

CORPORATE GOVERNANCE REPORT

KITO CORPORATION

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KITO CORPORATION

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The status of corporate governance of the Company is as follows.

I. Basic Stance on Corporate Governance, Capital Structure, Corporate Attributes and Other Basic Information

1. Basic Stance

KITO CORPORATION recognizes that delivering unmatched satisfaction to its customers is the main reason for its existence and considers the enhancement of shareholder's value as its most important management task. To this end, KITO positions the KITO Compliance Manual (Corporate Code of Conduct) (See below), at the core of its corporate philosophy and makes prompt management decisions that reflect the changes in society and the economic environment.

KITO, in light of the above, will strive to improve its corporate governance, by engaging in such initiatives as the improvement of the general meeting of shareholders, reinforcement of the supervisory function of the Board of Directors' meeting, reinforcement of the audit functions of corporate auditors and increasing the sophistication of its disclosure.

<KITO Compliance Manual (Corporate Code of Conduct)>

1. Respect human rights and build a corporate environment that brings out the motivation and abilities of the employees.
 - 1) Respect human rights and build a corporate environment where the joy of work can be shared.
 - 2) Prohibit gender-, sexual- and power-harassment.
 - 3) Ensure the safety and health of the work place.
2. Ensure fair and transparent corporate activities based on the strict observance of laws and ordinances, internal rules and the rules of society.
 - 1) Comply with the antimonopoly law and related laws, various industry laws and laws on security export.
 - 2) Do not infringe the intellectual property rights of others and refrain from acts of unfair competition.
 - 3) Refrain from acts that violate insider trader restrictions.
 - 4) Eliminate all ties with antisocial forces.
 - 5) Do not give excessive gifts or engage in excessive entertainment.
 - 6) Draw a line between public and private matters, and do not engage in acts that involve conflicts of interest.
 - 7) Comply with internal rules and internal disciplinary rules.
 - 8) Observe the laws of society and act as a sensible member of society.
3. Exercise control over corporate information and do not disclose any information without prior consent.
 - 1) Handle information including confidential information and personal information properly.
 - 2) Disclose business information in a timely manner.
4. Upgrade and enhance communication with society and aim for prosperity together with society.
 - 1) Proactively tackle environmental problems.
 - 2) Build a favorable relationship with the regional community.

[The reason why the Company doesn't comply with each principle stipulated in the Corporate Governance Code.]

[Supplementary Principle 4.11.3] "Analysis and Evaluation on the Effectiveness of the Board of Directors"

Although the Company does not analyze or evaluate the board of directors on a regular basis at this moment, it will, in the future, identify challenges to improve effectiveness of the board of directors, take necessary measures and analyze and evaluate the board of directors on a regular basis to verify the results thereof by operating the PDCA cycle. A summary of the analysis and evaluation methods and results thereof will be disclosed when the methods have been fixed and put into operation.

[Disclosure based on each principle stipulated in the Corporate Governance Code.]

For the Basic policy on the Company's Corporate Governance, in addition to this report, it is also appeared on the Company's website. (<http://kito.com/csr/governance.shtml>)

[Principle 1.4] "Cross-Shareholding"

(1) Policies for Holding of Shares for Political Purposes

The Company will hold listed shares of its business partners for political purposes only in the cases that the holding of the shares including the number of shares to be held is deemed rational when its importance in the Company's business strategies and business relationship with the trading partners are comprehensively considered. The rationality for holding such shares will be verified on a regular basis.

(2) Exercise of Voting Rights

The Company will make a decision concerning the exercise of its voting rights in terms of each agenda after confirming, while respecting the management policies of the companies it invests in, the attitude toward returns to its shareholders, corporate governance, contribution to the increase in the Company's corporate value on a medium to long-term basis as well as the prospect of its business relationship with the Company in the future and its corporate social responsibility.

[Principle 1.7] "Related Party Transactions"

Conflict-of-interest transactions between the Company and its director, executive manager or controlling shareholder or competing transactions by the Company's director or executive manager, if any, will be subject to presentation to the board of directors for approval pursuant to the provisions of the Regulations of the Board of Directors.

[Principle 3.1] "Full Disclosure"

(i) The aim by the Company, such as Corporate Mission, Management Strategies and Management Plans

(1) The board of directors will establish corporate identity, management strategies and management plans and publicize them in the Company's website. The management strategies and management plans will be disclosed when they are determined.

(2) The Company will define the following points as its group's corporate mission, recognize it as its group's value of existence to satisfy and impress its customers and define it as one of its most important management challenges to enhance the shareholders' value by making decisions promptly to cope with the changes in social and economic environments in compliance with the KITO Compliance Manual (code of corporate ethics) taken as the basis of its corporate ethics. Based on the above, the Company will make efforts to enhance general shareholders' meetings, improve supervisory functions of the board of directors and audit functions of the corporate auditors and sophisticate the disclosure of information.

- i KITO' Mission: Deliver Unmatched Satisfaction to Our Customers
- ii KITO's Quality: Our Driving "Spirit" is "Quality"
- iii KITO's Innovation: Change and Challenge Always
- iv Value of KITO people: Integrity, Honesty, Pride and Gratitude

(ii) Basic Concept and Basic Policy on Corporate Governance based on each principles of the Corporate Governance Code

The Company will, with the aim of achieving sustainable growth and improvement of corporate value on a medium to long-term basis, make efforts to enhance corporate governance in accordance with the

basic concepts described below based on the belief that the essence of corporate governance lies in increasing the dynamism of management by securing the transparency and fairness thereof and making management decisions in a prompt and decisive manner.

- (1) To respect the rights of the shareholders and secure equality among them,
- (2) To consider the interests of the stakeholders including the shareholders and cooperate with them in an appropriate manner,
- (3) To disclose corporate information in an appropriate manner to secure transparency of management,
- (4) To have the board of directors, taking into account the fiduciary responsibility and accountability to shareholders, enhance separation of the execution of management from the supervision thereof and the function of management supervision by outside directors to ensure the sustainable growth of the Company, enhancement of corporate value on a medium to long-term basis, and improvement of profitability and capital efficiency, and
- (5) To have constructive dialogue with the shareholders.

(iii) Policies and procedures when the Board of Directors to determine the compensation of senior management executives and directors

- (1) Compensation for directors other than the outside directors and executive officers will comprise basic compensation provided in fixed amounts and performance-based bonus.
- (2) The performance-based bonus will be discussed and determined by the board of directors based on the overall consideration and evaluation of the respective directors' and executive officers' contribution to the Company's performance, and to the performance and results of the divisions for which they are responsible by the Nominating and Compensation Committee. Evaluation of the performance of the President & CEO will be made by the outside directors and determined by the board of directors.
- (3) Compensation for the outside directors will comprise only the compensation in the fixed amounts, which will be discussed and determined by the board of directors at the times of their assumption of office and revision of the compensation.

(iv) Policies and procedures when the Board of Directors to determine election of Senior Management Executives, Directors and Corporate Auditors

- (1) For the candidates of Directors, the Company elects persons who can fulfill their duties and responsibilities to respond to shareholders' trust on a fully consideration of the following points. Based on this policy, the Company institutionalized that the candidates shall be recommended by Nominating and Compensation Committee to the Board of Directors and the Board of Directors decides candidates.
 - (a) Personality and insight
 - (b) The balance and diversity of knowledge, experience and capability as the entire board of directors to achieve sustainable growth and long-term improvement of corporate value.
 - (c) For outside directors, elect from business owners and academic experts, etc considering their experiences, insights and expertise.
 - (d) For company directors, elect candidates from experienced person of sales, production and planning, research and development and management.
- (2) It is a policy of the Company to elect as candidates for its corporate auditors competent persons who, when the importance of the audits and corporate auditors' functions as well as their personalities and insights are fully considered, are expected to carry out their duties as the corporate auditors. Based on this policy, it will be required institutionally to have the candidates for the corporate auditors recommended to the board of directors by the Nominating and Compensation Committee. The candidates will be finally decided when the consent of the board of corporate auditors to presenting the agenda for their appointment to the general shareholders' meeting has been obtained.
- (3) It is a policy of the Company to elect as candidates for its executive officers competent persons who, when their personalities and insights are fully considered, are expected to carry out their duties and responsibilities as executive officers in response to the board of directors' expectations concerning the execution of the businesses. Based on this policy, it will be determined as follows:
 - (a) Candidates for executive officers other than the senior executive officers will be determined by the board of directors.

- (b) Candidates for senior executive officers will be recommended to the board of directors by the Nominating and Compensation Committee for a decision.

(v) Explanation for an individual appointment and nomination when board of directors at performs the nomination of election and the directors and corporate auditors candidate of management executives in light of the above (iv),

The board of directors will, when appointing the senior management executives and nominating the candidates for directors and corporate auditors, disclose the appointment and nomination in the notice of convocation and the Company's website.

[Supplementary Principle 4.1.1] "Business Execution Matters that have to be determined solely by the Board of Directors under laws and regulations"

- (1) The board of directors will, based on the fiduciary responsibility and accountability toward the shareholders, be responsible for realizing efficient and effective corporate governance and for trying to secure sustainable growth and increase in the corporate value of the Company on a medium to long-term basis through efficient and effective corporate governance.
- (2) The board of directors will, for the purpose of fulfilling the responsibility and accountability described in the preceding paragraph, exercise its supervisory function over the overall management of the Company to secure fairness and transparency therein and make best decisions for the Company through the election and evaluation of the President and other executive managers and determination of compensation for them, assessment of serious risks facing the Company and development of measures against them and decision of execution of important businesses of the Company in compliance with the applicable laws, ordinances and internal regulations. The board of directors will also determine the matters it is authorized to resolve and decision-making authority of the executive managers to clarify the scope of delegation of authority to the executive management.

[Principle 4.8] "Effective Use of Independent Directors" & [Principle 4.9] "Independence Standards and Qualification for Independent Directors"

- (1) The Company will appoint persons of respectable personality, high insight and rich experience as its outside directors in an effort to realize highly transparent management.
- (2) Besides supervising the execution of business by the directors, expressing their opinions on the management policies and management plans and supervising conflict-of-interest transactions with major shareholders, the outside directors of the Company will, as principal members of the Nominating and Compensation Committee, make to the board of directors recommendations concerning the compensation for the President and CEO, directors, executive officers based on the evaluation of their respective performance and appointment of candidates for directors, corporate auditors and senior executive officers.
- (3) The Company will require institutionally that candidates for its outside directors will be determined based on the recommendation made to the board of directors by the Nominating and Compensation Committee following their examination of whether the candidates satisfy the "Standards for Independence of Outside Directors" in the attached sheet and evaluation of their personality, expertise and experience.
- (4) For the purpose of making the discussion at the board of directors meetings lively and effective by maintaining smooth communication with the business execution divisions and making necessary coordination with them, the outside directors will hold regular meetings among themselves only to exchange and share information from an independent and objective standpoint while maintaining cooperation with the executive managers, corporate auditors and board of corporate auditors.

[Supplementary Principle 4.11.1] "The Policy on the Structure of the Board of Directors"

The board of directors will, for the purpose of securing balance and diversity in the knowledge, experience and skills of the board of directors as a whole, which are necessary for sustainable growth and medium to long-term increase in the corporate value of the Company, have outside directors appointed from among business administrators and academic experts considering their experience, insight and expertise. Inside directors will be appointed from among members experienced in sales, production and other business divisions and members experienced in the planning, development and administration divisions to secure diversity among them.

[Supplementary Principle 4.11.2] "The Status of Major Concurrent Offices of Directors and Corporate Auditors"

The Company will ask its directors and corporate auditors to direct their time and efforts required to appropriately carry out their roles and responsibilities to the Company's business and to limit the posts they

concurrently assume to a reasonable extent. The state of concurrent assumption of important posts will be disclosed annually in the reference documents for the general shareholders' meeting and business report.

[Supplementary Principle 4.14.2] "Policy on Training of Directors and Corporate Auditors"

- (1) Directors and Corporate Auditors, in order to properly fulfill the expected roles and responsibilities as a person responsible for the part of the governing body of the company in the listed company, even after the inauguration and during the inauguration continuously in accordance with the roles and responsibilities understanding with, from the Company, etc. to provide information and knowledge about the business activities that are required in order to oversee the acquisition and management of the necessary knowledge, to provide the opportunity needed to play a role that is required. In addition, corporate mission, as well as facilitate the understanding of the corporate culture, continue to be carried out to provide information about the business environment and the like. These correspond regularly will be reported to the Board of Directors.
- (2) For outside directors and outside corporate auditors, the Company's business, as an opportunity to understand the current situation and history, at the time of inauguration, it explains the efforts for business and immediate management issues from each department at home and abroad, to visit the factory.
- (3) Directors and Corporate Auditors, making use of training in external institutions, such as Japan Audit and Supervisory Board Members Association, will consider how to deal with a new risk and share such information..

[Principle 5.1] "Policy for Constructive Dialogue with Shareholders"

The Company will take the following measures to enable sustainable growth and improve corporate value on a medium to long-term basis through constructive dialogue with the shareholders.

- (1) The director responsible for and the division in charge of IR will respectively handle dialogue with the shareholders, and requests for interviews, if any, will be dealt with to the extent reasonable for the purport and purpose.
- (2) When holding the dialogue, efforts will be made to ensure an appropriate response in cooperation with the President & CEO, Senior Management Executives and related departments.
- (3) Explanatory meetings for investors, round-table conferences with shareholders following general shareholders' meetings and questionnaires for shareholders will be conducted regularly in addition to the shareholder's meetings with the aim of improving the means of dialogue with the shareholders.
- (4) Opinions and concerns of the shareholders collected through the dialogue will be summarized and fed back to the senior management executives, board of directors and related divisions for sharing and utilization of the information.
- (5) When holding dialogue, insider information will be strictly controlled in compliance with the applicable internal regulations.
- (6) To contribute to constructive dialogue with shareholders, the Company will conduct a survey of substantial shareholders when deemed necessary to comprehend the structure of its shareholders.

2. Capital Structure

Ratio of Shares Held by Foreign Shareholders	over 30%
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[Status of Major Shareholders]

Name of Shareholder	Number of shares held (shares)	Ownership interest
CBLDN KONE CRANES FINANCE OY	5,950,000	22.00
Japan Trustees Services Bank Ltd. (Trust account)	1,669,200	6.17
CBNY-GOVERNMENT OF NORWAY	872,500	3.23
GOLDMAN, SACHS & CO REG	850,000	3.14
YK CAPITAL	740,000	2.74
Sumitomo Mitsui Banking Corporation	670,400	2.48
The Master Trust Bank of Japan, Ltd. (Trust account)	623,600	2.31
Fumiya Shino	595,100	2.20
Japan Trustees Services Bank Ltd. (Trust account 9)	560,600	2.07
THE HONGKONG SHANGHAI BANKING CORPORATION LIMITED CLIENTS A/C 513 SINGAPORE CLIENTS	439,000	1.62

Existence of Controlling Shareholders (Excluding	-
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parent company)	
Existence of Parent Company	None

Supplemental Explanation

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3. Corporate Attributes

Stock exchange and section	Tokyo 1 st Section
Fiscal year end	March
Line of business	Machinery
Number of employees at the end of the previous fiscal year (consolidated)	Over 1000 employees
Sales during the previous fiscal year (consolidated)	Over 10 billion yen and less than 100 billion yen
Number of consolidated subsidiaries at the end of the previous fiscal year	Over 10 and less than 50

4. Guidelines for measures to protect minority shareholders in the event of transactions with controlling shareholders.

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5. Other specific conditions that may materially affect corporate governance

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II. Status of the Management Control Organization for Management Decision-Making, Operational Execution and Oversight, and Other Corporate Governance Structural Features

1. Organizational structures and organizational operations

Organizational form	Company with a Board of Auditors
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[Directors]

Number of Directors pursuant to the Articles of Incorporation	10 persons
Term of Directors pursuant to the Articles of Incorporation	2 years
Chairman of the Board of Directors	President & CEO
Number of Directors	7 persons
Election of External Directors	Elected
Number of External Directors	3
Number of External Directors designated as Independent Directors	2

Relationship with Company (1) [Updated]

Name	Properties	Relationship with the Company (*)										
		a	b	c	d	e	f	g	h	i	j	k
Kazuhiro Yamada	From another company											
Keizo Tannawa	From another company											
Katsumori Matsushima	From another company											

* Items to be selected to represent relationship with the Company

* “○” represents the relationship with the Company in the item “currently or recently” and “△” represents the relationship “in the past.”

* “●” represents the relationship of a close relative with the Company “currently or recently” and “▲”

represents the relationship of a close relative “in the past.”

- * a. Executive officer of the listed company or subsidiary thereof,
- * b. Executive officer or non-executive director of the listed company’s parent company,
- * c. Executive officer of the listed company’s fellow subsidiary,
- * d. Person who has a significant business relationship with the listed company or executive officer of an entity that has such relationship,
- * e. Major trading partner of the listed company or executive officer thereof,
- * f. Consultant or professional accountant or professional lawyer receiving a payment of a large amount of money or financial assets other than director’s remuneration from the listed company,
- * g. Major shareholder of the listed company (In the case when the major shareholder is a corporation, executive officer thereof)
- * h. Executive officer (only with respect to the person) of a trading partner of a listed company (not falling under the category of d. or e.),
- * i. Executive officer of a company, the office of outside director of which is assumed by an officer of the Company on a reciprocal basis (only with respect to the person),
- * j. Executive officer of an entity to which the listed company makes a donation (only with respect to the person),
- * k. Others.

Relationship with Company (2) **Updated**

Name	Independent director	Supplementary explanation on conformity	Reason for assignment
Kazuhiro Yamada	㊦	(State of major post held concurrently) Managing Director and Co-head of Japan Buyout, Carlyle Japan LLC Mr. Kazuhiro Yamada is an independent director.	[Reason for assignment] In view of his management analysis ability as a certified international investment analyst and his experience in a large number of investments in manufacturers, Mr. Yamada is adequate for the office of outside director of the Company. [Reason for appointment as an independent director] In light of the " Standards for Independence of Outside Directors" attached to our Basic Policy on Corporate Governance" newly enacted by the Company, Mr. Yamada is additionally appointed as an independent director because there is no fear of a conflict of interest with general shareholders and independence is sufficiently secured in the Company’s judgment.
Keizo Tannawa	㊦	(State of major post held concurrently) Senior Advisor of Towers Watson Mr. Keizo Tannawa falls under the category of “a. Trading partner of the listed company or a person therefrom” of the attributes information of the independent director. While a business relationship exists between the Company and Towers Watson Mr. Tannawa serves concurrently as the senior advisor involving the leadership research (360 degrees research) of the directors and officers in a position of department manager or higher of the Company, the business is performed by the	[Reason for assignment] Mr. Tannawa is adequate for the office of outside director of the Company in view of his extensive experience as a management consultant and as senior management. [Reason for appointment as independent director] Mr. Tannawa has been appointed as an outside director because as the Company and Towers Watson which Mr. Tannawa serves as a senior advisor have no significant business relationship with each other, also he does not correspond to any of the requirements above a ~ k, also, in light of the " Standards for

		Company as an ordinary transaction and as a general consumer, accounts for less than 1% of the annual sales of Towers Watson and outside directors are not interested in it personally or directly. Mr. Keizo Tannawa is an independent director.	Independence of Outside Directors” attached to our Basic Policy on Corporate Governance” newly enacted by the Company, there is no fear of a conflict of interest with general shareholders and independence is sufficiently secured in the Company’s judgment.
Katsumori Matsushima	㊟	(State of major post held concurrently) Professor Emeritus of Tokyo University Mr. Katsumori Matsushima is an independent director.	[Reason for assignment] Mr. Matsushima is adequate for the office of an outside director of the Company irrespective of his independence as he has experience of working as an aircraft engine production engineer and marketing manager of a computer-related business, is engaged in providing guidance for management strategies and IT strategies of businesses as a management consultant and is also engaged in studying business models for the manufacturing industry based on his knowledge and experience. [Reason for appointment as independent director] Mr. Matsushima has been appointed as an independent director because he does not correspond to any of the requirements above a ~ k, also, in light of the " Standards for Independence of Outside Directors” attached to our Basic Policy on Corporate Governance” newly enacted by the Company, and there exists no possibility of a conflict of interest with general shareholders in the judgment of the Company.

State of establishment of an optional committee corresponding to Nominating Committee or Compensation Committee	Established
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State of establishment of an optional committee, members of the committee and attributes of the president (chairperson) of the committee
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	Name of the committee	Total number of members	Number of fulltime members	Number of inside directors	Number of outside directors	Number of outside experts	Number of others	President (Chairperson)
Optional committee corresponding to Nominating Committee	Nominating Committee	5	0	2	3	0	0	Inside Director
Optional committee corresponding to Compensation Committee	Compensation Committee	5	0	2	3	0	0	Inside Director

Supplementary Information

The Company has a board of corporate auditors. Although the independent outside directors do not have a majority of the directors, election of candidates for director/senior executive officer and compensation for them

will be deliberated by the nominating and compensation committee, an optional committee composed mainly of the outside directors and recommended to the board of directors for a decision.

[Corporate Auditors]

Existence of the Board of Corporate Auditors	Yes
Number of Corporate Auditors adopted in the Company's Articles of Incorporation	4
Number of Corporate Auditors	3

Cooperation between Corporate Auditors, Accounting Auditors and the internal audit division

Corporate Auditors extensively verify the adequacy and efficiency of the directors' business execution by attending important meetings such as the Board of Directors' and Board of Executive Officers' meetings and expressing their opinions, gathering information through coordination with the Internal Audit Office and accounting auditors, in addition to directly interviewing the directors and inspecting material documents.

Corporate Auditors witness accounting audits performed by PricewaterhouseCoopers Aarata, the accounting auditors of the Company, as necessary; confirm the adequacy of the audit methods; and hold regular meetings with the accounting auditors four times a year to exchange opinions on issues regarding the Company's internal controls and other matters.

The Board of Corporate Auditors confirms the audit details of the annual audit plans compiled by the Internal Audit Office and, when necessary, requests additional audit items. The Board of Corporate Auditors also confirms the status of audits through the Internal Audit Report prepared by the Internal Audit Office.

The accounting auditors, corporate auditors and Internal Audit Office proactively share information on the results of audits performed by each party.

Appointed External Corporate Auditors	Yes
Number of External Corporate Auditors	2
Number of Independent Corporate Auditors among External Corporate auditors	1

Relationship with Company (1)

Name	Properties													
		a	b	c	d	e	f	g	h	i	j	k	l	m
Masatoshi Yasunaga	Attorney at law													
Kiyohito Hamada	Certified public accountant													

* Items to be selected to represent the relationship with the Company

* “○” represents the relationship with the Company in the item “currently or recently” and “△” represents the relationship “in the past.”

* “●” represents the relationship of a close relative with the Company “currently or recently” and “▲” represents the relationship of a close relative “in the past.”

- Executive officer of the listed company or subsidiary thereof,
- Non-executive director or accounting advisor of the listed company or subsidiary thereof,
- Executive officer or non-executive director of the listed company's parent company,
- Corporate Auditor of parent company of the listed company,
- Executive officer of the listed company's brother company,
- Person who has a significant business relationship with the listed company or executive officer of an entity that has such relationship,
- Major trading partner of the listed company or executive officer thereof,
- Consultant or professional accountant or professional lawyer receiving a payment of a large amount of money or financial assets other than director's remuneration from the listed company,
- Major shareholder of the listed company (In the case when the major shareholder is a corporation, executive officer thereof),

- j. Executive officer (only with respect to the person) of a trading partner of a listed company (not falling under the category of f, g, or h.),
- k. Executive officer of a company, the office of outside director of which is assumed by an officer of the Company on a reciprocal basis (only with respect to the person),
- l. Executive officer of an entity to which the listed company makes a donation (only with respect to the person),
- m. Others.

Relationship with Company (2) [Updated]

Name	Independent director	Supplementary explanation on conformity	Reason for assignment
Masatoshi Yasunaga	㊦	Partner of Hatazawa, Wakai & Yasunaga Law Office Mr. Masatoshi Yasunaga is an independent corporate auditor.	[Reason for assignment] To improve the supervisory function of the Company. The Company believes that he will be able to use his extensive experience in and knowledge of legal activities at home and abroad to supervise the Company and further enhance corporate governance thereof. [Reason for appointment as independent corporate auditor] Mr. Yasunaga has been appointed as an independent director as neither he nor Hatazawa, Wakai & Yasunaga Law Office where he serves as a partner correspond to any of the requirements above a ~ l, and there exists no possibility of a conflict of interest with general shareholders in the judgment of the Company.
Kiyohito Hamada		Partner of Yotsuba-sogo Accounting Office	[Reason for assignment] Mr. Kiyohito Hamada is qualified as an outside corporate auditor in the judgment of the Company, based on the experience and knowledge as a certified public accountant, for the sake of legality ensure the Company's execution, also he is considered to be more extremely useful, regardless of the presence or absence of a given to independent officers,

[Independent Directors / Corporate Auditors] [Updated]

Number of Independent Directors/ Corporate Auditors	4
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Other matters relating to Independent Corporate Auditors

The independent outside directors and independent outside corporate auditors of the Company satisfy the standards of independence prescribed by the Tokyo Stock Exchange.

[Incentives]

Implementation Status of Incentive Policies for Directors	Introduced performance-linked compensation system and stock option plan
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Supplemental Explanation

Inside directors of the Company are provided with the base remuneration, directors' bonus and directors' retirement benefits. Effective from April 2013, the base remuneration has been switched to a performance-linked compensation in an annual compensation system and the directors' bonus has been incorporated into the performance-linked compensation by having the base amount thereof added to the base remuneration. The results of the Company and degree of contribution thereto by the respective directors are evaluated and reflected in the base remuneration, and any excess or deficiency identified through performance evaluation is adjusted and settled in the following fiscal year.

In addition, for the purpose of enhancing directors' willingness and morale to improve the results and corporate value of the Company on a medium to long-term basis and promoting their sharing of value with shareholders, a stock option has been provided to the inside directors.

Grantees of stock options	Non-external directors, employees, directors of subsidiaries
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Supplemental Explanation

Employees included in the grantees of stock options are executive officers.

[Remuneration to Directors]

Disclosure Status (regarding Individual Directors)	Not individually disclosed.
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Supplemental Explanation

1. Aggregate amount of executive remuneration for four directors (excluding external directors): 108 million yen
2. Aggregate amount of executive remuneration for three external directors: 21 million yen
3. Aggregate amount of executive remuneration for one corporate auditor (excluding external corporate auditors): 10 million yen
4. Aggregate amount of executive remuneration for two external corporate auditors: 14 million yen

Policies that Determine Remuneration Amount or Calculation Method	Established
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Fixed Amount (Base Remuneration)

Base remunerations are set for directors in different positions with their expected functions and levels of other companies in the industry taken into consideration.

Variable Amount (Bonus)

The directors' bonus has been incorporated into the performance-linked compensation by having the base amount thereof added to the base remuneration. The results of the Company and degree of contribution thereto by the respective directors are evaluated and reflected in the base remuneration, and any excess or deficiency identified through performance evaluation is adjusted and settled in the following fiscal year.

Variable Amount (Directors' retirement benefits)

Retirement benefits for the inside directors are, pursuant to the provisions of the "Regulations on Directors' Retirement Benefits," composed of the total amount of base remuneration for the respective positions for the term of office with the annual performance index (50% - 200%) reflected in it. The amount of benefits to be paid is discussed and determined in the meeting of the board of directors.

Method of Determination

Distribution of the directors' remunerations is determined in the meeting of the board of directors within the limitations of the maximum amount of directors' remunerations adopted in the annual general meeting of shareholders held on June 26, 2007 {300 million yen or less (including 30 million yen or less for outside directors)}.

Distribution of the corporate auditors' remuneration is determined through consultation among the corporate auditors within the limitations of the maximum amount of corporate auditors' remuneration adopted in the annual general meeting of shareholders held on June 26, 2007 (80 million yen or less).

[Support Structure for External Directors (and External Corporate Auditors)]

Although there is no dedicated support staff, the external directors and corporate auditors may coordinate with each division, or request the HR & GA Department for assistance. Additionally, the agenda of the Board of Directors' meetings are submitted in advance and at the Board of Corporate Auditors' meetings, the status of activities of the standing corporate auditors is reported and information is exchanged.

2. Issues Relating to Functions for Business Execution, Auditing and Oversight, Nomination, and Remuneration Decisions (Outline of Current Corporate Governance Structure)

1) The Board of Directors, which comprises seven (7) members (including three external directors), all of whom are male, makes decisions on the material matters of the Company, as well as oversees the directors' execution of duties. The Board, which is designed to make management decisions quickly and accurately, basically meets once a month but may convene extraordinary meetings, as necessary, when material matters that require decisions occur. The Company's Board of Directors is the highest decision-making body of the Company and all material decision-making relating to the Group is performed through the Board of Directors of the Company.

Nominating and Compensation Committee, which is organized as a subordinate body of Board of Directors and its majority is outside directors, recommends nominees of Directors, Corporate auditors, and senior executive officers and also recommends compensation for directors and executive officers. The Board of Directors resolves nominee and compensation based on the recommendation.

Additionally, the Representative Director reports on the specific status of business execution on a quarterly basis. The Company has also adopted the executive officer system (fourteen executive officers, including four executive officers who serve concurrently as directors), in order to enable speedy decision-making and flexible business execution through the separation of the decision-making and oversight functions. Under the system, executive officers are selected regardless of nationality or sex to allow diversity, and the current members are twelve Japanese and two foreigners, all of whom are male. The Board of Directors elects the President and the other executive officers, and oversees the business execution of the executive officers. The Board of Executive Officers, comprising the President and the other executive officers, is convened on a monthly basis prior to the Board of Directors' meeting in order to deliberate material matters in detail as well as to coordinate the business divisions and reach a consensus on business execution. The executive officers engage in business execution, in accordance with the "Segregation of Duties/Authority Rules" and the "Decision-making Authority Rules." There is no human or capital relationship between the Company and outside directors.

2) Additionally, the Company has adopted a Board of Corporate Auditors' system and the Company's Board of Corporate Auditors comprises three (3) corporate auditors, including one (1) standing corporate auditor and two (2) external corporate auditors. Each corporate auditor performs audits in accordance with the corporate auditor's audit plan, which has been determined at the Board of Corporate Auditors' meetings, while participating in important meetings, including the Board of Directors' and Board of Executive Officers' meetings, in addition to performing strict oversight and audits over the business execution of the directors. By incorporating external perspectives to a greater extent than before, the Company has been able to perform an even more impartial audit of the directors' business execution. Corporate Auditors extensively verify the adequacy and efficiency of the directors' business execution by attending important meetings such as the Board of Directors' and Board of Executive Officers' meetings and expressing their opinions, gathering information through coordination with the Internal Audit Office and accounting auditors, in addition to directly interviewing the directors and inspecting material documents. Additionally, in order to ensure effective and high-level audits, corporate auditors convene regular Board of Corporate Auditors' meetings and verify the corporate auditor's audit plans, which have been formulated, the implementation status of audits and audit results. Furthermore, corporate auditors receive reports on internal audit results conducted by designated employees on the environment and quality according to ISO standards from the respective committees.

There is no human or capital relationship between the Company and outside corporate auditors.

3) Mechanism of Internal Control and Performance of Internal Audit and Audit by Corporate Auditors

For the purpose of monitoring the effectiveness and efficiency of the internal control and improving the operation and efficiency of the management of the Company and affiliated companies, three members of the Internal Control Office under the direct control of the President perform internal audit, including the internal audit of the state of internal control related to financial reports, of the actual state of execution of various execution activities related to the management of the Company and affiliated companies in terms of their conformity with various standards and execution management in general.

Furthermore, the division of the Company responsible for the promotion of compliance has established the code of conduct to be followed by the employees of the KITO Group and disseminated it for full understanding across the Company and makes efforts to prevent and control risk.

The results of the internal audits by the Internal Audit Office are shared with the accounting auditors and corporate auditors. The corporate auditors and the accounting auditor exchange opinions with each other, collect information from the other, attend audits when deemed necessary and ensure cooperation with each other by other means too. The Internal Control Office and corporate auditors are provided with the results of audits by the accounting auditor on a quarterly basis.

Results of the internal audits and audits by the corporate auditors are provided also to the general administration and legal divisions responsible for the internal control and are utilized to review the internal control rules of the Company and for other purposes.

3. Reasons for adopting current framework

The system of the corporate governance in the Company has corporate auditors. The Company has supervision of the duties execution by the board of directors and a monitoring function and an inspection function by the board of corporate auditors. The company strengthens those functions by appointment of external directors and collaboration with the board of corporate auditors, etc.

The Company has adopted the current framework, as the Company believes that the appropriateness of business has been ensured through the oversight exercised by the external directors over business execution from the perspective of an internationally certified investment analyst and a management consultant well-versed in various industries including the manufacturing industry, in addition to the audits performed by external corporate auditors with specialized accounting and legal knowledge and by the standing corporate auditor of the Company in collaboration with the internal audit division, including the audit offices.

III. Implementation of Measures Regarding Shareholders and Other Stakeholders

1. Approach toward the vitalization of general meetings of shareholders and the facilitation of exercise of voting rights

1. State of efforts made to activate the meetings of shareholders and to make exercise of voting rights smoother

	Application	Supplementary Information
a. Early dispatch of notice of convocation of shareholders' meetings		
b. Shareholders' meeting held on days when other companies meetings are not concentrated	㊦	Annual shareholders' meeting of the Company is held in advance of the days when other companies concentrate their meetings. Efforts will be continued to avoid the dates on which other companies hold their annual meeting of shareholders. June 22, 2011 June 22, 2012 June 20, 2013 June 24, 2014 June 23, 2015
c. Exercise of voting rights through electromagnetic method		
d. Participation in the platform to enable electromagnetic exercise of voting rights and other efforts to improve the environment of exercise of voting rights by institutional investors		
e. Provision of notice of convocation (summary) in English	㊦	Reference materials for annual shareholders' meeting and business reports are partly translated into English and published on the websites of the Company and Tokyo Stock Exchange.
f. Others	㊦	Notice of convocation (in Japanese, English and Chinese) (only the summary in English and Chinese), and results of voting rights exercised are published on the Company's website.

2. Investor Relation (IR) activities

	Application	Supplementary Information
a. Development and publication of disclosure policy	㊦	An IR site is prepared on the Company's website (http://kito.com/jp/) to publish the disclosure policy.
b. Briefing sessions held for individual investors on a regular basis	㊦	Not on a regular basis but a briefing session was held for individual investors in March 2015. Sessions in the future are under consideration.
c. Briefing sessions held for analysts and institutional investors on a regular basis	㊦	Briefing sessions were held in May and November promptly after the announcement of performance results and explanation was given by the President & CEO.
d. Briefing sessions held for investors abroad on a regular basis	㊦	Voice recording of English simultaneous translation of the result briefing sessions mentioned above is published on the Company's website.
e. Publication of IR materials on the Company's website	㊦	An IR site has been established on the Company's website (http://kito.com/jp/) to announce information on results (unaudited), news releases and IR calendar, etc.
f. Establishment of a division (members) responsible for IR	㊦	Corporate Communication Group, Corporate Planning Department, Corporate Planning Office are responsible for IR activities. Director, Executive Officer, GM Corporate Management Division is the officer responsible for IR activities.
g. Others		

3. Activities concerning respect for stakeholders

	Application	Supplementary Information
a. Introduction of rules on respect of the stakeholders' status in the Company's regulations	㊦	The following statement is given in the training and compliance manual distributed among the officers, temporary employees and dispatched workers, etc. "Compliance management improves the existence value of the Company, to ensure lasting development of the Company and to contribute to the prosperity of the stakeholders including local communities, shareholders, trading partners, employees, etc. through the performance of sound business activities by each of us in compliance with the laws, ordinances, Company regulations, agreements and social codes, etc."
b. Performance of environmental preservation and CSR activities	㊦	The Company has established the quality management system and environment management system based on the standards of ISO9001:2008 and ISO14001:2004, respectively. In the quality management system, efforts are being made to continuously improve the quality of our products and to improve customers' satisfaction with them through the PDCA management. In the environment management system, continuous efforts are being made to preserve the global environment and reduce environmental load by reducing CO ₂ emission, reducing industrial waste and promoting energy conservation through the PDCA management.
c. Development of policies related to provision of information to stakeholders	㊦	Quarterly and annual accounting documents, securities report, business report for shareholders and other IR contents will be published on the Company's website without undue delay and motion pictures of the result briefing sessions will be published on the day of the briefing to ensure fair and timely disclosure of information toward institutional and individual investors. For investors abroad, result information (unaudited) and briefing materials in English will be published at the time of announcement of the same in Japanese and a recording of English simultaneous translation of the result briefing session

		will be published to ensure fair disclosure to investors outside of Japan.
d. Others	㊦	<p><Policies and efforts related to activities of women></p> <p>The Company is confident that diverse human resources, irrespective of their sex, nationality, religion, and whether or not presence of disabilities, etc., brings new concepts and ideas in its business and to become the driving force for innovation. Therefore, the Company has been promoting to ensure diversity in it. The Company is determined, as a global enterprise, to continue to appoint, recruit and train employees irrespective of their sex, nationality, religion and whether or not presence of disabilities, etc., under the principle of the merit-based system. The Company has already appointed its non-Japanese members as its executive officer to actively diversify its human resources.</p>

IV. Issues relating to Internal Control Systems

1. Fundamental approach to Internal Control Systems and its development status

The partial revision of “The Basic Policy for the Establishment of the Internal Control System of KITO Corporation” was resolved and approved at the Board of Directors meeting held on April 21, 2015. This Basic Policy was enacted through resolution of the Board of Directors’ meeting held on May 31, 2006, in response to the amended Companies Act. Subsequently, a partial revision was made through resolution of the Board of Directors’ meeting held on April 22, 2008 and a review was conducted of the responses to the partial revision, which resulted once again in a partial revision dated February 24, 2010.

With the enforcement of the Revised Companies Act and the Ordinance for Enforcement of the Companies Act as of May 1, 2015, we again resolved the partial revision of this Basic Policy.

Based on this Basic Policy, KITO Corporation will strive to establish an effective, legitimate, sound corporate framework, and will improve group-wide internal control, including risk management..

“The Basic Policy for the Establishment of Internal Control Systems” is as follows:

1. Basic Policy

KITO Corporation, recognizing that its mission lies in the consistent delivery of satisfaction and excitement to all customers, must direct all business activity in line with this corporate mission.

For the realization thereof, it is essential that KITO set in place and utilize a mechanism allowing self-imposed monitoring and overseeing of all business activity as well as internal control.

Therefore, KITO’s Board of Directors made the following decisions with respect to the structure of business execution by KITO Corporation and its subsidiaries and the auditing structure, in an attempt to achieve the mission stated above through the execution of activities in accordance with the structures.

2. Systems concerning business execution

1) Systems to ensure that the performance of duties by the directors and employees of KITO and the directors, etc., (i.e., the directors, etc., prescribed in Paragraph 1-5-(i) of Article 100 of the Ordinance for Enforcement of the Companies Act; the same shall apply hereinafter) and employees of KITO’s subsidiaries complies with laws, regulations and Articles of Incorporation (Paragraph 4-(vi), Article 362 of the Companies Act, Paragraphs 1-4 and 1-5-(iv), Article 100 of the Ordinance for Enforcement of the Companies Act)

(1) KITO CORPORATION, a company with a board of corporate auditors, shall ensure the compliance of business executed by its directors by means of the supervisory function of its Board of Directors and the auditing function of its corporate auditors.

(2) The Board of Directors of KITO shall run the Board in compliance with laws, regulations, the Articles of Incorporation and the Rules of the Board of Directors. Directors shall ensure legal compliance of their duties by executing them in accordance with resolutions of the Board of Directors. Corporate Auditors shall carry out auditing, in accordance with laws, regulations, the Articles of Incorporation and the Rules of the Board of Corporate Auditors, on the duties performed by directors

(3) Subsidiaries of KITO shall be in a form compliant with local laws and regulations applicable at the places of organization thereof, and the Board of Directors of the subsidiaries or overseas organizations equivalent thereto (collectively, the “Board of Directors of Subsidiaries”) shall be run in compliance with laws,

regulations, the Articles of Incorporation, KITO's Global Regulations of Approval Authorities, and KITO's Regulations on the Management of Affiliates, while the directors, etc., of KITO's subsidiaries shall ensure the legal compliance of their duties by executing them in accordance with the resolutions of the Board of Directors of Subsidiaries. Corporate Auditors of KITO's subsidiaries or other persons equivalent thereto, if any, shall carry out auditing, in accordance with laws, regulations, the Articles of Incorporation, and applicable internal regulations of KITO, on the duties performed by directors, etc.

- (4) Further, guidelines for compliance shall be established along with detailed rules. As action guidelines designed to urge the directors and employees of KITO and the directors, etc., and employees of its subsidiaries to fully comply with the laws, regulations and Articles of Incorporation as well as with the social code of conduct, they shall be disseminated internally to achieve thorough familiarity and full compliance. A structure shall be created to allow reporting, on a periodic and on an as-needed basis, of the state of compliance to the Board of Directors, which in turn shall be kept informed of problems and conduct reviews as needed.
- (5) A section whose function is to accept reports and whistle-blowing by insiders on matters concerning compliance-related problems within the KITO Group shall be established and operated at KITO.
When deemed necessary, a section to accept whistle-blowing by insiders shall be established and operated also at the subsidiaries in accordance with local laws & regulations and actual circumstances.
- (6) Periodic audits shall be performed by KITO's Internal Audit Group concerning the state of compliance of the applicable departments of KITO and its subsidiaries.

2) Systems for storage and management of information related to KITO's directors' performance of duties (Paragraph 1-1, Article 100 of the Ordinance for Enforcement of the Companies Act)

Preservation and management of documents and records pertaining to the performance of duties by the directors of KITO and the directors, etc., of its subsidiaries shall be governed by the Articles of Incorporation and the Rules of the Board of Directors, etc. For more detailed rules, Document Management Rules shall be created to build a structure allowing proper filing and management of such documents.

Directors and corporate auditors of KITO may browse such information as needed.

Additionally, internal rules including the Rules on Personal Information Protection shall be established in an effort to ensure information security and its proper operation.

3) System to have matters related to the performance of duties by the directors, etc., of KITO's subsidiaries reported to KITO (Paragraph 1-5-(i), Article 100 of the Ordinance for Enforcement of the Companies Act)

For the purpose of ensuring decision-making in line with uniform, Group-wide business strategies and the appropriateness of business, KITO shall set in place the Global Regulations of Approval Authorities, which prescribes the matters to be referred to for sanction at KITO and its subsidiaries, and the Regulations on the Management of Affiliates, which prescribes the matters to be referred to for sanction in advance and the matters to be reported by the directors, etc., of the subsidiaries. KITO shall also develop a system of reference for sanction and reporting in accordance with those regulations and shall promote its business in line with these.

Furthermore, KITO shall establish, under the Regulations on the Management of Affiliates, a system to have the business results of the subsidiaries reported to KITO on a regular basis along with matters significant to business, if any, at each time of occurrence thereof.

4) Rules and systems for the management of risk of loss at KITO and its subsidiaries (Paragraphs 1-2 and 1-5-(ii), Article 100 of the Ordinance for Enforcement of the Companies Act)

- (1) Any significant matter shall be subject to the scrutiny of the Board of Directors, the Management Conference, or any other organ of KITO or its subsidiaries responsible for making decisions on the matter in question in accordance with the laws, regulations, Articles of Incorporation and internal rules.
Additionally, the department responsible for legal affairs and other relevant departments shall conduct preliminary examinations on any important matter in accordance with the internal rules and others in an effort to fully understand and identify risks.
- (2) KITO shall establish basic rules concerning risk management ("Risk Management Rules"), which shall be considered as the highest orders concerning the Group's risk management, and promote risk management by nominating directors to oversee matters relating to the risk management and by appointing divisions to be in charge of corporate planning as the division that is responsible at KITO for the risk management system and that functions as the Risk Management Headquarters of KITO and its subsidiaries.

Risk management, in principle, shall be performed by the departments in charge of the area in question at KITO and its subsidiaries. The Risk Management Headquarters of KITO shall be engaged in cross-organizational management of risks over and across the entire Group.

The Risk Management Rules shall incorporate provisions setting forth procedures for the periodic identification of risks for proper recognition of various risks associated with business and the deterrence and prevention of the occurrence of material loss and risks.

- (3) The Internal Audit Group of KITO shall perform periodic audits on the state of risk management at applicable departments of KITO and its subsidiaries.

5) Systems to ensure efficient execution of duties by the directors of KITO and the directors, etc., of its subsidiaries (Paragraphs 1-3 and 1-5-(iii), Article 100 of the Ordinance for Enforcement of the Companies Act)

- (1) The scope of responsibilities shall be reasonably decided by KITO and its subsidiaries for each of the directors of KITO and the directors, etc., of its subsidiaries, and the scope of responsibilities and authority shall be decided in accordance with the internal rules and others for each organ and department.
- (2) The Board of Directors shall hold regular meetings once every month to decide on resolutions rightly brought to its attention. Executive officers shall hold regular meetings once every month to facilitate sharing of information including progress status of business execution. Special meetings of the Board of Directors and/or special conferences of executive officers may be held as needed. These meetings shall form the backbone of a structure enabling quick managerial decision-making.
Effectiveness and efficiency of the performance of duties shall be enhanced further through strict goal management and quarterly reporting of the state of progress with respect to the duties stipulated in the Board-approved medium-term and long-term business plans and annual plans.
- (3) Subsidiaries of KITO shall hold regular meetings of their Board of Directors of Subsidiaries in compliance with applicable local laws and regulations to decide on the matters to be resolved by the Board of Directors of Subsidiaries and shall also hold a special meeting of the Board of Directors of Subsidiaries as occasion demands to thereby establish a structure enabling quick managerial decision-making.
The subsidiaries shall enhance the effectiveness and efficiency of the performance of duties by implementing strict goal management and by having the state of progress with respect to the duties stipulated in the medium-term and long-term business plans and annual plans approved by the Board of Directors of KITO. These are reported to the regular meetings of their Board of Directors of Subsidiaries by their representative directors or equivalent persons as well as to the meetings of the Board of Directors and the conferences of executive officers of KITO by general managers of the business divisions of KITO in charge of the supervision of subsidiaries.
- (4) The Internal Audit Group of KITO shall perform periodic audits on the efficiency of the execution of duties by each of the departments of KITO and its subsidiaries.

6) Systems to ensure proper operations in KITO Corporation and its corporate group comprising KITO and its subsidiaries (Paragraph 1-5, Article 100 of the Ordinance for Enforcement of the Companies Act). (excluding the systems prescribed in 1) through 5) above).

- (1) For the purpose of ensuring decision-making in line with uniform, Group-wide business strategies and the appropriateness of business, KITO shall set in place the Global Regulations of Approval Authorities, which prescribes the matters to be referred to for sanction at KITO and its subsidiaries, and the Regulations on the Management of Affiliates, which prescribes the matters to be referred to for getting approval in advance and the matters to be reported by the directors, etc., of the subsidiaries. KITO shall also develop a system of reference for getting approval and reporting in accordance with those regulations and shall promote its business in line with these.
Also, KITO shall have the business divisions in charge of the supervision of KITO's subsidiaries report on the monthly reports submitted by the subsidiaries at the conference of executive officers of KITO. In addition, the Corporate Planning Office shall be appointed as the division responsible for the management of the subsidiaries to promote such management. Furthermore, certified public accountants with global operations shall be appointed so as to ensure accounting appropriateness and uniformity regarding the management of the group companies.
- (2) The Internal Audit Group of KITO shall perform periodic audits concerning the compliance, risk management, and business efficiency of KITO and its subsidiaries.

3. Systems related to auditing

- 1) Matters relating to employees assigned to the position to assist corporate auditors in performing their duties, matters relating to the independence of those employees from the directors and matters relating to securing the effectiveness of instructions given to the employees (Paragraphs 3-1 through 3-3, Article 100 of the Ordinance for the Enforcement of the Companies Act)

Corporate Auditors shall, when deemed necessary, appoint employees assigned to a position to assist corporate auditors in performing their duties (“Assistants to Corporate Auditors”). It shall be clearly stipulated in the internal regulations and made fully known across KITO that the employees appointed as Assistants to Corporate Auditors are not subject to directions or orders given by the directors or superiors of the organs they belong to, if such directions or orders are matters relating to duties instructed by the corporate auditor. The transfer of and disciplinary measures against the Assistants to Corporate Auditors, if any, shall be reported to the corporate auditors in advance, and the opinions of the corporate auditors including the judgment of eligibility of the Assistants to Corporate Auditors shall be fully respected.

- 2) Systems for the directors and employees of KITO and the directors, etc., and employees of its subsidiaries for reporting to corporate auditors, systems for other forms of reporting to corporate auditors, and systems to ensure that no disadvantageous treatment is given due to the reasons for making a report (Paragraph 3-4 and 3-5, Article 100 of the Ordinance for Enforcement of the Companies Act)

- (1) In addition to reporting of information required by law, directors, etc., corporate auditors (including persons in equivalent positions at the subsidiaries), and employees at the KITO Group (“Officers and Employees”) shall report to corporate auditors of KITO without delay if he or she becomes aware of any matter that may give rise to significant impact on any of the KITO Group companies. Additionally, ordinary reports and requests for management approval of daily nature at KITO shall be circulated to the corporate auditors of KITO to keep them informed.

- (2) The Internal Audit Group, department responsible for legal matters, department responsible for the general administration and department responsible for the accounting of KITO shall hold a reporting session for the corporate auditors of KITO on a regular basis to report on the current state of internal auditing at the KITO Group, along with compliance and risk management.

- (3) The department responsible for the management of the whistle-blowing system of the KITO Group (department responsible for legal matters) shall report on the state of reports received from the Officers and Employees of the KITO Group to the corporate auditors of KITO on a regular basis.

- (4) KITO shall prohibit any disadvantageous treatment given to the Officers and Employees of the KITO Group due to the reason of their making a report to KITO’s corporate auditors and shall make the policy thoroughly known to the Officers and Employees of KITO Group.

- 3) Matters related to the transaction of expenses or liabilities arising in relation to the corporate auditors’ performance of their duties and other systems to ensure effective and efficient auditing by corporate auditors (Paragraphs 3-6 and 3-7, Article 100 of the Ordinance for Enforcement of the Companies Act)

Corporate Auditors of KITO may attend, in addition to the meetings of the Board of Directors and the conferences of executive officers of KITO, important meetings concerning safety, environment, quality, production, and sales, among others, to carry out auditing with respect to legal compliance and efficiency of business operations. Corporate Auditors may also seek explanations of the directors, etc., or employees of the KITO Group and may make a firsthand inspection as needed for increased efficiency and effectiveness of auditing. Close collaboration and coordination of the parties concerned shall also be ensured by corporate auditors’ conferences with the certified public accountant, legal counsel, and other professionals independent of KITO and its Group or by using them as assistants to the corporate auditors. The expenses required to be secured the aforementioned system shall be borne by KITO and paid in advance when so requested by the corporate auditors of KITO.

4. Systems for ensuring the appropriateness of financial reporting

- 1) KITO shall set an internal control system to ensure the appropriateness of financial reporting.

2. Fundamental approach toward the exclusion of anti-social forces and its development status

KITO shall undertake the following actions as a part of its internal control (compliance risk management) in an effort to eliminate antisocial forces

- 1) Basic approach to the elimination of antisocial forces

KITO shall stand firm against any unfair demand claimed by antisocial forces and organizations that threaten the order and safety of civic life and shall cut off any and all connections therewith, without making any easy compromise with them by means of monetary solutions and otherwise.

2) System for the elimination of antisocial forces

KITO shall explicitly state the basic approach presented above in its Compliance Manual, declare it internally and externally, and appoint the department responsible for general administration as the department in charge of overseeing any dealings with antisocial forces. At the same time, a person responsible for the prevention of complying with any unfair demand shall be nominated for the head office and each of the sales offices, who will make efforts to gather information, etc., from the police and other sources and, when deemed necessary, will give reports to or hold consultations with the police and others to refuse unfair demands in an absolute manner.

In addition, a manual for dealing with antisocial forces shall be prepared to stipulate actions to be taken in the event of any possible threat by antisocial forces or of potential injury that may be inflicted and to establish a structure whereby necessary information will be reported to the department responsible for general administration and damage will be prevented.

V. Others

1. Takeover Defense Measure

Takeover Defense Measure	None
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Supplemental Explanation

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2. Other Specific Items that May Have an Impact on Corporate Governance 1. Basic Policy on Timely Disclosure of Company Information

The Company maintains the basic stance of providing appropriate and timely disclosures of necessary company information to enable investors to precisely judge the investment value of the Company and, accordingly, has established a system that enables prompt disclosure of such information. Additionally, the Company instructs its executives and employees (including executives and employees of its consolidated subsidiaries) on timely disclosures by taking advantage of important meetings and seminars, in which senior management and divisions responsible for timely disclosures thoroughly communicate the Company's basic policy on timely disclosures and material matters that are subject to timely disclosures.

2. Internal system of the timely disclosure of company information

(1) Status of organizations responsible for timely disclosures

Responsible division: Communication Group of Corporate Planning Department, Corporate Planning Office

Officer in Charge of Handling Information: Director, Executive Officer & GM, Corporate Planning Office and Corporate Management Division

(2) Timely disclosure procedures

I. Information on decided matters

The Corporate Planning Office obtains in advance the agendas to be submitted to the Board of Directors and other material meetings, and considers whether there are any material matters subject to timely disclosure. If such matters are found, disclosure materials are immediately prepared, reported to the President & CEO through the Officer in Charge of Handling Information, and disclosed after the relevant meeting is over, upon the approval of the meeting.

II. Information on events

If the occurrence of an event is discovered, each division or subsidiary reports such event to the Corporate Planning Office. The Corporate Planning Office considers whether disclosure is necessary and immediately prepares disclosure materials as well as reports to the President & CEO through the Officer in Charge of Handling Information; and upon obtaining approval, immediately discloses such information.

III. Financial information

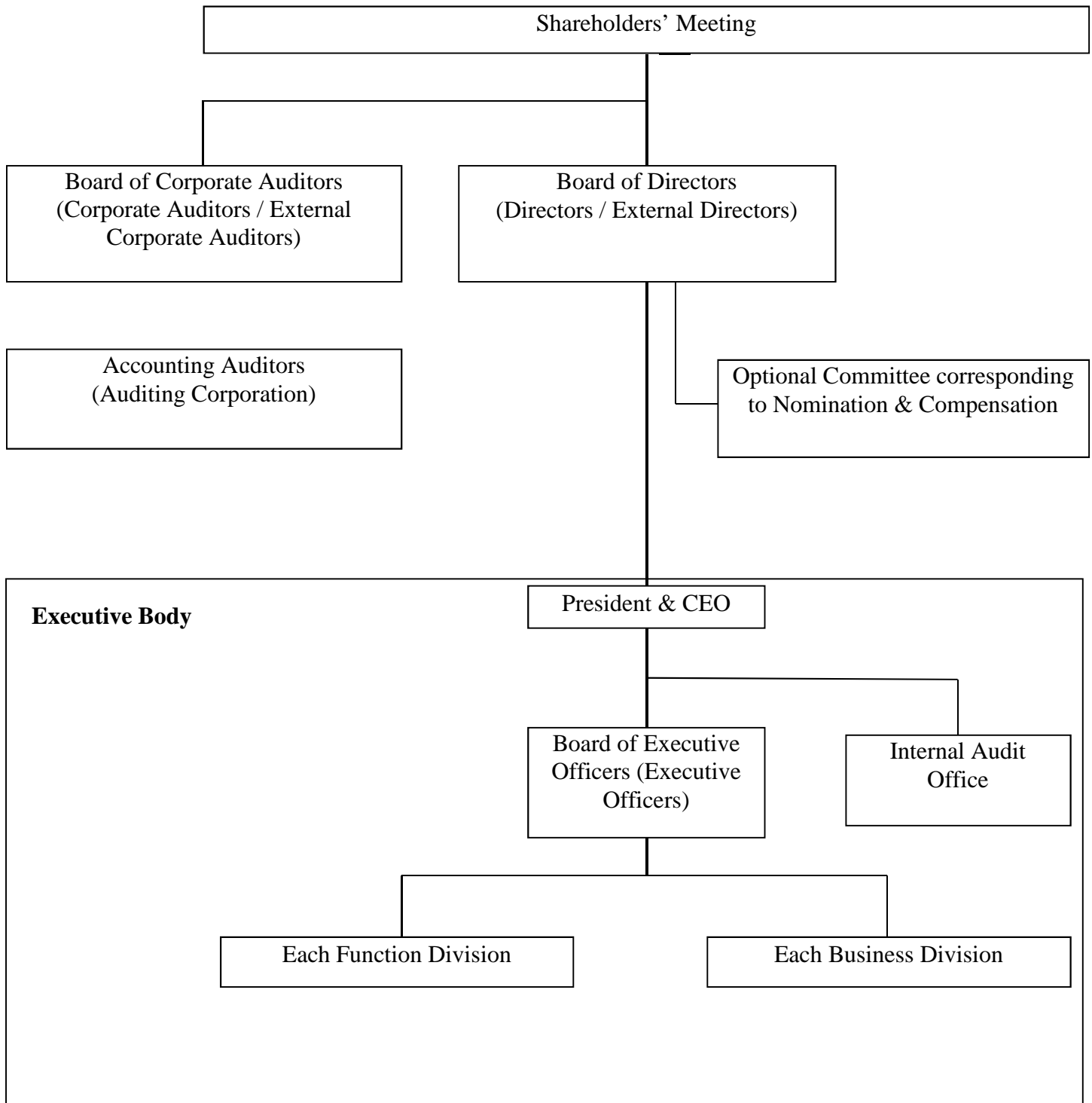
Financial disclosures (e.g. quarterly reports) are prepared mainly by the Finance and Accounting Department and upon obtaining approval of the Board of Directors on the financial statements are immediately disclosed.

IV. Timely disclosure procedures relating to the corporate group

The Company receives monthly financial statements from its 19 subsidiaries by the 10th day of the following month. Based on these documents, the Corporate Planning Office considers whether there are any material matters subject to timely disclosure. If such matters are found, disclosure materials are prepared, reported to the President & CEO through the Officer in Charge of Handling Information, and disclosed upon obtaining approval.

[Reference Material 1: Chart of the Company's System of Corporate Governance]

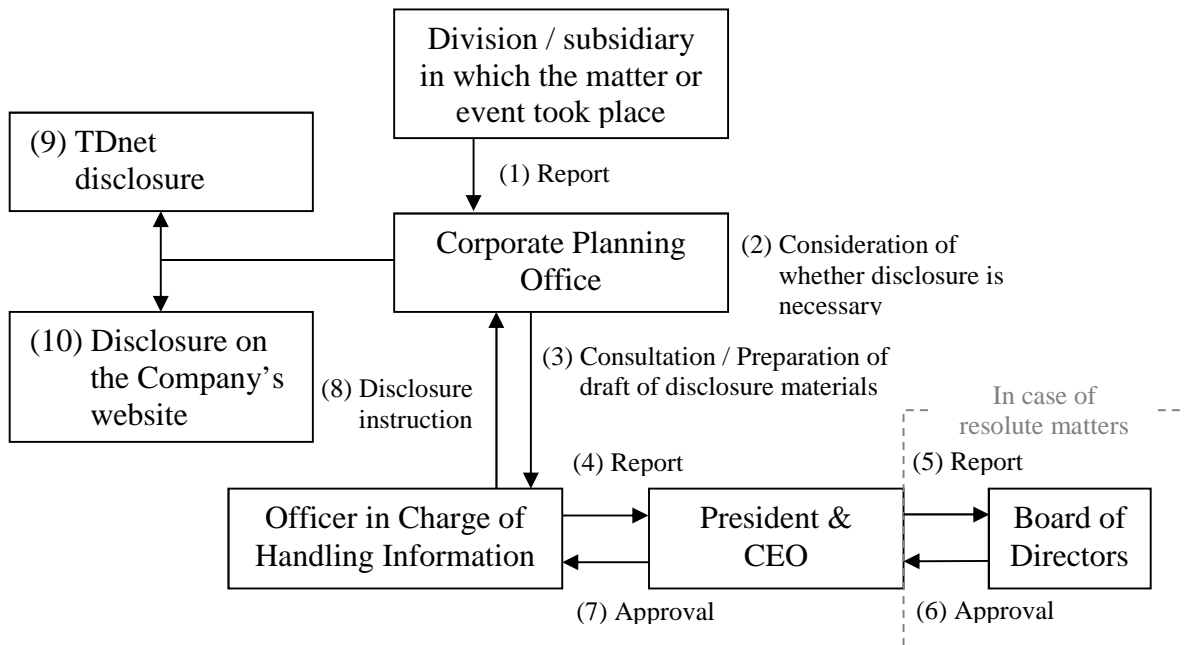
The outline of the Company's System of Corporate Governance is as follows.



[Reference Material 2: Chart of the Company's System for Timely Disclosure]

The outline of the Company's System for Timely Disclosure is as follows.

(1) Operational flow of regular disclosures relating to resolute matters and events



(2) Operational flow of timely disclosures of financial statements

