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Securities identification code: 6498
June 10, 2020

To our shareholders:

Yasuyuki Hotta
President and Chief Executive Officer
KITZ Corporation
1-10-1 Nakase, Mihama-ku, Chiba-shi, Chiba

NOTICE OF THE 106TH ORDINARY GENERAL MEETING OF SHAREHOLDERS

You are cordially invited to attend the 106th Ordinary General Meeting of Shareholders of KITZ Corporation (the “Company”), which will be held as described below.

If you are unable to attend the Meeting, you may exercise your voting rights in writing or by electromagnetic means (Internet). Please indicate your approval or disapproval of the proposals after reviewing the attached Reference Documents for the General Meeting of Shareholders no later than 6:00 p.m., Friday, June 26, 2020 (Japan Standard Time).

1. Date and Time: Monday, June 29, 2020 at 10:00 a.m. (Japan Standard Time)

(Reception start time: 9:00 a.m.)

2. Venue: Hotel New Otani Makuhari, 2F, Tsuru West Room
2-120-3, Hibino, Mihama-ku, Chiba-shi, Chiba

3. Purposes:

Items to be reported:

1. Business Report and Consolidated Financial Statements for the 106th Term (from April 1, 2019 to March 31, 2020), as well as the results of audit of the Consolidated Financial Statements by the Accounting Auditor and the Audit & Supervisory Board
2. Non-Consolidated Financial Statements for the 106th Term (from April 1, 2019 to March 31, 2020)

Items to be resolved:

Proposal 1: Partial amendments to the Articles of Incorporation

Proposal 2: Election of eight (8) Directors

Proposal 3: Election of one (1) Audit & Supervisory Board Member

Reference Documents for the General Meeting of Shareholders

Proposal 1: Partial amendments to the Articles of Incorporation

(1) Reason for amendments

The Company has set its fiscal year as from April 1 of each year through March 31 of the following year. To further strengthen its management structure as a global company by standardizing when Group companies, including overseas subsidiaries, close their books and thus improve transparency of business management, by understanding and disclosing the performance of the entire Group in timely and accurate manner, the Company will change its fiscal year to from January 1 through December 31 of each year.

To this end, the Company proposes to partially amend Article 12 (Record Date), Article 13 (Convocation), Article 40 (Fiscal Year), and Article 42 (Record Date for Dividends of Surplus) of the current Articles of Incorporation. The Company will establish a supplementary provision, a provisional measure, that sets the 107th fiscal year as the nine months from April 1 through December 31, 2020.

(2) Details of the amendments

Details of the amendments are as follows:

(The amended parts are underlined.)

(Current Articles of Incorporation)	(Proposed Amendments)
<p>Chapter 2 Shares</p> <p>(Record Date)</p> <p>Article 12.</p> <ol style="list-style-type: none">1. The Company shall designate shareholders with voting rights listed or recorded in the last shareholders registry as of <u>March</u> 31 of each year as shareholders who can exercise voting rights at the Annual General Meeting of Shareholders for that fiscal year under review.2. In addition to the preceding paragraph, the Company may, when necessary, set the record date on a special basis by the resolution of the Board of Directors and announcing it in advance in order to determine parties who can exercise rights as shareholders or registered pledgees of shares. <p>Chapter 3 General Meeting of Shareholders</p> <p>(Convocation)</p> <p>Article 13.</p> <ol style="list-style-type: none">1. An Ordinary General Meeting of Shareholders shall be convened in <u>June</u> of each year, and an Extraordinary General Meeting of Shareholders shall be convened at any time when necessary.2. General Meetings of Shareholders shall be convened by the Director and President in line with the resolution of the Board of Directors. However, when the Director and President is unable to do so, General Meeting of Shareholders shall be convened by another Director in the order stipulated in advance by the Board of Directors.	<p>Chapter 2 Shares</p> <p>(Record Date)</p> <p>Article 12.</p> <ol style="list-style-type: none">1. The Company shall designate shareholders with voting rights listed or recorded in the last shareholders registry as of <u>December</u> 31 of each year as shareholders who can exercise voting rights at the Annual General Meeting of Shareholders for that fiscal year under review.2. (Unchanged) <p>Chapter 3 General Meeting of Shareholders</p> <p>(Convocation)</p> <p>Article 13.</p> <ol style="list-style-type: none">1. An Ordinary General Meeting of Shareholders shall be convened in <u>March</u> of each year, and an Extraordinary General Meeting of Shareholders shall be convened at any time when necessary.2. (Unchanged)

(Current Articles of Incorporation)	(Proposed Amendments)
<p>Chapter 7 Accounting (Fiscal Year)</p> <p>Article 40.</p> <ol style="list-style-type: none"> 1. The fiscal year of the Company shall be from <u>April</u> 1 of each year through <u>March</u> 31 of <u>the following year</u>. <p>(Record Date for Dividends of Surplus)</p> <p>Article 42.</p> <ol style="list-style-type: none"> 1. The record date for the year-end dividends of the Company shall be <u>March</u> 31 of each year. 2. The record date for the interim dividends of the Company shall be <u>September</u> 30 of each year. 3. In addition to the preceding paragraphs, the Company may pay dividends of surplus by setting a record date. <p><Newly established></p> <p><Newly established></p> <p><Newly established></p> <p><Newly established></p>	<p>Chapter 7 Accounting (Fiscal Year)</p> <p>Article 40.</p> <ol style="list-style-type: none"> 1. The fiscal year of the Company shall be from <u>January</u> 1 through <u>December</u> 31 of each year. <p>(Record Date for Dividends of Surplus)</p> <p>Article 42.</p> <ol style="list-style-type: none"> 1. The record date for the year-end dividends of the Company shall be <u>December</u> 31 of each year. 2. The record date for the interim dividends of the Company shall be <u>June</u> 30 of each year. 3. (Unchanged) <p><u>Supplementary Provisions</u></p> <p><u>Article 1.</u> <u>Notwithstanding Article 40, the 107th fiscal year shall be the nine months from April 1 through December 31, 2020.</u></p> <p><u>Article 2</u> <u>Notwithstanding Article 42, the record date for the interim dividends for the 107th fiscal year shall be September 30, 2020.</u></p> <p><u>Article 3.</u> <u>Article 1 to this article of the supplementary provisions shall be deleted after the 107th fiscal year.</u></p>

Proposal 2: Election of eight (8) Directors

At the conclusion of this Ordinary General Meeting of Shareholders, the terms of office of all seven (7) existing Directors will expire. Therefore, the Company requests the election of eight (8) Directors, including an additional Outside Director to enhance the effectiveness in the management supervision function of the Board of Directors.

The candidates for Directors are as follows:

Name Candidate No.	Name	Current position and responsibilities		Attendance at Board of Directors' meetings
1	Yasuyuki Hotta	President and Chief Executive Officer of the Company	Reelection Tenure as Director: 13 years	100% 16/16 meetings
2	Toshiaki Natori	Director, Vice-President and Senior Executive Officer Division Manager, Corporate Planning Division, General Manager, Smart Aquaculture Development Department, Supervisor of related businesses (Brass Bar Manufacturing business, service business)	Reelection Tenure as Director: 9 years	100% 16/16 meetings
3	Toshiyuki Murasawa	Director, Managing Executive Officer Division Manager, Corporate Administration Division, Supervisor of the Internal Audit Office, ESG and the Group's risk management	Reelection Tenure as Director: 4 years	93% 15/16 meetings
4	Makoto Kohno	Director, Managing Executive Officer Division Manager, Flow Control Business Unit	Reelection Tenure as Director: 1 year	100% 10/10 meetings
5	Kazuyuki Matsumoto	Outside Director	Reelection Outside Independent Tenure as Director: 7 years	100% 16/16 meetings
6	Minoru Amoh	Outside Director	Reelection Outside Independent Tenure as Director: 5 years	100% 16/16 meetings
7	Yutaka Fujiwara	Outside Director	Reelection Outside Independent Tenure as Director: 3 years	100% 16/16 meetings
8	Yukino Kikuma	—	New candidate Outside —	—

Note: Attendance for Makoto Kohno is that since assuming office as Director on June 25, 2019.

Candidate No.	Name (Date of birth)	Career summary, position and responsibilities (significant concurrent positions outside the Company)		Number of the Company's shares owned
1	<p>Yasuyuki Hotta (June 18, 1955)</p> <p>Reelection</p> <p>Tenure as Director: 13 years</p> <p>Attendance at Board of Directors' meetings 16/16 meetings</p>	Mar. 1978	Joined the Company	
		Jan. 1997	Branch Manager, Chubu Branch, Sales Division of the Company	
		Apr. 2001	Plant Manager, Nagasaka Plant of the Company	
		Oct. 2001	Managing Executive Director, KITZ SCT Corporation	
		June 2004	Representative Director and President, KITZ SCT Corporation	
		Apr. 2006	Managing Executive Officer, General Manager, Flow Control Business Division of the Company	
		Apr. 2007	Senior Executive Officer, General Manager, Flow Control Business Division of the Company	
		June 2007	Director, Senior Executive Officer, General Manager, Flow Control Business Division of the Company	
		June 2008	President and Chief Executive Officer, General Manager, Flow Control Business Division of the Company	
		Apr. 2009	President and Chief Executive Officer of the Company (present position)	
<p>[Reasons for nomination as candidate for Director]</p> <p>Since being named President and Chief Executive Officer of the Company in 2008, Yasuyuki Hotta has led the Group's endeavor to enhance its corporate value by vigorously promoting the globalization of the Group as well as the improvement of corporate governance to realize sound and transparent management. The Company has determined that he can be instrumental to improvements in management supervision and execution, the function of the Board of Directors of the Company to make important decisions, and its management supervision function, drawing on his strong management decision-making capability based on abundant insight and experience, to meet the expectations of all stakeholders, as well as contribute to the further enhancement of the corporate value of the Group.</p>				

Candidate No.	Name (Date of birth)	Career summary, position and responsibilities (significant concurrent positions outside the Company)		Number of the Company's shares owned
2	<p style="text-align: center;">Toshiaki Natori (January 20, 1957)</p> <p style="text-align: center;">Reelection</p> <p style="text-align: center;">Tenure as Director: 9 years</p> <p style="text-align: center;">Attendance at Board of Directors' meetings 16/16 meetings</p>	<p>Mar. 1980 Joined the Company</p> <p>Oct. 1999 Plant Manager, Chino Plant, Production Division of the Company</p> <p>Apr. 2004 Managing Executive Director, KITZ Metal Works Corporation</p> <p>July 2009 Representative Director and President, KITZ Metal Works Corporation</p> <p>Apr. 2010 Executive Officer, Division Manager, Production Division of the Company</p> <p>June 2011 Director, Executive Officer, Division Manager, Production Division, Supervisor of the NEW KICS Center of the Company</p> <p>Apr. 2012 Director, Managing Executive Officer, Division Manager, Production Division, Supervisor of the NEW KICS Center of the Company</p> <p>Apr. 2013 Director, Managing Executive Officer, Unit General Manager, Flow Control Business Unit, Division Manager, NEW KICS Center</p> <p>Apr. 2014 Director, Senior Executive Officer, Unit General Manager, Flow Control Business Unit, Division Manager, NEW KICS Center</p> <p>Apr. 2017 Director, Senior Executive Officer, Unit General Manager, Flow Control Business Unit of the Company</p> <p>Apr. 2019 Director, Vice-President, Executive Officer, General Manager, Sales Strategy Office for Commercial Valves in Asia</p> <p>Apr. 2020 Director, Vice-President, Executive Officer, Division Manager, Corporate Planning Division, General Manager, Smart Aquaculture Development Division, Supervisor of related businesses (Brass Bar Manufacturing business, service business) (present position)</p>	39,300 shares	
<p>[Reasons for nomination as candidate for Director]</p> <p>Having held important positions within the Group, including Executive Officer in charge of production divisions, Representative Director of a domestic Group company, and Director of overseas Group companies, Toshiaki Natori has contributed to the sustained enhancement of corporate value through exemplary manufacturing practices. In addition, he is expected to push vigorously forward with efforts to achieve the medium-term management plan as the officer in charge of the corporate planning area from FY2020, after having established a foothold for full-fledged introduction of our products to ASEAN markets planned in the medium-term management plan in FY2019. The Company has determined that he can leverage his abundant experience and performance record in the formulation and deliberation of management strategies and the supervision of business execution at the Board of Directors, as well as contribute to the further enhancement of the corporate value of the Group.</p>				

Candidate No.	Name (Date of birth)	Career summary, position and responsibilities (significant concurrent positions outside the Company)		Number of the Company's shares owned
3	<p>Toshiyuki Murasawa (February 9, 1959)</p> <p>Reelection</p> <p>Tenure as Director: 4 years</p> <p>Attendance at Board of Directors' meetings 15/16 meetings</p>	<p>Mar. 1981 Joined the Company</p> <p>Apr. 2001 General Manager, Corporate Planning Dept. of the Company</p> <p>Apr. 2009 Executive Officer, General Manager, Corporate Planning Dept., Supervisor of Publicity and IR Promotion Office and related businesses of the Company</p> <p>Oct. 2011 Executive Officer, Division Manager, Corporate Planning Division of the Company</p> <p>Apr. 2014 Executive Officer, Division Manager, Corporate Planning Division, Supervisor of related businesses (Brass Bar Manufacturing business, service business) of the Company</p> <p>Apr. 2016 Executive Officer, Division Manager, Corporate Administration Division, Supervisor of Internal Audit Office and Group's risk management of the Company</p> <p>June 2016 Director, Executive Officer, Division Manager, Corporate Administration Division, Supervisor of Internal Audit Office and Group's risk management of the Company</p> <p>June 2017 Director, Executive Officer, Division Manager, Corporate Administration Division, Supervisor of Internal Audit Office, internal controls, and Group's risk management of the Company</p> <p>Apr. 2019 Director, Managing Executive Officer, Division Manager, Corporate Administration Division, Supervisor of Internal Audit Office, internal controls, ESG and Group's risk management of the Company (present position)</p>		
<p>[Reasons for nomination as candidate for Director]</p> <p>Having held important positions within the Group, including Director and Executive Officer in charge of the corporate planning and administrative divisions and Director of domestic and overseas Group companies, Toshiyuki Murasawa contributed to the sustained enhancement of corporate value through the formulation and execution of business strategies of the Group based on the globalization of our businesses and the promotion of human resource development and diversity to be competitive in the global market. The Company has determined that he can leverage his abundant experience and performance record in the formulation and deliberation of management strategies and the supervision of business execution at the Board of Directors, as well as contribute to the further enhancement of the corporate value of the Group.</p>				

Candidate No.	Name (Date of birth)	Career summary, position and responsibilities (significant concurrent positions outside the Company)		Number of the Company's shares owned
4	<p>Makoto Kohno (March 10, 1966)</p> <p>Reelection</p> <p>Tenure as Director: 1 year</p> <p>Attendance at Board of Directors' meetings 10/10 meetings</p>	<p>Apr. 1988 Joined the Company</p> <p>Aug. 2008 General Manager, Project Sales Dept., International Sales Division, Flow Control Business Division of the Company</p> <p>Dec. 2011 General Manager, Project Division of the Company</p> <p>Apr. 2013 General Manager, Production Control Dept., Production Division, Flow Control Business Unit of the Company</p> <p>Apr. 2015 General Manager, Business Planning Dept., Flow Control Business Unit of the Company</p> <p>Apr. 2016 Executive Officer, Division Manager, Corporate Planning Division, Supervisor of related businesses (Brass Bar Manufacturing business, service business) of the Company</p> <p>Apr. 2017 CEO & Managing Director, KITZ Corporation of Asia Pacific Pte. Ltd., Managing Director, KITZ Valve & Actuation Singapore Pte. Ltd.</p> <p>Apr. 2019 Director, Managing Executive Officer, Division Manager, Flow Control Business Unit of the Company</p> <p>June 2019 Director, Managing Executive Officer, Division Manager, Flow Control Business Unit (present position)</p>		
<p>[Reasons for nomination as candidate for Director]</p> <p>Makoto Kohno has experience as the officer in charge of corporate planning area and an executive of overseas Group companies, after having been in charge of the operations for sales and production divisions of the Valve Manufacturing business. In addition, he has pushed vigorously forward the Valve business as the officer in charge of Flow Control Business Unit since FY2019, and is expected to be able to make major contributions to achieving the medium-term management plan and thus contribute to the further enhancement of the corporate value of the Group. The Company has determined that he can leverage his abundant experience and performance record in the formulation and deliberation of management strategies and the supervision of business execution at the Board of Directors and thereby contribute to the further enhancement of the corporate value of the Group.</p>				

Candidate No.	Name (Date of birth)	Career summary, position and responsibilities (significant concurrent positions outside the Company)		Number of the Company's shares owned
5	Kazuyuki Matsumoto (September 21, 1945) Reelection Outside Independent Tenure as Outside Director: 7 years Attendance at Board of Directors' meetings 16/16 meetings	Apr. 1970 Joined Teijin Seiki Co., Ltd. (currently Nabtesco Corporation) June 2001 Director, Teijin Seiki Co., Ltd. Sept. 2003 Executive Officer, Nabtesco Corporation June 2004 Director, Nabtesco Corporation June 2005 Representative Director, President & CEO, Nabtesco Corporation June 2011 Chairman, Nabtesco Corporation (retired in June 2013) June 2013 Outside Director, TOPCON CORPORATION (present position) Outside Director of the Company (present position) [Significant concurrent positions] Outside Director, TOPCON CORPORATION	6,100 shares	
[Reasons for nomination as candidate for Outside Director] Kazuyuki Matsumoto has long been active as an executive of Nabtesco Corporation and, in addition to having rich experience as an executive, has broad insights on technical strategies. As an Outside Director of the Company, he has properly supervised the Group's management from an objective, independent, and fair standpoint since June 2013. Recognizing his outstanding experience and skills, the Company has nominated him as a candidate for Outside Director again to continue to seek his supervision and advice based on his knowledge.				
6	Minoru Amoh (December 9, 1951) Reelection Outside Independent Tenure as Outside Director: 5 years Attendance at Board of Directors' meetings 16/16 meetings	Apr. 1979 Joined Du Pont Far East, Inc. Japan Representative Office (currently DuPont Kabushiki Kaisha) Mar. 2000 Director, DuPont Kabushiki Kaisha Mar. 2002 Managing Executive Director, DuPont Kabushiki Kaisha Mar. 2004 Senior Executive Director, Regional Director, Asia-Pacific Region, Engineering Polymer Business Division, DuPont Kabushiki Kaisha July 2005 Director, Vice President, DuPont Kabushiki Kaisha Sept. 2006 Representative Director, President, DuPont Kabushiki Kaisha Jan. 2013 Representative Director, Chairman, DuPont Kabushiki Kaisha, President, DuPont Asia Pacific Limited Sept. 2014 Honorary Chairman, DuPont Kabushiki Kaisha (retired in March 2016) June 2015 Outside Director of the Company (present position) Mar. 2016 Statutory Auditor, Otsuka Chemical Co., Ltd. Mar. 2019 Outside Director, Otsuka Chemical Co., Ltd. (present position) [Significant concurrent positions] Outside Director, Otsuka Chemical Co., Ltd.	3,800 shares	
[Reasons for nomination as candidate for Outside Director] Minoru Amoh has long been active as an executive of Du Pont Kabushiki Kaisha, a group company of a multinational enterprise, and has excellent insight based on his rich experience corporate management. As an Outside Director of the Company, he has properly supervised the Group's management from an objective, independent, and fair standpoint since June 2015. Recognizing his outstanding experience and skills, the Company has nominated him as a candidate for Outside Director again to continue to seek his supervision and advice based on his knowledge.				

Candidate No.	Name (Date of birth)	Career summary, position and responsibilities (significant concurrent positions outside the Company)		Number of the Company's shares owned
7	<p style="text-align: center;">Yutaka Fujiwara (April 20, 1951)</p> <p style="text-align: center;">Reelection Outside Independent</p> <p style="text-align: center;">Tenure as Outside Director: 3 years</p> <p style="text-align: center;">Attendance at Board of Directors' meetings 16/16 meetings</p>	<p>Apr. 1974 Joined MODEC, Inc. (retired in Oct. 1987)</p> <p>Nov. 1987 Joined The Yasuda Trust & Banking Co., Ltd. (currently Mizuho Trust & Banking Co., Ltd.)</p> <p>Aug. 1994 Deputy General Manager, New York Branch, Yasuda Trust & Banking Co., Ltd.</p> <p>June 1996 General Manager, Chicago Branch, Yasuda Trust & Banking Co., Ltd. (retired in July 1998)</p> <p>Aug. 1998 Joined OMRON Corporation</p> <p>June 2005 Executive Officer, General Manager, Financial IR Department, OMRON Corporation</p> <p>Mar. 2007 Executive Officer, General Manager, Group Strategy Department, OMRON Corporation</p> <p>June 2008 Managing Executive Officer, General Manager, Group Strategy Department, OMRON Corporation</p> <p>Dec. 2008 Managing Executive Officer, General Manager, IR & Corporate Information Department, OMRON Corporation (retired in June 2011)</p> <p>June 2013 Outside Director, Nabtesco Corporation (present position)</p> <p>June 2017 Outside Director of the Company (present position)</p> <p>[Significant concurrent positions] Outside Director, Nabtesco Corporation</p>	3,600 shares	
<p>[Reasons for nomination as candidate for Outside Director]</p> <p>Having held branch general manager's positions at overseas branches of a financial institution, Yutaka Fujiwara served as an Executive Officer in charge of finance, IR, and group strategy at OMRON Corporation, a company that has global business operations, and has excellent insight on business administration from a global perspective. As an Outside Director of the Company, he has properly supervised the Group's management from an objective, independent, and fair standpoint since June 2017. Recognizing his outstanding experience and skills, the Company has nominated him as a candidate for Outside Director again to continue to seek his supervision and advice based on his knowledge.</p>				

Candidate No.	Name (Date of birth)	Career summary, position and responsibilities (significant concurrent positions outside the Company)		Number of the Company's shares owned
8	<p>Yukino Kikuma (March 5, 1972)</p> <p>New candidate Outside</p> <p>Tenure as Director: –</p> <p>Attendance at Board of Directors' meetings</p> <p>–</p>	<p>Apr. 1995</p> <p>Dec. 2011</p> <p>Jan. 2012</p> <p>Dec. 2014</p> <p>June 2018</p> <p>May 2020</p> <p>–</p>	<p>Joined Fuji Television Network, Inc. (retired in Dec. 2007)</p> <p>Registered as an attorney at law</p> <p>Joined MATSUO & KOSUGI (present position)</p> <p>Outside Director, Noevir Holdings Co., Ltd. (retired in Dec. 2017)</p> <p>External Director, KOSÉ Corporation (present position)</p> <p>Outside Director, Takihyo Co., Ltd. (present position)</p> <p>[Significant concurrent positions] Attorney, MATSUO & KOSUGI, External Director, KOSÉ Corporation, Outside Director, Takihyo Co., Ltd.</p>	–

[Reasons for nomination as candidate for Outside Director]

Yukino Kikuma gained experience with media and other operations as an announcer at a TV station, after which she has played an active role as an attorney in a wide range of fields, including dispute resolution (various types of lawsuits, non-litigation cases, and preservation cases, etc.), corporate legal affairs (labor, governance, risk management, and scandal response, etc.), entertainment, and criminal issues (family and juvenile cases, etc.).

She has not been involved in company management, except as an outside director in the past. However, the Company judges that she will be able to contribute to enhancing the corporate value of the Group, by utilizing her sufficient insight and broad experience related to corporate governance, to further strengthen the decision making and supervision of the Board of Directors.

Notes:

1. There is no special interest between the candidates Yasuyuki Hotta, Toshiaki Natori, Toshiyuki Murasawa, Makoto Kohno, Kazuyuki Matsumoto, Minoru Amoh, and Yutaka Fujiwara and the Company.
2. The Company has concluded a legal counsel agreement with MATSUO & KOSUGI, a law office that the candidate Yukino Kikuma is an attorney at. Although MATSUO & KOSUGI conducts business with the Company based on that legal counsel agreement, the total amount of fees (consulting fees, legal advising fees, etc.) that the Company has paid to the law office is immaterial, less than 1% of the Company's average annual consolidated net sales over the past three fiscal years.
3. Kazuyuki Matsumoto, Minoru Amoh, Yutaka Fujiwara, and Yukino Kikuma are candidates for Outside Director.
4. Kazuyuki Matsumoto, Minoru Amoh and Yutaka Fujiwara meet the requirements of The Company's "Criteria for Determining the Independence of Outside Officers" (on page 13). Also, Kazuyuki Matsumoto, Minoru Amoh and Yutaka Fujiwara are Independent Officers pursuant to the regulations of the Tokyo Stock Exchange and they will continue to be Independent Officers if they are reelected as Directors.
5. The Company has, according to the stipulations of Article 427, Paragraph 1 of the Companies Act, provisions in the Articles of Incorporation stating that an agreement can be concluded with Directors (excluding persons who are Executive Directors) limiting their liability under Article 423, Paragraph 1 of the same Act if that Director has undertaken his/her duties in good faith and does not commit any gross errors. Based on the concerned agreements, the amount of liability is limited to five (5) million yen or the amount prescribed by laws and regulations, whichever is higher. The Company has concluded this agreement with Kazuyuki Matsumoto, Minoru Amoh and Yutaka Fujiwara and if this proposal is approved as proposed, the Company intends to continue this agreement with the candidates and to newly enter into a similar agreement with Yukino Kikuma.
6. Yukino Kikuma's name on her family register is Yukino Yoshida.

Proposal 3: Election of one (1) Audit & Supervisory Board Member

At the conclusion of this Ordinary General Meeting of Shareholders, the term of office of Audit & Supervisory Board Member Masahiko Kondo will expire. Therefore, the Company requests the election of one (1) Audit & Supervisory Board Member.

The Audit & Supervisory Board has given its consent to this proposal.

The candidate for Audit & Supervisory Board Member is as follows:

Name (Date of birth)	Career summary and position (significant concurrent positions outside the Company)		Number of the Company's shares owned
Masahiko Kondo (September 8, 1952) Reelection Tenure as Director: 4 years Attendance at Board of Directors' meetings 16/16 meetings Attendance at meetings of the Audit & Supervisory Board 15/15 meetings	Aug. 1977 July 2000 Apr. 2004 Apr. 2010 June 2012 Apr. 2014 June 2016	Joined the Company General Manager, General Administration and Human Resource Department of the Company Executive Officer, General Manager, General Administration and Human Resource Department, Supervisor of labor, environment safety, Publicity and IR Promotion Office of the Company Executive Officer, Deputy Division Manager, Corporate Administration Division, Supervisor of General Administration and Human Resource Department, environment safety and Group's risk management of the Company Director, Executive Officer, Division Manager, Corporate Administration Division, Supervisor of Internal Audit Office and Group's risk management of the Company Director, Managing Executive Officer, Division Manager, Corporate Administration Division, Supervisor of Internal Audit Office and Group's risk management of the Company Standing Audit & Supervisory Board Member of the Company (present position)	35,100 shares

[Reasons for nomination as candidate for Audit & Supervisory Board Member]

Having been in charge of the operations for production division and quality assurance division, Masahiko Kondo has been involved in the management of the Company as a Director in charge of the corporate administration areas which bring the Group companies together, and has pushed vigorously forward the strengthening of the management structure and building of the Group's risk management system, and has excellent insight into corporate administration. As a Standing Audit & Supervisory Board Member, he has also properly supervised the Group's management from an objective and fair standpoint since June 2016. Recognizing his experience and excellent skills, the Company has determined that he will be instrumental to improvements in the supervision of the Board of Directors' decision making and Directors' execution of duties as well as the supervision and verification of the Accounting Auditor's execution of duties, and has nominated him as a candidate for Audit & Supervisory Board Member again.

Notes: 1. There is no special interest between the candidate Masahiko Kondo and the Company.

2. The Company has, according to the stipulations of Article 427, Paragraph 1 of the Companies Act, provisions in the Articles of Incorporation stating that an agreement can be concluded with Audit & Supervisory Board Members limiting their liability under Article 423, Paragraph 1 of the same Act if that Audit & Supervisory Board Member has undertaken his/her duties in good faith and does not commit any gross errors. Based on the concerned agreements, the amount of liability is limited to five (5) million yen or the amount prescribed by laws and regulations, whichever is higher. The Company has concluded this agreement with the candidate and if this proposal is approved as proposed, the Company intends to continue this agreement with the candidate.

(Reference) Criteria for Determining the Independence of Outside Officers

The Company will deem an “Outside Officer” (a person who holds the position of Outside Director or Audit & Supervisory Board Member) to be independent if none of the following applies to him/her:

1. a person who serves the Company or a subsidiary of the Company (collectively, the “Group”) as a “business executive” (meaning an executive director, executive officer, corporate adviser, or in a position equivalent to officer, or other employee, hereinafter the same) or who has served the Group as a business executive in the past 10 years;
2. a party for whom the Group is a major client (meaning a party that supplies products or services to the Group with the transaction amount paid by the Group being equivalent to 2% or more of its consolidated annual sales for the most recent fiscal year) or a business executive thereof;
3. a party that is a major client of the Group (meaning a party to whom the Company supplies products or services with the transaction amount paid to the Group being equivalent to 2% or more of its consolidated annual sales for the most recent fiscal year) or a business executive thereof;
4. a major financial institution with which the Group has borrowings (meaning a financial institution that has lent to the Company an amount equivalent to 2% or more of the Company’s consolidated total assets for the most recent fiscal year, or the parent company or subsidiary thereof) or a business executive thereof;
5. a legal professional (such as an attorney), accounting professional (such as a certified public accountant or certified tax accountant), or corporate consultant who receives from the Group, in addition to the remuneration they may receive as a Director or Audit & Supervisory Board Member, monetary consideration exceeding ¥10 million a year or other economic benefits or, in the case that the recipient of said benefits is a corporation, association, or other organization, a trustee or other business executive thereof;
6. a person affiliated with an accounting firm that performs statutory audits of the Group;
7. a person who receives from the Group a donation or subsidy exceeding ¥10 million a year or, in the case that the recipient of said donation or subsidy is a corporation, association, or other organization, a person who serves said organization as a trustee or another business executive thereof;
8. a major shareholder of the Company (meaning a shareholder whose ratio of ownership in the Company, whether direct or indirect ownership, is 5% or more as of the end of the most recent fiscal year) or, in the case that the major shareholder is a corporation, a business executive thereof;
9. a party for whom the Group is a major investor (meaning a party in which the Group has an ownership ratio of 5% or more as of the end of the most recent fiscal year) or a business executive thereof;
10. a business executive of a company, or the parent company or a subsidiary thereof, that has accepted a director (full-time or part-time) from the Group;
11. a party that has fallen under any of the items from 2 to 10 above in the past three years; or
12. a party or a family member (meaning a spouse or a blood relative within the second degree of kinship; the same applies hereafter) of a business executive of the Group who serves as an executive director, executive officer, corporate adviser, or in a position equivalent to another officer, or a family member of a person who serves as a director, executive officer, corporate adviser, or person in a position equivalent to another officer of a party that falls under any of the items from 2 to 11 above.

Business Report for the 106th Term
(from April 1, 2019, to March 31, 2020)

1. Status of the corporate group

(1) Progress and results of operations

(i) Progress and outcomes of business activities

The global economy during the fiscal year under review continued to face many uncertainties, as the volume of trade throughout the world fell due to trade friction between the U.S. and China as well as BREXIT. The Japanese economy recorded overall lackluster performance despite firm capital expenditures in the manufacturing industry, as personal consumption declined due to the consumption tax rate hike and housing investment and exports fell.

Under such business environment, the Group developed the fourth phase of the medium-term management plan, the first year of which was the fiscal year ended March 2020, based on the long-term plan aiming for “Global Strong No. 2” in the Valve Manufacturing business in 2030, and promoted initiatives toward sustainable growth.

In the Valve Manufacturing business, in Japan the Company worked to increase market share by offering a wider range of variation of its key products (key valve types) and enhanced activities of visits to end users. In overseas market, the Company made efforts to make full-scale entry into the middle class (mid-to-low price range), establishing the Sales Strategy Office for Commercial Valves in Asia and signing a capital and business alliance agreement with Unimech Group Berhad, a leading valve manufacturer and distributor in Malaysia. In the plant market, the Company made efforts to increase earnings not only for new orders but also for the maintenance, repair and operation (MRO).

As for the Brass Bar Manufacturing business, the Company has been making investments to replace large-scale facilities since FY2018, completing construction of a new plant and started mass production in October 2019.

However, since the outbreak of the novel coronavirus disease (COVID-19) was reported in Wuhan City of Hubei Province in China, in December 2019, increases in the number of infected people in regions throughout the world have continued to be reported, and this will have a major impact on social and economic activity. There has been an impact on the Group, such as temporary shutdown of operations at several of its manufacturing bases in China, but operations at those bases had mostly returned to normal by the end of March 2020. Even in the Americas, Europe, ASEAN and India, where the Group operates, infections are spreading, which is impacting operations at some of the Group’s bases. However, because the majority of overseas Group companies close their books in December, there will be a limited impact on the Company’s earnings for the fiscal year under review.

Net sales for the fiscal year under review fell 7.0% year on year to ¥127,090 million.

In the Valve Manufacturing business, net sales fell for several reasons. There has a dramatic decline in sales of products for semiconductor production equipment in both domestic and overseas. Furthermore, in Japan, adjustments in market inventories of products for building facilities had a strong impact, and capital expenditures related to the Tokyo Olympic and Paralympic Games provided a limited boost. In overseas markets, stagnant capital expenditures in the oil & gas market due to low crude oil prices and the economic slowdown in China were also major factors. As for the Brass Bar Manufacturing business, there was a decline in sales as a result of a decrease in selling prices and contraction in sales volume due to decline in the market price for raw materials.

In terms of profit and loss, operating income fell 40.7% year on year to ¥6,950 million primarily because of a decline in sales in the Valve Manufacturing business. Ordinary income fell 39.1% year on year to ¥7,241 million, and net income attributable to owners of the parent shrank 12.2% year on year to ¥4,937 million. The result of each business segment is as follows.

a. Valve Manufacturing

For the Valve Manufacturing business, net sales declined 6.2% year on year to ¥103,114 million while operating income fell 28.9% year on year to ¥10,627 million.

As for products for semiconductor production equipment, both domestic and overseas sales entered a cyclic contraction in the fourth quarter of the previous fiscal year, and sales bottomed out in the first quarter. Although the sales has gradually recovered since the second quarter, the recovery lacked strength, and sales declined dramatically year on year. Sales of valves for industrial purposes in Japan remained firm, primarily because of maintenance demand and new orders of products used in various industries, including the food processing, chemical, and pharmaceutical industries, but for products for building facilities, there was a decline in both sales and sales volume in response to the buildup of market inventories. In overseas market, there was a decline in sales in both China and ASEAN because of trade friction between the U.S. and China, and there were no additional deliveries of products for large-scale project in the Middle East as there were the previous fiscal year.

Operating income fell for various reasons. The large decline in sales of products for semiconductor production equipment and falloff in sales volume of bronze and brass valves, key products for building facilities, had a major impact. Profitability deteriorated as a result of the Group's recording of an increase in depreciation due to the launch of a new core system, as well as the delay in the delivery of some products because of start-up problems.

b. Brass Bar Manufacturing

For the Brass Bar Manufacturing business, net sales declined 10.9% year on year to ¥21,061 million and we recorded an operating loss of ¥6 million (operating income of ¥287 million in the previous fiscal year).

The market price for copper, the main raw material for brass bars, rose slightly between November to December, 2019, but then trended down through the rest of the year. Sales volume also fell because of weak housing-related demand and other developments.

As for operating income, there was the impact of changes in the market price for raw materials, depreciation expense rose with the launch of production at a new plant in October. In addition, manufacturing costs increased as operations continued in parallel with old equipment.

c. Other

For Other businesses, net sales declined 3.7% year on year to ¥2,914 million and operating loss came to ¥11 million (operating income of ¥90 million in the previous fiscal year).

In the hotel business, in addition to decline in the number of group customers, reservation cancellations increased and the number of customers at highway service areas fell as a result of a typhoon that hit in October and the spread of COVID-19 infection in March.

Sales by business segment of the corporate group

(Units: Millions of yen)

Business Segment	105th term (FYEB March 2019)		106th term (FYEB March 2020)		Year-on-year change	
	Amount	Composition ratio (%)	Amount	Composition ratio (%)	Amount	Rate of change (%)
Valve Manufacturing	109,969	80.5	103,114	81.1	(6,854)	(6.2)
Brass Bar Manufacturing	23,643	17.3	21,061	16.6	(2,581)	(10.9)
Other	3,025	2.2	2,914	2.3	(110)	(3.7)
Total	136,637	100	127,090	100	(9,547)	(7.0)

(ii) Capital expenditures

While the Company particularly invested in new production facilities and renewals in the Valve Manufacturing business, the Company also invested in new production facilities and renewals for casting and bar production in the Brass Bar Manufacturing business. As a result, the total amount of capital expenditures (including intangible assets) reached ¥6,075 million.

(iii) Financing activities

Despite the repayment of long-term debt and the redemption of Corporate bonds, the Company raised short-term borrowings to secure cash on hand in order to respond to COVID-19. As a result, the balance of interest-bearing debt (including lease obligations) increased by ¥5,475 million year on year to ¥ 39,147 million.

(2) Assets and profit and loss in the last three fiscal years preceding the fiscal year under review

(i) Assets and profit and loss of the corporate group

(Units: Millions of yen)

Category	103rd term (FY March 2017)	104th term (FY March 2018)	105th term (FY March 2019)	106th term (FY March 2020)
Net sales	114,101	124,566	136,637	127,090
Ordinary income	8,799	9,733	11,883	7,241
Net income attributable to owners of the parent	5,400	6,518	5,625	4,937
Net income per share (yen)	51.43	65.50	58.50	53.06
Total assets	119,148	133,545	131,657	135,063
Net assets	74,892	77,391	76,829	76,879
Net assets per share (yen)	727.78	782.98	793.74	819.49

Notes:

1. Net income per share is calculated based on the average number of shares outstanding during the term. Net assets per share is calculated based on total number of shares outstanding at the end of the term. The number of shares as aforementioned does not include treasury stock.
2. The Company adopted a Board Incentive Plan (BIP) trust in the 103rd term, and the number of the Company's shares held in the trust is recorded as treasury stock in the consolidated financial statements. Therefore, for the calculation of net income per share, the said number is included in the treasury stock deducted in the calculation of the average number of shares for the term, and for the calculation of the net assets per share, the said number is included in the treasury stock deducted in the calculation of the number of shares outstanding at the end of the term.
3. Effective from the beginning of the 105th Term (fiscal year ended March 31, 2019), the Company has applied the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018). The amount of total assets for the 104th Term (fiscal year ended March 31, 2018) is an amount after the retrospective application of the Accounting Standard.

(104th term)

The Valve Manufacturing business achieved increased sales due to a significant increase in sales of products for semiconductor production equipment and firm sales for building facilities in Japan. In the Brass Bar Manufacturing business, higher sales prices due to a rise in market prices for raw materials led to a significant increase in revenue. Consequently, total net sales increased 9.2% year on year to ¥124,566 million.

In terms of profit and loss, operating income rose 13.3% year on year to ¥10,117 million following increased sales of products for semiconductor production equipment and a reduction in manufacturing costs in the Valve Manufacturing business. Ordinary income increased 10.6% year on year to ¥9,733 million. In addition to not recording an impairment loss for the head office's real estate as it did in the previous fiscal year, the Company posted a gain on sales of investment securities after continuing to sell a portion of its strategic shareholdings. As a result, net income attributable to owners of the parent increased 20.7% year on year to ¥6,518 million.

(105th term)

The Valve Manufacturing business achieved increased sales for various reasons even though growth in sales of products for semiconductor production equipment slowed in the fourth quarter. Sales of products for building facilities and products for industrial purposes in Japan were firm, and overseas sales recovered due to an increase in crude oil prices. In the Brass Bar Manufacturing business, too, revenue grew because of an increase in sales volume. Consequently, total net sales increased 9.7% year on year to ¥136,637 million.

In terms of profit and loss, operating income of the Valve Manufacturing business rose 15.8% year on year to ¥11,713 million as a result of an increase in domestic and overseas sales, manufacturing cost reduction, and the impact of price changes in Japan. In addition, ordinary income increased 22.1% year on year to ¥11,883 million, and both operating income and ordinary income hit a new high.

In April 2018, the Company purchased all the shares of Cephas Pipelines Corp., a Korean valve manufacturer that is particularly strong in the field of valves for industrial use and brought the company in the scope of consolidation from the current fiscal year. Because of a deterioration in profitability for various reasons, including a sharp slowdown in the Korean economy and a decline in sales to Korean-based plant engineering companies, major customers, the Company once again revised future cash flows and posted an impairment loss on fixed assets, mainly goodwill, of ¥2,483 million. Therefore, net income attributable to owners of the parent fell 13.7% year on year to ¥5,625 million.

(ii) Assets and profit and loss of the Company

(Units: Millions of yen)

Category	103rd term (FYE March 2017)	104th term (FYE March 2018)	105th term (FYE March 2019)	106th term (FYE March 2020)
Net sales	61,933	64,118	72,262	64,137
Ordinary income	5,098	6,506	7,609	4,681
Net income	3,768	5,445	2,985	3,645
Net income per share (yen)	35.89	54.72	31.05	39.17
Total assets	93,255	105,903	99,045	102,569
Net assets	54,977	55,769	54,079	52,962
Net assets per share (yen)	542.23	572.91	567.81	574.29

Notes: Please refer to the notes for (i) Assets and profit and loss of the corporate group.

(3) Ongoing challenges for the corporate group

In terms of the global economy in FY2020, a growth slowdown is expected as the impact of the spread of COVID-19 infection grows throughout the whole world. There is also increased uncertainty because of the impact of trade friction between the U.S. and China, BREXIT, and low crude oil prices.

As for the Japanese economy, due to the spread of COVID-19 infection, both personal consumption and corporate earnings are expected to decline significantly, and there are concerns about the impact of the postponed Tokyo Olympic and Paralympic Games.

Under these conditions, the Company will implement the following measures during this year, the second year of the fourth phase of the medium-term management plan.

(i) Reinforcing the organization

The Company will reinforce the organization in the Valve Manufacturing business in order to implement the business strategy. In overseas markets, we moved the Sales Strategy Office for Commercial Valves in Asia from Japan to Singapore, where the regional headquarters is located. By doing so, the Company will not only develop, verify, and prioritize country-specific strategies for ASEAN, but also reinforce the collaborative system with Malaysia-based Unimech, which the Company acquired approximately 25% of shares in 2019, to generate synergies through efforts such as cross-selling of each other's brands.

In the domestic market, the Company established the Business Promotion Department in order to support key account users (key end-users) for valves for industrial purposes during the whole process from capturing orders to after-service (post-order maintenance, etc.). By managing customer data in an integrated manner, the Company will position that data as a Group's shared asset, accumulate and use/leverage customer contact information, and make visible the share of customers and revenue by customer. This will be led to promoting switches to the Group products and the development of new products that meet customer needs.

In addition, the Company established the Building Utility Products Department to manage the domestic market for products for building facilities, pursue greater synergies between Toyo Valve Co., Ltd. and the Company, and play a role at all stages, not only from marketing to vendor-driven activities but also from development proposal to sales of products that meet changes in the market.

(ii) Product strategy

In the domestic market, the Company will strive to improve its sales of butterfly valves, ductile valves and automatic valves, which are positioned as key valve types in the medium-term management plan, and continue to expand market share. In addition, we will use the information about end users obtained from valve maintenance to develop new products that cater to user needs.

In overseas markets, the Company will rebuild the product strategy for global models and low cost models for emerging countries (ASEAN and India) of trunnion mounted ball valves for oil & gas. Furthermore, we will progress the development of cryogenic valves at the South Korean subsidiary Cephas Pipelines Corp., which became part of the Group in 2018, while utilizing our distribution channels and aim to increase sales of large diameter industrial butterfly valves.

For the industrial filter business, which mainly targets semiconductor manufacturing companies, the second plant of KITZ Micro Filter Corporation was completed in 2019. It will quickly build a mass production system for Polyfix, a core product, and aim to establish a stable production system.

In addition, we will conduct integrated management of the products, design drawings and parts list using PLM (Product Lifecycle Management), as a system to manage the entire lifecycle of a product, promoting the development of products that cater to the market needs and reducing costs through consolidation of products and parts.

(iii) New business initiatives

The Company entered the hydrogen refuelling station valves market, which supplies hydrogen gas as fuel to fuel cell vehicles in July 2012. The Company entered the packaged unit type hydrogen refuelling station business as a new business from April 2020 based on the forecast growth of this market. The Company established the new Hydrogen Refuelling Station Promotion Department to increase the effectiveness of these businesses.

Therefore, under our widely recognized product strategy for the Company's high functionality and reliability, we will contribute to improving the hydrogen infrastructure and dissemination of hydrogen energy, which will also lead to increased profit.

(iv) IT strategy

As our IT strategy, we will promote the visualization of global management information using data from a new core system that became operational from May 2019, digitalization of production and management of manufacturing facilities using IoT. Furthermore, we are promoting the cultivation of engineers with expertise in AI and deep learning. In addition, we established a new department to promote business reform through digital technology and are striving to maximize customer value.

In addition, in terms of working-style reforms that utilize IT technology, we will reform our communication and collaboration tools to help employees work and we will shift towards improving the efficiency of operations and added-value operations with the installation of RPA (Robotic Process Automation) that automates routine jobs.

(v) Management strategy

The accounting period is set as the fiscal year from April 1 each year to March 31 in the following year for the Company and consolidated domestic subsidiaries. We will integrate the accounting period for the Company Group with the accounting period of consolidated overseas subsidiaries that use an accounting period ending in December. To further strengthen our management structure as a global company we will change our fiscal year to be from January 1 to December 31 in each year. This will enable prompt and appropriate understanding and disclosure of performance for the entire Group and improve management transparency. The integration of the accounting period will enable the Company Group to manage global management information in real time and facilitate prompt decision making.

The personnel evaluation system will aim for globalization of human resources and organizational culture (mindset) while making step by step improvements to global talent management and the personnel evaluation system.

In terms of risk management, we will once again extract the risks for the Group starting with COVID-19, while evaluating all risk items and identifying key risks based on analysis and evaluation criteria. We will implement the measures necessary to create a structure that enables business continuity during a crisis.

(vi) ESG/SDG initiatives

The Company Group has declared strengthening ESG to be a key theme for the fourth phase of the medium-term management plan which commenced in FY2019. To achieve this, we formulated a new "sustainability commitment" and "sustainability slogan", incorporating the perspective of the "Sustainability Development Goals (SDGs)" adopted by the United Nations.

In addition, we have formulated "ESG-focused initiatives and SDG goals" which will visualize the SDGs that have strong links to the Company's important initiatives to strengthen previous initiatives, while further accelerating sustainable management. The Company will continue to pursue "what can we do" for a sustainable society as a manufacturer of flow control devices and we will strive to implement initiatives to solve social issues through our business while improving the performance of non-financial information and actively disclose information.

- ◆ Commitment "Create a society that lives together in harmony with the Earth through our fluid control businesses"
- ◆ Slogan "Create the future, Preserve the future"

ESG-focused initiatives and SDG goals

Basic items	Sub items	Specific measures	
Environment Contributing to the conservation of the global environment through business activities	1. Develop and provide environmentally conscious products and services 2. Promote reduction, reuse, and recycling of industrial waste 3. Prevent environment pollution on a group-wide and global basis	(1) Development of environmentally-friendly materials such as lead-free materials and cadmium-free materials (2) Development of disinfection and purification equipment (3) Supply products that are compliance with the RoHS directive and REACH regulation (4) Development of products that are compliant with the field of clean energy (1) Promotion of activities to reduce the volume of greenhouse gas and CO2 emissions (2) Curb emission of substances with environmental impact (1) Identify chemical products that contain toxic substances and promote alternatives (2) Visualize and address the environmental laws and regulations for each overseas office	    
Social Valuing human resources, safety, and local communities	1. Promote diversity and inclusion of human resources 2. Foster a corporate culture that values safety, health, and human rights 3. Appropriate business activities 4. Social contribution activities	(1) Introduce and consolidate a personnel system that facilitates work (2) Initiatives of equal pay for equal work (3) Promote active roles for female employees (4) Promote active roles for senior human resources (5) Appoint and develop global human resources (6) Enhance systems that support work-life balance (1) Create a work environment which is safe and healthy to work in (2) Do not act in a manner that is prejudicial, discriminatory, a violation of human rights or unjust in relation to nationality, religion, or race, etc. (1) Promote supply chain management through fair trading (2) Pursue customer satisfaction by securing quality and safety (1) Promote social contribution activities	  
Governance Fair management	1. Establish a sound corporate governance system 2. Improve management transparency and strengthen the management oversight system 3. Strengthen the effectiveness of the Board of Directors	(1) Effective operation of a Nomination Committee and an Executive Compensation Committee (2) Appoint female executives (3) Enhance internal controls (internal audit) under the Companies Act in addition to J-SOX (1) Share information by implementing the Four-Party Audit and Supervision Meeting, which adds outside directors to the Tripartite Audit Assembly (Audit & Supervisory Board, Accounting Auditor, Internal Audit Office) (2) Audit and supervision of Group companies by outside directors (3) Enhance the Internal Audit Office (1) Strengthen governance through the appointment of outside directors with wide-ranging knowledge and experience and stimulate the Board of Directors (2) Implement evaluation of the effectiveness of the Board of Directors and address issues	

(vii) Financial Measures

On the financial front, in addition to ensuring funding to promote initiatives under the medium-term management plan, the Company will ensure it has sufficient liquidity for itself as well as domestic and overseas group companies in case there is a need to urgently respond to the impact of COVID-19 by continuing to hold a large amount of cash on hand that was procured at the end of March 2020, and through agreements to increase the commitment line for short-term loans from major banks by ¥3,500 million (¥13,500 million in total).

In addition, we will continue to secure free cash flow by securing operating cash flow through strategies including shortening the number of days of inventory turnover, while also selecting priorities for capital and other investments, and controlling them to a level below depreciation.

(viii) Establishing mass production system for new plants in the Brass Bar Manufacturing business

At the new brass bar manufacturing plant of KITZ Metal Works Corporation, which started mass production in October 2019, the plant continued to operate in parallel with the old facilities. However, in FY2020, we will bring all production to this plant, and by utilizing these cutting-edge production facilities, we will improve yields and significantly improve productivity.

Furthermore, the Company utilizes the alloy technology that it has developed over many years to develop and promote new materials that are friendly to both people and the environment and meet the various regulations. These include dezincification corrosion-resistant brass bars, lead-free brass bars, and cadmium-free brass bars.

(ix) Other, hotel business

As for the Other, hotel business, there has been a major decline in hotel guests due to COVID-19, but the Company continued to take exhaustive measures to cut costs while working to improve the quality of services.

(4) Status of major subsidiaries (as of March 31, 2020)

Name	Capital stock	Investment ratio (%)	Major business
Toyo Valve Co., Ltd.	100 million JPY	100	Sales, marketing and distribution of valves
Shimizu Alloy Mfg. Co., Ltd.	90 million JPY	93.3	Manufacturing and sales of valves
KITZ SCT Corporation	300 million JPY	100	Manufacturing and sales of valves and fittings for semiconductor production equipment
KITZ Micro Filter Corporation	90 million JPY	100	Manufacturing and sales of fluid separation products for filters and related products
KITZ (Thailand) Ltd.	500 million THB	92	Manufacturing and sales of valves
KITZ Corporation of Taiwan	200 million TWD	100	Manufacturing and sales of valves
KITZ Corporation of Jiangsu Kunshan	49 million CNY	100	Manufacturing and sales of valves
KITZ Corporation of Kunshan	62 million CNY	100 (100)	Manufacturing and sales of valves
KITZ SCT Corporation of Kunshan	22 million CNY	100 (100)	Manufacturing and sales of valves and fittings for semiconductor production equipment
KITZ Corporation of Lianyungang	42 million CNY	100	Manufacturing and sales of valves
KITZ Corporation of Shanghai	10 million CNY	100	Sales, marketing and distribution of valves
KITZ Corporation of America	3,000 thousand USD	100	Sales, marketing and distribution of valves
Metalúrgica Golden Art's Ltda.	64,000 thousand BRL	100	Manufacturing and sales of valves
KITZ Corporation of Europe, S.A.	421 thousand EUR	100	Manufacturing and sales of valves
KITZ Europe GmbH	500 thousand EUR	100	Sales, marketing and distribution of valves
Perrin GmbH	1,538 thousand EUR	100 (100)	Manufacturing and sales of valves
KITZ Corporation of Asia Pacific Pte. Ltd.	11,142 thousand USD	100	Sales, marketing and distribution of valves
Cephas Pipelines Corp.	2,454 million KRW	100	Manufacturing and sales of valves
KITZ Metal Works Corporation	490 million JPY	100	Manufacturing and sales of brass bar products
Hotel Beniya Co., Ltd.	490 million JPY	100	Operation of hotel and restaurants

Notes:

1. The parenthesized figures indicate the investment ratio of the subsidiary concerned.
2. As of the end of the fiscal year under review, there are no specified wholly owned subsidiaries.

(5) Major businesses (as of March 31, 2020)

Major products and businesses of the Group

Business segment	Major products and businesses
Valve Manufacturing business	Manufacturing and sales of bronze valves, steel valves, and other valve-related products, filtering-related products and accessories
Brass Bar Manufacturing business	Manufacturing and sales of brass bar products and processed brass bar products
Other	Operation of hotel and restaurants

(6) Major sales offices and plants (as of March 31, 2020)

(i) Major sales offices and plants of the Company

Name	Location	Name	Location
Head Office	Chiba-shi	Niigata Sales Office	Niigata-shi
Nagasaki Plant	Hokuto-shi, Yamanashi Pref.	Hokuriku Sales Office	Toyama-shi
Ina Plant	Ina-shi, Nagano Pref.	Koshin Sales Office	Chino-shi, Nagano Pref.
Chino Plant	Chino-shi, Nagano Pref.	Tokai Sales Office	Shizuoka-shi
Hokkaido Sales Office	Sapporo-shi	Nagoya Sales Office	Nagoya-shi
Tohoku Sales Office	Sendai-shi	Osaka Sales Office	Osaka-shi
Kita-Kanto Sales Office	Saitama-shi	Okayama Sales Office	Okayama-shi
Tokyo Sales Office	Chuo-ku, Tokyo	Hiroshima Sales Office	Hiroshima-shi
Yokohama Sales Office	Yokohama-shi	Kyushu Sales Office	Fukuoka-shi

(ii) Major sales offices and plants of subsidiaries

Name	Location
Toyo Valve Co., Ltd.	Chuo-ku, Tokyo
Shimizu Alloy Mfg. Co., Ltd.	Hikone-shi, Shiga Pref.
KITZ SCT Corporation	Ota-shi, Gunma Pref.
KITZ Micro Filter Corporation	Suwa-shi, Nagano Pref.
KITZ (Thailand) Ltd.	Samutprakarn, Thailand
KITZ Corporation of Taiwan	Kaohsiung, Taiwan
KITZ Corporation of Jiangsu Kunshan	Jiangsu, P.R. China
KITZ Corporation of Kunshan	Jiangsu, P.R. China
KITZ SCT Corporation of Kunshan	Jiangsu, P.R. China
KITZ Corporation of Lianyungang	Jiangsu, P.R. China
KITZ Corporation of Shanghai	Shanghai, P.R. China
KITZ Corporation of America	Texas, U.S.A.
Metalúrgica Golden Art's Ltda.	Rio Grande do Sul, Brazil
KITZ Corporation of Europe, S.A.	Barcelona, Spain
KITZ Europe GmbH	Hessen, Germany
Perrin GmbH	Hessen, Germany
KITZ Corporation of Asia Pacific Pte. Ltd.	Singapore
Cephas Pipelines Corp.	Korea (Busan Metropolitan City)
KITZ Metal Works Corporation	Chino-shi, Nagano Pref.
Hotel Beniya Co., Ltd.	Suwa-shi, Nagano Pref.

Note: The "location" for KITZ SCT Corporation indicates the location of its plant.

(7) Status of employees (as of March 31, 2020)

(i) Employees of the corporate group

Business segment	Number of employees	Year-on-year change
Valve Manufacturing business	4,637	+112
Brass Bar Manufacturing business	237	+4
Other	88	-18
Corporate (common)	86	+5
Total	5,048	+103

Notes:

1. The above figures do not include employees seconded from the Group to an external company or employees hired on a temporary/contractual basis.
2. “Corporate (common)” indicates the number of employees serving in administrative divisions which do not belong to a specific segment.

(ii) Employees of the Company

Number of employees	Year-on-year change	Average age	Average number of years of service
1,327	+37	40.2	14.5

Note: The above figures do not include employees seconded or employees hired on a temporary/contractual basis.

(8) Major lenders of the corporate group and amount of debt (as of March 31, 2020)

(Units: Millions of yen)

Name	Outstanding debt
Sumitomo Mitsui Banking Corporation	5,824
MUFG Bank, Ltd.	3,647
Mizuho Bank, Ltd.	2,869
The Chiba Bank, Ltd.	945
The Hachijuni Bank, Ltd.	903

2. Status of the Company

(1) Status of shares (as of March 31, 2020)

(i) Total number of authorized shares: 400,000,000 shares

(ii) Total number of issued shares: 92,731,557 shares

Note: Total number of issued shares shown above does not include 7,664,954 shares of treasury stock that were held as of the end of the fiscal year under review.

(iii) Number of shareholders: 10,212

Note: The number of shareholders includes the Company.

(iv) Major shareholders (top 10 shareholders)

Name	Investment	
	Shareholdings (thousands)	Holding ratio (%)
Japan Trustee Services Bank, Ltd.	8,881	9.58
The Master Trust Bank of Japan, Ltd.	5,374	5.80
Kitazawa-kai Stock Ownership Plan	4,603	4.96
Nippon Life Insurance Company	4,303	4.64
Sumitomo Life Insurance Company	3,420	3.69
Kitazawa Ikueikai Foundation	3,411	3.68
KITZ Corporation Trading Partner Stock Ownership Plan	3,065	3.31
Sumitomo Mitsui Banking Corporation	2,553	2.75
KITZ Corporation Employee Stock Ownership Plan	1,868	2.01
SECOM General Insurance Co., Ltd.	1,702	1.84

Notes:

1. The Company held 7,664 thousand shares of treasury stock as of March 31, 2020; such treasury stock is not included in the above list of major shareholders.
The total number of shares used to calculate the holding ratio does not include treasury stock.
The Company has adopted a BIP trust, and the Master Trust Bank of Japan, Ltd. holds 509 thousand shares in the trust. These 509 thousand shares are not included in the concerned treasury stock.
2. The above number of shares held includes shares associated with trust operations as follows:
Japan Trustee Services Bank, Ltd. 8,881 thousand shares
The Master Trust Bank of Japan, Ltd.: 5,374 thousand shares
3. The number of shares held by Sumitomo Life Insurance Company includes 2 thousand shares in the variable insurance account and 9 thousand shares in the separate account.

(2) Matters regarding subscription rights to shares (as of March 31, 2020)

Not applicable

(3) Officers of the Company (as of March 31, 2020)

(i) Status of Directors and Audit & Supervisory Board Members

Name	Position and area of responsibility in Company	
Yasuyuki Hotta	President and Chief Executive Officer	(President, Chief Executive Officer)
Toshiaki Natori	Director	(Vice-President, Executive Officer, General Manager, Sales Strategy Office for Commercial Valves in Asia)
Toshiyuki Murasawa	Director	(Managing Executive Officer, Division Manager, Corporate Administration Division, Supervisor of Internal Audit Office, internal controls, ESG, and Group's risk management)
Makoto Kohno	Director	(Managing Executive Officer, Unit General Manager, Flow Control Business Unit)
Kazuyuki Matsumoto	Outside Director	
Minoru Amoh	Outside Director	
Yutaka Fujiwara	Outside Director	
Masahiko Kondo	Standing Audit & Supervisory Board Member	
Taro Kimura	Standing Audit & Supervisory Board Member	
Tatsuhiko Takai	Outside Audit & Supervisory Board Member	
Shuhei Sakuno	Outside Audit & Supervisory Board Member	
Ayako Kobayashi	Outside Audit & Supervisory Board Member	

Notes:

1. The Company has registered outside Directors Kazuyuki Matsumoto, Minoru Amoh and Yutaka Fujiwara as independent officers with the Tokyo Stock Exchange as prescribed by the Securities Listing Regulations of the same Exchange.
2. The Company has registered outside Audit & Supervisory Board Members Tatsuhiko Takai, Shuhei Sakuno, and Ayako Kobayashi as independent officers with the Tokyo Stock Exchange as prescribed by the Securities Listing Regulations of the same Exchange.
3. The changes in Directors during the fiscal year under review are as follows:

New appointment as Director

Name	Position upon assuming office	Date of assuming office
Makoto Kohno	Director	June 25, 2019

4. The changes in Audit & Supervisory Board Members during the fiscal year under review are as follows:

New Appointment as Audit & Supervisory Board Member

Name	Position upon assuming office	Date of assuming office
Ayako Kobayashi	Outside Audit & Supervisory Board Member	June 25, 2019

5. The major changes in Directors' areas of responsibility during the fiscal year under review are as follows:

Name	Areas of responsibility after change	Areas of responsibility before change	Date of change
Toshiaki Natori	Director, Vice-President, Executive Officer, Division Manager, Corporate Planning Division, Division Manager, Smart Aquaculture Development Division, Supervisor of related businesses (Brass Bar Manufacturing business, service business)	Director, Vice-President, Executive Officer, General Manager, Sales Strategy Office for Commercial Valves in Asia	April 1, 2020

6. Audit & Supervisory Board Member, Masahiko Kondo has accumulated extensive knowledge and experience in business management as well as in labor. Specifically, he has engaged in the management of the Company in his capacity as a director in charge of supervising the administrative divisions of the group businesses, and has also contributed to enhancing the Company's management foundation and developing and strengthening the Group's risk management. Therefore, the Company believes that he has sufficient insight to duly perform the duties of an Audit & Supervisory Board Member.
7. Audit & Supervisory Board Member, Taro Kimura has many years of experience in managing the Company's accounting and financial operations. As an executive officer in charge of the administrative divisions of the group companies, he has developed the Company's internal control systems, strengthened its internal audit function, and promoted its risk management systems. Therefore, the Company believes that he has sufficient insight related to the internal control, risk management, finance, and accounting to duly perform the duties of an Audit & Supervisory Board Member.
8. After being in charge of accounting, finance, corporate administration, corporate planning, and other functions at Mitsui Mining & Smelting Co., Ltd. for many years, Outside Audit & Supervisory Board Member Tatsuhiko Takai served as the Chief Financial Officer (CFO) and Senior Executive Officer and Standing Audit & Supervisory Board Member at the company. As such, he has considerable knowledge of finance, accounting, and duties of Audit & Supervisory Board Members.
9. Outside Audit & Supervisory Board Member, Shuhei Sakuno has broad experience in corporate administration, supervising Yokogawa Electric Corporation group companies, and sufficient insight into financial and accounting operations, as well as experience in developing internal controls, risk management, and internal audit systems. Therefore, the Company believes that he has sufficient insight related to corporate governance to duly perform the duties of Audit & Supervisory Board member.
10. Outside Audit & Supervisory Board Member Ayako Kobayashi is an attorney with advanced technical knowledge in a broad range of fields including corporate legal affairs, compliance, M&As and risk management, and has sufficient insight related to corporate governance as well as supervision of the Board of Directors' decision making and Directors' execution of duties and the supervision/verification of the Accounting Auditor's execution of duties to duly perform the duties of an Audit & Supervisory Board Member.
11. Ayako Kobayashi's name in her family register is Ayako Nakajima.

(ii) Summary of liability limitation agreements

In order to limit the liability of directors (excluding persons who are executive directors; likewise, hereinafter in this paragraph) and Audit & Supervisory Board members to a reasonable extent and ensure that they fully perform the roles expected of them, the Company has, pursuant to the stipulations of Article 427, Paragraph 1 of the Companies Act, included provisions in its Articles of Incorporation to the effect that the Company can conclude agreements with its directors and Audit & Supervisory Board members limiting their liability under Article 423, Paragraph 1 of the same Act provided that the director or Audit & Supervisory Board member concerned has undertaken his or her duties in good faith and has not committed any gross errors. Based on these provisions, the Company has concluded agreements with each of its directors and Audit & Supervisory Board members. Based on the concerned agreements, the amount of liability is limited to five (5) million yen or the amount prescribed by laws and regulations, whichever is higher.

(iii) Significant concurrent positions of Directors and Audit & Supervisory Board Members

Position	Name	Name of organization in which concurrent position is held	Concurrent position
Director	Toshiaki Natori	KITZ Corporation of Shanghai	Director
		KITZ Corporation of Asia Pacific Pte. Ltd.	Director
	Toshiyuki Murasawa	KITZ Micro Filter Corporation	Audit & Supervisory Board Member
		KITZ Metal Works Corporation	Audit & Supervisory Board Member
		Hotel Beniya Co., Ltd.	Audit & Supervisory Board Member
	Makoto Kohno	KITZ Corporation of Shanghai	Director
		KITZ Corporation of America	Director
		KITZ Europe GmbH	Director
		KITZ Corporation of Asia Pacific Pte. Ltd.	Director
		Cephas Pipelines Corp.	Director
Standing Audit & Supervisory Board Member	Masahiko Kondo	Toyo Valve Co., Ltd.	Audit & Supervisory Board Member
		KITZ SCT Corporation	Audit & Supervisory Board Member
		KITZ Micro Filter Corporation	Audit & Supervisory Board Member
		Hotel Beniya Co., Ltd.	Audit & Supervisory Board Member
		KITZ Corporation of Taiwan	Audit & Supervisory Board Member
		KITZ Corporation of Kunshan	Audit & Supervisory Board Member
	Taro Kimura	KITZ SCT Corporation of Kunshan	Audit & Supervisory Board Member
		Shimizu Alloy Mfg. Co., Ltd.	Audit & Supervisory Board Member
		KITZ Metal Works Corporation	Audit & Supervisory Board Member
		KITZ Corporation of Jiangsu Kunshan	Audit & Supervisory Board Member
		KITZ Corporation of Lianyungang	Audit & Supervisory Board Member
		KITZ Corporation of Shanghai	Audit & Supervisory Board Member

Note: The organizations in which a concurrent position is held and which belong in the same business categories as the Company are as follows:

(Name)

Toyo Valve Co., Ltd.
Shimizu Alloy Mfg. Co., Ltd.
KITZ SCT Corporation

(Business)

Sales, marketing and distribution of valves
Manufacturing and sales of valves
Manufacturing and sales of valves and fittings for semiconductor production equipment

KITZ Corporation of Taiwan
KITZ Corporation of Jiangsu Kunshan
KITZ Corporation of Kunshan
KITZ SCT Corporation of Kunshan

Manufacturing and sales of valves
Manufacturing and sales of valves
Manufacturing and sales of valves
Manufacturing and sales of valves and fittings for semiconductor production equipment

KITZ Corporation of Lianyungang
KITZ Corporation of Shanghai
KITZ Corporation of America
KITZ Europe GmbH
KITZ Corporation of Asia Pacific Pte. Ltd.
Cephas Pipelines Corp.

Manufacturing and sales of valves
Sales, marketing and distribution of valves
Manufacturing and sales of valves

(iv) Names of executive officers (excluding concurrently held directorships) of the Company as of the end of the fiscal year under review and areas of responsibility in the Company

Name	Areas of responsibility	
Kazuhiko Hirabayashi	Executive Officer	Division Manager, Production Division, Flow Control Business Unit, Supervisor of the NEW KICS Center
Tetsuo Sakane	Executive Officer	Division Manager, National Sales Division, Flow Control Business Unit, Deputy General Manager, Sales Strategy Office for Commercial Valves in Asia
Yukinari Koide	Executive Officer	Division Manager, IT Control Division
Yoriyuki Koyama	Executive Officer	Division Manager, Customer Support Division
Hitoshi Kurihara	Executive Officer	Division Manager, Corporate Planning Division
Kenji Katsuragi	Executive Officer	Deputy Division Manager, Corporate Administration Division
Masaru Takusagawa	Executive Officer	Division Manager, Product Management Center, Flow Control Business Unit
Takahito Hirashima	Executive Officer	Division Manager, Engineering Division, Flow Control Business Unit
Kazunori Okimura	Executive Officer	General Manager, Legal Department, Supervisor of the Intellectual Property Department

Notes:

1. The changes in executive officers (excluding concurrently held directorships) during the fiscal year under review are as follows:

(1) New appointment as executive officer

Name	Position and area of responsibility in Company		Date of assuming office
Takahito Hirashima	Executive Officer	Division Manager, Engineering Division, Flow Control Business Unit	April 1, 2019
Kazunori Okimura	Executive Officer	General Manager, Legal Department, Supervisor of the Intellectual Property Department	April 1, 2019

(2) Retirements from position of executive officer

Name	Position upon retirement		Date of retirement
Tetsuo Sakane	Executive Officer		March 31, 2020
Hitoshi Kurihara	Executive Officer		March 31, 2020

2. The changes in executive officers (excluding concurrently held directorships) following the end of the fiscal year under review are as follows:

New appointment as executive officer

Name	Position and area of responsibility in Company		Date of assuming office
Kenji Kato	Executive Officer	Division Manager, National Sales Division, Flow Control Business Unit	April 1, 2020

(v) Total Remuneration paid to Directors and Audit & Supervisory Board Members in the fiscal year under review

Position	Number of persons	Amount of remuneration (millions of yen)
Director	7	192
Audit & Supervisory Board Member	5	69
Total	12	261

Notes:

1. The annual limit of remuneration for Directors and Audit & Supervisory Board Members has been resolved at the General Meeting of Shareholders as follows:

Remuneration for Directors (excluding the remuneration and bonuses paid to Directors who concurrently serve as employees for their services as employees)

Not more than ¥400 million a year (including an amount of up to ¥70 million for Outside Directors) (105th Ordinary General Meeting of Shareholders held on June 25, 2019)

Remuneration for Audit & Supervisory Board Members

Not more than ¥100 million a year (105th Ordinary General Meeting of Shareholders held on June 25, 2019)

2. As of the end of the fiscal year under review, there were seven (7) Directors and five (5) Audit & Supervisory Board Members, a total of twelve (12).
3. The above amounts do not include the portion of employee salaries, bonuses, and share-based payments paid to Directors who concurrently serve as employees.
The amounts of the portions of employee salaries, bonuses, and share-based payments paid to Directors who concurrently serve as employees were ¥31 million, ¥28 million, and ¥3 million, respectively.
4. The amount of remuneration includes ¥44 million of bonuses to executive officers (Directors and Audit & Supervisory Board Members), which was recorded in the fiscal year under review as “accrued bonuses to directors and corporate auditors,” and ¥24 million of share-based payments recorded in the fiscal year under review as “allowance for stock benefit for directors and operating officers.”
5. Of the above amount, a total of ¥32 million was paid to three (3) Outside Directors and a total of ¥26 million was paid to three (3) Outside Audit & Supervisory Board Members.

(vi) Matters regarding outside directors

- a. Significant concurrent positions in or relationships with other companies
 - 1) Outside Director Kazuyuki Matsumoto concurrently holds the position of outside director of TOPCON CORPORATION. There is no special interest between TOPCON CORPORATION and the Company.
 - 2) Outside Director Minoru Amoh concurrently holds the position of outside director of Otsuka Chemical Co., Ltd. There is no special interest between Otsuka Chemical Co., Ltd. and the Company.
 - 3) Outside Director Yutaka Fujiwara concurrently holds the position of outside director of Nabtesco Corporation. There is no special interest between Nabtesco Corporation and the Company.
 - 4) Outside Audit & Supervisory Board Member Shuhei Sakuno has retired from the position of Audit & Supervisory Board Member at Yokogawa Solution Service Corporation on June 26, 2019, and concurrently holds the position of outside director of JAPANIACE Co., Ltd. There is no special interest between JAPANIACE Co., Ltd. and the Company.
 - 5) Outside Audit & Supervisory Board Member Ayako Kobayashi is concurrently an attorney (partner) at KATAOKA & KOBAYASHI LPC. There is no special interest between KATAOKA & KOBAYASHI LPC and the Company.

b. Significant activities during the fiscal year under review

Position	Name	Significant activities
Director	Kazuyuki Matsumoto	Kazuyuki Matsumoto attended all 16 of the Board of Directors' meetings held in the fiscal year under review, and expressed his opinions during deliberations as necessary.
Director	Minoru Amoh	Minoru Amoh attended all 16 of the Board of Directors' meetings held in the fiscal year under review, and expressed his opinions during deliberations as necessary.
Director	Yutaka Fujiwara	Yutaka Fujiwara attended all 16 of the Board of Directors' meetings held in the fiscal year under review, and expressed his opinions during deliberations as necessary.
Audit & Supervisory Board Member	Tatsuhiko Takai	Tatsuhiko Takai attended all 16 of the Board of Directors' meetings held in the fiscal year under review, and expressed his opinions during deliberations as necessary. He also attended all 15 of the Audit & Supervisory Board meetings held in the fiscal year under review, and reviewed the method for auditing the full range of particulars connected with Directors' performance of their duties and matters concerning the performance of auditing duties.
Audit & Supervisory Board Member	Shuhei Sakuno	Shuhei Sakuno attended all 16 of the Board of Directors' meetings held in the fiscal year under review, and expressed his opinions during deliberations as necessary. He also attended all 15 of the Audit & Supervisory Board meetings held in the fiscal year under review, and reviewed the method for auditing the full range of particulars connected with Directors' performance of their duties and matters concerning the performance of auditing duties.
Audit & Supervisory Board Member	Ayako Kobayashi	After being newly elected at the Ordinary General Meeting of Shareholders held June 25, 2019 and assumed the position, Ayako Kobayashi attended all 10 Board of Directors' meetings held in the fiscal year under review, and expressed her opinions during deliberations as necessary. She also attended 9 of the 10 Audit & Supervisory Board meetings held, and reviewed the method for auditing the full range of particulars connected with Directors' performance of their duties and matters concerning the performance of auditing duties.

(4) Status of Accounting Auditor

(i) Name

Ernst & Young ShinNihon LLC

(ii) Amount of remuneration

Amount of remuneration to be paid by the Company for services with respect to the current fiscal year	
a. Amount of remuneration to be paid for services stipulated in Article 2, Paragraph 1 of the Certified Public Accountants Act	¥109 million
b. Amount of remuneration to be paid for services (non-auditing services) other than those stipulated in Article 2, Paragraph 1 of the Certified Public Accountants Act	¥- million
Total amount of money and other financial benefits to be paid to Accounting Auditor by the Company and its subsidiaries	¥109 million

Notes:

1. In the audit contract between the Company and Accounting Auditor, remuneration paid for audits under the Companies Act and audits under the Financial Instruments and Exchange Act are not distinguished and cannot be practically separated. Therefore, the amount of payment for both is shown in Amount of remuneration above.
2. Significant overseas subsidiaries of the Company receive audits from auditors other than the Company's Accounting Auditor.

(iii) Reason for Audit & Supervisory Board's consent toward the remuneration of the Accounting Auditor

In accordance with the auditing standards determined by the Audit & Supervisory Board, the Audit & Supervisory Board has reviewed whether the Accounting Auditor's audit plans will provide an auditing system and auditing timeframe sufficient to secure the quality of audits, and the members have considered and deliberated matters such as the effectiveness and efficiency of the audits in the previous period, whether there is additional remuneration to calculate, the auditing timeframe and remuneration units trends in previous years, the basis for estimating remuneration, and the status of non-auditing services agreement. Based on the results of such review and deliberation, the Audit & Supervisory Board determined that the Accounting Auditor's audit plans were appropriate, and that the amount of remuneration was commensurate with the Accounting Auditor's duties. Accordingly, the Audit & Supervisory Board provided their consent toward the remuneration of the Accounting Auditor.

(iv) Policy for determining the dismissal or non-reappointment of the Accounting Auditor

- a. The Audit & Supervisory Board will, by the unanimous consent of all members thereof, dismiss the Accounting Auditor if the Accounting Auditor is deemed to fall under any of the items listed in Article 340, Paragraph 1 of the Companies Act.
- b. The Audit & Supervisory Board will determine the contents of a proposal to the General Meeting of Shareholders for the dismissal or non-reappointment of the Accounting Auditor and the contents of a proposal for a new Accounting Auditor in cases where it is judged that the Accounting Auditor is unable to maintain the quality of audits or to continue to duly perform its duties, such as cases where there is serious doubt regarding the Accounting Auditor's independence or aptitude, cases where there are serious deficiencies in the system for enabling the Accounting Auditor to duly perform its duties, and cases where there is no prospect of making improvements to secure the quality of audits.
- c. If the Audit & Supervisory Board comprehensively reviews the existing Accounting Auditor, including with respect to quality of audits, independence, aptitude, reliability, effectiveness, and efficiency, and concludes that it will be necessary to elect a new Accounting Auditor with prospects of delivering more suitable audits, the Audit & Supervisory Board will determine the contents of a proposal to the General Meeting of Shareholders for the non-reappointment of the existing Accounting Auditor and the election of the new Accounting Auditor.

3. Corporate governance

(1) Basic approach to corporate governance

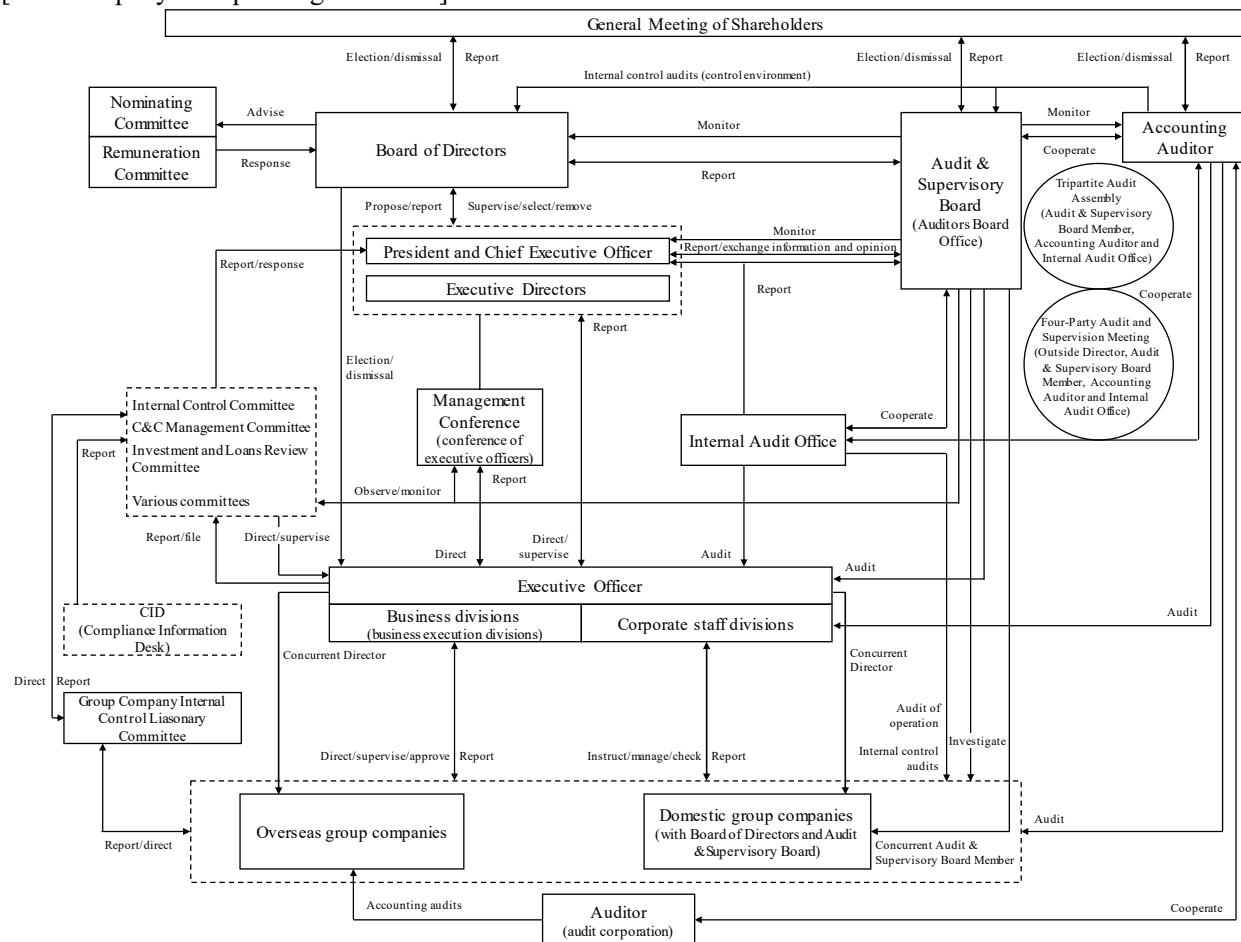
Under the corporate philosophy of continually enriching corporate value by offering originality and quality in all products and services, as a socially responsible corporation, the Company strives for a management in the interest of shareholders and all stakeholders.

In order to increase management efficiency and to strengthen compliance, taking into consideration such factors as stakeholder demands and social trends, the Company continues to reinforce corporate governance through various measures to realize a swift, efficient, sound, and transparent management.

(2) Corporate governance structure

The following is the Company's corporate governance structure.

[The Company's corporate governance]



[Institutional design of a company with board of auditors]

The Company has adopted an institutional design of a company with board of auditors, and strives not only for appropriate decision-making and execution of business but also to create an organizational corporate governance system that holds sufficient rein on management, by concentrating authority and responsibility for business execution to the Board of Directors, the managerial decision-making body, and by Audit and Supervisory Board Members and the Audit and Supervisory Board supervising the Board of Directors effectively from an independent, objective perspective.

[Directors and Board of Directors]

In order to enhance and strengthen the corporate governance, the Company strives to optimize the number of Directors so that the Board of Directors can function efficiently and effectively, and has adopted a system of seven (7) Directors (including three (3) Outside Directors). Furthermore, the Company has adopted the executive officer system to ensure swift business execution, and Directors who are not Outside Directors also serve as Executive Officers.

Outside Directors, for which the Company invites personnel who have extensive experience and knowledge as management at advanced companies, provide various types of advice on general management matters.

In addition, to clarify the managerial responsibilities of Directors as well as to strengthen the management structure and make it possible to flexibly respond to the business environment, the Company has set the terms of office of Directors at one (1) year.

Taking into considering its fiduciary responsibility and accountability to shareholders, the purpose of the corporate philosophy, and sustainable increase of shared interests of shareholders, the Board of Directors promotes sustainable growth and medium- and long-term enhancement of corporate value of the Company. Furthermore, in order to improve profitability, capital efficiency, etc., the Board of Directors develops medium- and long-term management strategies and management plans, selects candidates for Directors and Audit & Supervisory Board Members, selects members of management including Executive Officers, and makes important decisions regarding remuneration and other management matters. Within the Board of Directors, Directors also mutually supervise each other on the execution of duties.

[Ensuring the effectiveness of the Board of Directors]

In order to improve the effectiveness of corporate governance and the overall function of the Board of Directors, each year, the Company conducts a “Questionnaire Survey on the Effectiveness of the Board of Directors” aimed at Directors and Audit & Supervisory Board Members, by distributing written questionnaires and collecting responses on particularly important matters in line with the principles of the Corporate Governance Code. The Board of Directors analyzes and evaluates its effectiveness based on the compiled survey responses and discusses animatedly on issues.

[Audit & Supervisory Board Members and Audit & Supervisory Board]

The Company has an Audit & Supervisory Board consisting of five (5) Audit & Supervisory Board Members, three (3) of whom are Outside Audit & Supervisory Board Members. The Audit & Supervisory Board Members supervises Directors' execution of duties by attending material meetings and exercising their right to conduct inspections, such as site visits of offices/subsidiaries, in accordance with Auditing Standards of Audit & Supervisory Board Members developed by the Audit & Supervisory Board, audit plans, as well as division of duties. Furthermore, the Audit & Supervisory Board evaluates the fulfillment of legal duties such as duty of diligence and deliberates when necessary.

In addition to supervising the state of Executive Directors fulfilling their duty to report to the Board of Directors and the effectiveness of mutual management supervision by Directors, primarily Outside Directors, the Audit & Supervisory Board evaluates the legality and appropriateness of the decision-making process and decisions and provides its opinion regarding that to the Board of Directors.

The Audit & Supervisory Board also checks the quality management system related to Accounting Auditors and their independence, etc., supervises the execution of their duties, and evaluates the appropriateness of audit results.

The Audit & Supervisory Board deliberates on not only the appropriateness of reappointing Accounting Auditor each fiscal year, but also the appropriateness of audit plans and remuneration for audits.

[Internal Audit]

As for internal audits, the Internal Audit Division conducts audits of the operation and internal controls of the Company and its subsidiaries, to audit and confirm the existence or non-existence of internal control functions, as well as to monitor the overall state of internal controls and the appropriateness of operation processes. The results of audits, etc. are passed on to the President, Audit & Supervisory Board Members, and related divisions. Improvements are implemented, and when necessary, reports are submitted to the Board of Directors, and the Internal Control Committee examined carefully. In addition, there are audits of material risks at subsidiaries to identify risks that each company and division faces, and support is provided to improve operations and build a compliance system so that risks can be mitigated or avoided.

[Tripartite Audit Assembly, and Four-Party Audit and Supervision Meeting]

The Company regularly holds Tripartite Audit Assemblies with attendance of Audit & Supervisory Board Members, Accounting Auditors, and Internal Audit Division staff (hereinafter referred to as “Tripartite Audit Assemblies”) to maintain close cooperation by having the parties mutually report on various issues and exchanging information and opinions.

The Company also regularly holds Four-Party Audit and Supervision Meetings, which consists of the Audit & Supervisory Board Members, the Accounting Auditor, Outside Directors, and the Internal Audit Division staff (hereinafter referred to as “Four-Party Audit and Supervision Meetings”), to share information and awareness based on an independent, objective perspective, and to maintain close cooperation of the audit functions of Audit & Supervisory Board Members and the supervisory functions of Outside Officers.

[Independent Officers]

The Company’s three (3) Outside Directors and three (3) Outside Audit & Supervisory Board Members meet the criteria for the independence of outside officers prescribed by the Tokyo Stock Exchange (hereinafter referred to as “Tokyo Stock Exchange Criteria for Independence”) and are registered as such. Furthermore, all of them meet the requirements of the Company’s “Criteria for Determining the Independence of Outside Officers,” which are stricter than the “Tokyo Stock Exchange Criteria for Independence.”

[Nominating Committee]

Regarding the policy on nominating candidates for Directors and Audit & Supervisory Board Members, the policy on removing Directors and Audit & Supervisory Board Members, and selection/removal of management such as Executive Officers, the Company has established a Nominating Committee, of which Outside Directors form a majority (hereinafter, the “Nominating Committee”), as a voluntary advisory body to the Board of Directors. Based on the “Policy on Composition of the Board of Directors and Audit & Supervisory Board, and Policy on Selection/Removal of Officers (Directors, Audit & Supervisory Board Members, CEO, and Executive Officers)” set by the Company, the Nominating Committee examines candidates from a multifaceted perspective, including gender, nationality, character, skills, knowledge, experience, specialization, performance, fairness and age, and the Board of Directors then makes a decision based on the report.

[Remuneration Committee]

Regarding decisions on remuneration, the Company established a Remuneration Committee, of which Outside Directors form a majority (hereinafter, the “Remuneration Committee”), as a voluntary advisory body to the Board of Directors. The Remuneration Committee examines compensation policies and other particularly important matters, and reports back to the Board of Directors.

[Executive Officers and Management Conference]

In order to effectively and swiftly implement decisions by the Board of Directors, the Company has introduced an executive officer system. Furthermore, there is a monthly meeting of the Management Conference, which is composed of all Executive Officers, to deliberate and make decisions on material matters related to the execution of operations, as well as discuss animatedly on important managerial matters.

[Committees Related to Internal Control]

In order to undertake sound and highly transparent management, the Company has established the following system for internal audits, business-related risk management, and compliance promotion, in accordance with the basic policy on the internal control system set by the Board of Directors. As part of that system, the Company has established various committees, which supplement management of the Company and Group companies on various fronts, such as internal control, crisis response, risk management, compliance promotion, security trade control, investment and loan evaluation, information security, and personal information protection. These committees deliberate and evaluate important matters related to appropriate decision-making regarding Group management, as well as implement measures to prevent risks from materializing.

4. Systems for Ensuring Appropriate Operations and the Operational Status of such Systems

(1) Systems for ensuring the appropriateness of operations

The Company has set the following basic policies regarding the system to ensure that the Directors' execution of their duties complies with laws, regulations, and the Articles of Incorporation and the system to ensure the appropriateness of other operations.

Basic policy on the Internal Control System

As stated in KITZ's Statement of Corporate Mission, the corporate philosophy of the Company and its subsidiaries (hereinafter, the "Group"), the Company's mission is "to contribute to the global prosperity" by being "dedicated to continually enriching its corporate value by offering originality and quality in all products and services." To attain this, in order to ensure that the Group has a healthy and robust operating base, the Company's has, pursuant to the provisions of the Companies Act and the Regulation for Enforcement of the Companies Act, established and operates the following internal control system (systems for ensuring that the performance of duties by the Directors conforms to the applicable laws and regulations and Articles of Incorporation, and other system necessary for ensuring the properness of operations of the enterprises consisting of the Company and its subsidiaries):

1. Systems for ensuring compliance with laws, regulations, and the Company's Articles of Incorporation in the execution of duties by directors and employees of the Company and its subsidiaries
 - (1) Directors and employees of the Company and its subsidiaries act in compliance with, uphold, and thoroughly observe applicable laws, regulations, the Company's Articles of Incorporation, KITZ's Statement of Corporate Mission, the Action Guide, the code of conduct related to compliance, environmental management policy, the basic policy concerning Group finances, and other policies determined by the boards of directors of the Company and its subsidiaries.
 - (2) The Board of Directors receives regular reports on the status of the execution of operations from Executive Directors and Executive Officers and supervises the execution of duties of each Director.
 - (3) Audit & Supervisory Board Members conduct audits of the Directors' execution of duties based on Rules of the Audit & Supervisory Board and Auditing Standards of Audit & Supervisory Board Members.
 - (4) The Company has established the C&C Management Committee, chaired by the president, as a body responsible for creating a Group-wide compliance system, ascertaining and responding to related problems, handling crises, and undertaking risk management, to promote adherence throughout the Group.
 - (5) The Group will establish a Group-wide whistle-blowing hotline for informing of, reporting, and advising on violations or grounds for suspicion of violation of laws, regulations, or the code of conduct related to compliance. Calls through this hotline will be handled by the Compliance Information Desk (hereinafter, the "CID") set up in the Company, each of the subsidiaries, and the corporate lawyer's office.
 - (6) To educate and raise awareness concerning compliance, the Company distributes the Compliance Program Guidebook to the directors and employees of the Company and its subsidiaries, and inform them about the CIDs.
 - (7) The Group will take a resolute stance against "anti-social forces" (members of organized crime groups); we will avoid engaging with them, refuse to yield to any threats or respond to any demands that they may make.

2. Systems for storing and managing information related to the execution of duties by directors of the Company
 - (1) Important documents related to Directors' execution of duties (including electromagnetic records) will be appropriately stored and managed in accordance with laws, regulations and internal rules.
 - (2) Information included in the above documents, etc., is maintained so that it can be viewed when necessary by Directors and Audit & Supervisory Board Members.
3. Procedures and other systems related to managing the risk of losses to the Company and its subsidiaries
 - (1) An officer is put in charge of Group risk management in order to promote risk management related to the execution of the Group's business.
 - (2) Each Executive Director and Executive Officer is responsible for handling risk in execution of the Group's business, and the C&C Management Committee examines and implements analysis, evaluation, and improvement measures related to significant risks.
 - (3) The Group will establish a Business Continuity Plan (BCP) and operate in such a way as to counter the risk of business being interrupted by emergencies such as natural disasters.
 - (4) In addition to establishing systems to manage various risks pertaining to business execution of the Group, the Company manages information on risks faced by its subsidiaries by receiving approval applications and reports from subsidiaries as stipulated in Group Company Rules, and promotes risk management to prevent losses as a unified Group through internal audits by the Internal Audit Office and other measures.
 - (5) In order to evaluate risks pertaining to business execution of the Group, necessary steps are taken by establishing and operating a system of committees for internal control, crisis and risk management, compliance promotion, security trade controls, investment and loan evaluation, information security, and personal information protection.
4. Systems for ensuring that the Directors of the Company and its subsidiaries execute their duties efficiently
 - (1) Efforts are made to not only have a proper number of Directors but also to have quick decision-making by the Board of Directors and to clarify responsibility for strengthening audit functions and execution of business by introducing a system of Executive Officers.
 - (2) Outside Directors who have extensive experience and fair judgment are recruited, increasing the propriety and appropriateness of business decisions by the Board of Directors.
 - (3) Decision-making by the Boards of Directors of the Company and its subsidiaries is based on Rules of the Board of Directors and Draft Proposal Rules.
 - (4) The Company stipulates the scope of the Board of Directors' delegation of authority and tries to quickly and effectively conduct business based on Regulations concerning Official Authority, Draft Proposal Rules, Group Company Rules, etc.
 - (5) The Company formulates a Basic Management Policy, Medium-term Management Plan, Annual Business Plan related to Group business activities, which are approved at Board of Directors.
 - (6) The Management Conference confirms and coordinates progress related to implementing the Management Policy and Management Plan decided upon by the Board of Directors and debates and decides on important issues related to management and the execution of business.
 - (7) In addition to stipulating response guidelines for implementing the principals of the Corporate Governance Code and working to expand corporate governance, the Company conducts transparent, fair, quick, and bold decision-making.

(8) There is a regular examination of whether the Board of Directors is functioning properly and efficiently, and appropriate responses are implemented based on the results of the examination.

5. Systems for ensuring that the Group executes operations appropriately

- (1) The Company formulates various rules to ensure appropriateness and efficiency of the Group's operations and builds an information system to ascertain and act upon the status of achievement of the management target.
- (2) The Company ensures that all inter-company exchanges among the Group companies are fair and appropriate in accordance with relevant laws and regulations, accounting principles and other social norms.
- (3) In accordance with Group Company Rules, the Company has stipulated an organization to manage the various subsidies and strives to properly conduct operations within the Group, which has included establishing a system for reporting matters related to the Boards of Directors of subsidiaries executing their duties, a system for managing the risk of losses, a system so that operations are efficiently conducted, and a system to ensure compliance with laws, regulations, and Articles of Incorporation.
- (4) Representative director, executive directors, and executive officers perform their allotted duties, and guide subsidiaries so that they develop and operate appropriate internal control system. They also instruct representative directors and directors of subsidiaries to store and manage information pertaining to the execution of directors' duties.
- (5) The divisions or other entities within the Company responsible for subsidiaries function as the director of the subsidiaries they are responsible for, and monitor and supervise management. The divisions also provide prior approval for important matters related to the execution of subsidiaries business based on Group Company Rules.
- (6) The corporate staff divisions, in accordance with their respective functions, guide the subsidiaries as necessary, and help them execute their business operations efficiently and appropriately.
- (7) The Company carries out internal audits of itself and its subsidiaries through its Internal Audit Office and ensures the effectiveness and propriety of internal controls with respect to the full range of each company's operations.
- (8) Depending on the level of importance thereof, the Internal Audit Office reports on operation audit plans and the state of conducting those audits to the Company's representative director, director, executive officer, and the Company's Audit & Supervisory Board Member who are responsible for each subsidiary, and the representative director of the subsidiary.
- (9) In order to ensure the reliability of financial reports, the Company evaluates, makes improvements to, and documents the state of internal controls and business process in line with the Internal Control Committee's policy, and the Board of Directors regularly checks these activities.
- (10) The Standing Audit & Supervisory Board Member effectively and appropriately monitors and verifies the state of management at subsidiaries by concurrently serving as an Audit & Supervisory Board Member of subsidiaries that have such boards and collaborates closely with the Accounting Auditor and Internal Audit Office so they can ascertain the state of management throughout the Group.
- (11) Directors and Directors of subsidiaries report on the execution of business that they are responsible for at venues such as Board of Directors meetings, Management Conference meetings, and other important meetings that Audit & Supervisory Board Members attend or are present at.

6. System for reporting to the Company matters related to the Boards of Directors of subsidiaries executing their duties
 - (1) The Company applies Group Company Rules to all subsidiaries and requires that subsidiaries seek advance approval for important business decisions and report on important business decisions to the Board of Directors and Management Conference in line with the Board of Directors and Management Conference Decision/Report Standards.
 - (2) The Company's Director and Executive Officer responsible for subsidiaries receive reports as necessary on important issues related to the execution of duties from the Board of Directors and employees of subsidiaries they are responsible for.
7. Assignment of employees to support the Company's Audit & Supervisory Board Members
 - (1) An Auditors Board Office, which is attached to the Audit & Supervisory Board, has been established as an entity to support the work of the Audit & Supervisory Board and Audit & Supervisory Board Members
 - (2) Employees with skills to fulfill the duties stipulated above (hereinafter, "Auditors Board Office staff") are assigned to the Auditors Board Office.
 - (3) The Auditors Board Office conducts duties as directed by Audit & Supervisory Board Members and conducts secretariat related operations office for the Audit & Supervisory Board.
8. Independence of the above-mentioned employees who support Audit & Supervisory Board Members from directors and the effectiveness of Audit & Supervisory Board Members instructions
 - (1) The Auditors Board Office staff will serve on a full-time basis, maintain independence from Directors, and not concurrently hold any managerial positions related to the execution of the Company's business.

However, they may concurrently serve as auditors of the Company's subsidiaries.
 - (2) Prior consent of the Audit & Supervisory Board is required with regard to appointments and transfers of Auditors Board Office staff.
 - (3) The Audit & Supervisory Board will conduct personnel appraisals of the Auditors Board Office staff, in accordance with the Rules of the Audit & Supervisory Board.
9. Systems for reporting to Audit & Supervisory Board Members matters concerning the execution of duties by directors and employees of the Company and its subsidiaries, other systems concerning reporting to Audit & Supervisory Board Members, and systems for ensuring that persons who make reports do not suffer any disadvantage by reason of such reporting
 - (1) Directors of the Company and Directors and Audit & Supervisory Board Members of subsidiaries notify the Company's Audit & Supervisory Board Members without delay if they discover any violation of laws, regulations, or the Company's Articles of Incorporation, or any practice, matter, or circumstance, etc. that has the potential to significantly impact the Company's management or performance.
 - (2) Directors of the Company and Directors and Audit & Supervisory Board Members of subsidiaries comply unerringly with any request from Audit & Supervisory Board Members of the Company to report on the status of the execution of business operations, the status of assets, or other matters. This also applies to employees of the Company and subsidiaries.
 - (3) The necessary steps are taken so that parties who submit reports stipulated above do not suffer any disadvantage for submitting such a report.

- (4) The Internal Audit Office collaborates with Audit & Supervisory Board Members, report to Audit & Supervisory Board Members the results of audits and any important internal information obtained in the course of audits in a timely manner, and furnishes Audit & Supervisory Board Members with audit information when requested.
- (5) The C&C Management Committee shares with Audit & Supervisory Board Members information related to in-house reports submitted to the Group CID or other parties and the state of response to those reports.

10. Matters concerning policies on the settlement of expenses or liabilities incurred in connection with Audit & Supervisory Board Members' execution of duties

- (1) Expenses deemed necessary for the execution of duties by the Audit & Supervisory Board and Audit & Supervisory Board Members shall be budgeted for and recorded in advance. However, emergency and extraordinary expenses can be reimbursed afterwards.
- (2) The Company will pay the fees for the services of attorneys and other experts utilized by Audit & Supervisory Board Member and the Audit & Supervisory Board in connection with the execution of their duties, and other expenses related to such, including such expenses to be paid in advance.

11. Other systems for ensuring effective audits by Audit & Supervisory Board Members

- (1) The Audit & Supervisory Board regularly holds informal meetings with representative directors and provides opportunities to exchange information and opinions with executive directors and the executive officers concerning business-related matters.
- (2) The Audit & Supervisory Board regularly convenes a Tripartite Audit Assembly with the Accounting Auditor and the Internal Audit Office, receives reports on various issues including the state of audits, exchanges information and opinions, and works to maintain close cooperation.
- (3) The Audit & Supervisory Board regularly convenes Four-Party Audit and Supervision Meetings, which consists of the Accounting Auditor, independent Outside Directors, and the Internal Audit Office; works to share information and awareness based on an independent, objective perspective; and strives to improve the audit functions of Audit & Supervisory Board Members and the supervisory functions of independent outside officers.
- (4) Standing Audit & Supervisory Board Members may concurrently serve as Audit & Supervisory Board Members of subsidiaries with Audit & Supervisory Boards, work to ascertain the status of management, attend important meetings of the Company and subsidiaries when necessary, and state their opinions.
- (5) Audit & Supervisory Board Members and the Audit & Supervisory Board have the right to use the services of attorneys, certified public accountants, and other experts when necessary in connection with the performance of their audits.

(2) Summary of the Operational Status of Systems for Ensuring the Appropriateness of Operations

1. General matters concerning the internal control system
 - (1) In order for the Group's internal control system to effectively function, the basic policies and management rules for managing the Group were set, and efforts are made to strengthen and promote the Group's internal controls through the department responsible for promoting internal controls.
 - (2) The Internal Control Committee and the Group Company Internal Control Liaisonary Committee held regular meetings. During these meetings, the members confirmed the operational status of the Company and its subsidiaries' internal controls and deliberated on future plans.

2. General matters concerning corporate governance

- (1) The Board of Directors held 16 meetings, made decisions regarding important issues based on the Submission Standards stipulated in the Rules of the Board of Directors, and reported on the execution of operations by the Company and all consolidated subsidiaries. In addition to safety, compliance, and risks, there are also reports on the recent important issues and topics.
- (2) For deliberations of agenda and reports on the execution of business at the Board of Directors meetings, sufficient time was provided for full deliberations. Also, three (3) Outside Directors and five (5) Audit & Supervisory Board Members, three (3) of whom are Outside Audit & Supervisory Board Members, contributed to animated discussions on managerial matters, raising opinions, comments, and suggestions as necessary.
- (3) In order to ensure the effectiveness of the overall Board of Directors, the Board of Directors analyzed and evaluated in June 2019 by surveying all Directors, including Outside Directors, and all Audit & Supervisory Board Members, including Outside Audit & Supervisory Board Members, in May 2019. A summary of the evaluation is available in the Corporate Governance Report. The results of the investigation confirmed that the Board of Directors operates in an effective and appropriate manner. However, there were also several constructive points, such as presentation of improvements regarding the succession plans for the CEO and other officers and diversity of the Board of Directors. Therefore, the Company will discuss these points and work to ensure greater effectiveness.
- (4) The Company revised the policy related to the Corporate Governance Code.
- (5) The Nomination Committee deliberated on nomination of each candidate for Director, Audit & Supervisory Board Member, and Executive Officer in accordance with policies on the selection/removal of officers set by the Company and reported on those deliberations to the Board of Directors.
- (6) The Executive Compensation Committee deliberated on remuneration for Directors and Executive Officers and reported on those deliberations to the Board of Directors.
- (7) The Company examined sales of its strategic shareholdings and sold off as much as possible in accordance with the policy on strategic shareholdings set by the Company.
- (8) In accordance with the Internal Audit Rules, the Internal Audit Office worked with Audit & Supervisory Board Members and the Accounting Auditor to implement internal control audit over financial reporting and operating audits. To ensure reliable financial reporting, the Company evaluated the development and operational status of the Company's internal controls and those of its subsidiaries above a certain scale. In addition, the Company was subject to an internal control audit performed by the Accounting Auditor.
- (9) In order to conduct timely, appropriate disclosure to all stakeholders, including shareholders and investors, and maintain the fairness and transparency of management, the Company held a quarterly earnings briefing for institutional investors and analysts and a company explanatory meeting for individual investors.
- (10) The directors and executive officers who supervise the subsidiaries served concurrently as directors or Audit & Supervisory Board Members of the subsidiaries. They attended meetings of the subsidiaries' boards of directors and audited and monitored the execution of duties by the directors.
- (11) The Company properly stores and manages minutes of Board of Directors meetings, draft proposals, etc., as stipulated in the in-house rules on document management.

3. General matters concerning compliance

- (1) The Crisis & Compliance Management Committee (hereinafter, the “C&C Management Committee”), which is responsible for the promotion of compliance and crisis response held 17 meetings, which include both regular and emergency meetings, deliberated on issues, such as lawsuits and disputes the Group is involved in, reports on internal problems, business-related risks, etc., set basic policy, and implemented measures.
- (2) The Company formulated a KITZ’s Statement of Corporate Mission, Action Guide, and code of conduct related to compliance as guidelines for the behavior of all the Company’s Directors, Executive Officers, employees, as well as directors and employees of its subsidiaries, and corporate activity; these items were put into practice with the President and Chief Executive Officer of the Company serving as an example; and laws, ordinances, and corporate ethics were thoroughly adhered to.
In addition, the Company has expanded the scope of the compliance system to overseas subsidiaries and working to raise awareness of compliance through various efforts, including creating local translations of the compliance program.
- (3) The Company conducted a compliance survey of all employees of the Company and subsidiaries in Japan to measure employee’s awareness of compliance and promoted improvements when necessary.
- (4) There is a system that makes it possible to quickly report to or directly seek advice from the C&C Management Committee, responsible attorney at the law offices of the advising attorney, Audit & Supervisory Board Member, etc., if it is discovered that Directors, Executive Officers, or employees of the Company, or directors or employees of its subsidiaries violated laws, regulations, the Articles of Incorporation, or rules, etc., or there are concerns that they may have. Taking into consideration the results of the compliance survey, the system was revised to promote greater use. In addition, actual whistle-blowing reports received and a summary of the response are reported at the Board of Directors meetings each year.
- (5) The Company worked to raise awareness of and increase knowledge of compliance by having various bodies, including the Legal Department and Internal Audit Office strategically conducted in-house seminars related to the KITZ’s Statement of Corporate Mission, internal controls, compliance, internal audits, security trade controls, information security (personal information, etc.), intellectual property, and general corporate legal matters to the Directors, Executive Officers, and employees of the Company and directors and employees of its subsidiaries. In addition, taking into consideration the results of the compliance survey, a seminar on harassment was held for officers, managers, and employees of all subsidiaries in Japan.

4. General matters concerning risk management

- (1) The Company pursued initiatives aimed at further enhancing the business continuity planning of the Group as a whole mainly by the Business Continuity Management Taskforce, which is led by an executive officer responsible for risk management.
- (2) Led by an officer responsible for risk management, the C&C Management Committee identified risks in the Group, and developed procedures and standards to analyze and evaluate risks. In addition, based on those, a mechanisms was established to continue to evaluate all identified risks, identify material risk items, and verify that countermeasures should be implemented.
- (3) The Investment and Loans Review Committee held 7 meetings (on an ad-hoc basis). The committee comprehensively reviewed material investments and loans of the Company and its subsidiaries and determined whether to promote, modify, or suspend the plan.

(4) The Group-wide Security Trade Control Committee, the company-wide Environment and Safety & Health Committee, the Quality Assurance Committee, and the Information Security and Personal Information Protection Committee held regular meetings. These committees reviewed legal matters concerning the Company and its subsidiaries as well as other specific issues, and formulated basic policies as well as implemented measures.

5. General matters concerning Audit & Supervisory Board Members

- (1) During the 106th term, the Audit & Supervisory Board held 15 meetings as well as four (4) sessions for exchanging opinions with the President, and reported and shared views on the audit results. The Auditors Board Office provided the Audit & Supervisory Board Members with information concerning the members' auditing duties, and facilitated the audit duties of its members while liaising with the Accounting Auditor and other parties to enhance the effectiveness of the Audit & Supervisory Board.
- (2) Standing Audit & Supervisory Board Members made use of the Auditors' Board Office in Chino plant and efficiently conducted audits of factories and peripheral Group companies.
- (3) To strengthen collaboration with the Accounting Auditor and the Internal Audit Office, the Audit & Supervisory Board organized six (6) meetings of Tripartite Audit Assembly and made efforts to enhance the effectiveness and efficiency of each audit. At two (2) of those meetings, information and opinions were exchanged as Four-Party Audit and Supervision Meeting with Outside Directors to link audit and supervisory functions.
- (4) To monitor and evaluate the internal controls within the Group, the Standing Audit & Supervisory Board Members served concurrently as corporate auditors of Group companies in Japan, China, and Taiwan, and audited the execution of duties of the directors in the boards of directors of these Group companies, expressing their opinion as necessary.

5. Matters concerning the Basic Policy on the Control of the Company

The Company has not currently introduced defensive measures against hostile takeovers.

6. Policy concerning the Exercise of Rights in the Case that the Company's Articles of Incorporation Stipulate that the Board of Directors Determines Dividends of Surplus

The Company regards the return of profits to shareholders in the form of dividends as a key management priority. Its basic policy is to pay dividends commensurate with current business trends as well as its various financial needs, which may include capital expenditure for future business expansion, research and development expenditure, funding for M&A activities, repayment of debts, or redemption of bonds. In paying dividends, the Company also aims to secure adequate internal reserves while also taking into full consideration the need for continuous and stable payment of dividends.

As part of the fourth phase of the medium-term management plan, which started in the fiscal year under review, the Company raised the desirable level of payout ratio by 10% to about 35% of net income attributable to owners of parent from the previous level of about 25% to enhance the return of profit to shareholders through dividend payments.

Guided by the aforementioned policy, the Company resolved to pay a year-end dividend ¥10 per share for the year ended March 2020. Accordingly, the Company paid ¥20 per share as cash dividends for the fiscal year ended March 2020, including the interim payment (¥10 per share), and the consolidated dividend payout ratio came to 37.7%.

With the inclusion of the ¥1,857 million in treasury stock that the Company acquired during the current fiscal year pursuant to a resolution of the Board of Directors at a meeting held on March 14, 2019, and the ¥243 million in treasury stock that the Company acquired pursuant to a resolution of the Board of Directors at a meeting held on March 13, 2020, the total amount of shareholder returns came to ¥3,961 million, and a consolidated total payout ratio of 80.2%.

We have left the annual dividend for the next fiscal year undecided because it is difficult to provide a forecast of consolidated financial results.

Note: The monetary figures in this business report are rounded down to the nearest whole unit.

Consolidated Financial Statements

Consolidated Balance Sheet (as of March 31, 2020)

(Units: Millions of yen)

Item	Amount	Item	Amount
<i>Assets</i>		<i>Liabilities</i>	
Current assets	73,351	Current liabilities	25,036
Cash in hand and in banks	18,696	Notes, accounts payable—trade	7,289
Notes, accounts receivable—trade	19,217	Current portion of corporate bonds	474
Electronically recorded monetary claims	8,344	Short-term borrowings	6,674
Merchandise and finished goods	9,941	Current portion of long-term debt	1,927
Work in process	5,990	Income taxes payable	750
Raw materials and supplies	8,044	Consumption tax payable	307
Other	3,261	Accrued bonuses to employees	2,235
Less: Allowance for doubtful accounts	(145)	Accrued bonuses to directors	158
		Other	5,218
Fixed assets	61,712		33,147
Property, plant and equipment	44,241	Corporate bonds	21,429
Buildings and structures	10,818	Long-term debt	7,310
Machinery, equipment and vehicles	14,220	Deferred tax liabilities	859
Tools, furniture and fixtures	5,228	Accrued retirement benefits to directors	356
Land	10,549	Allowance for stock benefit for directors and operating officers	176
Construction in progress	2,056	Retirement benefit liabilities	732
Other	1,367	Asset retirement obligations	414
Intangible assets	7,639	Other	1,869
Goodwill	646		58,184
Other	6,993	<i>Net assets</i>	
Investments and other assets	9,831	Shareholders' equity	75,032
Investments in securities	5,607	Common stock	21,207
Retirement benefit assets	293	Capital surplus	5,674
Deferred tax assets	1,246	Retained earnings	54,404
Other	2,685	Treasury stock	(6,254)
Less: Allowance for doubtful accounts	(2)		542
		Net unrealized gains on other securities	856
		Deferred gains or losses on hedges	5
		Translation adjustments	(316)
		Cumulative adjustments related to retirement benefits	(3)
			1,304
Total assets	135,063	Total net assets	76,879
		Total liabilities and net assets	135,063

Consolidated Statements of Income (From April 1, 2019 to March 31, 2020)

(Units: Millions of yen)

Item	Amount
Net sales	127,090
Cost of sales	93,560
Gross profit	33,530
Selling, general and administrative expenses	26,580
Operating income	6,950
Non-operating income	
Interest and dividend income	292
Insurance income	155
Subsidy income	321
Other	467
	1,236
Non-operating expenses	
Interest expenses	283
Sales discount	373
Losses on sales of notes receivable	22
Exchange losses	64
Other	201
	945
Ordinary income	7,241
Extraordinary income	
Gain on sales of property, plant and equipment	14
Gain on sales of investment securities	355
Other	5
	375
Extraordinary loss	
Losses on sales or disposal of property, plant and equipment	74
Loss on retirement of intangible assets	22
Impairment loss	24
Loss on valuation of investment securities	99
Other	7
	228
Net income before income taxes	7,387
Income taxes (income, residential and enterprise taxes)	2,024
Income tax adjustment	339
	2,364
Net income	5,023
Net income attributable to non-controlling interests	86
Net income attributable to owners of the parent	4,937

Consolidated Statements of Changes in Net Assets (From April 1, 2019 to March 31, 2020)

(Units: Millions of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of start of current fiscal year	21,207	5,674	51,562	(4,032)	74,411
Cumulative effects of changes in accounting policies			(16)		(16)
Restated balance	21,207	5,674	51,545	(4,032)	74,394
Changes during fiscal year					
Dividends from surplus			(2,078)		(2,078)
Net income attributable to owners of the parent			4,937		4,937
Acquisition of treasury stock				(2,229)	(2,229)
Sales of treasury stock				7	7
Items other than changes in shareholders' equity, net					
Total change during fiscal year	–	–	2,858	(2,221)	637
Balance as of end of current fiscal year	21,207	5,674	54,404	(6,254)	75,032

	Accumulated other comprehensive income					Non-controlling interests	Total net assets
	Net unrealized gains on other securities	Deferred gains or losses on hedges	Translation adjustments	Cumulative adjustments related to retirement benefits	Total accumulated other comprehensive income		
Balance as of start of current fiscal year	1,333	–	(254)	107	1,185	1,232	76,829
Cumulative effects of changes in accounting policies	16				16		–
Restated balance	1,349	–	(254)	107	1,202	1,232	76,829
Changes during fiscal year							
Dividends from surplus							(2,078)
Net income attributable to owners of the parent							4,937
Acquisition of treasury stock							(2,229)
Sales of treasury stock							7
Items other than changes in shareholders' equity, net	(492)	5	(61)	(110)	(659)	72	(587)
Total change during fiscal year	(492)	5	(61)	(110)	(659)	72	49
Balance as of end of current fiscal year	856	5	(316)	(3)	542	1,304	76,879

Non-consolidated Financial Statements

Non-consolidated Balance Sheet (as of March 31, 2020)

(Units: Millions of yen)

Item	Amount	Item	Amount
<i>Assets</i>		<i>Liabilities</i>	
Current assets	40,655	Current liabilities	22,147
Cash in hand and in banks	10,243	Accounts payable—trade	4,629
Notes receivable - trade	573	Current portion of corporate bonds	474
Electronically recorded monetary claims	5,942	Short-term borrowings	12,074
Accounts receivable - trade	8,309	Current portion of long-term debt	1,498
Merchandise and finished goods	3,480	Income taxes payable	75
Work in process	2,597	Accrued bonuses to employees	1,198
Raw materials and supplies	1,729	Accrued bonuses to directors	44
Short-term loans receivable	5,577	Other	2,151
Other	2,203		27,459
Less: Allowance for doubtful accounts	(2)	Long-term liabilities	
		Corporate bonds	21,429
Fixed assets	61,914	Long-term debt	4,613
Property, plant and equipment	15,710	Allowance for stock benefit for directors and operating officers	176
Buildings	2,596	Other	1,240
Structures	400		49,606
Machinery and equipment	3,823	<i>Net assets</i>	
Tools, furniture and fixtures	4,507	Shareholders' equity	52,110
Land	3,784	Common stock	21,207
Construction in progress	450	Capital surplus	5,715
Other	146	Legal capital surplus	5,715
Intangible assets	6,429	Other capital surplus	0
Investments and other assets	39,774	Retained earnings	31,442
Investments in securities	3,651	Other retained earnings	31,442
Stocks of subsidiaries and affiliates	28,414	Retained earnings brought forward	31,442
Long-term loans receivable	7,313	Treasury stock	(6,254)
Deferred tax assets	622		852
Other	2,021	Valuation and translation adjustments	
Less: Allowance for doubtful accounts	(2,248)	Net unrealized gains on other securities	847
Total assets	102,569	Deferred gains or losses on hedges	5
		Total net assets	52,962
		Total liabilities and net assets	102,569

Non-consolidated Statements of Income (From April 1, 2019 to March 31, 2020) (Units: Millions of yen)

Item	Amount
Net sales	64,137
Cost of sales	47,574
Gross profit	16,562
Selling, general and administrative expenses	14,342
Operating income	2,220
Non-operating income	
Interest and dividend income	2,797
Insurance income	123
Other	59
	2,980
Non-operating expenses	
Interest expenses	198
Sales discount	204
Exchange losses	35
Other	79
	518
Ordinary income	4,681
Extraordinary income	
Gain on sales of property, plant and equipment	5
Gain on sales of investment securities	332
Other	1
	340
Extraordinary loss	
Losses on sales or disposal of property, plant and equipment	24
Impairment loss	24
Loss on valuation of investment securities	99
Loss on valuation of stocks of subsidiaries and affiliates	472
Other	22
	643
Net income before income taxes	4,378
Income taxes (income, residential and enterprise taxes)	556
Income tax adjustment	177
Net income	3,645

Non-consolidated Statements of Changes in Net Assets (From April 1, 2019 to March 31, 2020)

(Units: Millions of yen)

	Shareholders' equity					
	Common stock	Capital surplus		Retained earnings	Treasury stock	Total shareholders' equity
		Legal capital surplus	Other capital surplus	Other retained earnings		
Balance as of start of current fiscal year	21,207	5,715	0	29,875	(4,032)	52,764
Changes during fiscal year						
Dividends from surplus				(2,078)		(2,078)
Net income				3,645		3,645
Acquisition of treasury stock					(2,229)	(2,229)
Sales of treasury stock			(0)		7	7
Items other than changes in shareholders' equity, net						
Total change during fiscal year	–	–	(0)	1,566	(2,221)	(654)
Balance as of end of current fiscal year	21,207	5,715	0	31,442	(6,254)	52,110

	Valuation and translation adjustments			Total net assets
	Net unrealized gains on other securities	Deferred gains or losses on hedges	Total valuation and translation adjustments	
Balance as of start of current fiscal year	1,314	–	1,314	54,079
Changes during fiscal year				
Dividends from surplus			(2,078)	
Net income			3,645	
Acquisition of treasury stock			(2,229)	
Sales of treasury stock			7	
Items other than changes in shareholders' equity, net	(467)	5	(461)	(461)
Total change during fiscal year	(467)	5	(461)	(1,116)
Balance as of end of current fiscal year	847	5	852	52,962

Auditor's Reports

Accounting Audit Report on the Consolidated Financial Statements

Independent Auditor's Report (Translation)

May 20, 2020

To the Board of Directors
KITZ Corporation

Ernst & Young ShinNihon LLC
Tokyo, Japan

Koichi Yanai	Certified Public Accountant
	Designated and Engagement Partner
Yuhei Ohno	Certified Public Accountant
	Designated and Engagement Partner

Audit Opinion

Pursuant to Article 444, Item 4 of the Companies Act, we have audited the accompanying consolidated financial statements, which comprise the Consolidated Balance Sheet, the Consolidated Statements of Income, the Consolidated Statements of Changes in Net Assets and the Notes to the Consolidated Financial Statements of KITZ Corporation (the "Company") applicable to the fiscal year from April 1, 2019, through March 31, 2020. In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position and results of operations of the Group, which consisted of the Company and its consolidated subsidiaries, applicable to the fiscal year ended March 31, 2020, in accordance with accounting principles generally accepted in Japan.

Basis for Audit Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company and its subsidiaries in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management, Audit & Supervisory Board Members and the Audit & Supervisory Board for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing whether it is appropriate to prepare the consolidated financial statements with the assumption of the Group's ability to continue as a going concern and disclosing, as required by accounting principles generally accepted in Japan, matters related to going concern.

Audit & Supervisory Board Members and the Audit & Supervisory Board are responsible for overseeing the Directors' performance of duties within the maintenance and operation of the financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our responsibilities are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion on the consolidated financial statements based on our audit from an independent point of view. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate they could reasonably be expected to influence the decisions of users taken on the basis of the consolidated financial statements.

In accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. Selecting audit procedures

to be applied is at the discretion of the auditor. Obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

- In making those risk assessments, we consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used by management and their method of application, as well as the reasonableness of accounting estimates by management and related notes thereto.
- Conclude on the appropriateness of management's use of the going concern basis for preparing the consolidated financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related notes to the consolidated financial statements or, if the notes to the consolidated financial statements on material uncertainty are inadequate, to express a qualified opinion with exceptions on the consolidated financial statements. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation of the consolidated financial statements and the notes thereto are in accordance with accounting standards generally accepted in Japan, as well as evaluate the overall presentation, structure and content of the consolidated financial statements, including the related notes thereto, and whether the consolidated financial statements fairly represent the underlying transactions and accounting events.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the Company and its subsidiaries to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit of the consolidated financial statements. We remain solely responsible for our audit opinion.

We communicate with the Audit & Supervisory Board Members and the Audit & Supervisory Board regarding the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit, and other matters required by auditing standards.

We also provide the Audit & Supervisory Board Members and the Audit & Supervisory Board with a statement that we have complied with the ethical requirements in Japan regarding independence that are relevant to our audit of the financial statements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards in order to eliminate or reduce obstruction factors.

Conflicts of Interest

We have no interest in the Company or its consolidated subsidiaries which should be disclosed in compliance with the Certified Public Accountants Act.

Accounting Audit Report on the Non-consolidated Financial Statements

Independent Auditor's Report (Translation)

May 20, 2020

To the Board of Directors
KITZ Corporation

Ernst & Young ShinNihon LLC
Tokyo, Japan
Koichi Yanai Certified Public Accountant
Designated and Engagement Partner
Yuhei Ohno Certified Public Accountant
Designated and Engagement Partner

Audit Opinion

Pursuant to Article 436, Item 2, Paragraph 1 of the Companies Act, we have audited the accompanying financial statements, which comprise the Non-consolidated Balance Sheet, Non-consolidated Statement of Income, Non-consolidated Statements of Changes in Net Assets, Notes to the Non-consolidated Financial Statements and the related supplementary schedules (the "Non-consolidated Financial Statements") of KITZ Corporation (the "Company") applicable to the 106th fiscal year from April 1, 2019, through March 31, 2020.

In our opinion, the Non-consolidated Financial Statements referred to above present fairly, in all material respects, the financial position and results of operations of the Company, applicable to the fiscal year ended March 31, 2020, in accordance with accounting principles generally accepted in Japan.

Basis for Audit Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Non-consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Non-consolidated Financial Statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management, Audit & Supervisory Board Members and the Audit & Supervisory Board for the Non-consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the Non-consolidated Financial Statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the Non-consolidated Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Non-consolidated Financial Statements, management is responsible for assessing whether it is appropriate to prepare the Non-consolidated Financial Statements with the assumption of the Group's ability to continue as a going concern and disclosing, as required by accounting principles generally accepted in Japan, matters related to going concern.

Audit & Supervisory Board Members and the Audit & Supervisory Board are responsible for overseeing the Directors' performance of duties within the maintenance and operation of the financial reporting process.

Auditor's Responsibilities for the Audit of the Non-consolidated Financial Statements

Our responsibilities are to obtain reasonable assurance about whether the Non-consolidated Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion on the Non-consolidated Financial Statements based on our audit from an independent point of view. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate they could reasonably be expected to influence the decisions of users taken on the basis of the Non-consolidated Financial Statements.

In accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Non-consolidated Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. Selecting audit procedures to be applied is at the discretion of the auditor. Obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

- In making those risk assessments, we consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the purpose of the audit of the Non-consolidated Financial Statements is not expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used by management and their method of application, as well as the reasonableness of accounting estimates by management and related notes thereto.
- Conclude on the appropriateness of management's use of the going concern basis for preparing the Non-consolidated Financial Statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related notes to the Non-consolidated Financial Statements or, if the notes to the Non-consolidated Financial Statements on material uncertainty are inadequate, to express a qualified opinion with exceptions on the Non-consolidated Financial Statements. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation of the Non-consolidated Financial Statements and the notes thereto are in accordance with accounting standards generally accepted in Japan, as well as evaluate the overall presentation, structure and content of the Non-consolidated Financial Statements, including the related notes thereto, and whether the Non-consolidated Financial Statements fairly represent the underlying transactions and accounting events.

We communicate with the Audit & Supervisory Board Members and the Audit & Supervisory Board regarding the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit, and other matters required by auditing standards.

We also provide the Audit & Supervisory Board Members and the Audit & Supervisory Board with a statement that we have complied with the ethical requirements in Japan regarding independence that are relevant to our audit of the financial statements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards in order to eliminate or reduce obstruction factors.

Conflicts of Interest

We have no interest in the Company which should be disclosed in compliance with the Certified Public Accountants Act.

Audit Report of the Audit & Supervisory Board

Audit Report

With respect to the Directors' performance of their duties during the 106th business year (from April 1, 2019 through March 31, 2020), the Audit & Supervisory Board has prepared this audit report after deliberations based on the audit report prepared by each Audit & Supervisory Board Member, and hereby reports as follows as the consensus of opinion of the Audit & Supervisory Board Members.

1. Method and Contents of Audit by Audit & Supervisory Board Members and the Audit & Supervisory Board
 - (1) In accordance with the Rules of the Audit & Supervisory Board, the Audit & Supervisory Board undertook the necessary reviews as described below.
 - (i) We have established the audit policies, audit plans and other relevant matters for the fiscal year, received a report regularly from each of the Audit & Supervisory Board Member regarding the status of implementation of their audits and results thereof, and reviewed the performance of directors' duties.
 - (ii) We had regular opportunities for exchanging opinions with the President, and then reported and shared views on the audit results, while receiving reports from directors, employees, and other relevant persons as necessary.
 - (iii) We invited the accounting auditor and the General Manager of the Internal Audit Office to our regular meetings and made efforts to facilitate tripartite collaboration in audits and enhance the effectiveness and efficiency of each audit. In addition, we worked to facilitate mutual communication, together with outside Directors as deemed appropriate, and strengthen cooperation with auditing and supervisory function.
 - (iv) We received regular reports from the accounting auditor on application of the "Principles for effective management of audit firms (the audit firm governance code)" (Financial Services Agency, March 2017) and the measures for securing the quality of its audits, and sought explanations as necessary. We also examined whether it would be appropriate to re-elect the accounting auditor for the next fiscal year in light of the evaluation standards and policies for determining the dismissal or non-reappointment of the accounting auditor.
 - (2) Each Audit & Supervisory Board Member complied with the auditing standards of Audit & Supervisory Board Members established by the Audit & Supervisory Board, followed the auditing policies, allocation of duties, and other relevant matters, communicated with such as the Directors, the General Manager of the Internal Audit Office and other employees, made efforts to establish the environment for collecting information and auditing, and conducted the audit by the following methods.
 - (i) Each Audit & Supervisory Board Member participated in the meetings of the Board of Directors and other important meetings, received reports from the Directors, employees, and other relevant persons on the performance of their duties, and requested explanations as necessary. In addition, each Audit & Supervisory Board Member inspected important approval/decision documents, and investigated the status of the corporate affairs and assets at the Head Office and other principal business locations.
 - (ii) Regarding the subsidiaries, two standing Audit & Supervisory Board Members served concurrently as Audit & Supervisory Board Member of domestic subsidiaries, and audited the execution of duties of the subsidiaries' Boards of Directors. The Members also attended meetings of the subsidiaries' Boards of Directors, including those overseas, and received reports on the operations and assets of each subsidiary as well as the development and operational status of Internal Control System therein. The Members also communicated with the Directors and other relevant persons of the subsidiaries, and, where necessary, investigated the relevant subsidiaries' operations and other relevant matters.
 - (iii) The Audit & Supervisory Board Members examined the appropriateness of the Board of Directors' resolutions regarding the development and maintenance of the Internal Control System described in the business report;
 - i) the system for ensuring that the performance of duties by the Directors conforms to the applicable laws and regulations and Articles of Incorporation, and
 - ii) the system stipulated in Article 100, Item 1 and Item 3 of the Enforcement Regulations of the Companies Act, which are necessary for ensuring the properness of operations of the enterprises consisting of the Company and its subsidiaries.

	<p>The Board Members also received reports regarding the development and operation status at the Board of Directors and other relevant bodies and expressed opinions as necessary. With regard to the aspects of the Internal Control System that concern financial reporting, the Audit & Supervisory Board Members received reports at the Board of Directors and other relevant bodies, and also received periodic reports from Ernst & Young ShinNihon LLC and the General Manager of the Internal Audit Office regarding the status of the evaluation and audit of the Internal Control System.</p> <p>(iv) Through communicating with the accounting auditor, each Audit & Supervisory Board Member monitored and verified whether the accounting auditor maintained its independence and properly conducted its audit, received a report regularly from the accounting auditor on its audit plans and the status of its performance of duties, and requested explanations as necessary. Also, we reviewed the appropriateness of the audit procedures and audit results by the accounting auditor. In addition, we received notice from the Accounting Auditor that “System for ensuring that duties are performed properly” (matters set forth in each item of Article 131 of the Company Accounting Regulations) is organized in accordance with the “Quality Management Standards Regarding Audits” (Business Accounting Council, October 28, 2005) and other relevant standards, and sought explanations as necessary.</p>
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Based on the above methods, each Audit & Supervisory Board Member examined the business report and the accompanying detailed statements, the non-consolidated financial statements (balance sheet, statement of income, statements of changes in net assets, and notes to non-consolidated financial statements) and the related supplementary schedules as well as the consolidated financial statements (consolidated balance sheet, consolidated statements of income, consolidated statements of net assets, and notes to consolidated financial statements) for the fiscal year under review.

2. Results of Audit

(1) Results of Audit of Business Report and Other Relevant Documents

- (i) We confirm that the business report and the accompanying detailed statements fairly represent the Company's conditions in accordance with the related laws and regulations and Articles of Incorporation.
- (ii) We have found no significant evidence of wrongful act or violation of related laws and regulations, nor the Articles of Incorporation with regard to the execution of duties by the Directors.
- (iii) We confirm that the content of the resolution of the Board of Directors regarding the Internal Control System is proper. In addition, we have found no matters on which to remark in regard to the description of the business report and the execution of duties by the Directors regarding the Internal Control System.

(2) Result of the Audit of the Non-consolidated Financial Statements and the Related Supplementary Schedules

We confirm that the methods and results of the audit conducted by the Accounting Auditor, Ernst & Young ShinNihon LLC are proper.

(3) Result of the Audit of the Consolidated Financial Statements

We confirm that the methods and results of the audit conducted by the Accounting Auditor, Ernst & Young ShinNihon LLC are proper.

3. Decision to Re-elect the Accounting Auditor

As a result of its review, the Audit & Supervisory Board has determined that Ernst & Young ShinNihon LLC should be re-elected as the accounting auditor for the 107th fiscal year ending March 31, 2021.

May 22, 2020

Audit & Supervisory Board of Kitz Corporation
 Standing Audit & Supervisory Board Member Masahiko Kondo
 Standing Audit & Supervisory Board Member Taro Kimura
 Outside Audit & Supervisory Board Member Tatsuhiko Takai
 Outside Audit & Supervisory Board Member Shuhei Sakuno
 Outside Audit & Supervisory Board Member Ayako Kobayashi