

Bridge Report KITZ CORPORATION (6498)

 President Yasuyuki Hotta	Company	KITZ CORPORATION	
	Code No.	6498	
	Exchange	TSE 1 st Section	
	Industry	Machinery (Manufacturing)	
	President	Yasuyuki Hotta	
	HQ	1-10-1 Nakase, Mihama-ku, Chiba, 261-8577, Japan	
Activities	KITZ is the top Japanese manufacturer of valves and other devices used to control fluids, and a leading manufacturer of brass bars. KITZ maintains particular strength in applications within the building facility and petrochemical industries, and supplies valves to a wide range of applications in other industries. KITZ is also aggressively developing overseas markets for its products.		
Year-end	March		
URL	http://www.kitz.co.jp/english/		

— Stock Information —

Share Price	Shares Outstanding (ex. Treasury Shares)	Market Cap.	ROE (actual)	Trading Unit	
¥307	109,222,790 shares	¥33,531 billion	4.7%	100 shares	
DPS (Est.)	Dividend Yield (Est.)	EPS (Est.)	PER (Est.)	BPS (actual)	PBR (actual)
¥9.00	2.9%	¥35.70	8.6x	¥490.65	0.6x

* Share price as of closing on May 30, 2012. Number of shares outstanding as of most recent quarter end, excluding treasury shares.
 ROE and BPS are calculated by using actual amounts during or at the end of the previous term.

— Consolidated Earnings Trends —

(Units: Million Yen)

Fiscal Year	Sales	Operating Profit	Ordinary Profit	Net Profit	EPS (¥)	Dividend (¥)
March 2009	127,095	7,188	6,475	3,396	30.02	9.00
March 2010	96,592	6,976	6,248	3,079	27.23	7.00
March 2011	106,059	6,341	5,929	3,063	27.36	7.00
March 2012	108,446	4,638	4,388	2,480	22.71	7.50
March 2013 Est.	112,000	6,600	6,200	3,900	35.70	9.00

* Estimates are those of the Company.

This Bridge Report presents KITZ CORPORATION's earnings results for the fiscal year March 2012.

1. Company Overview
2. KITZ Group Long Term Management Plan "KITZ Global Vision 2020" and Measures in Fiscal Year March 2013
3. Fiscal Year March 2012 Earnings Results
4. Fiscal Year March 2013 Earnings Estimates
5. Conclusions

Key Points

- During the fiscal year March 2012, KITZ's sales rose by 2.3% year-over-year while ordinary profit declined by 26.0% year-over-year. In addition to an increase in sales of the Valve Manufacturing Business in North America and China, the Brass Bar Manufacturing Business was able to secure similar levels of sales to the previous fiscal year. However, the stronger yen, higher copper prices, and the occurrence of unprofitable projects caused profit margins in the Valve Manufacturing Business to deteriorate. Also the appearance of translation losses on raw materials due to fluctuations in copper prices contributed to a year-over-year decline in operating profit of just below 60.0% in the Brass Bar Manufacturing Business.
- During the fiscal year March 2013, sales and ordinary profit are expected to rise by 3.3% and 41.3% year-over-year respectively. Increases in sales and declines in unprofitable projects are expected to allow operating profit to rise by over 30.0% year-over-year in the Valve Manufacturing Business. KITZ expects to raise dividends by ¥1.5 to ¥9.0 per share (Midterm and term-end dividend of ¥4.5 each).
- The fiscal year March 2013 is considered to be a crucial year for KITZ to put its earnings back on a growth path. In overseas markets, KITZ's abilities to accelerate the development of the Chinese market and to facilitate an effective business structure in the ASEAN region are considered to be key points in its growth strategy. Within Japan, strengthening its position in the existing markets is also a crucial point for KITZ's longer term business strategy.

1. Company Overview

KITZ is a comprehensive manufacturer of valves and other fluid control equipment and devices. And while most people are familiar with valves used around “water meters,” “gas meters,” and “water heaters,” few are aware of the applications of KITZ products outside of the home that are provided to a wide range of industrial applications. At the same time, KITZ boasts of a highly efficient integrated manufacturing system that uses bronze, cast iron, ductile cast iron (Cast iron with greater strength and ductile characteristics), stainless steel and other materials to manufacture several tens of thousands of different products. Furthermore, in addition to external sales of brass and other bars used to make valves, KITZ also operates fitness clubs and hotels. KITZ is the number one manufacturer of valves, and the number two manufacturer of brass bars within Japan.

<Corporate History>

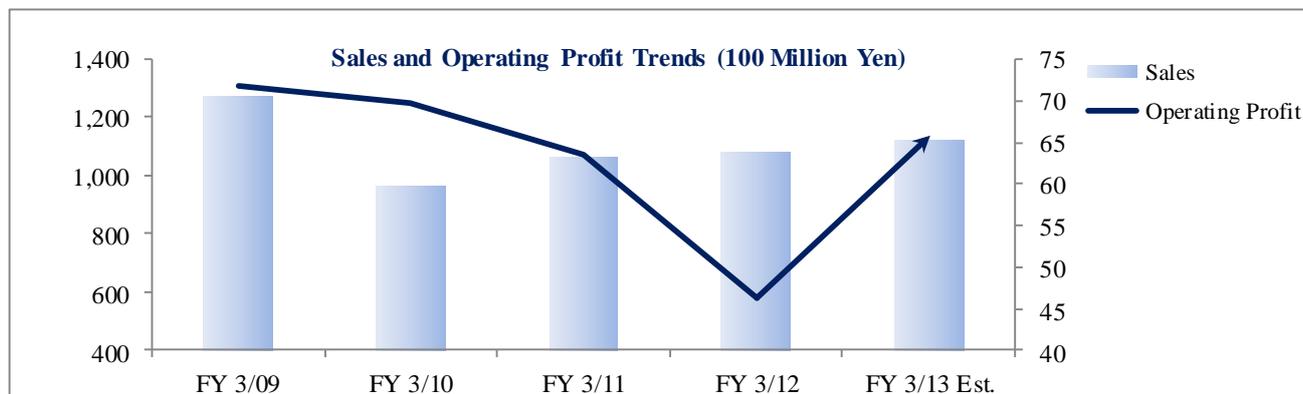
KITZ was originally established in January 1951 under the name of Kitazawa Mfg. Works for the manufacture and sales of various valves (In September 1962, the Company's name was changed to Kitazawa Valve Co., Ltd.). In April 1951, the Nagasaka Plant in Yamanashi Prefecture was completed and it started manufacturing of bronze valves.

KITZ established its operating base during the high economic growth period of Japan based on the principle of “always producing better quality products, cheaper and more quickly.” After listing on the Tokyo Stock Exchange Second Section in April 1977, KITZ moved its shares to the First Section of the Tokyo Stock Exchange in September 1984. In August 1995, KITZ made a full scale entry into water works market through its acquisition of Shimizu Alloy Mfg. Co., Ltd. as its subsidiary.

After 2001, KITZ promoted a management style that focused upon cash flow in addition to pursuing a strategy of “selection and concentration.” While KITZ acquired the semiconductor manufacturing equipment related business from the former Benkan Group in November 2001 and the valve business from Toyo Valve Co., Ltd. in March 2004, it spun off its Brass Bar Manufacturing Business to become KITZ Metal Works Corporation. From 2005 to 2006, KITZ fortified its Brass Bar Manufacturing Business through the acquisition of the brass bar manufacturing business of Kyoto Brass Co., Ltd. and the assets of Kichou Brass Bar Manufacturing Co., Ltd.. Currently, KITZ has become one of the leading valve manufacturing companies in Japan, and is seeking to raise its presence on a global basis by expanding its



businesses in the United States, Europe, and Asia. “KITZ brand” products have come to be highly regarded by customers not only in Japan, but also from around the world.

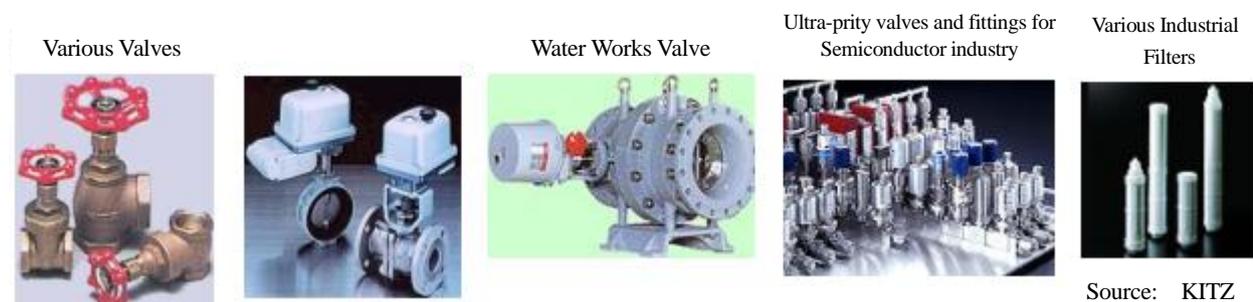


<Overview of KITZ’s Business Segments>

KITZ’s business is divided into the Valve Manufacturing, Brass Bar Manufacturing, and Other Business segments. During fiscal year March 2012, each of these divisions accounted for 72.8%, 18.5% and 8.7% of total sales, respectively.

Valve Manufacturing Business

Valves are used to “pass,” “stop,” and “control the flow” of fluids and gases in various pipe systems (Water, air, gas and other substances), and they are used in office and residential facilities, water works facilities, fresh and sewage water facilities, fire prevention facilities, machinery and industrial use manufacturing equipment, and chemical, medical, petrochemical product manufacturing facilities, semiconductor manufacturing facilities, petroleum refining and other industrial complexes, and other various applications. KITZ is one of the leading valve manufacturers in the world with high market shares of corrosion resistant bronze and highly economic brass valves, and stainless steel valves. The Company boasts of integrated manufacturing processes including the casting process, and it became the first company in Japan to acquire the “ISO9001 International Quality Standard Certification.” With a strong lineup of various types of valves made of various materials, KITZ provides its products to a wide range of fields including facilities in the construction and plant engineering industries, in addition to applications in the environment, energy, and semiconductor realms. The Company is also pursuing a strategy to increase the global cost competitive nature of its products by fortifying its overseas manufacturing facilities. During fiscal year March 2012, overseas sales accounted for about 30% of total sales.



Source: KITZ

Brass Bar Manufacturing Business

KITZ combines copper with zinc to create brass, tin and phosphorous to create phosphor bronze, and nickel and zinc to create nickel silver, which are then used in the dissolving, casting, rolling, pulling, forging or cold forming processes to create sheets, strips, pipes, bars, wires and other forms. The KITZ Group’s brass bar business is the realm of KITZ Metal Works Corporation and uses the raw material of brass in the manufacture of brass bars, which it also sells. (Brass bars are used not only as materials for valves, but also in the manufacture of water faucets, gas equipment, electrical appliances and other various products.)

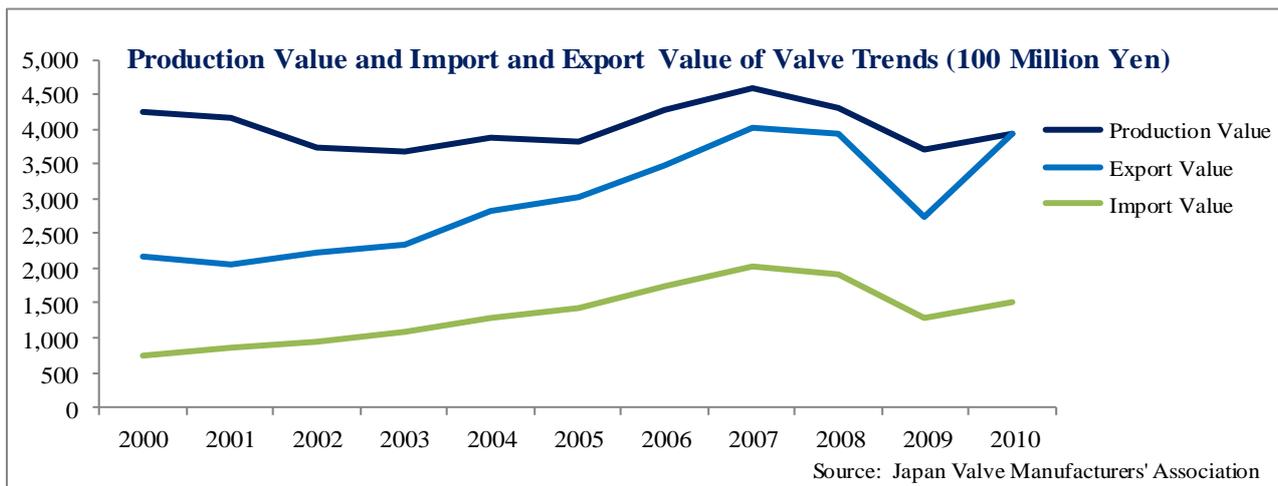


Other

KITZ operates sports and fitness clubs, hotels and restaurants within this segment.

<Valve Manufacturing Business Conditions>

According to data from the Japan Valve Manufacturers' Association, Japan's valve production rose by 5.8% to ¥392.2 billion in 2010 from 2009 on the back of a recovery from the depressed demand seen in the wake of the global economic weakness caused by the Lehman Shock. Imports and exports also underwent a similar recovery, with both exports and imports recording large increases. The East and Southeast Asian markets were the strongest drivers of growth for both imports and exports.



2. KITZ Group Long Term Management Plan “KITZ Global Vision 2020” and Measures in Fiscal Year March 2013

The KITZ Group is currently in the course of implementing its Long Term Management Plan “KITZ Global Vision 2020,” which is a growth strategy designed to take KITZ to its 70th year anniversary in 2020. The advent of the Great East Japan Earthquake and the pronounced strengthening in the yen forced KITZ to revise its fiscal year March 2013 earnings estimates of sales, operating and ordinary profit of ¥135.7, ¥10.0, and ¥9.3 billion respectively. However in order to increase its earnings over the longer term, KITZ endeavors to (1) aggressively develop the domestic market, (2) improve the profitability of its plant engineering projects, and (3) aggressively develop overseas markets.

(1) KITZ Group Long Term Management Plan “KITZ Global Vision 2020”

① Qualitative Targets

KITZ maintains the theme of “evolving to become a truly global company” and maximizing corporate value while realizing its responsibilities to its various stakeholders.

• Crossing the line to maximize corporate value	
Valve: Joining the ranks of the world's top 3	➔ Reforming to “Regional HQs” with Sales, Marketing, R&D,
Brass Bar: Establishing a global distribution network	Engineering and Production as locally comprehensive operations
Service: Offering world-class services to consumers	
• Revitalizing our operations as a dynamic and conscientious group of companies	
Realizing further growth in our operations as we approach to achieve our 70th anniversary in 2020, by careful selection and concentration of resources	
➤ Highly secured rate of profits and cash flow	
➤ Continuous development of our corporate value and social contributions by improving our values to the customer, our employees' quality of life and mutually beneficial business with our partners	

② Quantitative Targets

KITZ has established targets for sales and operating profit of ¥250.0 and ¥20.0 billion respectively during fiscal year March 2021. At the same time it has a target of raising overseas sales to account for 50% of total sales. Furthermore it targets a reduction in interest bearing liabilities from ¥27.5 billion in fiscal year March 2010 to ¥24.0 billion, a subsequent improvement in net asset ratio from 54.3% in fiscal year March 2010 to 70%, and an improvement in capital efficiency with a rise in return on equity from 6% in fiscal year March 2010 to 7%.

(2) Measures Designed to Help Achieve the “KITZ Global Vision 2020” in Fiscal Year March 2013

① Aggressively Develop the Domestic Market

KITZ expects to focus its efforts upon businesses where the potential for growth is large including the bronze/brass valves, where the variety of uses and price range is large, butterfly valves, high value added petrochemical and general chemical application use stainless steel ball valves, and ductile iron valves.

KITZ will also devote efforts to developing the various bronze/brass valve markets for KITZ, Toyo Valve Co., Ltd., and Miyoshi Valve Co., Ltd. branded products by leveraging the strengths of each respective company's products.

Brands	Features
KITZ Brand	High end brand, wide variety of bronze/brass valves products, with capability to comprehensively manufacture valves made of other materials
Toyo Valve Brand	Middle end brand, particularly strong in construction and fire prevention applications
Miyoshi Valve Brand	Low end brand, with valves for building utilities and freezing and refrigeration equipment which are not available from the other two brands

With regards to sales, KITZ has facilitated the above mentioned three brand strategy, and it has also closed the Kawagoe Plant of Miyoshi Valve (June 2011), spun off the manufacturing and sales functions from Toyo Valve (The manufacturing function was absorbed by KITZ and the sales function absorbed by Toyo Valve in January 2012), and integrated the manufacturing and development functions at KITZ Chino Plant and KITZ (Thailand) Ltd.. In the future, KITZ will promote reviews of its Chino Plant production facilities to extract greater productivity, and has made the corporate officer responsible for the bronze/brass valve manufacturing business also responsible for consolidation of marketing facilities and sharing of information within the Group.

Sales

(Units: Billion Yen)

	FY3/11	FY3/12	FY3/13 Plan
KITZ Brands	51.0	56.5	64.0
Toyo Valve Brands	11.3	10.6	8.1
Miyoshi Valve Brands	1.1	1.1	0.9
Total	63.4	68.2	73.0

② Profitability Improvements of Plant Projects

In order to strengthen competitiveness and profitability in important markets including the petroleum refining, petrochemical, gas processing and other large plant projects, KITZ created a project division headed up by directors in December 2011. The project division is a specialized structure that is comprised of marketing, engineering (Design, technology, quality control) and administrative division functions for large plant projects, and is involved from the estimate creation process to help raise the accuracy of cost and other calculations to raise profitability of large projects. During fiscal year March 2013, a ¥500 million improvement in profitability of all projects is anticipated.



③ Aggressive Development of Overseas Markets

KITZ will concentrate its resources upon the China and ASEAN regions, where the potential for growth in its businesses is large. With regards to China, the KITZ brand will be introduced for machinery and construction industry applications and other industrial applications, the Perrin GmbH brand for coal chemistry and petrochemical industry applications, and the KITZ SCT brand for semiconductor related applications.

Brands	Target Applications
KITZ Brand	General use valves for construction industry, and automated valves for machinery makers and industrial applications
Perrin GmbH Brand	Industrial use valves for the coal chemistry, petrochemical industries
KITZ SCT Brand	Valves and connectors for the semiconductor manufacturing equipment applications

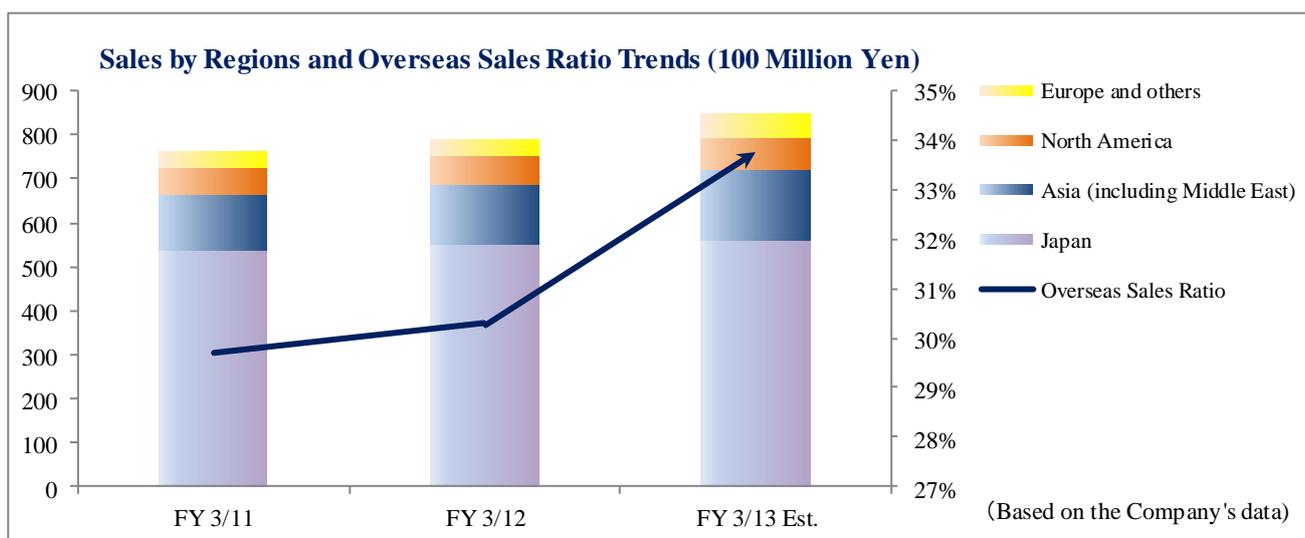
As part of this strategy, KITZ has developed a network of distributors in Shanghai, Beijing, Guangzhou and Hong Kong to strengthen its marketing to local machine manufacturers. Furthermore, the localization of design and development functions for a wide range of products to match needs of the local market from low end products such as general use valves for construction facility applications, middle end products such as bronze/brass valves, and high end products such as automated ball valves is being promoted.

Sales and Plans

(Units: Billion Yen)

	FY3/11	FY3/12	FY3/13 Plan
KITZ Brand	1.8	2.2	2.9
Perrin GmbH Brand	0.6	1.5	1.7
KITZ SCT Brand	0.2	0.4	0.5
Total	2.6	4.1	5.0

In addition, KITZ established KITZ Corporation of Asia Pacific Pte. Ltd. (KITZ Asia Pacific) in Singapore in October 2011 as a key element in its expansion strategy for the ASEAN region. KITZ Asia Pacific will initially concentrate its efforts upon developing a network deeply rooted in each of the respective markets in the ASEAN region.



3. Fiscal Year March 2012 Earnings Results

(1) Consolidated Earnings

(Units: Million Yen)

	FY3/11	Share	FY3/12	Share	YY Change	Est. as of 2Q	Divergence
Sales	106,059	100.0%	108,446	100.0%	+2.3%	109,000	-0.5%
Gross Profit	24,624	23.2%	23,772	21.9%	-3.5%	23,900	-0.5%
SG&A	18,283	17.2%	19,134	17.6%	+4.7%	18,700	+2.3%
Operating Profit	6,341	6.0%	4,638	4.3%	-26.9%	5,200	-10.8%
Ordinary Profit	5,929	5.6%	4,388	4.0%	-26.0%	4,700	-6.6%
Net Profit	3,063	2.9%	2,480	2.3%	-19.0%	2,800	-11.4%

* Figures include reference figures calculated by Investment Bridge Co., Ltd.. Actual results may differ (applies to all tables in this report).

Sales Rise 2.3%, Ordinary Profit Fall 26.0%

Sales rose by 2.3% year-over-year to ¥108.44 billion. Sales of the main product of valves in North America and China rose, along with higher sales of brass bars on the back of strong sales during the first half. However the impact of the stronger yen and intensifying sales competition was compounded by increases in copper prices and unprofitable work on large plant projects causing profitability in the Valve Manufacturing Business to deteriorate. Copper market volatility led to translation losses on materials which caused profits of the Brass Bar Manufacturing Business to decline by just below 60%. Consequently, operating profit fell by 26.9% year-over-year to ¥4.63 billion. However the decline in impairment losses from ¥496 million in the previous term to ¥62 million, and disappearance of asset retirement obligation (¥392 million in the previous term) allowed extraordinary income to improve, which in turn contributed to a smaller margin of decline in net income of 19.0% year-over-year. A dividend payment of ¥4 per share is expected to be paid to shareholders as of the term end, combined with the ¥0.5 increased midterm dividend for a full year dividend payment of ¥7.5 per share.

KITZ used foreign exchange rates of ¥79.45 per US Dollar, (Actual rate of ¥87.32 in the previous term), and ¥111.17 per Euro (Actual rate of ¥115.06 in the previous term). Also the Company used a price assumption of ¥717,000 per ton (¥738,000 per ton in the previous term) for electrolytic copper.

The divergence from estimates is greater with regards to profits because of the settlement of unprofitable projects at the end of the term and valuation losses on inventories.

(2) Business Segment Trends

Sales, Operating Profit by Business Segment

(Units: Million Yen)

	FY3/11	Share	FY3/12	Share	YY Change	Estimate as of 2Q	Divergence
Valve Manufacturing	76,098	71.7%	78,976	72.8%	+3.8%	80,000	-1.3%
Brass Bar Manufacturing	20,230	19.1%	20,065	18.5%	-0.8%	20,000	+0.3%
Other	9,729	9.2%	9,404	8.7%	-3.3%	9,000	+4.5%
Total Sales	106,059	100.0%	108,446	100.0%	+2.3%	109,000	-0.5%
Valve Manufacturing	8,143	89.6%	6,913	91.8%	-15.1%	7,400	-6.6%
Brass Bar Manufacturing	632	7.0%	267	3.5%	-57.8%	300	-10.9%
Other	314	3.5%	354	4.7%	+12.8%	300	+18.3%
Adjustments	-2,749	-	-2,896	-	-	-2,800	-
Operating Profit	6,341	-	4,638	-	-26.9%	5,200	-10.8%

Valve Manufacturing Business

Sales rose by 3.8% year-over-year to ¥78.97 billion while operating profit fell by 15.1% year-over-year to ¥6.91 billion. Within this total, sales within Japan rose by 2.8% year-over-year to ¥55.02 billion. Sales of products to semiconductor related applications declined due to postponement in capital investments by semiconductor manufacturers in Korea and

consigned manufacturers in Taiwan. At the same time, sales to general chemical, food and paper, and gas industry applications rose by 19%, 17% and 17% respectively on the back of the extraordinary demand in the aftermath of the earthquake disaster. Also, Shimizu Alloy Mfg. Co., Ltd., which saw a 13 month fiscal year due to a change in its accounting period, recorded a 9% year-over-year increase in sales of products to water work related applications. Sales to construction facility applications remained in line with the previous term.

At the same time, overseas sales rose by 6.2% year-over-year to ¥23.95 billion. Considering changes in accounting periods, which led to shortened 10 month fiscal years for subsidiaries in both Thailand and Taiwan, the 19% year-over-year decline in sales within ASEAN is deemed to have been flat in real term after the impact of the shortened fiscal year is considered. Sales of products in North America rose by 16% year-over-year on the back of recoveries in petroleum refining and petrochemical industries. Sales in China also rose by 57% year-over-year due to strong demand for general use valves from construction facility applications.

With regards to profits, increases in volumes and declines in materials costs were negated by the strong yen, intensifying competition that drove product pricing lower, rising copper prices, and the occurrence of large unprofitable projects (Depressed profits by ¥800 million) in the Middle East.

Sales by Regions

(Units: Million Yen)

	FY3/11	Share	FY3/12	Share	YY Change
Domestics	53,545	70.4%	55,020	69.7%	+2.8%
Overseas	22,553	29.6%	23,955	30.3%	+6.2%
Total Valve Manufacturing	76,098	100.0%	78,976	100.0%	+3.8%

Brass Bar Manufacturing Business

Sales and operating profit declined by 0.8% and 57.8% year-over-year to ¥20.06 billion and ¥260 million respectively. During the first half, sales volumes increased despite the higher copper prices, but sales volumes declined during the second half despite a sudden decline in prices. Consequently full year sales were basically in line with the previous year's levels, but translation losses on materials led to a large decline in profits.

Other

Sales declined by 3.3% year-over-year to ¥9.404 billion, while operating profit rose by 12.8% year-over-year to ¥354 million. Both hotel and fitness club businesses were negatively impacted by the Great East Japan Earthquake. However, sales of the fitness club business declined, but operating profit rose due to the positive contribution from power saving efforts and reductions in sales promotional costs.

(3) Financial Conditions and Cash Flow

Financial Conditions

(Units: Million Yen)

	FY3/11	FY3/12		FY3/11	FY3/12
Cash	13,108	5,674	Payables	5,799	5,541
Receivables	22,253	22,782	Short Term Interest Bearing Liabilities	14,483	8,164
Inventories	14,279	16,472	Current Liabilities	26,521	20,182
Current Assets	52,036	47,247	Long Term Interest Bearing Liabilities	15,680	16,125
Tangible Fixed Assets	35,027	34,767	Fixed Liabilities	20,184	20,309
Intangible Fixed Assets	2,172	2,404	Net Assets	53,433	54,489
Investments, Others	10,901	10,561	Total Liabilities, Net Assets	100,138	94,981
Fixed Assets	48,101	47,734	Total Interest Bearing Liabilities	30,163	24,289

Interest Bearing Liabilities = Debts + Bonds + Lease Obligations

Total assets as of the end of the current term declined by ¥5.15 billion from the end of the previous term to ¥94.98 billion.

The redemption of corporate bonds (¥6 billion) caused both cash and equivalents and interest bearing liabilities to decrease. At the same time inventories increased due to the need to shift production to alternative locations because of the flooding in Thailand. Capital adequacy ratio improved by 3.9% points from 52.5% in the previous term to 56.4%.

Cash Flow

(Units: Million Yen)

	FY3/11	FY3/12	YY Change	
Operating Cash Flow	5,818	2,217	-3,600	-61.9%
Investing Cash Flow	-2,907	-2,508	+398	-
Free Cash Flow	2,911	-291	-3,202	-
Financing Cash Flow	375	-6,638	-7,013	-
Cash and Equivalents at Term End	12,707	5,635	-7,072	-55.7%

With regards to cash flow, declines in capital investments caused the net outflow in investing cash flow to decline. However, inventory buildup and increases in tax expenses (¥1.386 to ¥2.362 billion) caused operating cash flow to decrease. Financing cash flow also turned to a net outflow due in large part to the redemption of corporate bonds and the payment of dividends.

4. Fiscal Year March 2013 Earnings Estimates**Consolidated Earnings**

(Units: Million Yen)

	FY3/12	Share	FY3/13 Est.	Share	YY Change
Sales	108,446	100.0%	112,000	100.0%	+3.3%
Gross Profit	23,772	21.9%	25,760	23.0%	+8.4%
SG&A	19,134	17.6%	19,160	17.1%	+0.1%
Operating Profit	4,638	4.3%	6,600	5.9%	+42.3%
Ordinary Profit	4,388	4.0%	6,200	5.5%	+41.3%
Net Profit	2,480	2.3%	3,900	3.5%	+57.2%

Sales and Ordinary Profit Expected to Rise by 3.3% and 41.3%

KITZ calls for sales to rise by 3.3% year-over-year to ¥112.0 billion during the fiscal year March 2013. While weak demand and weak prices of copper are expected to contribute to a decline in sales of Brass Bar Manufacturing Business sales, sales of valves in overseas markets are expected to rise. Unprofitable projects are also expected to be eliminated through increases in pricing, and profits are expected to rise by over 30% in the Valve Manufacturing Business. KITZ projects a ¥1.5 increase in dividends to ¥9.0 per share (Midterm and term-end dividend of ¥4.5 each).

Exchange Rates, Electrolytic Copper Prices Actual and Assumptions

	FY3/11	FY3/12	FY3/13 Estimates
Yen / US Dollar	87.32	79.45	80.00
Yen / Euro	115.06	111.17	105.00
Electrolytic Copper: Yen / ton	738,000	717,000	700,000

First Half Consolidated Earnings

(Units: Million Yen)

	1H FY3/12	Share	1H FY3/13 Est.	Share	YY Change
Sales	56,353	100.0%	55,000	100.0%	-2.4%
Gross Profit	11,753	20.9%	12,650	23.0%	+7.6%
SG&A	9,409	16.7%	9,750	17.7%	+3.6%
Operating Profit	2,344	4.2%	2,900	5.3%	+23.7%

Second Half Consolidated Earnings

	2H FY3/12	Share	2H FY3/13 Est.	Share	YY Change
Sales	52,092	100.0%	57,000	100.0%	+9.4%
Gross Profit	12,018	23.1%	13,110	23.0%	+9.1%
SG&A	9,725	18.7%	9,410	16.5%	-3.2%
Operating Profit	2,293	4.4%	3,700	6.5%	+61.3%

(2) Segment Earnings Estimates**Sales, Operating Profits by Business Segment**

(Units: Million Yen)

	FY3/12	Share	FY3/13 Est.	Share	YY Change
Valve Manufacturing	78,976	72.8%	84,700	75.6%	+7.2%
Brass Bar Manufacturing	20,065	18.5%	18,200	16.3%	-9.3%
Other	9,404	8.7%	9,100	8.1%	-3.2%
Total Sales	108,446	100.0%	112,000	100.0%	+3.3%
Valve Manufacturing	6,913	91.8%	9,050	93.3%	+30.9%
Brass Bar Manufacturing	267	3.5%	250	2.6%	-6.4%
Other	354	4.7%	400	4.1%	+12.7%
Adjustments	-2,896	-	-3,100	-	-
Total Operating Profits	4,638	-	6,600	-	+42.3%

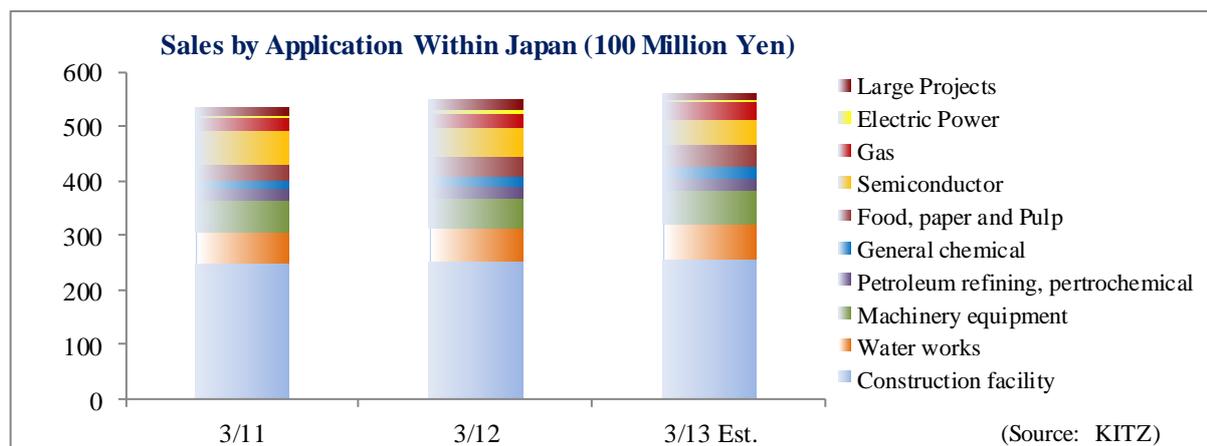
Valve Manufacturing Business

Sales and operating profit are expected to rise by 7.2% and 30.9% year-over-year to ¥84.7 and ¥9.05 billion respectively. Sales within Japan and in overseas markets are expected to rise by 2% and 20% respectively. While declines in orders from the semiconductor manufacturing equipment and plant applications are expected near term in Japan, the spending of budgets for the Great East Japan Earthquake recovery efforts are expected to lead to recoveries in private sector capital investments and sales of valves to machinery equipment and industrial applications are expected to rise.

At the same time, sales in Asia including the Middle East, North America, and Europe are expected to rise by 19% (5% on an real terms because of the changes in accounting periods), 9%, and 43% respectively. One of the growth drivers in the Asia region is expected to be China, due in part to increases in automated valves and general use valves sold to construction facility applications from the sales offices in Shanghai and Beijing, and continued favorable demand for Perrin GmbH products from applications in the coal chemical and petrochemical industries. At the same time, KITZ SCT Corporation will implement measures to expand its valve sales to the semiconductor manufacturing equipment applications. Aside from China, the full scale deployment of business in the newly opened Singapore sales facility is expected to strengthen KITZ's sales in the 10 countries within the ASEAN region.

In North America, conditions within the construction facility industry remain difficult while demand continues to trend avorably from the oil and gas facility applications on the back of active development of shale gas reserves (The same three brand strategy as that used in China will be deployed including KITZ, Perrin GmbH, KITZ SCT). At the same time, the sovereign debt problems are creating uncertainty in Europe, but KITZ will endeavor to cultivate demand for its three brands including KITZ, Perrin GmbH and its subsidiary ISO in Spain.

With regards to profits, positive effects from stability in prices of copper, stainless and other materials and price hikes implemented in the previous term are expected to materialize. Furthermore cost controls are now being implemented on a number of smaller projects in progress and profitability is expected to stabilize.



Brass Bar Manufacturing Business

Sales and operating profit are expected to fall by 9.3% and 6.4% year-over-year to ¥18.2 billion and ¥250 million respectively. KITZ's assumes sales volumes to fall by 3.7% year-over-year to 3,000 tons and a price of copper of ¥700,000 per ton (¥717,000 per ton in the previous term.). Based on these assumptions, KITZ expects a sales decline to be unavoidable despite its efforts to fortify sales of special and fine materials and other higher value added products due to weakness in both demand and prices of copper. With regards to profits, KITZ will reduce costs by manufacturing billet (processing material) internally.

Other

With regards to fitness club business, a recovery from the negative impact in the previous fiscal year of the Great East Japan Earthquake is expected to allow sales to rise (¥75 million year-over-year increase to ¥5.65 billion). However, operating profit is expected to fall (¥45 million year-over-year decline to ¥285 million) due in part to increasing electric power costs. At the same time, sales and operating profit at hotels are expected to rise to ¥3.42 billion and ¥55 million, respectively, due to the disappearance of cancellations of reservations and restraint in travel by large groups and individuals seen during the previous term. Suwa Garasu Koubou Co., Ltd., which sells glass art work at its facilities in Suwa, Nagano Prefecture, was sold in June 2012.

5. Conclusions

The fiscal year March 2013 is a crucial period for KITZ to put its earnings back on a growth path. Also, the success of the Company's strategy in overseas markets will depend largely upon its ability to accelerate the development of Chinese market and its development of new facilities in the ASEAN region. In addition, KITZ still sees large opportunities in cultivating the existing markets within Japan. With regards to profit, cost controls will also be a key part of the Company's strategy. If KITZ can successfully implement its near term plans, the potential for growth in the coming terms can be expected to be strong.

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