

Note: This document has been translated from the Japanese original for the convenience of non-Japanese shareholders. In the event of any discrepancy between this translation and the Japanese original, the original shall prevail.
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Securities identification code: 6498
June 1, 2018

To our shareholders:

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

NOTICE OF THE 104TH ORDINARY GENERAL MEETING OF SHAREHOLDERS

You are cordially invited to attend the 104th 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, etc.). 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., Monday, June 25, 2018 (Japan Standard Time).

1. Date and Time: Tuesday, June 26, 2018 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 104th Term (from April 1, 2017 to March 31, 2018), 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 104th Term (from April 1, 2017 to March 31, 2018)

Items to be resolved:

- Proposal 1:** Election of six (6) Directors
- Proposal 2:** Election of one (1) substitute Audit & Supervisory Board Member

4. Exercise of Voting Rights:

- (1) If a duplicate voting right has been exercised, such as in writing and via the Internet, etc., the voting right exercised via the Internet, etc. shall be the effective voting right.
- (2) If several voting rights have been exercised via the Internet, etc., the voting right exercised most recently shall be the effective voting right.

Reference Documents for the General Meeting of Shareholders

Proposal 1: Election of six (6) Directors

According to the provision of the Articles of Incorporation, the term of office of Directors is one (1) year. At the conclusion of this meeting, the terms of office of all six (6) Directors will expire. Therefore, the Company requests the election of six (6) Directors.

The candidates for Directors are as follows:

■ List of candidates for Directors

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: 11 years	100% 16/16 meetings
2	Toshiaki Natori	Director and Senior Executive Officer Division Manager, Flow Control Business Unit	Reelection Tenure as Director: 7 years	100% 16/16 meetings
3	Toshiyuki Murasawa	Director and Senior Executive Officer Division Manager, Corporate Administration Division, Supervisor of the Internal Audit Office, internal controls and the Group's risk management	Reelection Tenure as Director: 2 years	100% 16/16 meetings
4	Kazuyuki Matsumoto	Director	Reelection Outside Independent Tenure as Director: 5 years	100% 16/16 meetings
5	Minoru Amoh	Director	Reelection Outside Independent Tenure as Director: 3 years	100% 16/16 meetings
6	Yutaka Fujiwara	Director	Reelection Outside Independent Tenure as Director: 1 year	100% 12/12 meetings

Note: Attendance for Yutaka Fujiwara is that since assuming office as Director on June 27, 2017.

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	Yasuyuki Hotta (June 18, 1955) Reelection Tenure as Director: 11 years Attendance at Board of Directors' meetings 16/16 meetings	Mar. 1978	Joined the Company	140,400 shares
		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)	
[Reasons for nomination as candidate for Director] Since being named President and Chief Executive Officer of the Company in 2008, Yasuyuki Hotta has shown strong leadership as the top executive and has pushed strengthening the globalization and corporate governance of the Company's Group. The Company decided that this knowledge and experience will contribute to increasing the value of the Company's Group and so made him a candidate again for Director.				

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	Toshiaki Natori (January 20, 1957) Reelection Tenure as Director: 7 years Attendance at Board of Directors' meetings 16/16 meetings	Mar. 1980	Joined the Company	33,600 shares
		Oct. 1999	Plant Manager, Chino Plant, Production Division of the Company	
		Apr. 2004	Managing Executive Director, KITZ Metal Works Corporation	
		July 2009	Representative Director and President, KITZ Metal Works Corporation	
		Apr. 2010	Executive Officer, Division Manager, Production Division of the Company	
		Apr. 2011	Executive Officer, Division Manager, Production Division, Supervisor of the NEW KICS Center of the Company	
		June 2011	Director, Executive Officer, Division Manager, Production Division, Supervisor of the NEW KICS Center of the Company	
		Apr. 2012	Director, Managing Executive Officer, Division Manager, Production Division, Supervisor of the NEW KICS Center of the Company	
		Apr. 2013	Director, Managing Executive Officer, Unit General Manager, Flow Control Business Unit, Division Manager, NEW KICS Center	
		Apr. 2014	Director, Senior Executive Officer, Unit General Manager, Flow Control Business Unit, Division Manager, NEW KICS Center	
		Apr. 2017	Director, Senior Executive Officer, Unit General Manager, Flow Control Business Unit (present position)	
		[Reasons for nomination as candidate for Director] Toshiaki Natori has been the Executive Officer in charge of production areas and President of a Group Company and, since becoming a Director of the Company in 2011, has run the flow control business. Because of this knowledge and experience, the Company made him a candidate again for Director.		

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	Toshiyuki Murasawa (February 9, 1959) Reelection Tenure as Director: 2 years Attendance at Board of Directors' meetings 16/16 meetings	Mar. 1981	Joined the Company	60,400 shares
		Apr. 2001	General Manager, Corporate Planning Dept. of the Company	
		Apr. 2009	Executive Officer, General Manager, Corporate Planning Dept., Supervisor of Publicity and IR Promotion Office and related businesses of the Company	
		Apr. 2011	Executive Officer, Deputy Division Manager, Corporate Planning Division, Supervisor of Corporate Planning Dept., Publicity and IR Promotion Office, and related businesses of the Company	
		Oct. 2011	Executive Officer, Division Manager, Corporate Planning Division of the Company	
		Apr. 2012	Executive Officer, Supervisor of related businesses (Brass Bar Manufacturing business, service business) and Publicity and IR Promotion Office of the Company	
		Apr. 2014	Executive Officer, Division Manager, Corporate Planning Division, Supervisor of related businesses (Brass Bar Manufacturing business, service business) of the Company	
		Apr. 2016	Executive Officer, Division Manager, Corporate Administration Division, Supervisor of Internal Audit Office and Group's risk management of the Company	
		June 2016	Director, Executive Officer, Division Manager, Corporate Administration Division, Supervisor of Internal Audit Office and Group's risk management of the Company	
		Apr. 2017	Director, Executive Officer, Division Manager, Corporate Administration Division	
		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 (present position)	
		[Reasons for nomination as candidate for Director] Toshiyuki Murasawa has been the Executive Officer in charge of the corporate planning area and Director of a Group Company, devising business strategy plans, has pulled management of the Group together into a unified whole. Because of this knowledge and experience, the Company made him a candidate again for Director.		

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	Kazuyuki Matsumoto (September 21, 1945) Reelection Outside Independent Tenure as Director: 5 years Attendance at Board of Directors' meetings 16/16 meetings	Apr. 1970	Joined Teijin Seiki Co., Ltd. (currently Nabtesco Corporation)	4,700 shares
		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	
		June 2013	Advisor, Nabtesco Corporation, Outside Director, TOPCON CORPORATION (present position) Outside Director of the Company (present position)	
[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 so the Company made him a candidate again for Outside Director.				
5	Minoru Amoh (December 9, 1951) Reelection Outside Independent Tenure as Director: 3 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)	2,300 shares
		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	
		June 2015	Outside Director of the Company (present position)	
		Mar. 2016	Statutory Auditor, Otsuka Chemical Co., Ltd. (present position)	
[Reasons for nomination as candidate for Outside Director] Minoru Amoh has long been active as an executive of DuPont K. K., which has businesses around the world, and has high principles based on his abundant corporate management experience so the Company made him a candidate again for Outside Director.				

Candidate No.	Name (Date of birth)	Career summary, position and responsibilities (significant concurrent positions outside the Company)	Number of the Company's shares owned
6	Yutaka Fujiwara (April 20, 1951) Reelection Outside Independent Tenure as Director: 1 year Attendance at Board of Directors' meetings 12/12 meetings	Apr. 1974 Joined MODEC, Inc. Apr. 1987 Joined The Yasuda Trust & Banking Co., Ltd. (currently Mizuho Trust & Banking Co., Ltd.) Aug. 1994 Deputy General Manager, New York Branch, Yasuda Trust & Banking Co., Ltd. June 1996 General Manager, Chicago Branch, Yasuda Trust & Banking Co., Ltd. Aug. 1998 Joined OMRON Corporation June 2005 Executive Officer, General Manager, Financial IR Department, OMRON Corporation Mar. 2007 Executive Officer, General Manager, Group Strategy Department, OMRON Corporation Dec. 2008 Managing Officer, General Manager, IR & Corporate Information Department, OMRON Corporation June 2013 Outside Director, Nabtesco Corporation (present position) June 2017 Outside Director of the Company (present position)	700 shares
[Reasons for nomination as candidate for Outside Director] After managing the overseas offices of financial institutions, Yutaka Fujiwara had been engaged as an executive officer in the finance, IR operations and group strategies of OMRON Corporation globally expanding its business. His experience has given him high-level knowledge of corporate management with global perspectives. Therefore, the Company has made him a candidate again for Director.			

- Notes: 1. There is no special interest between any of the candidates and the Company.
2. The tenures of each candidate will expire at the conclusion of this meeting.
3. Kazuyuki Matsumoto, Minoru Amoh and Yutaka Fujiwara meet the requirements of The Company's "Criteria for Determining the Independence of Outside Officers" (on page 9). 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 and assumes office as Directors.
4. 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 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 candidate.

Proposal 2: Election of one (1) substitute Audit & Supervisory Board Member

As a provision against the possibility of there being fewer Audit & Supervisory Board Members than specified by laws and regulations, the Company requests the election of one (1) substitute Audit & Supervisory Board Member based on Article 329, Paragraph 3 of the Companies Act. Moreover, the election of the substitute Audit & Supervisory Board Member will be effective until the commencement of the next Ordinary General Meeting of Shareholders. Also, the election may be canceled by decision of the Board of Directors with the consent of the Audit & Supervisory Board, provided that the substitute has not yet assumed the post.

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

The candidate for substitute 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
Akio Mitsufuji (February 4, 1948) Substitute Audit & Supervisory Board Member	Apr. 1972 Joined Toyo Engineering Corporation June 2000 Director, Ebara Corporation June 2002 Senior Executive Officer, Ebara Corporation President, I.T. Engineering Co., Ltd. June 2004 Director, Managing Executive Officer, Ebara Corporation Apr. 2006 Managing Executive Officer, Ebara Corporation June 2008 President, Ebara Agency Co., Ltd. June 2011 President, Project Management Association of Japan (present position) June 2013 Outside Audit & Supervisory Board Member of the Company	4,300 shares
<p>[Reasons for nomination as candidate for substitute Outside Audit & Supervisory Board Member] Akio Mitsufuji has abundant experience and broad insights as an executive manager, and the Company believes that he could suitably perform the duties of Outside Audit & Supervisory Board Member if appointed. Therefore, the Company has nominated him as a candidate for substitute Outside Audit & Supervisory Board Member. Moreover, the candidate gave accurate advice as the Outside Audit and Supervisory Board Member of the Company from the 100th to the 103rd term and performed strict audits maintaining an independent viewpoint.</p> <p>[Other items about the candidate for substitute Outside Audit & Supervisory Board Member warranting special mention] 1. There is no special interest between the candidate and the Company. 2. He meets the requirements of The Company's "Criteria for Determining the Independence of Outside Officers" (on page 9). Also, if he is elected and assumes office as substitute Audit & Supervisory Board Member, he will be an Independent Officer pursuant to the regulations of the Tokyo Stock Exchange. 3. If the candidate assumes office as Audit & Supervisory Board Member, based on the provisions of Article 427, Paragraph 1 of the Companies Act, the Company intends to conclude an agreement with him limiting his liability as stated in Article 423, Paragraph 1 of the Companies Act. Moreover, 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.</p>		

(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 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 104th Term
(from April 1, 2017, to March 31, 2018)

1. Status of the corporate group

(1) Progress and results of operations

(i) Progress and outcomes of business activities

Regarding the state of the Japanese economy during the fiscal year under review, capital expenditures increased in response to improved corporate earnings and firm personal consumption suggest that the economy was on a moderate recovery trend. Although China's economy continued to slow because of environmental regulations and other factors, overseas economy trended upward as a result of sustained expansion of the U.S. economy and other developments.

Against this backdrop, the Valve Manufacturing business achieved increased sales due to a significant increase in sales of products for semiconductor production equipment and firm sales for buildings and houses 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.

The result of each business segment is as follows.

a. Valve Manufacturing

The Valve Manufacturing business increased sales to external customers due to strong sales of products for buildings and houses, particularly in the Tokyo metropolitan area and a significant increase in demand for products for semiconductor production equipment. Regarding the segment's performance overseas, capital expenditures for oil-related facilities remained weak even though crude oil price levels recovered and sales to the Americas and Europe declined. However, sales of products for semiconductor production equipment, particularly in Asia, increased, leading to increased sales. Consequently, the segment's net sales increased 7.0% year on year to ¥98,162 million. Although manufacturing costs increased due to higher prices for raw materials, operating income rose 11.8% year on year to ¥12,798 million because of improved profitability following revised selling prices in Japan, a growth in sales of products for semiconductor production equipment and continuous efforts to reduce costs.

b. Brass Bar Manufacturing

In the Brass Bar Manufacturing business, sales to external customers increased 21.7% year on year to ¥23,535 million. This result reflects the decreased sales volume of brass bars and the significant increase in market prices for raw materials (which affect sales prices) compared with the previous year. Operating income decreased 16.0% year on year to ¥699 million, as a result of the impact of fluctuations in market prices for raw materials in the fourth quarter even through improvements in manufacturing lines boosted productivity.

c. Other

In the Other business, sales to external customers declined 4.5% year on year to ¥2,867 million. This was partially a result of guest attendance at the Onbashira festival (only held once every 7 years) in the previous fiscal year, and a decline in the number of group customers for the current fiscal year in the hotel business. As a result, operating loss came to ¥28 million (operating income of ¥59 million in the previous fiscal year).

Sales to external customers by business segment of the corporate group (Units: Millions of yen)

Business Segment	103rd term (FYE March 2017)		104th term (FYE March 2018)		Year-on-year change	
	Amount	Composition ratio (%)	Amount	Composition ratio (%)	Amount	Rate of change (%)
Valve Manufacturing	91,766	80.4	98,162	78.8	6,396	7.0
Brass Bar Manufacturing	19,333	17.0	23,535	18.9	4,202	21.7
Other	3,002	2.6	2,867	2.3	(134)	(4.5)
Total	114,101	100.0	124,566	100.0	10,464	9.2

(ii) Capital expenditures

In the Valve Manufacturing business, the Company invested in new production facilities and renewals, particularly those of the Company, the Thai subsidiaries and subsidiaries for products for semiconductor production equipment, in addition to the investment in its core systems of the Company. In the Brass Bar Manufacturing business, the Company also invested in new production facilities and renewals for casting and bar production. As a result, the total amount of capital expenditures (including intangible assets) reached ¥9,012 million.

(iii) Financing activities

In the fiscal year under view, the balance of interest-bearing debt increased by ¥9,515 million compared with the previous fiscal year to ¥34,302 million, mainly due to issuance of the 4th series of unsecured private placement bonds of ¥10,000 million and procurement of long-term debt of ¥3,242 million in long-term debt, despite repayment of ¥2,686 million in long-term debt and redemption of private placement bonds of ¥904 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	101st term (FYE March 2015)	102nd term (FYE March 2016)	103rd term (FYE March 2017)	104th term (FYE March 2018)
Net sales	117,036	117,278	114,101	124,566
Ordinary income	7,581	7,300	8,799	9,733
Net income attributable to owners of the parent	6,881	4,915	5,400	6,518
Net income per share (yen)	63.22	45.50	51.43	65.50
Total assets	115,790	119,422	119,148	134,187
Net assets	75,493	76,096	74,892	77,391
Net assets per share (yen)	686.47	700.17	727.78	782.98

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 has applied the Accounting Standard for Business Combinations (ASBJ Statement No. 21, September 13, 2013). Accordingly, “net income” is represented as “net income attributable to owners of the parent” as of the 102nd term.
3. 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.

(102nd term)

The tubing industry, which the Company belongs to, faced a difficult environment. In Japan, freight movement was lackluster, and overseas, the declining crude oil prices discouraged investment. On the other hand, during the term, the Company enjoyed significantly higher sales of products for semiconductor production equipment. Moreover, the Valve Manufacturing business reported increased sales due to the sales contributions from a subsidiary in India which the Company acquired in the previous year, despite a decrease in net sales for the Brass Bar Manufacturing business and other business segments. As a result, the total amount of sales increased 0.2% year on year to ¥117,278 million.

In terms of profit and loss, the operating income of Valve Manufacturing business rose 5.2% year on year to ¥7,245 million accompanied by increased sales from products for semiconductor production equipment and improved profitability among overseas subsidiaries such as those in Thailand. Ordinary income declined 3.7% year on year to ¥7,300 million due to a decline in exchange gains. Net income attributable to owners of the parent was down 28.6% year on year to ¥4,915 million, reflecting a decline in gains from the transfer of shares in KITZ Wellness recorded in the previous term.

(103rd term)

The Valve Manufacturing business achieved increased sales in Japan, but its sales overseas fell because of declining crude oil prices, which discouraged investment, and other factors like the yen appreciation. In the Brass Bar Manufacturing business, lowered sales prices due to a decline in market prices for raw materials and a decrease in sales volumes led to a significant drop in revenue. Consequently, total net sales declined 2.7% year on year to ¥114,101 million.

In terms of profit and loss, operating income rose 23.2% year on year to ¥8,929 million following a reduction in manufacturing costs in the Valve Manufacturing business. Ordinary income increased 20.5% year on year to ¥8,799 million. The Company recorded gains on sale of investment securities after selling a portion of its strategic shareholdings. On the other hand, it also recorded impairment loss after establishing trust beneficiary rights in its real estate and then transferring the trust beneficiary rights for the purpose of strengthening its financial situation. Regarding income taxes, the Company recorded ¥622 million in income tax refunds following the conclusion of a transfer pricing agreement between Japan and the United States from the amount of ¥716 million recorded for the fiscal year ended March 2014, which was revised based on the transfer price taxation audit. As a result, net income attributable to owners of parent increased 9.9% year on year to ¥5,400 million.

(ii) Assets and profit and loss of the Company

(Units: Millions of yen)

Category	101st term (FYE March 2015)	102nd term (FYE March 2016)	103rd term (FYE March 2017)	104th term (FYE March 2018)
Net sales	66,569	64,159	61,933	64,118
Ordinary income	4,450	3,557	5,098	6,506
Net income	4,728	2,494	3,768	5,445
Net income per share (yen)	43.44	23.09	35.89	54.72
Total assets	91,441	94,407	93,255	106,397
Net assets	57,217	57,229	54,977	55,769
Net assets per share (yen)	528.72	533.78	542.23	572.91

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

(3) Ongoing challenges for the corporate group

There are indications that the economy of Japan will maintain its course of moderate recovery. Specifically, improved economic conditions overseas have prompted a rise in exports, and there is increasing investment in projects associated with the upcoming Tokyo Olympic Games and in streamlining and labor-saving schemes aimed at addressing labor shortages. In economies overseas, despite risk factors such as protectionist policies of the U.S. administration, capital expenditure is expected to increase as a result of significant reductions in corporate taxes, and the overall global economy will probably continue to recover.

This year marks the last year of the third phase of the medium-term management plan (FY2016 to FY2018). Because the Company attained various numerical targets, including those for net sales and income, one year earlier than planned, the Company will set higher targets for the current fiscal year and aim to generate growth to achieve long-term management plan, “the KITZ Global Vision 2020.”

In addition to the three focal market fields, “Building and Houses,” “Petrochemistry and General Chemistry,” and “Clean Energy (hydrogen and LNG)” of the Valve Manufacturing business, a major segment of the Company, we will also concentrate our resources on the “Semiconductor Market” and we will introduce new products and implement capital expenditures with a view to future growth and aim to increase revenue.

Regarding the management of products, the Product Management Center will launch product groups that are strategically necessary in a timely and swift manner based on comprehensive marketing in the focal market fields.

In the Japanese market, we will assure to win orders for construction projects in the Tokyo metropolitan area, which will peak in 2018 and 2019, and continue our efforts to cultivate new end users. To reflect the increase in prices for raw materials, parts, subsidiary materials, and logistics, continuing from the previous fiscal year we upwardly have been revising sales prices for shipments from May 1, 2018 and we will work to permeate this revision.

In overseas markets, we will accelerate the development of hub markets, expand the lineup of products for buildings and houses, and enter markets in the Asia Pacific region and implement various measures in China and India, including reinforcing the system of local production and local consumption.

In terms of production, in addition to leading a group-wide effort to enhance the cost improvement promotion system, particularly with respect to procurement and purchasing, and proactively investment in cost-reducing investment, we will improve productivity and production capacity through the use of IT, such as IoT and big data.

In terms of a technical aspect, the Engineering Center, an organization where estimates and design services are centralized, will improve the profitability of special order products and thus realize globally competitive costs.

In terms of development, we will reduce inventory and management man-hours by merging and eliminating products and through modular designs. Also, work processes related to design will be streamlined using the PLM (product lifecycle management) system, which was fully implemented this year, and strive to reduce both complaints and labor.

In addition, we will introduce a global core system, which is expected to be implemented in January 2019, and will aim to standardize business operations and improve efficiency.

In the Brass Bar Manufacturing business, we will endeavor to improve sales by expanding the sales of brass bars and expanding production of high value-added products such as cutting and processed products and casting products. We will also invest further in brass bar manufacturing facilities in order to improve production efficiency.

As for the “Other” business segment, in the hotel business, we will seek to attract more customers by providing better service with a view to creating comfortable facilities from a customer perspective.

(4) Status of major subsidiaries (as of March 31, 2018)

Name	Capital stock	Investment ratio (%)	Major business
Toyo Valve Co., Ltd.	100 million JPY	100.0	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	100.0	Manufacturing and sales of valves and fittings for semiconductor production equipment
KITZ Micro Filter Corporation	90 million JPY	100.0	Manufacturing and sales of fluid separation products for filters and related products
KITZ (Thailand) Ltd.	500 million THB	92.0	Manufacturing and sales of valves
KITZ Corporation of Taiwan	200 million TWD	100.0	Manufacturing and sales of valves
KITZ Corporation of Jiangsu Kunshan	49 million CNY	100.0	Manufacturing and sales of valves
KITZ Corporation of Kunshan	62 million CNY	100.0 (100.0)	Manufacturing and sales of valves
KITZ SCT Corporation of Kunshan	22 million CNY	100.0 (100.0)	Manufacturing and sales of valves and fittings for semiconductor production equipment
KITZ Corporation of Lianyungang	42 million CNY	100.0	Manufacturing and sales of valves
KITZ Corporation of Shanghai	10 million CNY	100.0	Sales, marketing and distribution of valves
KITZ Corporation of America	3,000 thousand USD	100.0	Sales, marketing and distribution of valves
Metalúrgica Golden Art's Ltda.	64,000 thousand BRL	100.0	Manufacturing and sales of valves
KITZ Corporation of Europe, S.A.	421 thousand EUR	100.0	Manufacturing and sales of valves
KITZ Europe GmbH	500 thousand EUR	100.0	Sales, marketing and distribution of valves
Perrin GmbH	1,538 thousand EUR	100.0 (100.0)	Manufacturing and sales of valves
KITZ Corporation of Asia Pacific Pte. Ltd.	11,142 thousand USD	100.0	Sales, marketing and distribution of valves
KITZ Metal Works Corporation	490 million JPY	100.0	Manufacturing and sales of brass bar products
Hotel Beniya Co., Ltd.	490 million JPY	100.0	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, 2018)

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, 2018)

(i) Major sales offices and plants of the Company

Name	Location	Name	Location
Head Office	Chiba-shi	Niigata Sales Office	Niigata-shi
Nagasaka 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
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, 2018)

(i) Employees of the corporate group

Business segment	Number of employees	Year-on-year change
Valve Manufacturing business	4,384	+136
Brass Bar Manufacturing business	214	+18
Other	92	unchanged
Corporate (common)	72	+11
Total	4,762	+165

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
1,266	+8	40.8	15.3

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, 2018)

(Units: Millions of yen)

Name	Outstanding debt
Sumitomo Mitsui Banking Corporation	2,911
Mizuho Bank, Ltd.	1,605
The Hachijuni Bank, Ltd.	1,115
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,105
Mitsubishi UFJ Trust and Banking Corporation	1,067

Note: The Bank of Tokyo-Mitsubishi UFJ, Ltd. changed its name to MUFG Bank, Ltd. on April 1, 2018.

2. Status of the Company

(1) Status of shares (as of March 31, 2018)

- (i) Total number of authorized shares: 400,000,000 shares
- (ii) Total number of issued shares: 97,672,560 shares

Notes: 1. Following the cancellation of treasury shares on March 23, 2018, the total number of issued shares fell 10,000,000 shares.

2. Total number of issued shares shown above does not include 2,723,951 shares of treasury stock that were held as of the end of the fiscal year under review.

- (iii) Number of shareholders: 9,536

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.	9,905	10.14
Nippon Life Insurance Company	4,320	4.42
Kitazawa-kai Stock Ownership Plan	4,281	4.38
GOVERNMENT OF NORWAY	3,964	4.06
Sumitomo Life Insurance Company	3,448	3.53
Kitazawa Ikueikai Foundation	3,411	3.49
The Master Trust Bank of Japan, Ltd.	2,998	3.07
KITZ Corporation Trading Partner Stock Ownership Plan	2,985	3.06
Sumitomo Mitsui Banking Corporation	2,553	2.61
State Street Bank And Trust Company	2,345	2.40

Notes:

- The Company held 2,723 thousand shares of treasury stock as of March 31, 2018; 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 329 thousand shares in the trust. These 329 thousand shares are not included in the concerned treasury stock.
- The above number of shares held includes shares associated with trust operations as follows:
Japan Trustee Services Bank, Ltd.: 9,905 thousand shares
The Master Trust Bank of Japan, Ltd.: 2,998 thousand shares
- The number of shares held by Nippon Life Insurance Company includes 17 thousand shares in the separate account for annuities.
- The number of shares held by Sumitomo Life Insurance Company includes 10 thousand shares in the variable insurance account and 29 thousand shares in the separate account.

(2) Matters regarding subscription rights to shares (as of March 31, 2018)

Not applicable

(3) Officers of the Company (as of March 31, 2018)

(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	(Senior Executive Officer, Unit General Manager, Flow Control Business Unit)
Toshiyuki Murasawa	Director	(Executive Officer, Division Manager, Corporate Administration Division, Supervisor of Internal Audit Office, internal controls and Group's risk management)
Kazuyuki Matsumoto	Director	
Minoru Amoh	Director	
Yutaka Fujiwara	Director	
Masahiko Kondo	Standing Audit & Supervisory Board Member	
Taro Kimura	Standing Audit & Supervisory Board Member	
Tatsuhiko Takai	Audit & Supervisory Board Member	
Shuhei Sakuno	Audit & Supervisory Board Member	

Notes:

- Directors Kazuyuki Matsumoto, Minoru Amoh and Yutaka Fujiwara are Outside Directors as provided for in Article 2, Paragraph 15 of the Companies Act. The Company has registered them as independent officers with the Tokyo Stock Exchange as prescribed by the Securities Listing Regulations of the same Exchange.
- Audit & Supervisory Board Members Tatsuhiko Takai and Shuhei Sakuno are Outside Audit & Supervisory Board Members as provided by Article 2, Paragraph 16, and Article 335, Paragraph 3, of the Companies Act. The Company has registered them as independent officers with the Tokyo Stock Exchange as prescribed by the Securities Listing Regulations of the same Exchange.

- The changes in Directors during the fiscal year under review are as follows:

(1) New appointment as Director

Name	Position upon assuming office	Date of assuming office
Yutaka Fujiwara	Director	June 27, 2017

(2) Retirement as Director

Name	Position upon retirement	Date of retirement
Takahito Hirashima	Director	June 27, 2017

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

(1) New Appointment as Audit & Supervisory Board Member

Name	Position upon assuming office	Date of assuming office
Taro Kimura	Audit & Supervisory Board Member	June 27, 2017
Shuhei Sakuno	Audit & Supervisory Board Member	June 27, 2017

(2) Retirements from Position of Audit & Supervisory Board member

Name	Position upon retirement	Date of retirement
Takafumi Azuma	Audit & Supervisory Board Member	June 27, 2017
Akio Mitsufuji	Audit & Supervisory Board Member	June 27, 2017

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
Toshiyuki Murasawa	Director, Executive Officer, Division Manager, Corporate Administration Division, Supervisor of Internal Audit Office, internal controls and Group's risk management	Director, Executive Officer, Division Manager, Corporate Administration Division	June 27, 2017

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 group companies, he has accumulated extensive knowledge and experience in internal controls and finance and accounting by promoting the construction of internal control systems and reinforcement of internal audit functions. Therefore, the Company believes that he has sufficient insight to duly perform the duties of Audit & Supervisory Board member.
8. Audit & Supervisory Board Member, Tatsuhiko Takai managed accounting operations for Mitsui Mining & Smelting Co., Ltd. for many years, after which he assumed a number of successive posts, including that of chief financial officer. Through such service, he has accumulated extensive knowledge and experience in finance and accounting. Therefore, the Company believes that he has sufficient insight to duly perform the duties of Audit & Supervisory Board Member.
9. Audit & Supervisory Board Member, Shuhei Sakuno has broad experience in corporate administration, supervising the Yokogawa Electric Corporation group companies, and extensive insight into accounting and financial operations, as well as experience in developing internal controls, risk management, and internal audit systems. Therefore, the Company believes that he has sufficient insight to duly perform the duties of Audit & Supervisory Board member.

(ii) Summary of liability limitation agreements

In order to limit the liability of directors (excluding persons who are executive directors) 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 (excluding persons who are executive 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 (excluding persons who are executive 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 America	Director
		KITZ Europe GmbH	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
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
		KITZ SCT Corporation of Kunshan	Audit & Supervisory Board Member
	Taro Kimura	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

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

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

(Business)

Sales, marketing and distribution of valves
Manufacturing and sales of valves
Manufacturing and sales of valves and fittings for semiconductor production equipment
Manufacturing and sales of valves
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
Manufacturing and sales of valves
Sales, marketing and distribution of valves
Sales, marketing and distribution of valves
Sales, marketing and distribution of valves
Sales, marketing and distribution 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 the positions and areas of responsibility in the Company

Name	Position and area of responsibility in Company	
Kazuhiko Shimodaira	Executive Officer	General Manager, Legal Department, Supervisor of the Intellectual Property Department
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
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, Supervisor of related businesses (Brass Bar Manufacturing business, service business)
Kenji Katsuragi	Executive Officer	Deputy Division Manager, Corporate Administration Division
Masaru Takusagawa	Executive Officer	Division Manager, Product Management Center, Flow Control Business Unit

Note: 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
Hitoshi Kurihara	Executive Officer	Division Manager, Corporate Planning Division, Supervisor of related businesses (Brass Bar Manufacturing business, service business)	April 1, 2017
Kenji Katsuragi	Executive Officer	Deputy Division Manager, Corporate Administration Division	April 1, 2017
Masaru Takusagawa	Executive Officer	Division Manager, Product Management Center, Flow Control Business Unit	April 1, 2017

(2) Retirements from position of executive officer

Name	Position upon retirement	Date of retirement
Taro Kimura	Executive Officer	June 27, 2017
Takahito Hirashima	Executive Officer	January 31, 2018

(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	173
Audit & Supervisory Board Member	6	60
Total	13	234

Notes:

- 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 (including the remuneration and bonuses paid to Directors who concurrently serve as employees for their services as employees)
Not more than ¥300 million a year (Ordinary General Meeting of Shareholders held on June 29, 2006)
Remuneration for Audit & Supervisory Board Members
Not more than ¥70 million a year (Ordinary General Meeting of Shareholders held on June 29, 1994)
- As of the end of the fiscal year under review, there were six (6) Directors and four (4) Audit & Supervisory Board Members, a total of ten (10).
The above number of persons includes the one (1) Director and two (2) Audit & Supervisory Board Members who retired at the conclusion of the 103rd Ordinary General Shareholders Meeting held on June 27, 2017.
- 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 ¥26 million, ¥27 million, and ¥2 million, respectively.

4. The amount of remuneration includes ¥53 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 ¥21 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 ¥26 million was paid to three (3) Outside Directors and a total of ¥17 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 Statutory Auditor, 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 concurrently holds the position of Audit & Supervisory Board Member at Yokogawa Solution Service Corporation. There is no special interest between Yokogawa Solution Service Corporation 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	After being newly elected at the Ordinary General Meeting of Shareholders held June 27, 2017, Yutaka Fujiwara attended all 12 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	After being newly elected at the Ordinary General Meeting of Shareholders held June 27, 2017, Shuhei Sakuno attended all 12 Board of Directors' meetings held in the fiscal year under review, and expressed his opinions during deliberations as necessary. He also attended all ten of the Audit & Supervisory Board meetings since being elected, 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	¥88 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	¥9 million
Total amount of money and other financial benefits to be paid to Accounting Auditor by the Company and its subsidiaries	¥99 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. Systems for Ensuring Appropriate Operations and the Operational Status of such Systems

(1) Summary of Resolutions concerning Systems for Ensuring Appropriate Operations

(i) Basic policy on the Internal Control System

To ensure that corporate activities are in accord with the Company's corporate philosophy as described in "KITZ's Statement of Corporate Mission" and the "Action Guide" based on such, and to ensure that the Group has a healthy and robust operating base, the Company's Board of Directors has, pursuant to the provisions of the Companies Act and the Ordinance for Enforcement of the Companies Act, adopted the following basic policy ("Basic Policy on the Internal Control System") concerning systems for ensuring appropriate operations (collectively described as the "Internal Control System") among the Corporate Group, which consists of the Company and its subsidiaries. In line with this policy, the Company will appropriately build and operate the Internal Control System.

(KITZ's Statement of Corporate Mission)

To contribute to the global prosperity, KITZ is dedicated to continually enriching its corporate value by offering originality and quality in all products and services.

(Explanation of KITZ's Statement of Corporate Mission)

We at KITZ believe that enhancing the satisfaction of customers, employees, business partners, and society will enable increased shareholder value and sustainable improvements in corporate value. This in turn will enhance the satisfaction of all stakeholders and help create an abundant society.

(Action Guide)

■ "Do it True" (sincerity and truth)

- Conduct oneself in a sincere and disciplined manner
- Ensure the highest quality products
- Consider the interests of the stakeholders as a whole

■ "Do it Now" (speed and timeliness)

- Act speedily and respond swiftly
- Do not waste time
- Make the most of each moment

■ "Do it New" (creativity and challenge)

- Create new products and services
- Take on new challenges
- Continuously develop oneself and one's work

(ii) Systems for ensuring that directors execute their duties in compliance with laws, regulations, and the Company's Articles of Incorporation and other systems stipulated in the Ordinance of the Ministry of Justice as being necessary for ensuring that operations are executed in an appropriate manner by the Company and its subsidiaries ("Group companies"), which together constitute the corporate group ("Corporate Group")

To ensure that employees of the Company and directors and employees of Group companies perform their duties in compliance with applicable laws, regulations, and the Company's Articles of Incorporation, the Directors of the Company will uphold the 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 Group companies. They will also make thoroughgoing efforts to ensure that employees practice and observe the same, and they will act as role models by demonstrating exemplary conduct.

- a. Systems for storing and managing information related to the execution of duties by directors of the Company and Group companies

The directors of the Company and Group companies will appropriately store and manage important documents related to directors' execution of duties (including electromagnetic records) and any other important information in accordance with the relevant company's internal rules.

- b. Procedures and other systems related to managing the risk of losses to the Company and Group companies

- 1) The Company will pursue a KITZ Group-wide risk management strategy, which includes establishing a directorship with responsibility for the Group's risk management, in order to identify, appraise, and, where necessary, take measures to reduce the impact of various business risks that threaten the Company's efforts to sustainably improve its corporate value and that of the Group companies.
- 2) The Company will establish in a Business Continuity Plan for itself and the Group companies and operate in such a way as to counter the risk of business being interrupted by foreseeable emergencies such as large-scale earthquakes.
- 3) The Company will spearhead a Group-wide effort to manage risk of losses by determining Group-wide management rules, administering internal control procedures throughout the Group through the Company's Internal Audit Office, and determining a system by which Group companies can obtain permission from the Company and issue reports to the Company.
- 4) The Company will establish and operate the following committees, which will appraise business risks concerning the Company and Group companies and advise the Company's representative director or Board of Directors on the measures that need to be taken.

▪ Internal Control Committee

The Internal Control Committee will formulate policies concerning the establishment of the Internal Control System, which is intended to ensure the reliability of the Company and Group companies' financial reporting, the safety of their assets, the effectiveness and efficiency of their operations, and other matters necessary for ensuring that operations are executed in an appropriate manner. It will also monitor the progress of such policies and identify problems concerning the establishment of such a system.

▪ C&C (Crisis & Compliance) Control Committee

The Company will establish in the Company and each of the Group companies a C&C (Crisis & Compliance) Control Committee responsible for formulating preventative measures against risk, taking countermeasures against crisis situations that arise, and resolving issues connected with the whistle-blower system.

▪ Investment and Loans Review Committee

The Investment and Loans Review Committee will appraise risks associated with material investments and loans of the Company and Group companies, and advise the Company and Group companies' representative directors, board of directors, and other employees responsible for the relevant investment or loan plans on matters concerning the pursuit of the investment or loan plan or, where necessary, the suspension or revision of the plan.

- Other committees

The Company and its Group companies will communicate with each other concerning risks associated with specific laws, regulations, and issues, and implement necessary measures, such as establishing horizontal committees.

c. Systems for ensuring that the directors of the Company and Group companies execute their duties efficiently

- 1) To enhance the appropriateness and propriety of decision-making in connection with the execution of duties by directors of the Company, the Company's Board of Directors will serve as a place for auditing and supervision by directors who do not concurrently serve as executive officers ("supervisory directors") and outside directors as well as for mutual auditing and supervision between directors who concurrently serve as executive officers ("executive directors"). It will also serve a place for executive directors and executive officers to issue reports on the status of the execution of duties to supervisory directors and outside directors.
- 2) To enhance the propriety and appropriateness of the business decisions of the Board of Directors, three of the Company's directors will be outside directors who have extensive experience and impartial discernment.
- 3) The Board of Directors of the Company will delegate duties to the representative director, executive directors, and executive officers. The boards of directors of the Group companies will, in accordance with their resolutions, delegate duties to the representative director and executive directors.
- 4) Representative directors, executive directors, and executive officers of the Company, and representative directors and executive directors of each Group company will make decisions on the execution of business operations delegated to them through the necessary bodies and procedures and in accordance with internal regulations such as the Organization Rules and Regulations concerning Official Authority.
- 5) The regulations of the Company and the Group companies will be subject to revisions as necessary to accord with changes to laws or regulations or to ensure the efficiency of the execution of business operations.
- 6) The representative director of the Company will establish essential and core organizational bodies of the Kitz Group as a whole, operate them efficiently, and develop systems for auditing and monitoring them. The representative directors of the Group companies will establish core organizational bodies of the respective companies, operate them effectively, and develop systems for auditing and monitoring them.
- 7) The Company's executive directors will receive business reports from each executive officer and employees at the Management Conference (conference of executive officers), and monitor whether business operations are being executed efficiently and appropriately.

d. Systems for ensuring compliance with laws, regulations, and the Company's Articles of Incorporation in the execution of duties by employees of the Company and directors and employees of Group companies

To ensure compliance with laws, regulations and the Company's Articles of Incorporation in the execution of duties by employees of the Company and directors and employees of the Group companies, the Company will make thoroughgoing efforts to ensure that its employees uphold the 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 the Group companies. As part of these efforts, the Company will conduct education and awareness-raising activities concerning these matters.

- 1) To ensure thoroughgoing compliance, the Company will establish a whistle-blower hotline for informing of, reporting, and advising on violations of laws, regulations, or internal rules.

Calls through this hotline will be handled by the Compliance Information Desks (CIDs) set up in the Company, each of the Group companies, and the corporate lawyer's office. The Company will inform employees about the use of this hotline.

- 2) To educate and raise awareness concerning the importance and necessity of compliance management and other matters, the Company will develop a compliance program guidebook and distribute it to the directors and employees throughout the Group.
- e. Systems for ensuring that the Corporate Group (consisting of the Company and the Group companies) executes operations appropriately
- 1) The Company and the Group companies will develop the rules and regulations necessary for ensuring appropriate and efficient business operations, and construct the necessary information systems.
 - 2) The Company will ensure that all inter-company exchanges among the Group companies are appropriate and in accordance with relevant laws and regulations, accounting principles, tax laws and other social norms.
 - 3) The Company and the Group companies 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, and collaborate as necessary with authorities such as the police or experts such as attorneys.
 - 4) The Company's representative director, executive directors, and executive officers will perform their allotted duties, and guide the Group companies so that they develop and operate appropriate internal control system. They will also instruct the Group companies' representative directors and directors to store and manage information pertaining to the execution of directors' duties.
 - 5) The Company will carry out internal audits of itself and its Group companies through its Internal Audit Office, and ensure the effectiveness and propriety of internal controls with respect to the full range of each company's operations.
 - 6) Depending on the level of importance thereof, the Company's Internal Audit Office will issue reports on operating audit plans, including the implementation and results thereof, to the representative directors, executive directors, boards of directors, or audit & supervisory boards (or corporate auditors in the case that the company concerned does not have an audit & supervisory board) of the Company and the Group companies.
 - 7) The Audit & Supervisory Board Members will monitor the management of the Group companies by such means as serving concurrently as corporate auditors of those companies that have an auditor system and thus ascertain the consolidated management performance of the KITZ Group. They will also construct systems for liaising closely with the Accounting Auditor and the Internal Audit Office so as to ensure effective and appropriate supervision and auditing of the Group as a whole.
 - 8) The officials and representatives of the major departments in the Group companies will monitor and audit the management of the company concerned while serving concurrently as a director of said company. They will also report on matters concerning the execution of their duties.
 - 9) The Company's corporate staff divisions, in accordance with their respective functions, will guide the Group companies as necessary, and help them execute their business operations efficiently and appropriately.

(iii) Systems for ensuring that Audit & Supervisory Board members conduct their audits effectively

- a. Matters concerning employees who are assigned to assist in the duties of Audit & Supervisory Board Members when Audit & Supervisory Board Members request such assistance
- 1) To assist the duties of Audit & Supervisory Board Members, the Company will establish the

Auditors Board Office. The Auditors Board Office will be staffed by no more than two employees who have the abilities necessary to assist Audit & Supervisory Board Members.

- 2) The Auditors Board Office will conduct duties as directed by Audit & Supervisory Board Members and serve as an office for the Audit & Supervisory Board.
- b. Matters related to the independence of employees who are assigned to assist in the duties of Audit & Supervisory Board Members from directors
- 1) To ensure that employees who assist Audit & Supervisory Board Members in their duties are independent from directors, the Company will require the prior consent of the Audit & Supervisory Board with regard to appointments and reshuffles of said employees.
 - 2) The Audit & Supervisory Board will conduct personnel appraisals of the Auditors Board Office staff.
- c. Systems for ensuring the effectiveness of orders issued to employees who are assigned to assist in the duties of Audit & Supervisory Board Members from directors
- 1) The Auditors Board Office staff will serve on a full-time basis 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 Group companies.
- d. Systems for reporting to Audit & Supervisory Board Members matters concerning the execution of duties by directors and employees of the Company and the Group companies, and other systems concerning reporting to Audit & Supervisory Board Members
- 1) Representative directors and executive directors of the Company and the Group companies will issue reports on an as-and-when basis to the Board of Directors, Management Conference, or other bodies regarding the execution of the operations of the division concerned. These reports will be issued personally or via executive officers or other employees.
 - 2) Directors, executive officers, and employees of the Company and the Group companies will notify the 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.
 - 3) Directors and executive officers of the Company and the Group companies will comply unerringly with any request from an Audit & Supervisory Board Member to report on the status of the execution of business operations, the status of assets, or other matters. Employees of the Company and the Group companies will have the right to report directly to Audit & Supervisory Board Members in the same way as directors and executive officers.
 - 4) The Internal Audit Office will collaborate with Audit & Supervisory Board Members, notify Audit & Supervisory Board Members as appropriate on the results of audits and any important internal information obtained in the course of audits, and furnish Audit & Supervisory Board Members with audit information when requested.
- e. Systems for ensuring that persons who make reports mentioned in (iii)-d above do not suffer any disadvantage by reason of such reporting
- 1) The Company will treat reports mentioned in (iii)-d-2) and (iii)-d-3) as whistleblowing under the whistle-blower hotline mentioned in (ii)-d-1), and ensure that persons who make such reports (including reports made through the whistle-blower hotline) do not suffer any disadvantageous treatment by reason of such reporting.

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

- 1) The Company will pay travel expenses incurred in connection with Audit & Supervisory Board Members' execution of duties promptly and in accordance with the rules prescribed by the Audit & Supervisory Board.
- 2) The Company will pay the fees for the services of attorneys and other experts utilized by Audit & Supervisory Board Member or 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.

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

- 1) The Audit & Supervisory Board will consist of four Audit & Supervisory Board Members, two of whom will be outside Audit & Supervisory Board Members. Each Audit & Supervisory Board Member will have extensive experience and impartial discernment, based on which they will audit and advise on decision-making in the Board of Directors, and ensure transparency in management.
- 2) The Audit & Supervisory Board will provide regular opportunities to exchange information and opinions with the representative director, executive directors, and executive officers concerning business-related matters.
- 3) Standing Audit & Supervisory Board Members will endeavor to ascertain the status of management by serving concurrently as corporate auditors of the Group companies according to their allotted duties.
- 4) Audit & Supervisory Board Members will have the right to attend important meetings of the Company and the Group companies as necessary and express their opinion or ask questions in such meetings.
- 5) Audit & Supervisory Board Members or the Audit & Supervisory Board will endeavor to ascertain the content and quality of audits by exchanging information with the Accounting Auditor regularly and as necessary.
- 6) Audit & Supervisory Board Members or the Audit & Supervisory Board will 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

A summary of the operational status of said systems in the current fiscal year is provided below.

[Matters concerning governance]

- (i) The Board of Directors, comprising six members (three directors who execute business, and three independent outside directors), held 11 regular monthly meetings and one special meeting. There were four meetings per quarter to discuss the settlement of accounts. During these meetings, the members reported on the execution of business and resolved important matters pursuant to laws, regulations, the Company's Articles of Incorporation, and the Rules of the Board of Directors.

Also, participating in the deliberation and reporting were the three independent outside directors and the four Audit & Supervisory Board Members, two of whom were independent outside Audit & Supervisory Board Members. These individuals contributed to animated discussions on managerial matters, raising opinions, comments, and suggestions as necessary.

- (ii) 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.

- (iii) 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.
- (iv) The Internal Control Committee and the Group Company Internal Control Liasonary Committee held regular meetings. During these meetings, the members confirmed the operational status of the Company and the Group companies' internal controls and deliberated future plans.
- (v) To establish 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.
- (vi) The Company has taken the steps to ensure compliance with the principles set forth in the Corporate Governance Code. Specifically, it has implemented evaluations of the performance of the Board of Directors, held meetings of the director nominating committee which advises the Board of Directors, and meetings of the remuneration committee which advises the representative director, and revised and sold off its strategic shareholdings.

[Matters concerning compliance]

- (i) The Company's C&C (Crisis and Compliance) Control Committee held regular and special meetings. This committee promotes compliance management, responds to issues raised through the whistle-blower system, formulates policies on crisis management and risk management, and issues guidance on and otherwise manages such matters. The Committee also reported on the results of its activities to the Board of Directors.
- (ii) The Legal Department, Intellectual Property Department, Internal Audit Office, and other relevant departments worked to raise awareness and knowledge about compliance management. To this end, they held regularly scheduled training sessions for officers and employees of the Company and the Group companies. These training sessions featured content on the Company's corporate philosophy, compliance, internal controls, internal audits, corporate law, intellectual property, and security trade control.

[Matters concerning risk management]

- (i) The C&C Control Committee reviewed suits and disputes concerning group companies, matters concerning whistleblowing, and other business risk matters, and formulated basic policies as necessary as well as implemented measures.
- (ii) 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.
- (iii) The Investment and Loans Review Committee held 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.
- (iv) The Group-wide Security Trade Control Committee, the company-wide Environment 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.

[Matters concerning Audit & Supervisory Board Members]

- (i) During the 104th term, the Audit and Supervisory Board held 15 meetings as well as four sessions for exchanging opinions with the representative director, 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.
- (ii) Standing Audit & Supervisory Board members made use of the Auditors' Board Office in Chino plant and efficiently conducted audits of factories and peripheral subsidiaries.
- (iii) To strengthen collaboration with the Accounting Auditor and the Internal Audit Office, the Audit & Supervisory Board organized six meetings of Tripartite Audit Assembly and made efforts to enhance the effectiveness and efficiency of each audit. At two of those meetings, information was provided and opinions exchanged as Four-Party Audit and Supervision Meeting with Outside Directors to link audit and supervisory functions.
- (iv) To monitor and evaluate the internal systems among the Group, the standing Audit & Supervisory Board Members served concurrently as corporate auditors of the subsidiaries in Japan, China, and Taiwan, and audited the execution of duties of the directors in the boards of directors of these subsidiaries, expressing their opinion as necessary.

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

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

5. 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.

Based on the above considerations, the Company considers that a dividend payout ratio of about 25% of net income attributable to owners of the parent is a desirable level for cash dividends for the time being. Under the third phase of the medium-term management plan that was announced in May 2016, the Company will raise its consolidated payment ratio target from around one-third of net income attributable to owners of the parent. Accordingly, the Company will acquire treasury stock more aggressively and return more profits to shareholders.

Guided by the aforementioned policy, the Company resolved to pay a year-end dividend ¥10 per share for the fiscal year ended March 2018, ¥1 greater than the initially announced ¥9, in order to return more profits to shareholders. Accordingly, the Company paid ¥17 per share as cash dividends for the fiscal year ended March 2018, including the interim payment (¥7 per share), and the consolidated dividend payout ratio came to 26.0%. The Company achieved the largest annual dividend per share since being listed.

With the inclusion of the ¥1,035 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 February 14, 2017, and the ¥2,495 million in treasury stock that the Company acquired pursuant to a resolution of the Board of Directors at a meeting held on December 15, 2017, the total amount of shareholder returns came to ¥5,212 million, a consolidated total payout ratio of 80.0%.

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, 2018)

(Units: Millions of yen)

Item	Amount	Item	Amount
<i>Assets</i>		<i>Liabilities</i>	
Current assets	78,807	Current liabilities	24,139
Cash in hand and in banks	23,429	Accounts payable–trade	7,098
Notes, accounts receivable–trade	20,040	Current portion of corporate bonds	844
Electronically recorded monetary claims	9,264	Short-term borrowings	1,347
Merchandise and finished goods	8,845	Current portion of long-term debt	3,888
Work in process	5,651	Income taxes payable	2,615
Raw materials and supplies	7,657	Consumption tax payable	211
Deferred tax assets	1,407	Accrued bonuses to employees	2,318
Other	2,597	Accrued bonuses to directors and corporate auditors	180
Less: Allowance for doubtful accounts	(88)	Other	5,634
Fixed assets	55,379	Long-term liabilities	32,656
Property, plant and equipment	36,799	Corporate bonds	22,678
Buildings and structures	9,035	Long-term debt	5,543
Machinery, equipment and vehicles	10,662	Deferred tax liabilities	1,414
Tools, furniture and fixtures	5,329	Accrued retirement benefits to directors, corporate auditors and operating officers	377
Land	9,885	Allowance for stock benefit for directors and operating officers	79
Construction in progress	1,611	Retirement benefit liabilities	444
Other	273	Asset retirement obligations	402
Intangible assets	8,951	Other	1,716
Goodwill	1,481	Total liabilities	56,796
Other	7,469	<i>Net assets</i>	
Investments and other assets	9,628	Shareholders' equity	72,556
Investments in securities	6,247	Common stock	21,207
Retirement benefit assets	167	Additional paid-in capital	5,674
Deferred tax assets	214	Retained earnings	47,679
Other	3,038	Treasury stock	(2,004)
Less: Allowance for doubtful accounts	(39)	Accumulated other comprehensive income	3,660
Total assets	134,187	Net unrealized gains on other securities	2,279
		Translation adjustments	1,291
		Cumulative adjustments related to retirement benefits	89
		Non-controlling interests	1,173
		Total net assets	77,391
		Total liabilities and net assets	134,187

Consolidated Statements of Income (From April 1, 2017 to March 31, 2018)

(Units: Millions of yen)

Item	Amount	
Net sales		124,566
Cost of sales		90,459
Gross profit		34,106
Selling, general and administrative expenses		23,989
Operating income		10,117
Non-operating income		
Interest and dividend income	232	
Insurance income	136	
Other	424	793
Non-operating expenses		
Interest expenses	226	
Sales discount	382	
Losses on sales of notes receivable	15	
Exchange losses	208	
Other	344	1,177
Ordinary income		9,733
Extraordinary income		
Gain on sales of property, plant and equipment	12	
Gain on sales of investment securities	869	
Other	1	883
Extraordinary loss		
Losses on sales or disposal of property, plant and equipment	87	
Impairment loss	386	
Other	28	502
Net income before income taxes		10,114
Income taxes (income, residential and enterprise taxes)	3,586	
Income tax adjustment	(72)	3,513
Net income		6,601
Net income attributable to non-controlling interests		82
Net income attributable to owners of the parent		6,518

Consolidated Statements of Changes in Net Assets (From April 1, 2017 to March 31, 2018)

(Units: Millions of yen)

	Shareholders' equity				
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of start of current fiscal year	21,207	5,743	49,138	(5,042)	71,046
Changes during fiscal year					
Dividends from surplus			(1,414)		(1,414)
Net income attributable to owners of the parent			6,518		6,518
Acquisition of treasury stock				(3,532)	(3,532)
Sales of treasury stock				8	8
Cancellation of treasury shares		(0)	(6,562)	6,562	—
Change of interest for transaction attributable to non-controlling parties		(68)			(68)
Items other than changes in shareholders' equity, net					
Total change during fiscal year	—	(68)	(1,459)	3,038	1,510
Balance as of end of current fiscal year	21,207	5,674	47,679	(2,004)	72,556

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Net unrealized gains on other securities	Translation adjustments	Cumulative adjustments related to retirement benefits	Total accumulated other comprehensive income		
Balance as of start of current fiscal year	1,972	567	204	2,744	1,101	74,892
Changes during fiscal year						
Dividends from surplus						(1,414)
Net income attributable to owners of the parent						6,518
Acquisition of treasury stock						(3,532)
Sales of treasury stock						8
Cancellation of treasury shares						—
Change of interest for transaction attributable to non-controlling parties						(68)
Items other than changes in shareholders' equity, net	306	724	(114)	916	71	988
Total change during fiscal year	306	724	(114)	916	71	2,498
Balance as of end of current fiscal year	2,279	1,291	89	3,660	1,173	77,391

Non-consolidated Financial Statements

Non-consolidated Balance Sheet (as of March 31, 2018)

(Units: Millions of yen)

Item	Amount	Item	Amount
<i>Assets</i>		<i>Liabilities</i>	
Current assets	45,321	Current liabilities	20,691
Cash in hand and in banks	14,322	Accounts payable-trade	4,718
Notes receivable - trade	849	Current portion of corporate bonds	824
Electronically recorded monetary claims	7,159	Short-term borrowings	5,097
Accounts receivable - trade	9,454	Current portion of long-term debt	3,447
Merchandise and finished goods	2,712	Income taxes payable	1,931
Work in process	2,036	Accrued bonuses to employees	1,163
Raw materials and supplies	1,990	Accrued bonuses to directors and corporate auditors	53
Deferred tax assets	743	Other	3,453
Short-term loans receivable	4,245	Long-term liabilities	29,936
Other	1,810	Corporate bonds	22,478
Less: Allowance for doubtful accounts	(2)	Long-term debt	5,148
Fixed assets	61,076	Deferred tax liabilities	494
Property, plant and equipment	15,962	Allowance for stock benefit for directors and operating officers	79
Buildings	2,649	Other	1,736
Structures	438	Total liabilities	50,627
Machinery and equipment	3,833	<i>Net assets</i>	
Tools, furniture and fixtures	4,491	Shareholders' equity	53,549
Land	3,789	Common stock	21,207
Construction in progress	549	Additional paid-in capital	5,715
Other	211	Legal capital surplus	5,715
Intangible assets	6,966	Other capital surplus	-
Investments and other assets	38,146	Retained earnings	28,631
Investments in securities	5,862	Other retained earnings	28,631
Shares of subsidiaries and associates	26,326	Retained earnings brought forward	28,631
Long-term loans receivable	6,083	Treasury stock	(2,004)
Other	2,132	Valuation and translation adjustments	2,219
Less: Allowance for doubtful accounts	(2,258)	Net unrealized gains on other securities	2,219
Total assets	106,397	Total net assets	55,769
		Total liabilities and net assets	106,397

Non-consolidated Statement of Income (From April 1, 2017 to March 31, 2018) (Units: Millions of yen)

Item	Amount	
Net sales		64,118
Cost of sales		47,162
Gross profit		16,955
Selling, general and administrative expenses		12,289
Operating income		4,665
Non-operating income		
Interest and dividend income	2,215	
Insurance income	111	
Other	79	2,406
Non-operating expenses		
Interest expenses	199	
Sales discount	195	
Exchange losses	22	
Amortization of bond issuance expenses	59	
Other	89	566
Ordinary income		6,506
Extraordinary income		
Gain on sales of property, plant and equipment	2	
Gain on sales of investment securities	869	872
Extraordinary loss		
Losses on sales or disposal of property, plant and equipment	51	
Impairment loss	50	
Loss on valuation of membership	25	
Other	0	126
Income before income taxes		7,252
Income taxes (income, residential and enterprise taxes)	1,759	
Income tax adjustment	48	1,807
Net income		5,445

Non-consolidated Statements of Changes in Net Assets (From April 1, 2017 to March 31, 2018)

(Units: Millions of yen)

	Shareholders' equity						Valuation and translation adjustments
	Common stock	Additional paid-in capital		Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains on other securities
		Legal capital surplus	Other capital surplus	Other retained earnings Retained earnings brought forward			
Balance as of start of current fiscal year	21,207	5,715	0	31,163	(5,042)	53,043	1,933
Changes during fiscal year							
Dividends from surplus				(1,414)		(1,414)	
Net income				5,445		5,445	
Acquisition of treasury stock					(3,532)	(3,532)	
Sales of treasury stock					8	8	
Cancellation of treasury shares			(0)	(6,562)	6,562	—	
Items other than changes in shareholders' equity, net							285
Total change during fiscal year	—	—	(0)	(2,532)	3,038	506	285
Balance as of end of current fiscal year	21,207	5,715	—	28,631	(2,004)	53,549	2,219

Auditor's Reports

Accounting Audit Report on the Consolidated Financial Statements

Independent Auditor's Report

May 16, 2018

To the Board of Directors
KITZ Corporation

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

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, 2017, through March 31, 2018.

Management's Responsibility 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.

Auditor's Responsibility

Our responsibility is to express an opinion, from an independent perspective on the consolidated financial statements based on our audit. We conducted our audit in accordance with the auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected and applied depending on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors do not consider internal control for the purpose of expressing an opinion on its effectiveness, but consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used, the method of their application, and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the corporate group, which consisted of KITZ Corporation and its consolidated subsidiaries, applicable to the fiscal year ended March 31, 2018, in conformity with accounting principles generally accepted in Japan.

Conflicts of Interest

We have no interest in the Company 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

May 16, 2018

To the Board of Directors
KITZ Corporation

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

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 of KITZ Corporation (the "Company") applicable to the 104th fiscal year from April 1, 2017, through March 31, 2018.

Management's Responsibility for the Non-consolidated Financial Statements and the Related Supplementary Schedules

Management is responsible for the preparation and fair presentation of the non-consolidated financial statements and the related supplementary schedules 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 and the related supplementary schedules that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion, from an independent perspective on the non-consolidated financial statements and the related supplementary schedules based on our audit. We conducted our audit in accordance with the auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the non-consolidated financial statements and the related supplementary schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the non-consolidated financial statements and the related supplementary schedules. The procedures selected and applied depending on the auditors' judgment, including the assessment of the risks of material misstatement of the non-consolidated financial statements and the related supplementary schedules, whether due to fraud or error. In making those risk assessments, the auditors do not consider internal control for the purpose of expressing an opinion on its effectiveness, but consider internal control relevant to the entity's preparation and fair presentation of the non-consolidated financial statements and the related supplementary schedules in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used, the method of their application, and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the non-consolidated financial statements and the related supplementary schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the non-consolidated financial statements and the related supplementary schedules referred to above present fairly, in all material respects, the financial position and results of operations of the corporate group, which consisted of KITZ Corporation and its consolidated subsidiaries, applicable to the 104th fiscal year ended March 31, 2018, in conformity with accounting principles generally accepted in Japan.

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 104th business year (from April 1, 2017 through March 31, 2018), 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.

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.

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.

- (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.

Based on the above methods, each Audit & Supervisory Board Member examined the business report and the accompanying detailed statements, the financial statements (balance sheet, statement of income, statement 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 statement of income, consolidated statement of equity, 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 105th fiscal year ended March 31, 2018.

May 23, 2018

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