

Corporate Governance Report

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

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

1. Basic Concept

The Company will, with the aim of achieving sustainable growth and improvement of corporate value on a medium to long-term basis, make efforts to enhance corporate governance in accordance with the basic concepts described below based on the belief that the essence of corporate governance lies in increasing the dynamism of management by securing the transparency and fairness thereof and making management decisions in a prompt and decisive manner.

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

[Reasons for Non-compliance with the Principles of Corporate Governance Code.]

The Company has implemented each principle in the Corporate Governance Code.

[Disclosure Based on the Principles of the Corporate Governance Code.]

UPDATED

The Company's Basic policy on Corporate Governance is disclosed on the Company's website, in addition to this report.

(<https://kito.com/ir/governance>)

[Principle 1.4 Cross-Shareholding]

- (1) Policies for Holding of Shares for Political Purposes
The Company will hold listed shares of its business partners for political purposes only in the cases that the holding of the shares including the number of shares to be held is deemed rational when its importance in the Company's business strategies and business relationship with the trading partners are comprehensively considered. The rationality for holding such shares will be verified on a regular basis. Also, as a result of the verification, the basic policy is to promptly dispose of and reduce the number of shares held for political purpose that it is considered that the significance of its possession is weak.
- (2) Exercise of Voting Rights
The Company will make a decision concerning the exercise of its voting rights in terms of each agenda after confirming, while respecting the management policies of the companies it invests in, the attitude toward returns to its shareholders, corporate governance, contribution to the increase in the Company's corporate value on a medium to long-term basis as well as the prospect of its business relationship with the Company in the future and its corporate social responsibility.
- (3) Sale the Company's Shares by the cross-shareholders

When cross-shareholders (i.e., shareholders who hold a company's shares for the purpose of cross-shareholdings) indicate their intention to sell their shares, the Companies will respect their intention.

- (4) Do not engage in transactions that harm the interests of the shareholders of the Company between the cross-shareholders and the Company
Regardless of whether the client is a cross shareholder or not, the Company has sufficiently verified the economic rationality in transactions, and the Company has not made any transactions that would harm the interests of the company or its shareholders.

[Principle 1.7 Related party transactions]

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

[Principle 2.6 Roles of Corporate Pension Funds as Asset Owners]

The Company acknowledges the fact that the operation of the reserve fund of corporate pension plans affects the financial condition of the Company in addition to the stable asset formation of employees.
Based on the acknowledgement, in order to enhance the expertise in the management of corporate pensions and to demonstrate the functions as the asset owner to be expected, the Company will work on the improvement of the operation of corporate pension by developing planned human resource and planned placement of that human resource.

[Principle 3.1 Full Disclosure]

- (i) We disclose our business philosophy, business strategy and business plan on our website, securities report, etc. (<https://kito.com/ir/library>)
- (ii) Basic concept and basic policy on corporate governance
The basic concept of corporate governance is described in "1. Basic concept" of "I. Basic concept and capital structure of corporate governance, corporate attributes and other basic information" in this report. Please refer to it. The basic policy is also disclosed on our website.
(<https://kito.com/ir/governance>)
- (iii) Policies and procedures for the Board of Directors to determine the remuneration of senior executives and directors
The policies and procedures for determining executive compensation are disclosed in "II.1. [Director Relationship] and [Director Compensation]" in this report and the securities report.
(<https://kito.com/ir/library>)
- (iv) Policies and procedures for electing and dismissing executives and nominating director and auditor candidates
The Company is convinced that diverse human resources, regardless of gender or nationality, will bring new ideas and ideas to the Group's businesses and drive innovation.
<Policy>
(Election)
a) With regard to internal directors, persons with experience in business divisions such as sales and manufacturing, and persons with experience in planning, development and management will be elected.
b) With regard to outside directors and outside corporate auditors, they are expected to be appointed based on their knowledge, experience, ability, and personality, as well as those who can proactively make recommendations and raise issues regarding the Company's decision-making.
(Dismissal)
If there is an unfair act or a violation of the law or the Articles of Incorporation in relation to the execution of duties, the dismissal of the director and / or the auditor is considered.
<Procedure>
The board members will be recommended to the Board of Directors after deliberation by the Nomination and Compensation Committee, and will be proposed to the Ordinary General Meeting of Shareholders after resolution by the Board of Directors.
After the deliberation of the Nomination and Remuneration Committee, the Board of Directors will get the consent of the Board of Corporate Auditors, and the Board of Directors will make a resolution prior to the Ordinary General Meeting of Shareholders.

When dismissing a Corporate Auditor, the Company will propose it to the Ordinary General Meeting of Shareholders.

- (v) Explanation of the appointment and nomination of individual directors and corporate auditors
The reasons for the appointment and nomination of Directors and Corporate Auditors are described individually in the Notice of the General Meeting of Shareholders.
(<https://kito.com/wp/wp-content/uploads/Notice-of-the-77th-Ordinary-General-Meeting-of-Shareholders.pdf>)

[Supplementary Principle 4.1.1 Scope and content of the matters delegated to the management]

The Board of Directors, as a decision-making body for the management of the Company, resolves legal matters, determines and approves basic management policies and important matters in business execution and supervises directors' execution of duties. In addition, it is positioned as the highest decision-making body of the Group, and makes important decisions regarding group companies and controls the entire group. The Company has introduced a division system and delegated the execution of operations within the scope of division of duties of each director.

[Principle 4.9 Independence standards and qualification for independent directors]

In order to objectively judge the independence of outside directors and outside corporate auditors, the Company independently defines and determines the independence criteria based on the independence criteria established by the Financial Instruments Exchange. In addition, we will judge based on not only independence, but also from the perspective of knowledge, experience, ability, personality, and from the perspective on whether candidates for directors and corporate auditors can expect to make proactive proposals and issues for the Company's decision-making.

[Supplementary Principle 4.11.1 A view on the appropriate balance between knowledge, experience and skills of the board as a whole, and also on diversity and appropriate board size]

In terms of the composition of our board of directors, we believe that it is desirable for directors to have a good balance of knowledge, experience, and ability, and to have diversity in genders and nationality, and to have the board of directors in a proper size. The policies and procedures for the election of Directors of the Company are as described in "Disclosure based on the principles of the Corporate Governance Code" of "I. Basic Policy and Capital Structure for Corporate Governance, Corporate Attributes and Other Basic Information" section of this report. Please refer to 3-1: Full Disclosure (iv).

[Supplementary Principle 4.11.2 Major concurrent positions in other organizations of directors/corporate auditors]

The important concurrent positions of the Company's directors and corporate auditors are described in the Notice of the General Meeting of Shareholders.

(<https://kito.com/wp/wp-content/uploads/Notice-of-the-77th-Ordinary-General-Meeting-of-Shareholders.pdf>)

[Supplementary Principle 4.11.3 Analysis and evaluation on effectiveness of Board of Directors]

Below are the results of the most recent (fiscal 2020, the fiscal year ended March 31, 2021) evaluation of the effectiveness of the Company's Board of Directors.

(1) Evaluation method

A questionnaire was sent to all seven Directors and three Corporate Auditors to obtain their opinions on the following items, with a five-point scale for each item and a column for free entry of opinions. The evaluation items for fiscal 2020 year are the same as the evaluation items for fiscal 2019 (based on the TSE Corporate Governance Code revised in June 2018).

Questionnaire items (5 categories, 35 questions)

- (i) Structure of the Board of Directors (composition, number and ratio of outside officers, diversity, term of office, etc.)
- (ii) Operations of the Board of Directors (roles of the Board of Directors, contents of materials, delegation of authority, degree of active discussion, etc.)
- (iii) Agenda items of the Board of Directors (discussions on remuneration, election, dismissal, compliance, etc., status of response to previous issues, etc.)
- (iv) System to support the Board of Directors (opportunity and frequency of information exchange, cooperation with departments, information access, etc.)
- (v) The Nomination and Compensation Committee (composition, status of discussions on remuneration, dismissal, succession planning, etc.)

(2) Evaluation results (summary)

As a result of the evaluation, the effectiveness of the Board of Directors as a whole was assessed to be adequately ensured. In particular, at the Board of Directors meeting where the evaluation results were reported, it was reconfirmed that each Director and Corporate Auditor can freely and openly engage in constructive discussions and opinions, and that any meeting has become a forum for transparent, fair, prompt and decisive decision-making. On the other hand, positive evaluations of “(iii) Selection of agenda items” and “(iv) System to support the Board of Directors” remained at around 70% this year. This is because the three issues recognized as a result of the effectiveness evaluation in fiscal 2018 and 2019 have not yet been resolved in fiscal 2020, although it was unavoidable due to the Covid-19 outbreak, and we have reached a common understanding that they will continue to be addressed in fiscal 2021.

(3) Issues to be addressed

As explained in “(2) Evaluation Results (Summary)” above, based on the results of this evaluation, the Board of Directors has come to the conclusion that the three issues identified as a result of the effectiveness evaluation for fiscal 2018 and fiscal 2019 need to be continued to be addressed. In fiscal 2021, the Company will continue to address and improve the issues identified in order to further enhance the effectiveness of the Board of Directors as it formulates the next medium-term management plan.

The three issues identified as a result of the effectiveness assessment and the policy for addressing them are as follows:

- (i) Deepen discussions on medium- and long-term strategies, product strategies, and regional strategies
Response Policy: Discussions started in FY2020, but still halfway through due to the Covid-19 outbreak; quality of discussions will be improved in FY2021 and discussions will be deepened in conjunction with the formulation of the next medium-term management plan (scheduled to start in FY2022).
- (ii) Increase the frequency of risk discussions and conduct regular reviews
Response Policy: Based on what we experienced in the Covid-19 outbreak, we will share the risks of our business and conduct sufficient analysis and consideration.
- (iii) Specifically discuss management’s succession plan
Response Policy: While progress has been made in the development of management succession, we will continue to discuss and advance a succession plan for the President and Representative Director.

[Supplementary Principle 4.14.2 Training policy for directors and corporate auditors]

In order to achieve sustainable growth and medium- to long-term improvement of corporate value, the Company needs directors and corporate auditors from the perspective of securing human resources who can ensure management transparency and fairness and make quick and decisive decisions. When he/she takes office, he/she has an opportunity to explain the company law, management issues, corporate governance, and finance. In addition, when outside directors and outside corporate auditors take office, in addition to explaining our corporate philosophy, history, and business content, we set up opportunities for plant inspections and overseas subsidiary inspections.

[Principle 5.1 Policy for Constructive dialogue with shareholders]

In order to achieve sustainable growth and medium- and long-term corporate value improvement, we aim for shareholders, institutional investors, analysts, the media, and all other stakeholders, including IR executives and other management executives, and through dialogues and exchanges involving employees, we will promptly and accurately disclose company information.

- (1) The director in charge of IR and the IR department will deal with dialogues and interviews with shareholders and investors. Depending on the purpose of the dialogue, the department in charge of IR works organically with each department in the company to enhance the dialogue.
- (2) We have prepared briefing sessions for institutional investors, analysts, media and factory tours, and held briefings on business strategies and business content as appropriate. In addition, we hold shareholder exchange meetings and factory tours for individual shareholders and provide opportunities for dialogue. In addition, a dedicated page has been established on the website to make it easy to understand business results, business content, and business strategies.
- (3) The contents of dialogues with shareholders and investors are shared on a regular basis by utilizing the Board of Directors, Board of Directors meetings, internal intranet, etc.
- (4) In the dialogue, we will not communicate insider information (important undisclosed facts). The four weeks before the announcement of financial results is considered as the "silent period".

2. Capital Structure

Ratio of Shares Held by Foreign Shareholders	30% or more
UPDATED	

[Status of Major Shareholders] UPDATED

Name / Company Name	Number of shares Owned	Percentage (%)
MISAKI ENGAGEMENT MASTER FUND	2,045,000	9.96
The Master Trust Bank of Japan, Ltd. (Trust account)	1,784,600	8.69
THE BANK OF NEW YORK-JASDECNON-TREATY ACCOUNT	993,900	4.84
GOVERNMENT OF NORWAY	940,110	4.58
Custody Bank of Japan, Ltd. (Trust account)	918,600	4.47
YK CAPITAL	740,000	3.60
Custody Bank of Japan, Ltd. (Trust account 9)	724,300	3.52
Sumitomo Mitsui Banking Corporation	670,400	3.26
RE FUND 107-CLIENT AC	414,700	2.02
Custody Bank of Japan, Ltd. (Securities investment trust account)	410,300	1.99

Controlling Shareholders(except for parent company)	N/A
Parent Company	N/A

Supplementary Information	UPDATED
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- The status of major shareholders is as of March 31, 2021. In addition to the above, there are 528,427 treasury shares owned by the Company.
- Percentage (%) is rounded down to two decimal places.
- The large shareholding report filed by Sumitomo Mitsui DS Asset Management Co., Ltd. and Sumitomo Mitsui Banking Corporation on August 7, 2020, which is available for public inspection, stating that they own the following shares as of July 31, 2020. However, as the Company can not confirm the actual number of shares held as of March 31, 2021, it has not been included in the above Status of Major Shareholders. The contents of the report are as follows.

Name / Company Name	Number of shares Owned	Percentage (%)
Sumitomo Mitsui DS Asset Management Co., Ltd.	691,600	2.56
Sumitomo Mitsui Banking Corporation	670,400	2.48

- The amendment to the large shareholding report filed by Asset Management One Co., Ltd. on April 7, 2021, which is available for public inspection, stating that it owns the following shares as of March 31, 2021. However, as the Company can not confirm the actual number of shares held as of March 31, 2021, it has not been included in the above Status of Major Shareholders. The contents of the amendment report are as follows.

Name / Company Name	Number of shares Owned	Percentage (%)
Asset Management One Co., Ltd.	1,494,100	7.10

- The large shareholding report filed by SPARX Asset Management Co., Ltd. on April 2, 2021, which is available for public inspection, stating that it owns the following shares as of March 31, 2021. However, as the Company can not confirm the actual number of shares held as of March 31, 2021, it has not been included in the above Status of Major Shareholders. The contents of the report are as follows.

Name / Company Name	Number of shares Owned	Percentage (%)
SPARX Asset Management Co., Ltd.	1,092,400	5.19

3. Corporate Attributes

Listed Stock Market and Market Section	Tokyo Stock Exchange (First Section)
Fiscal Year-End	March
Type of Business	Machinery
Number of Employees (consolidated) as of at the End of the Previous fiscal year	More than 1000
Sales (consolidated) as of the End of the Previous Fiscal Year	More than 10 billion yen and less than 100 billion yen
Number of Consolidated Subsidiaries as of the End of the Previous Fiscal Year	From 10 to less than 50

4. Policy on Measures to Protect Minority Shareholders in Conducting Transactions with Controlling Shareholder

N/A

5. Other Special Circumstances which may have Material Impact on Corporate Governance

N/A

II. Business Management Organization and Other Corporate Governance Systems regarding Decision-making, Execution of Business, and Oversight in Management

1. Organizational Composition and Operation

Organization Form	Company with the Board of Corporate Auditors
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[Directors]

Maximum Number of Directors Stipulated in Articles of Incorporation	10
Term of Office Stipulated in Articles of Incorporation	1 year
Chairperson of the Board	President
Number of Directors	7
Appointment of Outside Director	Appointed
Number of Outside Directors	3
Number of Independent Directors	3

Outside Directors' Relationship with the Company (1)

Name	Properties	Relationship with the Company (*)										
		a	b	c	d	e	f	g	h	i	j	k
Katsumi Nakamura	From another company											
Takashi Hirai	From another company											
Koji Osawa	From another company											

* Categories for "Relationship with the Company"

* "○" when the director presently falls or has recently fallen under the category;

"△" when the director fell under the category in the past

* "●" when a close relative of the director presently falls or has recently fallen under the category;

"▲" when a close relative of the director fell under the category in the past

a. Executive of the Company or its subsidiaries

b. Non-executive director or executive of a parent company of the Company

c. Executive of a fellow subsidiary company of the Company

d. A party whose major client or supplier is the Company or an executive thereof

e. Major client or supplier of the listed company or an executive thereof

f. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides compensation as a director/corporate auditors

- g. Major shareholder of the Company (or an executive of the said major shareholder if the shareholder is a legal entity)
- h. Executive of a client or supplier company of the Company (which does not correspond to any of d, e, or f) (the director himself/herself only)
- i. Executive of a company, between which and the Company outside directors/corporate auditors are mutually appointed (the director himself/herself only)
- j. Executive of a company or organization that receives a donation from the Company (the director himself/herself only)
- k. Others

Outside Directors' Relationship with the Company (2)

UPDATED

Name	Independent director	Reason for assignment
Katsumi Nakamura	○	<p>Supplementary Explanation of the Relationship N/A</p> <p>Reasons of Appointment</p> <p>Mr. Katsumi Nakamura has many years of experience as an executive and technician in the automobile industry, which is one of Japan's core industries. The Company expects him to leverage his abundant business management knowledge and manufacturing experience in order to provide the Company with appropriate advice and recommendations from a global management perspective, and to oversee management from an independent and objective perspective.</p> <p>There are no special interests between the Company and him. In addition, it meets the "standard on the independence of outside directors" defined by the Company, and does not conflict with any of the independence standards defined by the Tokyo Stock Exchange, and we have judged that there is no risk of conflicts of interest with general shareholders.</p>
Takashi Hirai	○	<p>Supplementary Explanation of the Relationship N/A</p> <p>Reasons of Appointment</p> <p>Mr. Takashi Hirai has many years of experience working as a consultant in a consulting firm operating internationally and experience as an executive in business companies in Japan and the United States, in addition to experience in development of global human resources at a graduate school of corporate management.</p> <p>The Company expects him to provide appropriate advice and recommendations regarding the formulation of corporate strategies, and to oversee management from an independent and objective perspective.</p> <p>There are no special interests between the Company and him. In addition, it meets the "standard on the independence of outside directors" defined by the Company, and does not conflict with any of the independence standards defined by the Tokyo Stock Exchange, and we have judged that there is no risk of conflicts of interest with general shareholders.</p>
Koji Osawa	○	<p>Supplementary Explanation of the Relationship N/A</p> <p>Reasons of Appointment</p> <p>Mr. Koji Osawa, after working at a general trading company, was engaged in venture capital fund management for many years in Silicon Valley. As a fund manager, he has experience with discovering and developing new businesses, as well as with objectively evaluating and overseeing businesses. Furthermore, he is deeply knowledgeable with regard to cutting-edge technologies such as IoT. The Company expects him to provide appropriate advice and recommendations that contribute to the development of the Company's business and the acquisition of cutting-edge technologies, and to oversee management from an independent and objective perspective.</p> <p>There are no special interests between the Company and him. In addition, it meets the "standard on the independence of outside directors" defined by the Company, and does not conflict with any of the independence standards defined by the Tokyo Stock Exchange, and we have judged that there is no risk of conflicts of interest with general shareholders.</p>

State of establishment of an optional committee corresponding to Nominating Committee or Compensation Committee	Established
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Committee's Name, Composition, and Attributes of Chairperson
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	Committee Corresponding to Nomination Committee	Committee Corresponding to Remuneration Committee
Committee's Name	Nomination Committee	Remuneration Committee
All Committee Members	5	5
Full-time Members	0	0
Internal Directors	2	2
Outside Directors	3	3
Outside Experts	0	0
Other	0	0
Chairperson	Inside Director	Inside Director

Supplementary Information	UPDATED
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The Company has established a committee composed of five directors (Yoshio Kito, Shigeki Osozawa, Katsumi Nakamura, Takashi Hirai and Koji Osawa) as an advisory body to the Board of Directors and an optional committee on the nomination and compensation of directors and corporate auditors.

The Committee secures independence and neutrality by appointing three outside directors out of five members. The committee deliberates on matters relating to the election, dismissal and dismissal of candidates for directors, corporate auditors, executive officers and officers of subsidiaries, as well as the content of remuneration, etc. of directors, executive officers and officers of subsidiaries. In addition, the Committee evaluates the results of business execution of directors, executive officers and executives of subsidiaries, and makes recommendations to the Board of Directors.

The main items discussed and decided in the fiscal 2020 are as follows.

- Fiscal 2019 executive performance evaluation
- Fiscal 2020 target setting for performance-based compensation
- Formulation of the Company's policy governing decision-making regarding the contents of compensation, etc., for individual directors
- Decline to receive partial amounts of compensation by director's

[Corporate Auditors]

Establishment of the Board of Corporate Auditors	Established
Maximum Number of Corporate Auditors Stipulated in Articles of Incorporation	4
Number of Corporate Auditors	3

Cooperation among Corporate Auditors, Accounting Auditors and Internal Audit Departments
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- The corporate auditors, internal audit organization and accounting auditors exchange opinions, listen to information, etc. at least every quarter, and collaborate as they attend audits as necessary.
- Auditors exchange opinions and information on a monthly basis, receiving reports from the accounting auditor on audit plans, important audit items, and audit status.
- The corporate auditors exchange opinions and information each time they receive reports from the internal audit organization on the status of internal control, overall business management, and confirmation of the status of efforts in response to improvement requests.
- The Company's accounting auditor is PricewaterhouseCoopers Arata LLC . Please refer to "II.2.3 Content of audit fee, etc." for details of the fee, etc. to the accounting auditor.

Appointment of Outside Corporate Auditors	Appointed
Number of Outside Corporate Auditors	2
Number of Independent Corporate Auditors	1

Outside Corporate Auditor's Relationship with the Company (1)

Name	Properties	Relationship with the Company (*)										
		a	b	c	d	e	f	g	h	i	j	k
Kiyohito Hamada	Certified public accountant											
Eiko Hakoda	Attorney at law											

* Categories for "Relationship with the Company"

* "○" when the director presently falls or has recently fallen under the category;

"△" when the director fell under the category in the past

* "●" when a close relative of the director presently falls or has recently fallen under the category;

"▲" when a close relative of the director fell under the category in the past

- Executive of the Company or its subsidiaries
- Non-executive director or executive of a parent company of the Company
- Executive of a fellow subsidiary company of the Company
- A party whose major client or supplier is the Company or an executive thereof
- Major client or supplier of the listed company or an executive thereof
- Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides compensation as a director/corporate auditors
- Major shareholder of the Company (or an executive of the said major shareholder if the shareholder is a legal entity)
- Executive of a client or supplier company of the Company (which does not correspond to any of d, e, or f) (the director himself/herself only)
- Executive of a company, between which and the Company outside directors/corporate auditors are mutually appointed (the director himself/herself only)
- Executive of a company or organization that receives a donation from the Company (the director himself/herself only)
- Others

Outside Corporate Auditor's Relationship with the Company (2)

Name	Designation as Independent Corporate Auditors	Reason for assignment
Kiyohito Hamada	○	Supplementary Explanation of the Relationship N/A Reasons of Appointment Mr. Kiyohito Shibata is a certified public accountant, is familiar with finance, M & A, accounting and taxation, has sufficient insight to govern corporate management, and we believe that he can conduct management monitoring from an independent objective point of view. There are no special interests between the Company and him. In addition, it has been determined that the company has met the standards for independence set forth by the Company, and has not violated any of the standards for independence set forth by the Tokyo Stock Exchange, and we judge that there is no risk of conflicts of interest with general shareholders.
Eiko Hakoda		Supplementary Explanation of the Relationship N/A Reasons of Appointment Ms. Eiko Hakoda is a partner lawyer of Mori Hamada & Matsumoto, and we believe that she can conduct management monitoring from an independent and objective perspective familiar with corporate legal affairs. There are no special interests between the Company and her. In addition, it has been determined that the company has met the standards for independence set forth by the Company, and has not violated any of the standards for independence set forth by the Tokyo Stock Exchange, and we judge that there is no risk of conflicts of interest with general shareholders. However, according to the rules of Mori Hamada Matsumoto Law Office to which she belongs, the Company does not designate her as an independent officer of TSE.

[Independent Directors/Corporate Auditors]

Number of Independent Directors/Corporate Auditors	4
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Matters relating to Independent Directors/Corporate Auditors

The Company will judge the independence of its outside directors from the viewpoints of whether they can be expected to make positive suggestions and raise questions concerning the Company's business development, in addition to their satisfaction of the standards of independence prescribed by the Tokyo Stock Exchange, Inc. Specifically, independence of the outside directors will be evaluated based on the viewpoints mentioned above to the extent they do not fall under any of the following categories.

1. A person for whom the Company and the Company's group are principal trading partners or a business executive thereof,
2. A principal trading partner of the Company or a business executive thereof,
3. A major shareholder of the Company or a business executive thereof,
4. A business executive of a person for whom the Company and the Company's group are major investors,
5. A person receiving a large donation from the Company and the Company's group or a business executive thereof,
6. A consultant, certified public accountant, other professional accountant, lawyer, or other legal specialist that receives a large amount of money or other assets other than the compensation for a director from the Company and the Company's group (assets in excess of the amount equivalent to 2% of its total sales turnover or gross income or 10 million yen whichever is larger on average in the preceding 3 years, other than the compensation for a director) (In the case that the person receiving the assets is a corporation, association or other group, a person belonging to such group),
7. A person belonging to the auditing firm who performs a statutory audit of the Company and the Company's group,
8. A person from a corporation for which a business executive of the Company and the Company's group assumed the post of its outside director on a reciprocal basis within the preceding 3 years,
9. A person falling under the category of Items 1 through 8 hereof within the preceding 3 years,
10. A close relative (within the 2nd degree of relationship) of a person listed below:
 - a) A person who falls under the category of Items 1 through 9 hereof,
 - b) A director, corporate auditor, executive officer or principal employee of the Company or the Company's group.

(Note)

- "Person for whom the Company and the Company's group are principal trading partners" refers to a person who received from the Company and the Company's group a payment of the amount in excess of 2% of its annual consolidated sales turnover or gross income or 100 million yen whichever is larger in the immediately preceding business year.
- "Principal trading partner of the Company and the Company's group" refers to a person who made to the Company and the Company's group a payment of the amount in excess of 2% of the Company's annual consolidated sales turnover or gross revenue or 100 million yen whichever is larger in the immediately preceding business year.
- "Major shareholder of the Company and the Company's group" refers to a person directly or indirectly holding 10% or more of the voting rights of the Company's and the Company's group's entire shareholders.
- "Person for whom the Company's group is a major investor" refers to a person the Company's group invests in to hold directly or indirectly 10% or more of its total voting rights.
- "Person receiving a large donation from the Company and the Company's group" refers to a person who received from the Company and the Company's group a donation in excess of 10 million yen or 2% of its annual sales turnover or gross income whichever is larger on average in the preceding 3 years.

[Incentives]

Incentive Policies for Directors	UPDATED	Performance-linked Remuneration
Supplementary Explanation		

From July 2019, the Company has provided fixed compensation, performance-linked compensation and stock-based compensation (shares with restricted transfer) to the Internal Directors of the Company. Details are described in "II.1. [Director Relationship] and [Director Compensation]" in this report.

Recipients of Stock Options	
Supplementary Explanation	

[Director Remuneration]

Disclosure of Individual Directors' Remuneration	UPDATED	Not individually disclosed.
Supplementary Explanation		

The compensation paid to directors and corporate auditors (collectively "Officers") of the Company in fiscal 2020 is as follows.

(Million yen)

Officer classification	Total	fixed compensation	performance-linked compensation	stock-based compensation (shares with restricted transfer)	stock option compensation	Number of Officers (Persons)
Directors (excluding outside directors)	156	83	55	16	1	3
Corporate Auditor (excluding outside corporate auditor)	14	14	-	-	-	1
Outside Officers	36	36	-	-	-	5

- The number of Directors and Corporate Auditors as of March 31, 2021 is seven Directors and three Corporate Auditors. The abovementioned payment recipients among Directors and Corporate Auditors exclude one Director without compensation.
- With regard to the abovementioned basic compensation for fiscal 2020, given the harsh business environment resulting from the impact of the COVID-19 pandemic, Officers have requested to decline acceptance of some of their compensation for the three month period from May to July of 2020. The abovementioned amounts of basic compensation reflect these reductions.
 - President & CEO: 20% reduction in basic compensation
 - Directors (excluding Outside Directors): 15% reduction in basic compensation
 - Corporate Auditors (excluding Outside Corporate Auditors): 10% reduction in basic compensation
- Performance-based compensation is determined after the fiscal year-end and the settlement of accounts, by calculating the achievement level of targets (performance achievement rate) and conducting evaluations on an individual basis. The amounts of performance-based compensation for the fiscal year under review have not yet been finalized, and the abovementioned performance-based compensation amounts are scheduled payment amounts.
- Due to the impact of COVID-19, low performance-based compensation target values have been set for fiscal 2020, since both revenue and profit were forecast to be significantly lower than in the previous fiscal year. Therefore, even if the targets for the current fiscal year are met, the performance-based compensation amount paid will be less than the usual standard amount.
- The amount of performance-based compensation for fiscal 2019 was finalized in June 2020. This amount is not included in the abovementioned performance-based compensation amounts. The finalized amount was based on the performance achievement rate for the fiscal year (67.6%) and reflects evaluations of each individual. The finalized amount was 54 million yen, which is a reduction of just over 10 million yen from the performance-based compensation amount (65 million yen) disclosed in the fiscal 2019 corporate governance report.
- Since there are no officers whose total amount of remuneration, etc. is 100 million yen or more, individual remuneration is not disclosed.

Policy on Determining Remuneration Amounts and Calculation Methods	UPDATED	Established
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The Company's policy governing decision-making regarding the contents of compensation, etc., for individual Directors is determined by the Board of Directors. In making these decisions, the Nomination & Compensation

Committee deliberates and reports its findings to the Board of Directors. The details of Officer compensation, etc., of the Company, determined in accordance with this policy, are as follows.

Director compensation of the Company consists of compensation linked to shareholder returns to ensure that the compensation functions effectively as an incentive for achieving sustainable growth and improvement of medium- and long-term corporate value of the Group.

The Group's basic policy is to decide on compensation for individual Directors that is commensurate with their respective duties. Specifically, Director compensation comprises basic compensation (fixed compensation), performance-based compensation, and stock-based compensation. Outside Directors and Corporate Auditors, who are responsible for overseeing functions, are paid only basic compensation in consideration of the nature of their duties.

Basic compensation

Fixed compensation is paid on a monthly basis. The amount of fixed compensation is decided through comprehensive consideration of positions and duties, taking into account factors such as compensation standards at other companies, the Company's business performance, and employee salary standards.

Performance-based compensation (cash bonuses)

Bonuses as cash remuneration reflecting business performance indicators are paid at a given period each year, with the aim of promoting a greater focus on improving business results each fiscal year. The amounts of cash bonuses are calculated based on the level of achievement of consolidated net sales and EBITDA targets for each fiscal year, as well as evaluations performed using the targets set for each individual each year. The consolidated net sales and EBITDA targets are determined from business plans formulated each year, which are based on medium-term management plans, and on publicly announced figures. These targets are revised as necessary upon consultation with the Nomination & Compensation Committee to reflect changes in the business environment.

Stock-based compensation (transfer-restricted stock)

A standard annual amount is determined by the Board of Directors for each position, and the Company's common stock equivalent to that amount is granted annually at a given period each year. Transfer restrictions are lifted on the date on which the grantee resigns from the post of both Director and Executive Officer of the Company or the Company's subsidiary.

Compensation composition (the percentages of each type of compensation) is based on compensation standards which use as their benchmark the compensation offered in companies equivalent in scale to the Company and companies in the same business fields or with the same business formats. Performance-based compensation is weighed more heavily for upper level positions and duties. Compensation composition is deliberated by the Nomination & Compensation Committee and their findings are reported to the Board of Directors. The Board of Directors delegates decision-making regarding the details of compensation for individuals (amounts for basic compensation and performance-based compensation) to the President & CEO, within the scope indicated in the report from the Nomination & Compensation Committee. The standard for ratio of compensation by type is as follows: basic compensation : performance-based compensation : stock-based compensation = 6 : 3 : 1 (when performance indicator targets have been met 100%).

Position	Basic compensation	Performance-based compensation	Stock-based compensation
President & CEO	58%	29%	13%
Managing Director	62%	28%	10%

To ensure that this decision-making authority is exercised appropriately by the President & CEO, the Board of Directors consults with the Nomination & Compensation Committee regarding the draft proposal for compensation and receives their report. The President & CEO, to whom the aforementioned authority is delegated, then makes decisions on compensation in accordance with the content of this report. With regard to stock-based compensation, the Board of Directors passes resolutions regarding the number of shares to be allocated to individual Directors, based on the report from the Nomination & Compensation Committee.

The Board of Directors deems the compensation for individual Directors observe the determination policy, as the amounts of compensation for individual Directors are determined through the above process.

[Supporting System for Outside Directors and/or Corporate Auditors]

Although there is no dedicated support staff, the outside directors and corporate auditors may coordinate with each division, or request the HR & GA Department for assistance. Additionally, the agenda of the Board of

Directors' meetings are submitted in advance and at the Board of Corporate Auditors' meetings, the status of activities of the standing corporate auditors is reported and information is exchanged.

【Status of those who retired from the Top Management, such as President and Representative Director】

Names, etc., of advisors (“sodanyaku,” “komon,” etc.) who have formerly served as Representative Director and President, etc.

Name	Title/ Position	Role/Activity	Role/Activity Working Conditions	Date of Retirement from President, etc.	Term
-	-	-	-	-	-

Total number of advisors (“sodanyaku”, “komon”. etc.) who have formerly served as Representative Director and President, etc.	-
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Other items

Under the Articles of Incorporation, the Company may be able to entrust its advisors, etc. by a resolution of the Board of Directors, but there is no applicable person at present.

2. Matters on Functions of Business Execution, Auditing, Oversight, Nomination and Remuneration Decisions (Overview of Current Corporate Governance System)

UPDATED

(1) Board of Directors

- The Board of Directors of the Company, as a decision-making body of the company's management, resolves legal matters and determines and approves the basic policies of management and important matters in business.
- The Board of Directors supervises the performance of the duties of directors and executive officers.
- The Board of Directors is composed of seven directors (four internal directors and three outside directors).
- The Board of Directors is chaired by the Representative Director and President, and in principle will be held once a month, and extraordinary meetings will be held as necessary. We have a system that can make prompt and accurate management decisions. The Board of Directors has been held 20 times, including written resolutions in fiscal 2020.
- Also, the Board of Directors is positioned as the highest decision-making body of the Group, and important decisions concerning Group companies are made through the Board of Directors with overall group-wide control.
- The Representative Director & President reports monthly about the specific job execution status.
- The Company has entered into a contract to limit liability for damages under Article 423, Paragraph 1 of the Companies Act, with the Outside Directors, based on Article 427, Paragraph 1 of the Companies Act, the liability is limited to the minimum liability amount stipulated in Article 425, Paragraph 1 of the Companies Act.

(2) Executive Officers' meeting

- We have introduced an executive officer system to achieve flexible business execution by separating the decision-making and supervisory functions from the business execution.
- The Board of Directors has appointed 15 executive officers (including 4 concurrent directors) and adopted a management form that in which executive officers fulfill their roles and responsibilities as supervisors of business execution.
- The Executive Officers' Meeting deliberates on important items in detail in order to comprehensively coordinate and unify the execution of business operations.
- The Executive Committee is chaired by a representative executive officer and is held monthly before the Board of Directors. The Executive Officers' Meeting has been held 12 times in fiscal 2020.
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(3) Board of Corporate Auditors

- The Board of Corporate Auditors strictly supervises and audits on directors' execution of duties, conducts direct hearings from directors, browses important documents, etc., and broadly examines the adequacy, efficiency, etc. of directors' business execution, and the board of directors Also, the Board of Corporate

Auditors attends important meetings such as the Board of Directors and Executive Officers' Meetings and expresses their opinions.

- The Board of Corporate Auditors consists of one standing statutory auditor and two outside corporate auditors.
- The Board of Corporate Auditors holds meetings of the Board of Corporate Auditors, and examines the audit plan formulated by the Board of Corporate Auditors, the implementation status of audits, and audit results. The Board of Corporate Auditors has been held 11 times in fiscal 2020.
- The Company has entered into a contract to limit liability for damages under Article 423, Paragraph 1 of the Companies Act, with the Outside Corporate Auditors, based on Article 427, Paragraph 1 of the Companies Act. The liability is limited to the minimum liability amount stipulated in Article 425, Paragraph 1 of the Companies Act.

(4) Internal audit

- In our company, the Internal Audit Office has been established as an organization dedicated to internal audits under the direct control of the Representative Director and President, and has five members.
- In order to streamline management and improve operations, the Internal Auditing Office conducts audits based on the annual plan and compliance with the Company and the Group's internal control status regarding financial reporting and various standards of various executive activities regarding the company's management, overall management of business operations, and requests for improvement.
- The audit results by the Internal Audit Office are shared with the accounting auditor and the corporate auditor, and the audit results by the accounting auditor are also received quarterly by the Internal Audit Office.
- The audit results of the corporate auditors and the internal audit results are also fed back to the General Administration Department and Legal Affairs Office, which are the internal control department, and lead to a review of internal control rules by the both departments.

(5) Status of accounting audit

- The certified public accountants who executed accounting audit services in the fiscal year ending March 2020 are Mr. Junji Ichihara and Mr. Mamoru Honda, who belong to PricewaterhouseCoopers Arata LLC. In addition, there are 4 certified public accountants and 17 others involved in audit work.

(6) Contents of audit fee etc.

- The Company's audit corporation is PricewaterhouseCoopers Arata LLC.
- Contents of audit fee for audit certified public accountants
Compensation based on audit certification work for the Company: 59 million yen
Compensation based on non-auditing work for the Company: 8 million yen
(The contents of non-auditing work at the Company are mainly advisory work regarding revenue recognition)
- Contents of audit fee for the same network as PricewaterhouseCoopers Arata LLC.
Compensation based on audit certification work:
(the Company) 58 million yen / (consolidated subsidiaries) 91 million yen
Compensation based on non-auditing work:
(the Company) 1 million yen / (consolidated subsidiaries) 13 million yen
(The contents of non-auditing work at the Company and consolidated subsidiaries are mainly tax advisory work)
- Policy for determining audit fees
In determining the audit fee, it is determined in consideration of factors such as the number of audit days, the size of the Company, and the characteristics of the business.

3. Reasons for Adoption of Current Corporate Governance System

We have selected the framework of a company with a Board of Corporate Auditors as an optimal corporate governance system for practicing management based on our corporate philosophy. The Company judges the framework of a company with a Board of Corporate Auditors is the most suitable form of business governance for the Company at this time.

III. Implementation of Measures Regarding Shareholders and Other Stakeholders

1. Measures to Vitalize the General Shareholder Meetings and Smooth Exercise of Voting Rights

UPDATED

	Supplementary Explanations
Early Notification of General Shareholder Meeting	The Company makes every efforts to dispatch the convocation notice of its General Shareholder Meeting about 3 weeks prior to a meeting and its early disclosure on Website of the Company and the Tokyo Stock Exchange.
Scheduling AGMs Avoiding the Peak Day	The Company's policy is to hold the Ordinary General Meeting of Shareholders, by avoiding the concentration day of the Ordinary General Meeting of Shareholders. The General Meeting of Shareholders in 2021 was held on June 22rd.
Allowing Electronic Exercise of Voting Rights	We have made it possible to exercise voting rights via the Internet.
Participation in Electronic Voting Platform	The Company has participated to use the platform for the electronic exercise of voting rights operated by ICJ, Inc.
Providing Convocation Notice in English	Reference materials for annual shareholders' meeting and business reports are partly translated into English and provided on the websites of the Company and Tokyo Stock Exchange.
Other	Notifications of convocation (including business reports) are posted on our website, and is posted on the Tokyo Stock Exchange and the Electronic Voting Platform for Voting Rights through disclosure on TDnet. We have made use of PowerPoint materials and have conducted easy-to-understand reports at the general meeting of shareholders. Furthermore, we have promptly disclosed the general meeting of shareholders on our website after the general meeting of shareholders.

2. Investor Relation (IR) activities

UPDATED

	Supplementary Information
Preparation and Publication of Disclosure Policy	We have created a disclosure policy and published it on our website. (https://kito.com/ir/disclosure)
Regular Investor Briefings for Individual Investors	<ul style="list-style-type: none"> • Briefing sessions for individual investors are arranged constantly by securities companies, seven meetings in FY2018 and five in FY 2019. In FY2020 it was held online with the COVID-19 situation considered. • Presentation are made to 50 to 250 investors, on our business, latest business results, current market situation, medium-term business plan, and initiatives for employment of disabled people and social contribution activities, etc. • Aside from the briefing session for individual investors, Yamanashi headquarters factory tours for individual shareholders are held twice a year, and we have received 20 to 30 partisans each time. No factory tour was held in FY2020 due to the COVID-19. • The shareholders' meeting of June 2021 was live-streamed for shareholders who could not attend due to COVID-19.

Regular Investor Briefings for Analysts and Institutional Investors	<ul style="list-style-type: none"> After the announcement of the financial results in May and November, we held a briefing on the settlement of accounts promptly, and the representative director explained the financial results and business prospects. The results of the briefing session were recorded as a video, and in addition to the English version with interpreting voice, they were released on our website on the same day of the briefing session. Questions and answers at financial results briefing sessions were published in text on the website on the same day. In addition, in response to requests from analysts and institutional investors, visits to Yamanashi's headquarters plant were conducted from time to time for a few people to about 10 people, and the president and managing director of the manufacturing division explained and corresponded to questions and answers.
Regular Investor Briefings for Overseas Investors	English content by simultaneous interpretation sound of financial results briefing session is released on our website on the same day of the briefing session. In addition, the abstracts of questions and answers at financial results briefings are published on the website in English text.
Posting of IR Materials on Website	The following IR materials are posted on our website. (https://kito.com/ir/library) Information on investors, such as financial information, timely disclosure materials other than financial information, securities report or quarterly report, company briefing materials, status of corporate governance, notification of convocation of general meeting of shareholders, etc.
Establishment of Department and/or Manager in Charge of IR	The Corporate Communications Department has been established under the CFO as a department dedicated to IR.

3. Measures to Ensure Due Respect for Stakeholders

UPDATED

	Supplementary Information
Stipulation of Internal Rules for Respecting the Position of Stakeholders	The corporate philosophy, integrated manual (quality / environment), basic policy on corporate governance, and compliance manual, etc. stipulate that the needs and expectations of stakeholders such as shareholders, business partners, employees, customers and local communities should be met, and that management with an emphasis on social responsibility be promoted.
Implementation of Environmental Activities, CSR Activities etc.	<p>As a member of society, we aim to prosper together with society without forgetting our social responsibility. We will enhance and strengthen communication with society through manufacturing. We are actively and continuously working on our own business and CSR promotion activities.</p> <p>(Environmental Activities)</p> <ul style="list-style-type: none"> We aim to prosper together with society without forgetting company's responsibility as a member of society. Through manufacturing, we are enhancing and strengthening communication with society, and actively and continuously work on our own business and CSR promotion activities. We have established an environmental policy aimed at achieving a rich and sustainable society in which people and the earth are in harmony, and we are working on focusing on climate change, management of chemical substances, use of sustainable resources, response to biodiversity, and legal compliance. <p><Example> Reduction of CO2 emissions by LED lighting in Yamanashi Factory; Enactment of prohibited substances by KITO for management of chemical substances; Change the painting process to powder and reduce organic solvents; and Fuji mountain range conservation activities, etc.</p>

	<p>(Promotion of diversity)</p> <ul style="list-style-type: none"> • We aim to create a workplace where everyone can be active, and we are particularly engaged in hiring people with disabilities. • The key feature of our company is that employees think about how they can do it, not what they can do, to create an environment where our employees can work naturally with people with disabilities. • Our employment rate for disabled people reached 6.65% as of June 2021, which is far above the legally required rate of 2.2%. <p>The main contents of our company's CSR activities are described on our website. (https://kito.com/csr)</p>
<p>Development of Policies on Information Provision to Stakeholders</p>	<p>Information is provided in accordance with the disclosure policy. We are working to improve the transparency of our management through prompt, accurate and fair information disclosure.</p>
<p>Others</p>	<ol style="list-style-type: none"> 1. Promote our policies so that diverse human resources can play an active role We are convinced that diverse human resources, regardless of gender or nationality, bring new ideas and ideas to our group's businesses and are the driving force for innovation, and we are promoting the securing of diversity. <ul style="list-style-type: none"> • Kito University will be held Every year, our company holds an educational program to develop future management candidates for each group company, with the aim of enabling diverse human resources such as nationality, gender and generation to be active. 2. Promote our policies so that women can play an active role in our company We have established an action plan with a three-year plan starting from 2021 and we are working on it. Goal1 Conduct training on improving career awareness of men and women at least once a year. Goal 2 Increase the usage record of support system for balancing by 30% for both men and women.. Goal 3 Make well-known the system regarding childcare among men and women and implement support for its user. In addition, please refer to our Action Plan, as it is listed in the Women's Achievement Promotion Company Database of the Ministry of Health, Labor and Welfare. (http://positive-ryouritsu.mhlw.go.jp/positivedb/detail?id=604)

IV. Matter Related to Internal Control Systems

1. Basic Views on Internal Control System and the Progress of System Development

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

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

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

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

1. Basic Policy

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

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

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

2. Systems concerning business execution

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

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

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

(3) Subsidiaries of KITO shall be in a form compliant with local laws and regulations applicable at the places of organization thereof, and the Board of Directors of the subsidiaries or overseas organizations equivalent thereto (collectively, the “Board of Directors of Subsidiaries”) shall be run in compliance with laws, regulations, the Articles of Incorporation, KITO’s Global Regulations of Approval Authorities, and KITO’s Regulations on the Management of Affiliates, while the directors, etc., of KITO’s subsidiaries shall ensure the legal compliance of their duties by executing them in accordance with the resolutions of the Board of Directors of Subsidiaries. Corporate Auditors of KITO’s subsidiaries or other persons equivalent thereto, if any, shall carry out auditing, in accordance with laws, regulations, the Articles of Incorporation, and applicable internal regulations of KITO, on the duties performed by directors, etc.

(4) Further, guidelines for compliance shall be established along with detailed rules. As action guidelines designed to urge the directors and employees of KITO and the directors, etc., and employees of its subsidiaries to fully comply with the laws, regulations and Articles of Incorporation as well as with the social code of conduct, they shall be disseminated internally to achieve thorough familiarity and full compliance. A structure shall be created to allow reporting, on a periodic and on an as-needed basis, of the state of compliance to the Board of Directors, which in turn shall be kept informed of problems and conduct reviews as needed.

- (5) A section whose function is to accept reports and whistle-blowing by insiders on matters concerning compliance-related problems within the KITO Group shall be established and operated at KITO.
When deemed necessary, a section to accept whistle-blowing by insiders shall be established and operated also at the subsidiaries in accordance with local laws & regulations and actual circumstances.
- (6) Periodic audits shall be performed by KITO's Internal Audit Group concerning the state of compliance of the applicable departments of KITO and its subsidiaries.
- 2) Systems for storage and management of information related to KITO's directors' performance of duties (Paragraph 1-1, Article 100 of the Ordinance for Enforcement of the Companies Act)
- Preservation and management of documents and records pertaining to the performance of duties by the directors of KITO and the directors, etc., of its subsidiaries shall be governed by the Articles of Incorporation and the Rules of the Board of Directors, etc. For more detailed rules, Document Management Rules shall be created to build a structure allowing proper filing and management of such documents.
Directors and corporate auditors of KITO may browse such information as needed.
Additionally, internal rules including the Rules on Personal Information Protection shall be established in an effort to ensure information security and its proper operation.
- 3) System to have matters related to the performance of duties by the directors, etc., of KITO's subsidiaries reported to KITO (Paragraph 1-5-(i), Article 100 of the Ordinance for Enforcement of the Companies Act)
- For the purpose of ensuring decision-making in line with uniform, Group-wide business strategies and the appropriateness of business, KITO shall set in place the Global Regulations of Approval Authorities, which prescribes the matters to be referred to for sanction at KITO and its subsidiaries, and the Regulations on the Management of Affiliates, which prescribes the matters to be referred to for sanction in advance and the matters to be reported by the directors, etc., of the subsidiaries. KITO shall also develop a system of reference for sanction and reporting in accordance with those regulations and shall promote its business in line with these.
- Furthermore, KITO shall establish, under the Regulations on the Management of Affiliates, a system to have the business results of the subsidiaries reported to KITO on a regular basis along with matters significant to business, if any, at each time of occurrence thereof.
- 4) Rules and systems for the management of risk of loss at KITO and its subsidiaries (Paragraphs 1-2 and 1-5-(ii), Article 100 of the Ordinance for Enforcement of the Companies Act)
- (1) Any significant matter shall be subject to the scrutiny of the Board of Directors, the Management Conference, or any other organ of KITO or its subsidiaries responsible for making decisions on the matter in question in accordance with the laws, regulations, Articles of Incorporation and internal rules.
Additionally, the department responsible for legal affairs and other relevant departments shall conduct preliminary examinations on any important matter in accordance with the internal rules and others in an effort to fully understand and identify risks.
- (2) KITO shall establish basic rules concerning risk management ("Risk Management Rules"), which shall be considered as the highest orders concerning the Group's risk management, and promote risk management by nominating directors to oversee matters relating to the risk management and by appointing divisions to be in charge of legal affairs as the division that is responsible at KITO for the risk management system and that functions as the Risk Management Headquarters of KITO and its subsidiaries.
Risk management, in principle, shall be performed by the departments in charge of the area in question at KITO and its subsidiaries. The Risk Management Headquarters of KITO shall be engaged in cross-organizational management of risks over and across the entire Group.
The Risk Management Rules shall incorporate provisions setting forth procedures for the periodic identification of risks for proper recognition of various risks associated with business and the deterrence and prevention of the occurrence of material loss and risks.
- (3) The Internal Audit Group of KITO shall perform periodic audits on the state of risk management at applicable departments of KITO and its subsidiaries.
- 5) Systems to ensure efficient execution of duties by the directors of KITO and the directors, etc., of its subsidiaries (Paragraphs 1-3 and 1-5-(iii), Article 100 of the Ordinance for Enforcement of the Companies Act)

- (1) The scope of responsibilities shall be reasonably decided by KITO and its subsidiaries for each of the directors of KITO and the directors, etc., of its subsidiaries, and the scope of responsibilities and authority shall be decided in accordance with the internal rules and others for each organ and department.
 - (2) The Board of Directors shall hold regular meetings once every month to decide on resolutions rightly brought to its attention. Executive officers shall hold regular meetings once every month to facilitate sharing of information including progress status of business execution. Special meetings of the Board of Directors and/or special conferences of executive officers may be held as needed. These meetings shall form the backbone of a structure enabling quick managerial decision-making.
Effectiveness and efficiency of the performance of duties shall be enhanced further through strict goal management and quarterly reporting of the state of progress with respect to the duties stipulated in the Board-approved medium-term and long-term business plans and annual plans.
 - (3) Subsidiaries of KITO shall hold regular meetings of their Board of Directors of Subsidiaries in compliance with applicable local laws and regulations to decide on the matters to be resolved by the Board of Directors of Subsidiaries and shall also hold a special meeting of the Board of Directors of Subsidiaries as occasion demands to thereby establish a structure enabling quick managerial decision-making.
The subsidiaries shall enhance the effectiveness and efficiency of the performance of duties by implementing strict goal management and by having the state of progress with respect to the duties stipulated in the medium-term and long-term business plans and annual plans approved by the Board of Directors of KITO. These are reported to the regular meetings of their Board of Directors of Subsidiaries by their representative directors or equivalent persons as well as to the meetings of the Board of Directors and the conferences of executive officers of KITO by general managers of the business divisions of KITO in charge of the supervision of subsidiaries.
 - (4) The Internal Audit Group of KITO shall perform periodic audits on the efficiency of the execution of duties by each of the departments of KITO and its subsidiaries.
- 6) Systems to ensure proper operations in KITO Corporation and its corporate group comprising KITO and its subsidiaries (Paragraph 1-5, Article 100 of the Ordinance for Enforcement of the Companies Act). (excluding the systems prescribed in 1) through 5) above).

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

Also, KITO shall have the business divisions in charge of the supervision of KITO's subsidiaries report on the monthly reports submitted by the subsidiaries at the conference of executive officers of KITO. In addition, the Legal Affairs Office shall be appointed as the division responsible for the management of the subsidiaries to promote such management. Furthermore, certified public accountants with global operations shall be appointed so as to ensure accounting appropriateness and uniformity regarding the management of the group companies.

- (2) The Internal Audit Group of KITO shall perform periodic audits concerning the compliance, risk management, and business efficiency of KITO and its subsidiaries.

3. Systems related to auditing

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

Corporate Auditors shall, when deemed necessary, appoint employees assigned to a position to assist corporate auditors in performing their duties ("Assistants to Corporate Auditors"). It shall be clearly stipulated in the internal regulations and made fully known across KITO that the employees appointed as Assistants to Corporate Auditors are not subject to directions or orders given by the directors or superiors of the organs they belong to, if such directions or orders are matters relating to duties instructed by the corporate auditor.

The transfer of and disciplinary measures against the Assistants to Corporate Auditors, if any, shall be reported to the corporate auditors in advance, and the opinions of the corporate auditors including the judgment of eligibility of the Assistants to Corporate Auditors shall be fully respected.

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

(1) In addition to reporting of information required by law, directors, etc., corporate auditors (including persons in equivalent positions at the subsidiaries), and employees at the KITO Group (“Officers and Employees”) shall report to corporate auditors of KITO without delay if he or she becomes aware of any matter that may give rise to significant impact on any of the KITO Group companies.

Additionally, ordinary reports and requests for management approval of daily nature at KITO shall be circulated to the corporate auditors of KITO to keep them informed.

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

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

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

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

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

4. Systems for ensuring the appropriateness of financial reporting

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

2. Basic Views on Eliminating Anti-Social Forces

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

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

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

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

V. Others

1. Adoption of Anti-Takeover Measures

Adoption of Anti-Takeover Measures	Not Adopted
Supplemental Explanation	

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2. Other Matters Concerning to Corporate Governance System

1. Basic policy on timely disclosure of company information

In order to enable investors to accurately determine the value of their investment in the Company, the Company's basic stance is to disclose the necessary company information in a timely and appropriate manner, and therefore, we have built a system that allows for quick disclosure of the necessary company information. In addition, regarding education concerning timely disclosure, we take the opportunity of important meetings and training sessions for executives and employees, including executives and employees of consolidated subsidiaries and we are keeping such officers and employees aware of and thoroughly understand the basic policies and important facts subject to timely disclosure.

2. Internal system concerning timely disclosure of company information

(1) Status of timely disclosure organization

Name of the Department in charge: Corporate Communication Department

Officer in Charge of Handling Information: Chief Information Officer (“CFO”)

(2) Timely disclosure procedure

A. Information on the fact of decision

The department in charge of timely disclosure obtains important deliberation matters of important meetings, such as the Board of Directors, examines the presence or absence of important facts targeted for timely disclosure, prepares disclosure data immediately if applicable, and reports it to the representative director through the Information Handling Officer, obtain the approval of the meeting concerned, and disclose it after the meeting is over.

B. Information on occurrences

If any such facts are found, each department and subsidiary will report to the Department in charge of timely disclosure. The Department in charge of timely disclosure examines whether or not disclosure is necessary, immediately prepares disclosure materials, reports to the Representative Director and President through the Information Handling Officer, obtains approval for them, and then, we have a system in place that enables us to promptly disclose them to the investors, etc.

C. Financial information

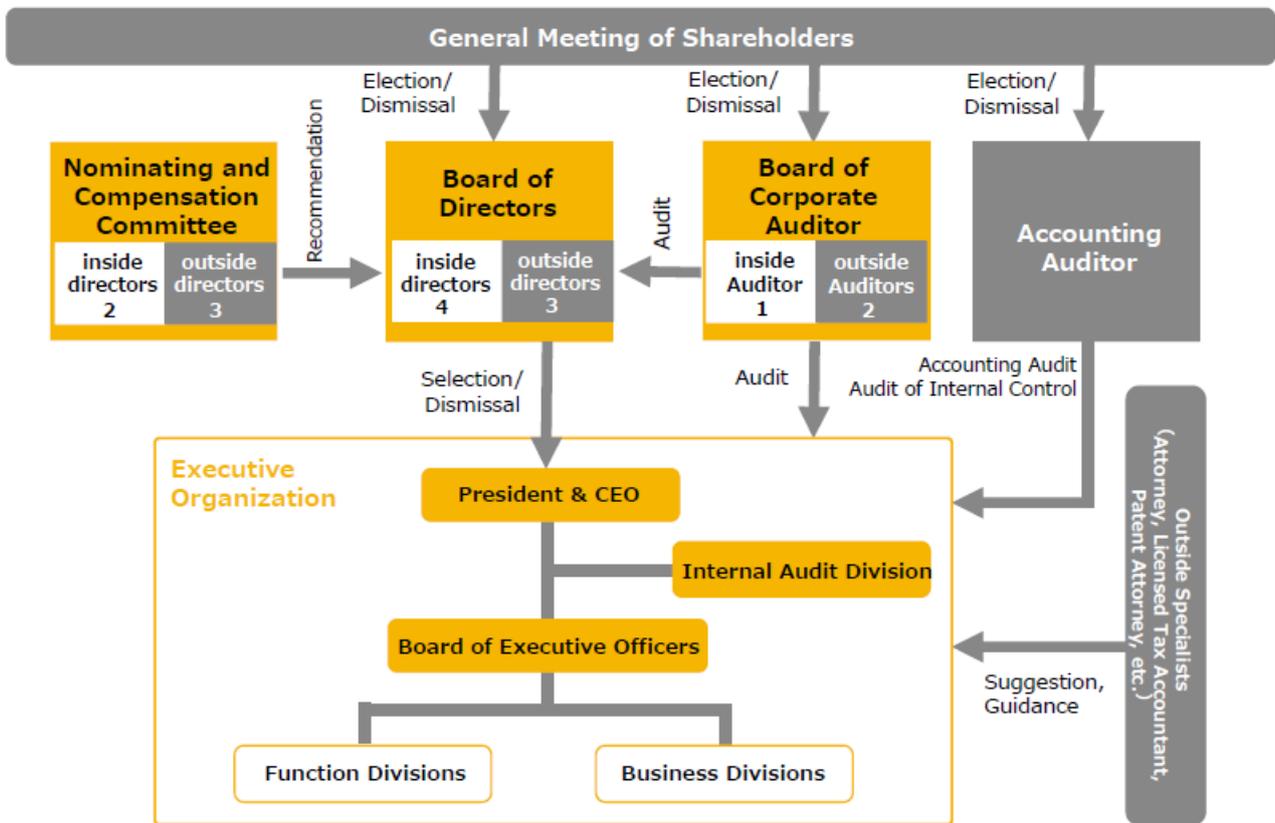
The Department in charge of timely disclosure plays a central role in preparing financial disclosure data (such as financial statements summary), and upon approval by the Board of

D. Timely disclosure procedures pertaining to the corporate group

As of March 31, 2020, the Company had 19 significant subsidiaries. Subsidiaries have submitted monthly financial statements by the 10th of the following month. Based on these, the Department in charge of timely disclosure examines the presence or absence of important facts that are subject to timely disclosure, and if applicable, reports to the Representative Director and President through the Information Handling Officer information handlers, obtains approvals for them, and then, we have a system in place that enables us to promptly disclose them to the investors, etc.

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

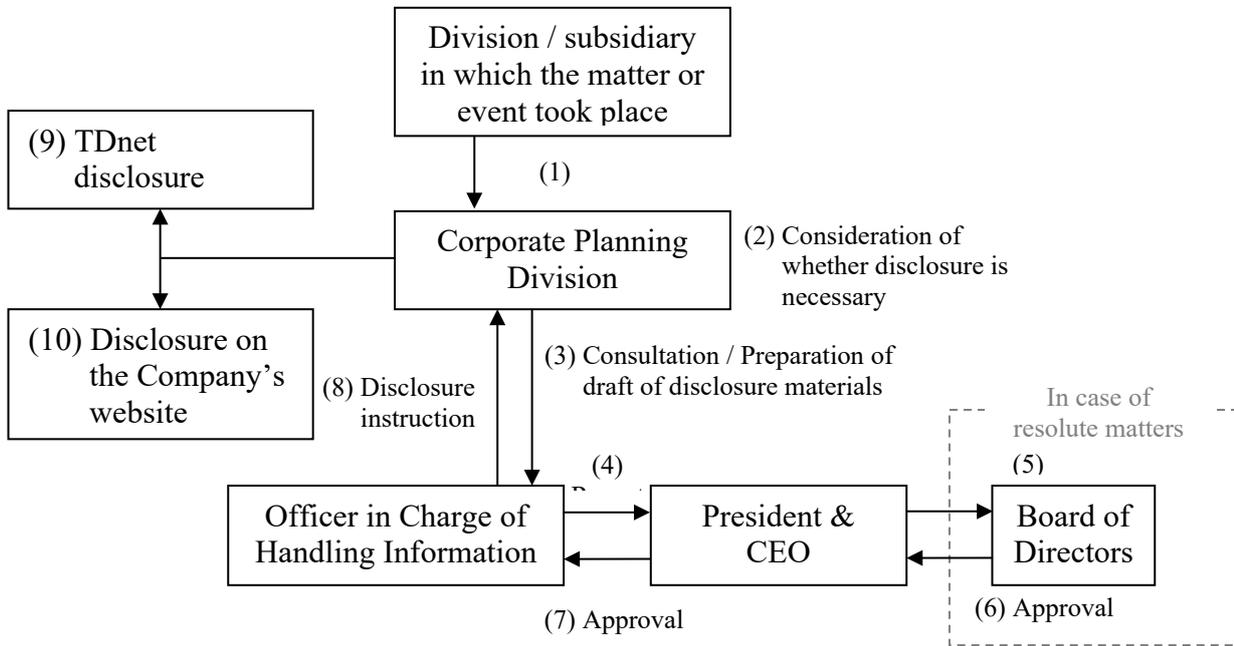
The outline of the Company's System of Corporate Governance is as follows.



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

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

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



(2) Operational flow of timely disclosures of financial statements

