

 <p>President Makoto Kohno</p>	KITZ Corporation (6498)
	

Company Information

Market	TSE 1st Section
Industry	Machinery (Manufacturing)
President	Makoto Kohno
HQ Address	1-10-1 Nakase, Mihama-ku, Chiba, Japan
Year-end	December
HOME PAGE	https://www.kitz.com/english/

Stock Information

Share Price	Shares Outstanding (End of period)	Market Cap.	ROE (Act.)	Trading Unit	
¥638	90,396,511 shares	¥57,672 million	6.4%	100 shares	
DPS (Est.)	Dividend Yield (Est.)	EPS (Est.)	PER (Est.)	BPS (Act.)	PBR (Act.)
¥25.00	3.9%	¥70.28	9.1x	¥896.55	0.7x

*Share price is as of closing on March 4. Each value is based on the financial report for the fiscal year ended December 2021.

Consolidated Earnings Trends

Fiscal Year	Sales	Operating Income	Ordinary Income	Net Income	EPS (¥)	DPS (¥)
March 2018 (Act.)	124,566	10,117	9,733	6,518	65.50	17.00
March 2019 (Act.)	136,637	11,713	11,883	5,625	58.50	20.00
March 2020 (Act.)	127,090	6,950	7,241	4,937	53.06	20.00
December 2020 (Act.)	84,245	3,751	3,169	2,113	23.38	9.00
December 2021 (Act.)	135,790	8,990	8,975	4,954	55.26	20.00
December 2022 (Est.)	143,000	10,000	9,700	6,300	70.28	25.00

*The estimated values are based on the forecasts made by the company. Unit: million-yen, yen. The fiscal year ended December 2020 was a nine-month period due to the change of the closing month. Net income is net income attributable to the owner of the parent company. Same as below.

This Bridge Report presents details and analysis of KITZ Corporation's earnings results for the Fiscal Year ended December 2021, Long-term Management Vision, Beyond New Heights 2030 - Change the 'Flow,' and the first medium-term management plan 2024 (FY2022-2024), etc.

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Key Points

- Sales for the fiscal year ended December 2021 were 135.79 billion yen, up 17.9% year on year. In the Valve Manufacturing Business, sales increased due to strong demand for semiconductor manufacturing equipment in addition to the effect of price revisions in response to soaring raw material prices, and the resulting rush of last-minute surge in demand. Domestic sales increased 8.0% year on year and overseas sales increased 19.5% year on year. The Brass Bar Manufacturing Business posted a 51.2% year on year increase in sales due to higher selling prices and higher sales volumes in line with rising raw material prices. Operating income rose 68.7% year on year to 8.99 billion yen. The operating income from the Valve Manufacturing Business increased 29.9% year on year. The Brass Bar Manufacturing Business returned to profitability due to increased sales and improved productivity. Both sales and profit exceeded the estimates. The company revised its year-end dividend forecast 2.00 yen per share to 11.00 yen per share. Combined with the interim dividend of 9.00 yen per share, the annual dividend is expected to be 20.00 yen per share. The expected payout ratio is 36.2%.
- The sales for the fiscal year ending December 2022 are expected to rise 5.3% year on year to 143 billion yen, while operating income is projected to rise 11.2% year on year to 10 billion yen. Both the Valve Manufacturing Business and the Brass Bar Manufacturing Business are expected to increase sales and profits. The company plans to pay a record dividend of 25.00 yen per share. The expected payout ratio is 35.6%.
- On the occasion of the 70th anniversary of its founding in 2021, the company held a series of discussions on its purpose as a company and its contribution to society and revised its corporate philosophy: the KITZ' Statement of Corporate Mission, when announcing its long-term management vision.
- Under its long-term management vision: Beyond New Heights 2030: Change the 'Flow', the company aims to achieve its four goals of Technology/Solutions, Core Business/Growth Business, Environmental Conservation Through Business, and Diverse Human Resources, by expanding into growing areas with its core business as a foundation and pursuing a management that is flexible enough to generate profit in both the core business and growing areas. The targets for FY2030 are i) average sales growth rate: 4% or higher (consolidated sales of 200 billion yen in FY2030) and ii) ROE: 10% or higher (consolidated net income of 10 billion yen for FY2030).
- Under the first medium-term management plan 2024 (FY2022-2024), the company's basic management policy is “proactively allocate resources to growth fields and regions driven by digitalization and de-carbonization” and “business development with emphasis on return on invested capital (ROIC).” The company aims for sales of 150 billion yen, an operating income of 12 billion yen, and an ROE of 8% or higher in FY2024.
- In fiscal year ended December 2021, both sales and profit exceeded the estimates that have been revised upwardly three times, due in part to price revisions, while still being affected by the COVID-19 pandemic. Sales have recovered to 136.6 billion yen, the level before the COVID-19 pandemic. The company expects the performance in the current fiscal year ending December 2022 to be close to a record high.
- However, in the fourth medium-term management plan that ended in the previous term, the company failed to achieve its numerical targets, such as sales of 144 billion yen and an operating income of 13.5 billion yen for the fiscal year ended

December 2021. The company attributed the decline mainly to overly optimistic market forecasts, a drastic slowdown in the market due to the COVID-19 outbreak and delays in reforming its revenue structure, including a review of low-profit categories. As part of the implementation of the first medium-term management plan 2024 and the long-term management vision, attention will be paid to how profitability can be improved while expanding the top line and strengthening growth investment.

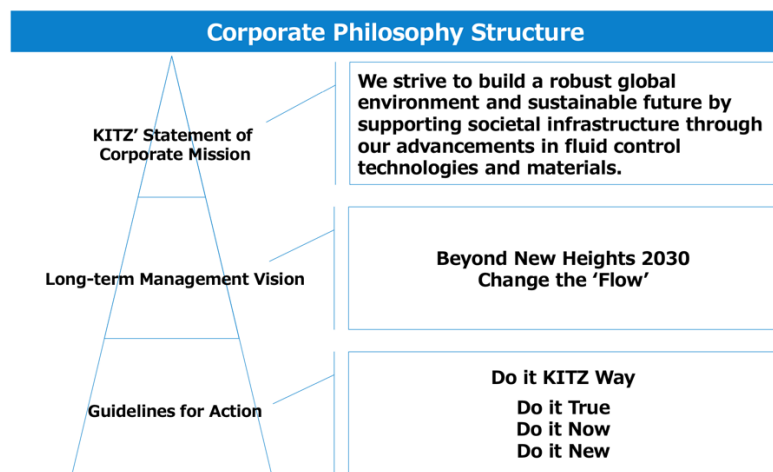
1. Company Overview

KITZ is an integrated manufacturer of valves and other fluid control equipment and devices. In valve manufacturing, it ranks highest in Japan and within the top 10 worldwide. Valves are made of various materials depending on their application, including bronze, brass, cast iron, ductile cast iron (cast iron with greater strength and ductility) and stainless steel. KITZ in principle assumes integrated production (casting, processing, assembling, inspecting, packaging, and shipping) of products from raw materials. The KITZ Group consists of 36 domestic and overseas subsidiaries. In addition to the production and sale of brass bars used for valves, water faucets and gas equipment (KITZ is ranked among the top manufacturers of brass bars within Japan), the Group also operates a hotel business.

1-1 Corporate Philosophy

In 2021, on the occasion of the 70th anniversary of its founding, the company held a series of discussions on its purpose as a company and its contribution to society, and when announcing its long-term management vision, the company revised its corporate philosophy: the KITZ' Statement of Corporate Mission.

Recognizing that the creation of a prosperous global environment and a sustainable future is its mission to society, the company is deeply committed to continuing to support social infrastructure by further refining the fluid control technology and material development that the company has cultivated since its founding.

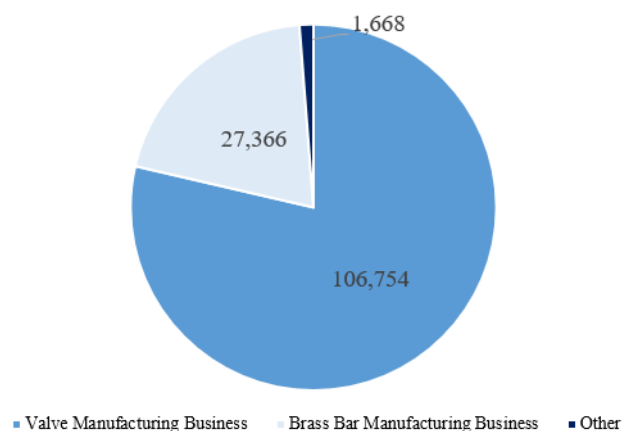


(Taken from the reference material of the company)

1-2 Overview of KITZ's Business Segments

KITZ's businesses consist of the valve manufacturing, brass bar manufacturing and other (including hotel and restaurant management) segments. During the fiscal year ended December 2021, these segments accounted for 78.6%, 20.2%, and 1.2% of total sales, respectively.

Sales Composition by Segment (FY 12/21, unit: million yen)



(1) Valve Manufacturing Business

Valves are used to pass, stop, and adjust the flow of fluids in various pipe systems (water, air, gas, and other substances). They are used in building facilities, residential utility systems, water supply facilities, fresh water and sewer systems, fire prevention equipment, machinery and industrial equipment manufacturing facilities, chemical, medical, and petrochemical product manufacturing facilities, semiconductor manufacturing facilities, oil refineries and other industrial complexes, among other applications. The Company operates an integrated production system that begins with the casting process (KITZ was the first Japanese company to acquire ISO 9001 international quality standard certification). The Company’s product offerings include commercial valves, which are made of corrosion-resistant bronze and highly economical brass for use in the building construction sector, including building facilities and residential utility systems, and industrial stainless-steel valves such as high-value-added ball valves. The Company has a high share of the domestic market in these mainstay product areas.

In terms of sales, the company covers the country nationwide by expanding marketing bases in the domestic major cities and an elaborate network of distributors. As for overseas, the company has a global sales network where the company did not only establish representative offices in India and U.A.E but also marketing bases in China, Hong Kong, South Korea, Singapore, Malaysia, Thailand, Vietnam, the U.S., Brazil, Germany, and Spain. Regarding the manufacturing, the company has a production network that helps achieve global cost and optimal production locations as the company has deployed production bases in China, Taiwan, South Korea, Thailand, India, Germany, Spain, and Brazil in addition to the domestic factories.

<p>Building facilities Valves, etc. used for air-conditioning, sanitary, and anti-disaster equipment when constructing hotels, hospitals, office buildings, and so on</p>	<p>Water supply/water supply facilities Devices and equipment for pipes for water supply and sewage systems, valves used for facilities for treating water and sludge, products for water supply equipment for detached house, housing complexes, etc.</p>
<p>Gas/energy facilities Valves, etc. used for liquefied natural gas (LNG) production facilities, pipelines, and so on</p>	<p>Industrial machinery/production equipment All kinds of valves used for industrial machinery and production equipment</p>
<p>Oil refining and oil complex facilities Valves, etc. used for the processing lines of oil refineries, petrochemical facilities, and chemical plants</p>	<p>Semiconductor manufacturing equipment Valves and joints for semiconductor manufacturing equipment (manufactured and sold by its group company, KITZ SCT Corporation)</p>

(2) Brass Bar Manufacturing Business

Copper alloy can take many different shapes, including sheets, strips, pipes, bars, and wires through hot or cold deformation processing such as dissolution, casting, rolling, extruding, and forging. It can be made with a range of different materials, including brass (copper with zinc), phosphor bronze (copper with tin and phosphorous), and nickel silver (copper with nickel and zinc). The KITZ Group's Brass Bar Manufacturing Business is led by KITZ Metal Works Corporation and Hokutoh Giken Kogyo Corporation. These companies manufacture and sell brass bars, which are used not only as material for valves, but also in the manufacture of water faucets, gas equipment, electrical appliances, and other brass-derived items.

(3) Other

KITZ subsidiary Hotel Beniya Co., Ltd., operates a resort hotel in the city of Suwa, Nagano Prefecture. The hotel is located in a highly picturesque setting close to Lake Suwa with hot spring bathing facilities with sunset views and has a number of small and large banquet halls. The hotel also has a large convention hall, giving it the capacity to hold international conferences.

2. Fiscal Year ended December 2021 Earnings Results

2-1 Consolidated Business Results

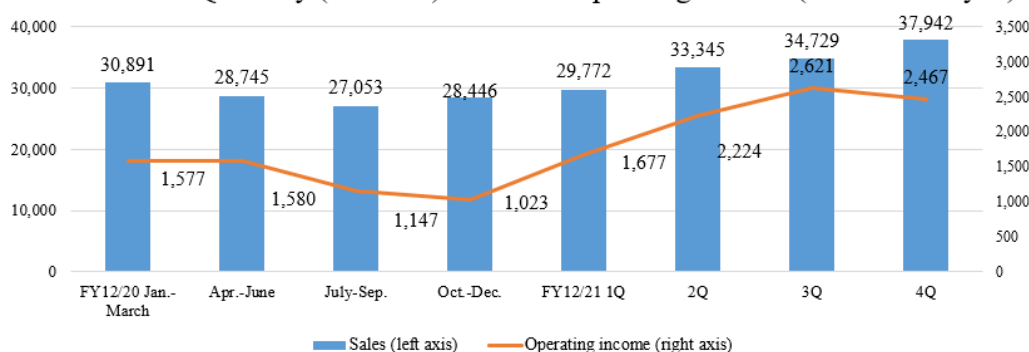
	Same term of the previous year (Jan – Dec 2020)	Ratio to Sales	FY12/21	Ratio to Sales	YoY Change	Plan	Divergence
Sales	115,138	100.0%	135,790	100.0%	+17.9%	134,000	+1.3%
Operating Income	5,328	4.6%	8,990	6.6%	+68.7%	8,450	+6.4%
Ordinary Income	5,372	4.7%	8,975	6.6%	+67.1%	8,500	+5.6%
Net Income	3,366	2.9%	4,954	3.6%	+47.2%	4,550	+8.9%

* Unit: million yen. Since FY12/20 is a nine-month accounting period, the figures are compared with reference figures (unaudited) calculated using the January-December period of FY12/20 as the same term of the previous year.

Sales and operating income increased. Exceeded plan.

Sales for the fiscal year ended December 2021 were 135.79 billion yen, up 17.9% year on year. In the Valve Manufacturing Business, sales increased due to strong demand for semiconductor manufacturing equipment in addition to the effect of price revisions in response to soaring raw material prices, and the resulting rush of last-minute surge in demand. Domestic sales increased 8.0% year on year and overseas sales increased 19.5% year on year. The Brass Bar Manufacturing Business posted a 51.2% year on year increase in sales due to higher selling prices and higher sales volumes in line with rising raw material prices. Operating income rose 68.7% year on year to 8.99 billion yen. The operating income from the Valve Manufacturing Business increased 29.9% year on year. The Brass Bar Manufacturing Business returned to profitability due to increased sales and improved productivity. Both sales and profit exceeded the estimates. The company revised its year-end dividend forecast 2.00 yen per share to 11.00 yen per share. Combined with the interim dividend of 9.00 yen per share, the annual dividend is expected to be 20.00 yen per share. The expected payout ratio is 36.2%.

Trends of Quarterly (3months) Sales and Operating Income (unit: million yen)



Exchange and raw materials

	Same term of the previous year (Jan – Dec 2020)	FY 12/21	FY 12/21 Plan
Yen / US Dollar	106.44	110.39	110.00
Yen / Euro	121.97	130.36	131.00
Electrolytic Copper, Yen / Ton	700,000	1,067,000	1,080,000

2-2 Business Segments' results

	Same term of the previous year (Jan – Dec 2020)	FY 12/21	FY 12/21 Plan	YoY Change	Divergence
Sales					
Valve Manufacturing	95,335	106,754	105,800	+12.0%	+0.9%
Brass Bar Manufacturing	18,102	27,366	26,700	+51.2%	+2.4%
Other	1,699	1,668	1,500	-1.8%	+11.2%
Segment profit					
Valve Manufacturing	9,306	12,088	11,730	+29.9%	+3.0%
Brass Bar Manufacturing	-184	665	650	-	+2.4%
Other	-344	-243	-330	-	-

* Unit: million yen.

(1) Valve Manufacturing Business

Both sales and profit increased from the previous year, exceeding the estimates.

Sales in domestic market rose 8.0% year on year to 67.328 billion yen.

The sales of valves for building facilities remained at a high level from the second quarter, partly due to temporary demand resulting from price revisions in April and August. There was no backlash from the temporary demand as feared. Due to the impact of the spread of the COVID-19, there has been little progress in business of large-sized projects and the sales of industrial valves are recovering as the demand for them is mainly for maintenance and renewal.

In the water related business, the sales of valves for water supply and sewerage increased mainly due to the demand from the public sector and seasonal factors.

The sales of semiconductor-related products, which continued having favorable market conditions, remained high in the fourth quarter.

Overseas sales rose 19.5% year on year to 39.309 billion yen.

The impact of the spread of the COVID-19 has subsided quarterly in each area due to the resumption of business activities, although there are differences in intensity from country to country.

In ASEAN countries, orders increased after the price revision announcement. In China, sales of valves for building facilities especially for data centers were strong, while sales to industrial valves and Perrin products for large projects also contributed.

Valves for semiconductors in China and South Korea continue to perform well, like in domestic market.

In the Americas, regular repair projects started and restocking orders from distributors started to return.

Severe conditions continued in Europe, which focuses on the industrial sector, but the situation is improving every quarter.

The operating income in the Valve Manufacturing Business increased 29.9% year on year, as price revisions (+ 2.22 billion yen), cost reductions (+ 950 million yen), and the impact of foreign exchange (+ 620 million yen) offset the negative factors of the 1.89 billion yen rise in raw material prices.

(2) Brass Bar Manufacturing Business

Sales increased sharply and the company returned to profitability. Both sales and profit exceeded the estimates.

The prices of raw materials, which affect selling prices, remained at high levels. Production and sales volumes remained at pre-COVID-19 levels.

Operating income moved into the black due to rising raw material prices.

(3) Other

Sales decreased, and loss was reduced.

The hotel business continues to be affected by the spread of COVID-19.

2-3 Financial Conditions and Cash Flows**◎BS**

	12/20	12/21	Increase and Decrease		12/20	12/21	Increase and Decrease
Cash	33,720	27,943	-5,776	Payables	5,693	8,037	+2,344
Receivables (Including Electronically Recorded Monetary Claims)	24,227	30,031	+5,805	Bonus and Bonus Reserve for Directors	1,425	2,767	+1,342
Inventories	22,237	26,809	+4,571	Retirement Benefit Related	1,146	1,201	+55
Current Assets	81,765	86,621	+4,856	Interest-bearing Liabilities	49,352	39,710	-9,642
Tangible Assets	42,303	41,436	-867	Liabilities	65,514	62,166	-3,348
Intangible Assets	6,211	4,590	-1,621	Net Assets	75,167	81,253	+6,086
Investments, Others	10,401	10,772	+370	Total Liabilities, Net Assets	140,681	143,419	+2,737
Noncurrent Assets	58,916	56,798	-2,118	Equity ratio	52.8%	56.0%	+3.2P

* Unit: million yen.

While receivables and inventories increased, cash and intangible assets decreased, and total assets grew 2.7 billion yen year on year to 143.4 billion yen. Total liabilities fell 3.3 billion yen year on year to 62.1 billion yen due to a decrease in interest-bearing liabilities. Net assets increased 6 billion yen year on year to 81.2 billion yen due to an increase in retained earnings and foreign currency translation adjustments.

The equity ratio increased 3.2 points from the end of the previous fiscal year to 56.0%.

◎CF

	FY 12/21
Operating Cash Flow(A)	8,280
Investing Cash Flow(B)	-3,236
Free Cash Flow(A+B)	5,044
Financing Cash Flow	-11,527
Cash and Equivalents at Term End	27,658

* Unit: million yen.

Operating CF and free CF increased due to the rise in net income before taxes, depreciation expenses, and accounts payables.

Financing CF decreased due to the repayment of short-term and long-term debts, the redemption of corporate bonds, and payment of dividends.

2-4 Topics**(1) Transition to the New Market Segment, Prime Market**

As announced in the result of the selection of new market segments by the Tokyo Stock Exchange on January 11, 2022, the Company will be listed on the Prime Market from April 4.

(2) Starting to Offer Solutions for Preventing Valve Trouble

The company is utilizing its own sensing technology, IoT and AI to develop a technology for detecting early signs of abnormalities in valves, which would play an important role in various production processes. In February 2022, the company started to provide a valve abnormality monitoring service, KISMOS (KITZ Smart Monitoring System), for batch processing production processes in plants and factories.

This service is a preventive solution for valve issues that does not require the cost and construction period at the time of starting valve monitoring and requires less workload during operation. As a result, a system will be established to provide comprehensive support to customers, from valve selection to planned maintenance. The company will continue such a business proposing solutions.

(3) Implementation of CO₂-free Electric Power

3 ZERO (Triple 0), the long-term environmental vision formulated in December 2021, aims for Zero CO₂ emissions by 2050.

To achieve this goal, from April 2022, eight plants in Japan will be equipped with the Shinshu Green Denki, a CO₂-free system that makes maximum use of the abundant water resources in Nagano Prefecture, where many of KITZ Group's manufacturing bases are located, as well as CO₂-free electricity that utilizes the environmental value derived from hydroelectric and solar power generation.

As a result, 100% of the electricity used will be CO₂-free, reducing CO₂ emissions by 35,693 tons per year. The total emissions of domestic group company will be reduced by over 80% from 2013.

(4) Participation in TCFD Consortium

In December 2021, the company expressed its support for the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) and joined the TCFD Consortium, which consists of companies and financial institutions that support the recommendations.

In the future, the company will work to improve the quality and quantity of information disclosure in line with the TCFD recommendations, while gradually advancing analyses based on data to understand risks and opportunities related to climate change.

3. Fiscal Year ending December 2022 Earnings Forecasts

3-1 Full Year Consolidated Earnings Forecast

	FY 12/21	Ratio to Sales	FY 12/22 Est.	Ratio to Sales	YoY Change
Sales	135,790	100.0%	143,000	100.0%	+5.3%
Operating Income	8,990	6.6%	10,000	7.0%	+11.2%
Ordinary Income	8,975	6.6%	9,700	6.8%	+8.1%
Net Income	4,954	3.6%	6,300	4.4%	+27.2%

Units: million yen.

Exchange and raw materials assumptions

	FY 12/21	FY 12/22 Est.
Yen / US Dollar	110.39	115.0
Yen / Euro	130.36	130.0
Electrolytic Copper, Yen / Ton	1,067,000	1,200,000

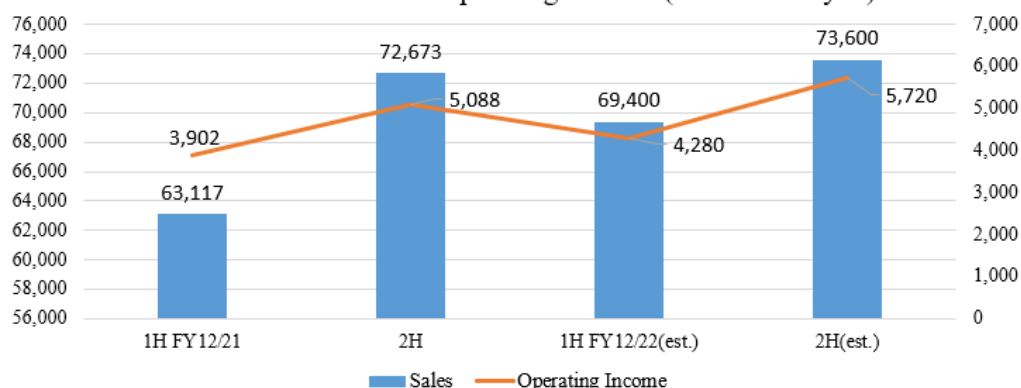
Expected increase in Sales and Profit

The sales for the fiscal year ending December 2022 are expected to rise 5.3% year on year to 143 billion yen, while operating income is projected to rise 11.2% year on year to 10 billion yen. Both the Valve Manufacturing Business and the Brass Bar Manufacturing Business are expected to increase sales and profits. The company plans to pay a record dividend of 25.00 yen per share. The expected payout ratio is 35.6%.

BRIDGE REPORT



Trends of Sales and Operating Income (unit:million yen)



3-2 Sales and Operating Income by Segment

	FY 12/21	Composition /Ratio to Sales	FY 12/22 Est.	Composition /Ratio to Sales	YoY
Valve Manufacturing	106,754	78.6%	112,200	78.5%	+5.1%
Brass Bar Manufacturing	27,366	20.2%	29,000	20.3%	+6.0%
Other	1,668	1.2%	1,800	1.3%	+7.9%
Total Sales	135,790	100.0%	143,000	100.0%	+5.3%
Valve Manufacturing	12,088	11.3%	13,300	11.9%	+10.0%
Brass Bar Manufacturing	665	2.4%	800	2.8%	+20.3%
Other	-243	-	0	0.0%	-
Adjustments	-3,519	-	-4,100	-	-
Total Operating Income	8,990	6.6%	10,000	7.0%	+11.2%

Units: million yen.

(1) Valve Manufacturing Business

Sales and profit will grow

(Domestic)

Despite the spread of the omicron variant, the domestic market has overcome a temporary slump and has recovered quarter by quarter. Although there are concerns about the emergence of new variants, both domestic and overseas businesses are expected to increase revenues and profit by absorbing the negative impact of the rise in raw material prices and the depreciating yen through volume increases, composition differences and cost reductions.

*Valves for building facilities

In addition to the penetration of the new price through the price revision implemented last year, delivery for projects such as the redevelopment of the Tokyo metropolitan area and data centers is expected.

*Industrial valves

The recovery was slow, but the number of projects is on the rise and further recovery is expected.

*Semiconductor market

Expected to remain strong in Japan and overseas. Expanding investment based on digital demand will also contribute to the increase in sales volume of industrial valves.

In addition to butterfly valves, ductile iron valves, and automated valves, which are the main types of valves, the company will continue to focus on increasing the market share and expanding sales of stainless steel ball valves, even though there are still restrictions on face-to-face marketing.

(Overseas)

*Semiconductor market in China and South Korea

Sales are expected to remain healthy as in the domestic market.

*Chinese market

The company will use its production bases in China to expand sales of industrial products which has a large market.

*ASEAN Middle Zone (mid-priced market)

In addition to the capital and business alliance with Unimech in Malaysia, the company plans to expand sales through a brand with new local specifications.

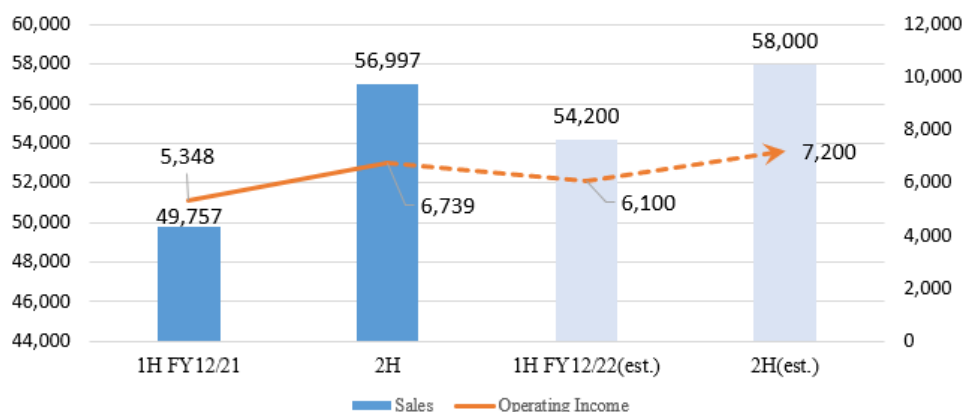
*North America

In addition to MRO in the oil & gas market, the company aims to make large-scale investments in semiconductor plants with valves for building facilities.

*Europe

The situation is expected to remain severe due to the economic slump caused by the COVID-19.

Valve Manufacturing Business
Trends of Sales and Operating Income (unit:million yen)



(2) Brass Bar Manufacturing Business

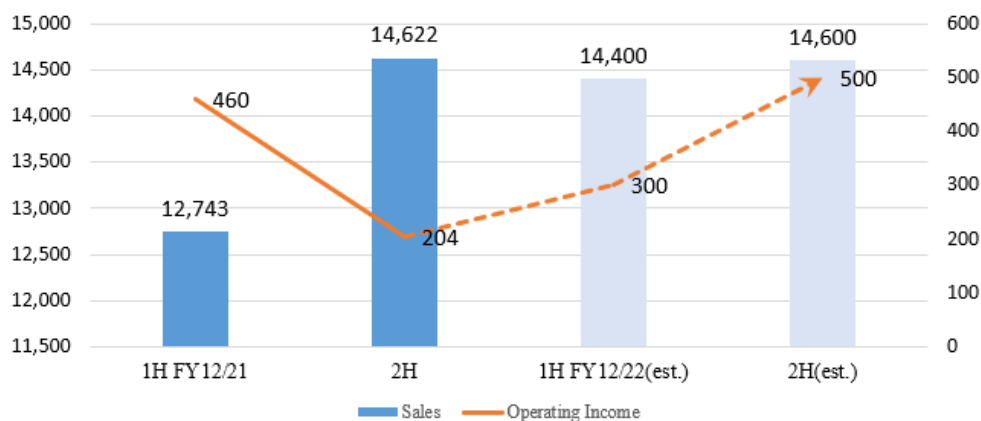
Sales and profit will grow

Copper price is projected to rise 130,000 yen per ton year on year to 1.2 million yen per ton.

Domestic demand for brass bars is expected to remain firm. The company will focus on expanding sales of environmentally friendly materials (lead-free materials and cadmium-free materials).

Efforts will be made to reduce costs by improving productivity, improving yield, and reducing material costs through the operation of new production lines.

Brass Bar Manufacturing Business
Trends of Sales and Operating Income (unit:million yen)

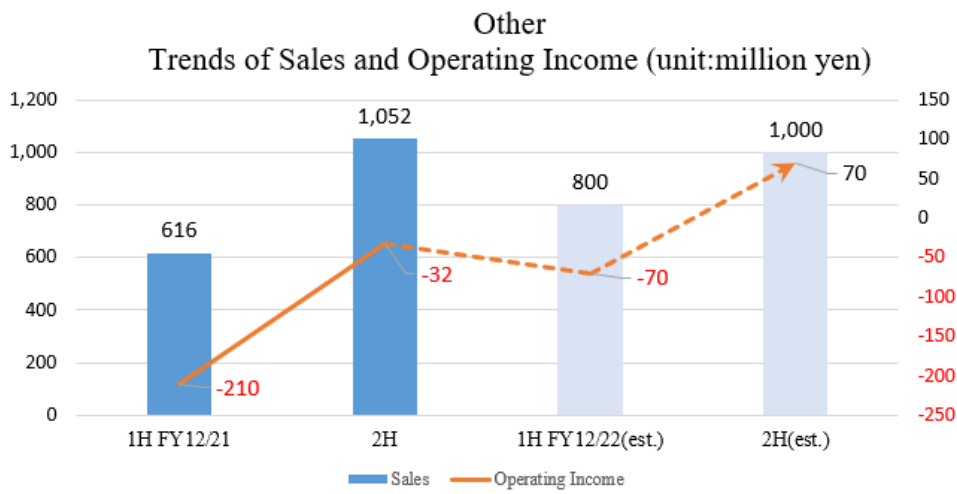


BRIDGE REPORT



(3) Other

Revenue will grow and loss will be unchanged from the previous year.



4. Long-term Management Vision, Beyond New Heights 2030 - Change the 'Flow'

In February 2022, in order to realize the new KITZ' Statement of Corporate Mission, for the purpose of further long-term growth and enhancement of corporate value along with the contribution to the realization of a sustainable society, we have formulated our long-term management vision, Beyond New Heights 2030 - Change the 'Flow', as well as our first Mid-Term Management Plan 2024.

(1) Our Aspirations for 2030

The following are the four ideals.

Technology/Solutions	KITZ will continue to challenge in Stream, Block and Squeeze by leveraging its one-of-a-kind technology and exceeding the user's expectations through its powerful proposal capability.
Core Business/Growth Business	KITZ will strengthen the foundation of its core business for the information and the sustainable society, while also accelerating its entry into growth businesses without fear of risk.
Environmental Conservation Through Business	KITZ will garner favor of society by contributing to a sustainable future, pursuing environmentally friendly product and material development and production processes.
Diverse Human Resources	KITZ will ensure each and every employee, regardless of gender, age, nationality, or culture, can work in high spirits of maximum performance as professionals.

(2) Ideal Management Structure and Quantitative Goals

① Quantitative goals

The two goals for FY2030 are as follows.

- ☆ Average sales growth rate: 4% or higher (Consolidated sales of 200 billion yen for FY2030)
- ☆ ROE: 10% or higher (Consolidated net income of 10 billion yen for FY2030)

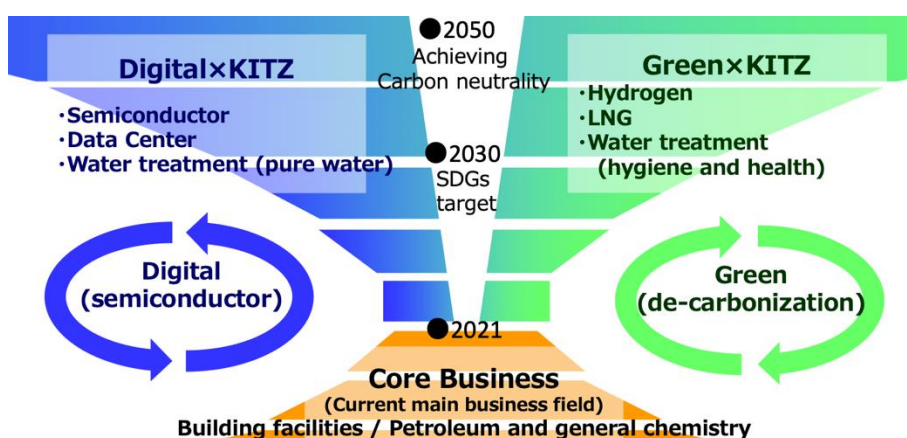
② Management structure

The company aims to expand the business domain toward the growing fields of semiconductors, functional chemistry, hydrogen, etc. based on its current core businesses such as building facilities and petroleum/general chemistry.

The company will proactively allocate resources to growing fields and regions against the backdrop of digitalization and de-carbonization with emphasis on return on invested capital (ROIC).

(3) Ideal State for 2030: Shift in Business Domains

They aim for two-sided management that can generate earnings in core businesses and growing areas.



(Taken from the reference material of the company)

① Long-term strategic investment policy

The total investment budget (for nine years) is set at 80 billion yen, of which approximately 60% will be for strategic investment in growing and new areas (including DX and M&A).

Management resources will be intensively allocated for shifting from core businesses.

(4) Sustainability

① Basic sustainability policy and sustainability slogan

The following are the basic sustainability policies and slogans.

◎ Basic sustainability policy

KITZ Group is committed to realizing its corporate philosophy, the KITZ’ Statement of Corporate Mission, through the following activities

- ① Work to solve social issues through our business and enhance our corporate value and social value
- ② Achieve efficient, fair, and transparent corporate management and become a company trusted by society.
- ③ Build strong trusting relationships through dialogue with all stakeholders

◎ Sustainability slogan

Create the Future, Preserve the Future

Create the Future

The KITZ Group will create a new future by acting with integrity and taking on challenges without fear of change, aiming to realize a recycling-oriented society that is friendly to the earth and people.

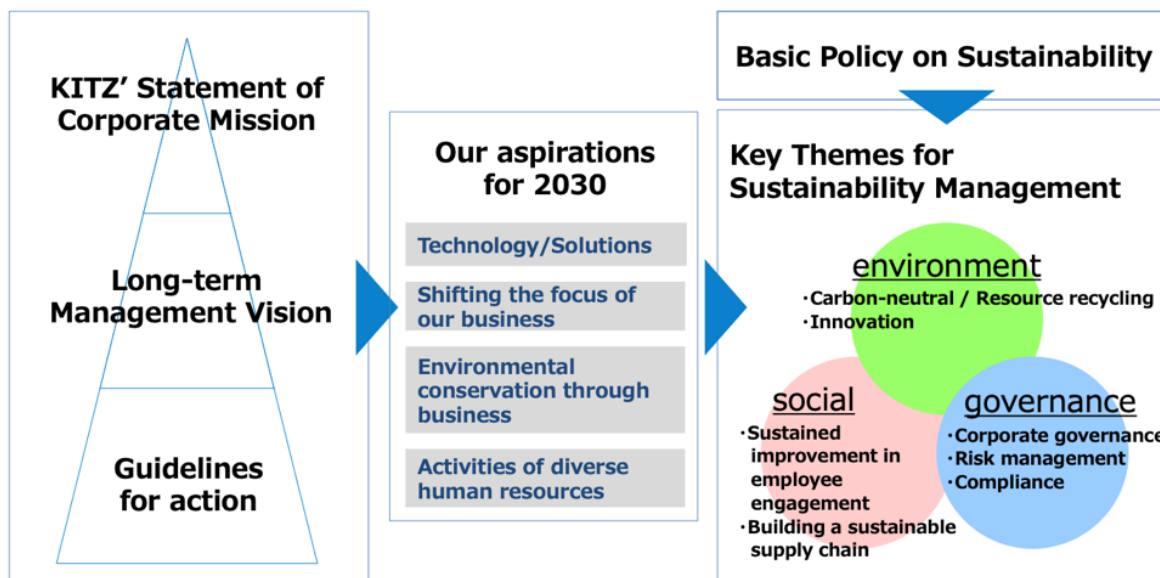
Preserve the Future

The KITZ Group will continue to protect the Earth's limited resources and human life and strive to realize a society that we can pass on to the next generation.

◎ Sustainability management

① Overall view

In our long-term strategy toward 2030, we have placed sustainability management at the core of our business strategy.



(Taken from the reference material of the company)

② Key themes for sustainability management

We will establish key management themes for each of E (Environment), S (Society), and G (Governance) and work on concrete measures to address them.

	Key Themes for Sustainability Management	Specific Initiatives
E	Carbon Neutral/Resource Recycling	Development of KPI targets to achieve Triple Zero (CO ₂ reduction rate/water discharge/waste landfill disposal rate)
	Innovation	Development of Fluid Control Technology to Support a Decarbonized/Hydrogen Society Development of materials that contribute to reducing the environmental footprint
S	Sustainable Improvement in Employee Engagement	Instillation of corporate philosophy/vision To promote D&I and foster a culture of collaboration Human resource development and system reform to support global management Creating a work environment in which employees can work with enthusiasm
	Building a Sustainable Supply Chain	Emphasizing CSR procurement To establish a stable raw material and parts procurement system
G	Corporate Governance Risk Management Compliance	Further transparency in management decision-making Risk management focused on both risk reduction and opportunity creation Global Compliance for Sustainability Management

◎ E (environment)

The company aims to realize a sustainable, recycling-oriented society in FY2050 by promoting Triple-Zero initiatives: zero CO₂ emissions, zero environmental impact, and zero risk.

The goals for FY2030 are i) a CO₂ reduction rate of 90%, ii) a waste to landfill ratio of less than 1.0%, and iii) 100% reduction of water resources discharge.

(All figures are comparisons with FY2013 in the domestic group)

◎ S (society)

To create an environment where each and every employee works professionally and energetically at their best performance, regardless of gender, age, nationality, culture, etc., with the aim of achieving the success of diversified human resources.

◎ G (governance)

In terms of corporate governance, the Company will strengthen portfolio management by incorporating an evaluation yardstick for the cost of capital and enhance the monitoring function and strengthen the implementation system by establishing a Sustainability Committee.

In risk management, we will identify and assess risks, and implement, verify, and continuously update countermeasures throughout the Group, as well as seek to discover new business opportunities by shifting our thinking from risks related to social needs and market changes.

In the area of compliance, we will shift to a compliance program that meets the needs of society (strengthening our measures for human rights, labor, the environment, anti-corruption, etc.) and aim to spread autonomous compliance throughout the Group, with each employee taking responsibility for his or her own compliance.

(5) Toward DX

Achieve business transformation (BX) by linking DX and business innovation activities.

They aim to transform into a customer-oriented and agile organization by thoroughly streamlining existing businesses and visualizing and mobilizing management resources in order to support the world's social infrastructure and create a prosperous future through fluid control and digital technology.

5. First Mid-Term Management Plan 2024

(1) Review of the Fourth Mid-term Management Plan (FY2019-FY2021)

Numerical management targets were not achieved. The main reasons were the excessively optimistic market outlook, significant stagnation in the market due to the COVID-19 pandemic, and delays in profit-earning structure reforms, such as the restructuring of low-profit categories. Due to the lack of operating CF and the uncertainty of market conditions caused by the COVID-19 pandemic, capital expenditures were kept within depreciation costs, and growth investments were carried over to the next mid-term plan.

While the company continues to enhance shareholder returns, it recognizes that it still faces challenges in executing strategic investments for sustainable growth. Meanwhile, steady progress was made in strengthening the global/ESG management foundation.

(2) Overview of the First Mid-Term Management Plan 2024 (FY2022-FY2024)

① Basic management policy

The company aims for a two-pronged management approach that can generate earnings in both core businesses and growing fields.

*Actively allocate resources to growing fields and regions against a backdrop of digitalization and decarbonization.

*Business operation with emphasis on return on invested capital (ROIC).

② Quantitative targets

The following KPIs were established.

Financial KPI	FY2021	Target for FY2024
Sales	1,358	1,500
Operating Income	90	120
ROE	6.4%	8% or more
Dividend Payout Ratio	36%	35% target

Unit: hundreds of millions of yen

*Segments

	FY12/21	Target for FY2024
Valve Manufacturing Business	1,068	1,185
Brass Bar Manufacturing Business	274	295
Other	17	20
Total Sales	1,358	1,500
Valve Manufacturing Business	121	151
Brass Bar Manufacturing Business	7	10
Other	-2	1
Adjustment	-35	-42
Total Operating Income	90	120

Unit: hundreds of millions of yen

Non-financial KPIs	FY2021	Target for FY2024
CO ₂ reduction rate	-26.9%	-80%
Employee Engagement Score		
Worthwhile place to work	48 pts	56 pts
Ease of working	43 pts	55 pts
Ratio of female employees	21.7%	23%
Ratio of female managers	3.4%	10%
Ratio of male employees who took childcare leave	29.0%	50%

CO₂ reduction rate is the reduction amount of domestic group companies, compared to 2013. The result for FY2020 is -26.9%. Other than the CO₂ reduction rate, all numbers refer to KITZ alone.

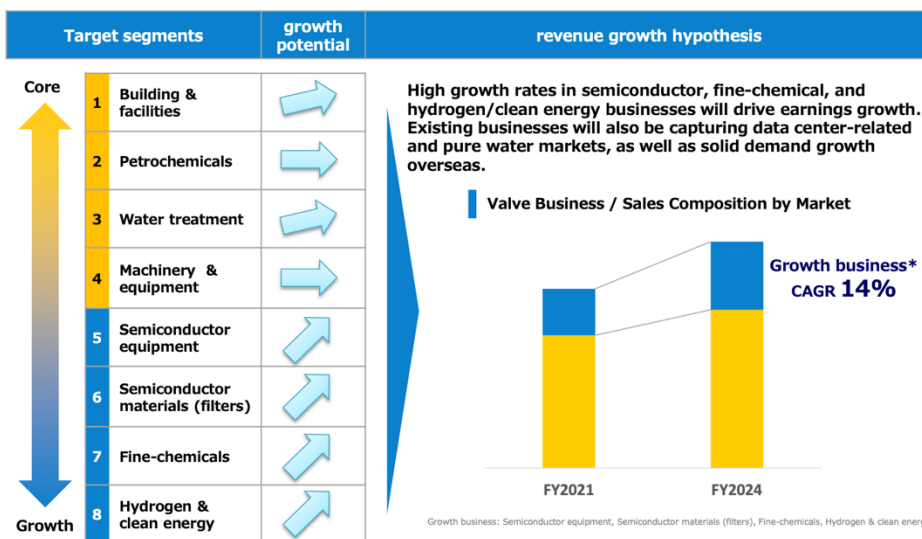
*“Female managers” refers to women who hold positions as department heads.

(3) Mid-term Plan for Each Business

(3)-1 Valve Manufacturing Business

(3)-1-1 Strategy in Each Market

Medium- to long-term target markets were classified into eight market segments. Based on the current core businesses (building facilities, petrochemicals, water treatment, and machinery equipment), the company will shift resources to growing and new fields (semiconductor equipment, semiconductor materials [filters], fine-chemicals, and hydrogen, clean energy) and change its profit-earning structure.



(Taken from the reference material of the company)

① Building facilities

Although new housing starts are on a downward trend domestically, overseas markets will continue to grow, especially in ASEAN countries. In developed countries, the needs for simplified construction are increasing. Globally, demand for data centers is expected to grow rapidly.

(Key measures)

The company will promote the stocking of products to respond to the need for quick delivery in order to capture demand in the data center market.

In addition to the development of products with connection methods compatible with simplified installation, the company will develop products that are compatible with changes in piping construction methods and materials, as well as automation and smart construction.

② Petrochemicals

Global oil demand is expected to increase in emerging markets as they recover from the COVID-19 pandemic. Petrochemical demand is expected to remain strong in developed countries as well, despite the shift to clean energy.

(Key measures)

- To develop products that follow user trends such as the shift to clean energy and environmental measures.
- To improve services and MRO order rates for key account users, especially Japanese-affiliated companies.
- To raise the implementation rate of the KITZ Predictive Diagnostic System.
- To promote compliance with global standards and customer certifications.

③ Water treatment

Global demand for water infrastructure will increase, but price ranges and certification systems are barriers to entry. Investment in pure water/ultrapure water plants will increase due to rising demand for semiconductors.

(Key measures)

To develop marketing activities closely tied to pure water plant manufacturers and pure water equipment manufacturers.

To develop resin-based products and promote the compliance with the strict prohibition on the elution of metal ions.

To provide solutions for the water infrastructure field, focusing on purification equipment (Pureculaser, AquaRescue, etc.).

④ Machinery equipment

The company will provide new customer value by accurately grasping the increasingly sophisticated environmental needs for RoHS/REACH, green refrigerants, etc. in the machinery and equipment sector.

(Key measures)

To establish a new Machinery & Equipment Sales Department.

To develop machinery and equipment that is smaller, lighter, and better suited to automation, and introduce them to the market.

To expand the number of products compliant with environmental regulations such as RoHS and REACH.

To capture demand for switching to next-generation (green) refrigerants.

⑤ Semiconductor devices

Against the backdrop of the solid expansion of the semiconductor market, the company will expand its production capacity of clean valves for semiconductor equipment and promote the development of its research and development system.

(Key measures)

New building construction at the Nitta SC Plant to increase production capacity.

To implement DX (automation and labor saving) investment on the production side.

To reinforce the R&D system.

⑥ Semiconductor materials (filters)

Against the backdrop of strong semiconductor demand, the company also expects steady growth in semiconductor photoresist filters (Polyfix). Production capacity will be expanded to meet growing demand.

(Key measures)

To expand the production capacity of industrial filters such as Polyfix.

To work on the development of next-generation membranes compatible with semiconductor sub-nano.

To develop methods of applying precision filters to other fields (other than photoresists).

⑦ Fine-chemicals

Chemical companies, which are the company's major customers, are focusing on high value-added functional chemical fields. The company will expand its product lineup to meet increasingly sophisticated process requirements and increase earnings.

(Key measures)

To expand its product lineup to meet the demand for high cleanliness and easy maintenance, such as diaphragm valves.

Form a cross-functional sales and engineering organization dedicated to fine chemicals and pursue synergies with KITZ SCT.

To build and strengthen process and production technology networks with fine chemical/equipment and machinery manufacturers, etc.

⑧ Hydrogen, clean energy

Hydrogen energy-related market potential is expected to expand rapidly toward a decarbonized society. The company aims to expand its business by entering the hydrogen supply chain, which is being implemented in society.

(Key measures)

The company will capture the hydrogen station market with packaged units. Also, they will enter the small-scale, locally produced and consumed green hydrogen energy chain business.

Large-scale demonstration plant for liquefied hydrogen (shipping and receiving terminals, carriers), and research and development for entry into the hydrogen aircraft market (NEDO project) will be promoted.

To capture new hydrogen energy demand for hydrogen power generation, hydrogen pipelines, etc.

To expand the lineup of ultra-low temperature valves for LNG for overseas markets and strengthen sales.

(3)-1-2 Group Strategy

The company aims to increase revenues by focusing on three key areas: creating group synergies, strengthening user contact points, and global product and area strategies.

(3)-1-3 Area Business Strategy**① North American market**

◎ Key Target Markets

Building facilities, petrochemicals, water treatment, semiconductor equipment, fine-chemicals, and hydrogen, clean energy

◎ Business opportunities

*Expansion of oil, petrochemical, and gas markets in the oil-producing U.S.

*Trend of strengthening environmental regulations (decarbonization, lead-free, etc.)

◎ Key measures

The U.S. marketing base is positioned as a control tower for market strategies for oil and gas.

Aiming to develop and launch low-cost ball valves to enter the chemical market.

Regarding industrial use valves, the sale of three-piece trunnion ball valves and high-performance butterfly valves will be expanded.

Regarding general use commercial valves, the company aims to expand sales in the commercial valve market.

② Chinese market

◎ Key target markets

Building facilities, petrochemicals, water treatment, machinery and equipment, semiconductor equipment, functional chemicals

◎ Business opportunities

*Expansion of the data center market, etc., against the backdrop of the New Infrastructure Policy.

*Expansion of ethylene and other production capacity in line with policy guidance (chemical shift) in the petroleum industry.

*Market expansion through policy-oriented domestic production of semiconductors.

◎ Key measures

*Building facilities, petrochemical, and specialty chemical markets

In the area of general use commercial valves, the company will actively utilize its integrated system of design, production, and sales: it will strengthen its ability to respond to the speed of market demand.

Regarding industrial use valves, the company will expand sales of industrial products, which have a large market size, by utilizing its production plant in China.

For automatic valves, an assembly and inspection system will be established at the production base in China.

*Semiconductor Equipment Market

To increase local production capacity and expand sales.

③ ASEAN and Indian markets

◎ Key target markets

Building facilities, petrochemicals, water treatment, machinery and equipment, fine-chemicals, and hydrogen, clean energy

◎ Business opportunities

*Expansion of Middle-Zone economy in parallel with the growth of emerging middle-class markets, including urban infrastructure.

*Expanding key account marketing opportunities in parallel with the entry of Japanese users.

◎ Key measures

*ASEAN

To establish a network of key accounts with a focus on Japanese users.

To identify hot-selling products through community-based marketing and develop an integrated local supply system (development, production, and sales).

To maximize revenues through collaboration between local brands and Unimech, Inc.

*India

To establish a regional strategy for region completion following the domestic production policy.

(3)-2 Brass Bar Manufacturing Business

Although existing business domains are shrinking, the company will increase profitability through continuous cost reduction by cultivating growing areas (automotive, semiconductors, etc.), capturing demand for processed products in line with supply chain reviews, promoting manufacturing cost reduction and recycling, and improving operational efficiency through DX and other measures.

(3)-3 Other Business (Services: Hotel Beniya)

To shift the sales policy to target individual customers and the nearby prefectures' trading areas to secure profits during the COVID-19 pandemic. To take the opportunity presented by environmental changes to drastically reform and establish service productivity.

(4) Digital Transformation (DX)

DX will be introduced in the areas of design and development, production and assurance, marketing, sales and customer service and back office. Reduction of operation ratio and shift to value-added operations will be promoted.

DX improves EX (employee value) and CX (customer value).

(5) Financial Strategy and Capital Policy

The cornerstone of management is medium- to long-term improvement of return on invested capital, and as the main KPI for target management, ROE is used externally, while ROIC is used internally.

To execute strategic investments and raise necessary funds for future growth and ROE improvement.

The thick liquidity on hand for contingency planning during the COVID-19 pandemic will be returned to the normal mode, and consolidated cash and deposits will be reduced to about a month (compared to consolidated monthly sales).

Item	Goals and Plans
ROE	2024: 8% or higher. 2030: 10% or higher.
ROIC	Adoption of ROIC management ① To improve profitability (implement pricing strategy, reconsider unprofitable products) ② ROIC Tree deployment and PDCA management ③ CCC improvement and asset reduction
Operating CF	38 billion yen (cumulative total for 2022-2024)
Investment	Total investment: 37 billion yen. Strategic investment: 24 billion yen.
Shareholder return	Dividend payout ratio: mid-term policy of 35% continued
Interest-bearing debt	Bond redemption: 10 billion yen (September 2022)

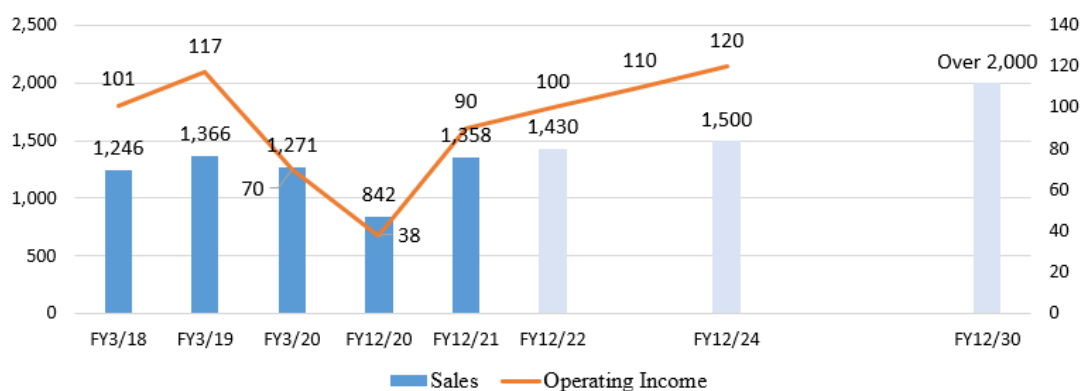
6. Conclusions

In fiscal year ending December 2021, both sales and profit exceeded the estimates that have been revised upwardly three times, due in part to price revisions, while still being affected by the COVID-19 pandemic. Sales have recovered to 136.6 billion yen, the level before the COVID-19 pandemic. The company expects the performance in the current fiscal year ending December 2022 to be close to a record high.

However, in the fourth medium-term management plan that ended in the previous term, the company failed to achieve its numerical targets, such as sales of 144 billion yen and an operating income of 13.5 billion yen for the fiscal year ended December 2021. The company attributed the decline mainly to overly optimistic market forecasts, a drastic slowdown in the market due to the COVID-19 outbreak and delays in reforming its revenue structure, including a review of low-profit categories.

As part of the implementation of the first medium-term management plan 2024 and the long-term management vision, attention will be paid to how profitability can be improved while expanding the top line and strengthening growth investment.

Trends of Sales and Operating Income (unit: 100 million yen)



* FY12/20 was 9 months settlement. Figures of FY12/22 are estimates, and those of FY12/24 and FY12/30 are goals.

<Reference: Regarding Corporate Governance>

◎ Organizational structure, Composition of board of directors and company auditors

Organizational structure	Company with board of company auditors
Board of directors	8 directors (4 are outside directors)
Company auditors	5 auditors (3 are outside auditors)

◎ Corporate governance report (Updated on: December 15 2021)

Basic policy

We recognize that a well-functioning corporate governance allows the company to fulfil their social responsibility, elevates the efficiency and transparency of the management and contributes to a sustainable improvement of the corporate value. That is why our group aims for an effective corporate governance system based on the KITZ' Statement of Corporate Mission by placing importance on compliance and building and operating a precise and swift management system as well as a business execution system which can swiftly respond to changes in the management environment while living up to the trust of all kinds of stakeholders and fulfilling the social mission and responsibility as a company.

In addition, our company has set Basic Policy for Corporate Governance, which is disclosed on the company website alongside Compliance Table of the Governance Code.

https://www.kitz.com/english/sustainability/pdf/corporate_governance.pdf

<https://www.kitz.com/english/sustainability/pdf/cgc.pdf>

<Reasons for Non-Compliance with the Principles of the Corporate Governance Code>

Our company follows all principles of the Corporate Governance Code revised by the Tokyo Stock Exchange (hereinafter referred to as "TSE") in June 2021.

<Disclosure Based on the Principles of the Corporate Governance Code (Excerpts)>

【Principle 1-4】 Strategically Held Shares

Our company has established Policy Regarding Strategically Held Shares and as a general rule does not hold shares strategically with the objective of forming stable shareholders, etc.

Moreover, we inspect, and review strategically held shares from both the viewpoint of economic rationality (in terms of quantity) and qualitative meaning of holding the shares every year at our board of directors meeting and reduce shares that go against our policy. At the board of directors meeting held in February 2021, we closely examined the objective for holding the shares, conveniences as well as risks, etc. in regard to individual strategically held shares of our company group (as of the end of December 2020) and inspected the appropriateness thereof based on the policy.

Regarding the exercise of voting rights regarding strategically held shares, we comprehensively take into consideration the management situation and suitability of decision-making for improving the governance system and corporate value in a mid-to long-term of the share-issuing company, and whether an improvement of our company group's corporate value can be expected or not and pass a judgement for or against in regard to each proposal.

Furthermore, if a holder of strategically held shares displays the intention to sell the shares of our company, our company shall not hinder the sale of the shares of the other party such as by suggesting a reduction of the deal.

Please refer to the "Basic Policy for Corporate Governance" and "Policy Regarding Strategically Held Shares" disclosed on our company's website for the policy regarding strategically held shares, and to the Financial Statements for the number of shares of each specific investment stock respectively.

<https://www.kitz.com/english/sustainability/pdf/cross-shareholdings.pdf>

【Supplementary Principle 2-4①】 Human Resources Development Policy and In-house Environment Development Policy for Ensuring the Diversity of Core Human Resources, and the State of Achievement

[1] Policy for ensuring diversity in regard to promotion, etc. of core personnel

Our company has been promoting diversity since FY2015 as one of important strategies for management. We believe that it is the mission of a company to treat their employees as assets of the company (human resources), respect the individuality of employees with diverse characteristics (age, sex, nationality, occupation, position, workstyle, etc.) and values, recognize each other and build an environment where each employee can demonstrate their respective abilities.

Moreover, our company has been promoting personnel based on the individual, placing importance on their ability and achievements, regardless of sex or nationality. We believe that respecting diverse viewpoints and values is vital for the realization of sustainable growth and the improvement of corporate value, and alongside proactive recruitment of human resources with different experiences, skills, and careers, we are developing a workplace environment that allows such personnel to flourish.

[2] Promotion of women to managerial positions

Our company views the empowerment of women as one of management challenges. In order to promote diversity, we have forged ahead with various initiatives for achieving further growth of female employees by implementing measures such as support for the career development of women and endeavors for expanding the range of work where women can participate in addition to improving the ratio of female employees in recruitment and creating an environment easy for women to work in. We will keep upholding our policy to forge ahead with further initiatives in order to become a company where women can achieve their full potential. Moreover, while the current ratio of female employees in our company is 21%, our goal is to increase it to 23% by FY2024 and to 25% by FY2030.

Regarding the promotion of women to managerial positions, the current ratio of women in managerial positions is 1.07% and there is a difference between men and women in regard to promotion to positions that involve decision-making, such as managerial positions. Our company views this as an item to be addressed. From now on, we plan to gradually raise the ratio of women in managerial positions, to 10% by FY2024, 16% by FY2027 and 20% by FY2030 through steady implementation of measures concerning the promotion of women to managerial positions in regard to female mid-career recruits, etc. in addition to engaging in initiatives to bring more women to leadership positions (semi-managerial positions), which also form the pool for the next managerial position candidates, by enriching the education and development of female employees, alongside further promotion of the recruitment of female employees.

[3] Promotion of foreign nationals to managerial positions

In order to accurately grasp different demands of various customers and quickly provide quality products and services, our company group has developed bases for manufacturing and sales in 18 countries, including Japan. Moreover, foreign employees working at bases other than Japan account for 55.2% of all of our company group's employees.

However, while our company has been putting efforts into the recruitment of mid-career recruits and new graduates of foreign nationalities since FY2015, the average number of recruited foreign employees in the last five years is 3.8 and the overall ratio of foreign employees stands at 2% as of the end of FY2021. In this situation, we have not quite reached the point where we could set a goal for the promotion of foreign nationals to managerial positions and our company recognizes this as a task to be addressed. From now on, we shall consider the promotion of foreign employees to managerial positions in the process of forging ahead with the recruitment of even more foreign employees.

Furthermore, it is our company's policy to place importance on further acceleration of the business globalization, promote the localization of the operation spreading into the whole world and proceed with streamlining of business from the perspective of total optimization, toward FY2030. In order to accomplish this, we shall proactively promote the communication between human resources beyond the barriers of countries and regions and aim for realizing a globally optimal utilization of human resources alongside promoting outstanding personnel in each region who have a good understanding of the particular region's characteristics, regardless of the nationality, race, sex, etc., based on the KITZ Global HR Policy.

[4] Promotion of mid-career recruits to managerial positions

The ratio of promotion of mid-career recruits to managerial positions already stands at 45%. Therefore, we shall engage in initiatives in order to maintain the current ratio.

【Supplementary Principle-1③】 Initiatives Concerning Sustainability (Investment in Human Capital, Investment in Intellectual Property, and Climate Change Risks)

Upgrading the quality and quantity of information disclosure based on frameworks such as TCFD

[1]Initiatives concerning the promotion of sustainability

Our company believes that sustainability management is important in order to realize both sustainable development of the society and mid-to long-term growth of our company group, and tackling challenges concerning ESG (environment, society, governance) can bring about an impulse for creating new corporate value. With regard to promoting sustainability management, our company has established Basic Policy for Sustainability and Sustainability Slogan, and based on them, we have set ten themes for our activities and specified important challenges with high priority, which should especially be addressed.

Moreover, regarding the system for promoting sustainability, we have set up Corporate Committee for the Promotion of Sustainability, where the head of the Management Planning Dept. serves as committee chairman, and the executives of our company as well as Presidents of the domestic group companies are involved as permanent members, alongside establishing Group for the Promotion of Sustainability within the Management Planning Dept.

The objective of the Corporate Committee for the Promotion of Sustainability is to powerfully boost sustainability management in the whole group by sharing priority challenges as well as KPIs (key performance indicators) concerning respective challenges, reflecting them on the formulation of KPIs in each company and corrections of the plan.

[2]Investment in human capital, intellectual property, etc.

Our company is in the process of formulating the next KITZ Group Long-term Management Vision and Mid-term management plan of the company group and plans to announce them in February 2022. With regard to the mid-term management plan, which is currently being formulated, we intend to incorporate quantitative targets concerning growth potential, profitability, capital efficiency and dividend payout ratio as well as the allotment of management resources including investment in human capital, research and development and intellectual property, and strategies regarding the business portfolio as a step towards growth for realizing our long-term management vision.

[3]Impact on business activities, income, etc. of the company brought about by risks and opportunities for gaining income related to climate changes

Our company set a mid-term environmental goal regarding the reduction of emissions of greenhouse gases such as CO₂ by 2030, outlined below, in FY2021. In order to upgrade gradual disclosure of information concerning the impact of climate changes on business activities in terms of financial affairs alongside quicker realization of the relevant mid-term environmental goals, we expressed our approval of the TCFD (Task Force on Climate-related Financial Disclosures) proposal in December 2021.

Consequently, our policy is to conduct analysis based on data and upgrade the quality and quantity of information disclosure in step with TCFD, in addition to grasping risks and opportunities related to climate changes.

1. Governance

Our company formulated Long-Term Environmental Vision in 2021, based on the philosophy of the Group Environment Management. The progress and accomplishments regarding the mid-term management plan, long-term environmental vision and the main items of the disclosed environmental goals are checked at a management meeting involving the executives, with decisions passed on the direction, challenges, and especially important measures. In addition, especially important items are discussed with the board of directors, who then deliberate and pass the decision.

2. Strategy

Our company recognizes the importance of the consideration of risks and opportunities related to climate changes using future environmental changes (scenario) and the resiliency of our strategies.

A working group conducted a qualitative analysis of risks and opportunities of our important businesses related to climate changes in regard to the influence and impact of climate changes on management strategy, business, and financial affairs in FY2021, while taking into consideration the long-term environmental vision based on the long-term management vision, and made an evaluation at a management meeting, while taking into account the results of this analysis.

It is our company's policy to build a mechanism for evaluating and managing risks related to climate changes, use a scenario of future environmental changes based on data analysis and upgrade the quality and quantity of information disclosed in step with the TCFD proposal, alongside considering risks and opportunities related to climate changes and inspecting the resiliency of our company's strategies.

Moreover, as information regarding the way of addressing climate changes is disclosed on our website, please see it.

https://www.kitz.co.jp/environment/en/env_warming.html

3. Risks and management

The process consists of an in-house working group analyzing risks and opportunities related to climate changes in regard to important businesses, evaluating these analysis results at a management meeting and formulating/implementing measures as well as grasping the results thereof. From now on, we shall rebuild the mechanism for evaluating and managing risks related to climate changes and use future environmental changes (scenario) to disclose countermeasures and the influence on financial affairs.

4. Indicators and goal

Regarding the mid-term environmental goal of reducing the emissions of greenhouse gases such as CO₂ by 2030 set by our company group, we are aiming for a production system that is both efficient and environment-friendly, intending to achieve a 90% reduction in the domestic group companies by 2030 with the year 2013 being the reference year, and decreasing the energy consumption rate as well as the output level of CO₂ respectively at our overseas manufacturing bases.

【Principle 5-1】 Constructive Dialogue with Shareholders

Our company engages in following initiatives in order to promote dialogue with shareholders.

1. We nominate an executive in charge of IR in order to promote dialogue with shareholders.
2. We formulate Disclosure Policy and disclose it on our website to provide information to all shareholders and investors in a timely, accurate, impartial way.

https://www.kitz.com/english/ir/disclosure_policy.html

3. As a general rule, we hold a results briefing session targeted at institutional investors and analysts every quarter, and a company briefing session targeted at individual investors every year, with the President or executive in charge of IR taking care of the explanation. In addition, directors, including outside directors, and auditors participate if required and promote dialogue with shareholders.
4. In case of a request for an interview from a shareholder, the head of the division in charge of IR will deal with it as a general rule. Based on the intent of the interview, the number of held shares, etc., the President or the executive officer in charge of IR will take care of the interview.
5. In case of dialogue with shareholders, we appropriately manage information in order to prevent insider transactions.
6. We explain the group management vision, mid-term management plan, etc. in a way that is easy to understand.
7. In order to support dialogue with shareholders, we work toward an organic cooperation of the PR/IR Group, Management Planning Department, Accounting Department, Sustainability Promotion Group, General Affairs and HR Department, Legal Department, etc. as required.
8. We regularly report the opinions, requests, etc. earned from dialogue with institutional investors and analysts to the President and the executive officer in charge of IR. The President reports the contents thereof at the board of directors meeting as well as management meeting as required and utilizes them in improving management.
9. We disclose IR information regarding management information, shares, general meetings of shareholders, etc. on our website in addition to settlement information such as financial statements and Annual Securities Reports.
10. We organize the information on the shareholder structure every year at the end of June and the end of December.

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