and depreciated in property, plant and equipment

(*1) Actual figures were calculated on inspection basis.

Interest-bearing Debt

(¥ billion)

	FY'16 1st Half	FY'16 2nd Half	FY'17 1st Half	FY'17 2nd Half	FY'18 1st Half	FY'18 2nd Half	FY'19 1st Half
Interest-bearing Debt	91.13	93.56	93.92	94.64	94.67	108.63	127.36

R&D Expenses

(¥ billion)

	FY'16 1st Half	FY'16 2nd Half	FY'17 1st Half	FY'17 2nd Half	FY'18 1st Half	FY'18 2nd Half	FY'19 1st Half
R&D Expenses	3.74	3.88	3.40	4.70	3.55	3.20	3.15

Number of Employees

	FY'16 1st Half	FY'16 2nd Half	FY'17 1st Half	FY'17 2nd Half	FY'18 1st Half	FY'18 2nd Half	FY'19 1st Half
Number of Employees	14,192	14,350	14,657	14,754	15,556	15,427	15,585

Foreign Exchange Rate

	FY'16 1st Half	FY'16 2nd Half	FY'17 1st Half	FY'17 2nd Half	FY'18 1st Half	FY'18 2nd Half	FY'19 1st Half	FY'19 2nd Half
Average FOREX Rate - JPY/USD	105.29	111.48	111.07	110.64	110.26	111.55	108.62	105.00
Average FOREX Rate - JPY/EUR	118.15	119.43	126.28	133.12	129.84	126.97	121.41	115.00
Average FOREX Rate - JPY/CNY	15.94	16.27	16.42	17.07	16.74	16.32	15.68	14.95
Average FOREX Rate - JPY/THB	3.00	3.16	3.28	3.43	3.40	3.47	3.48	3.30
Average FOREX Rate - JPY/RUB	1.61	1.84	1.91	1.92	1.73	1.69	1.68	1.60

(Est.)

Net Sales by Region

(¥ billion)

		FY2018				FY2019			
		AC	HC	Others	Total	AC	HC	Others	Total
Japan	1st Half	36	44	9	89	33	46	10	90
	2nd Half	0	0	0	0	0	0	0	0
	Total	36	44	9	89	33	46	10	90
Europe	1st Half	30	4	0	34	29	4	0	33
	2nd Half	0	0	0	0	0	0	0	0
	Total	30	4	0	34	29	4	0	33
America	1st Half	14	4	0	18	14	3	1	18
	2nd Half	0	0	0	0	0	0	0	0
	Total	14	4	0	18	14	3	1	18
China	1st Half	9	11	0	20	8	8	0	16
	2nd Half	0	0	0	0	0	0	0	0
	Total	9	11	0	20	8	8	0	16
South East Asia	1st Half	14	1	0	15	13	1	0	14
	2nd Half	0	0	0	0	0	0	0	0
	Total	14	1	0	15	13	1	0	14
Others	1st Half	20	4	2	26	21	4	1	26
	2nd Half	0	0	0	0	0	0	0	0
	Total	20	4	2	26	21	4	1	26
Total	1st Half	124	67	12	203	119	67	12	198
	2nd Half	0	0	0	0	0	0	0	0
	Total	124	67	12	203	119	67	12	198