Systems for Ensuring Appropriate Operations and the Status of Implementation of such Systems

1. Systems for ensuring the appropriateness of operations

To achieve the KITZ Group's corporate philosophy, we have established the following Basic Policy on Internal Control to realize sound and solid Group management foundations. We are committed to working on risk management and compliance, establishment of a system for appropriate evaluation and handling of all business activities, and development and operation of a structure for the prevention of misstatements in financial reporting (financial statements).

Basic Policy on Internal Control

To realize the KITZ' Statement of Corporate Mission, which represents the corporate philosophy of the group of companies consisting of the Company and its subsidiaries (hereinafter "Group"), the Company shall develop and operate the following internal controls system (i.e., a system to ensure that the performance of duties by directors conforms with laws, regulations, and the articles of association and other systems necessary to ensure the propriety of the business operations of the joint-stock company and the group of companies consisting of the joint-stock company and its subsidiaries) based on the Companies Act and the Enforcement Regulations to the Companies Act with the aim of achieving soundness and strength in the Group's management foundations.

1. System for ensuring that the performance of duties of directors and employees of the Company and its subsidiaries conform to laws, regulations, and the articles of association
   (1) Directors and employees of the Company and its subsidiaries shall carry out their duties in thorough conformity to laws, regulations, and the articles of association, as well as the KITZ' Statement of Corporate Mission, Long-Term Management Vision, the Action Guide, the Basic Policy on Sustainability, the Basic Policy on Corporate Governance, the Compliance Code of Conduct, and other policies established by the board of directors of the Company or its subsidiary.
   (2) The board of directors shall receive periodic reports on the state of execution of business operations from the managing executive directors and executive officers and shall oversee the performance of the duties of each director.
   (3) Audit and supervisory board members shall carry out audit and supervisory board member audits of the performance of the duties of directors based on the rules of the audit and supervisory board and the standards for audit and supervisory board member audits.

(4) The C&C Control Committee, chaired by the president, shall be established as an organization to maintain the Groupwide compliance structure and ascertain and address related issues, to respond to crises, and to supervise risk management. This committee shall promote compliance Groupwide.

(5) The Group shall establish a Groupwide internal whistleblowing system to enable notification, reporting, and consultation regarding any violations of laws, regulations, or the Compliance Code of Conduct or other suspicious acts that have been identified. As the contact point to receive such communications, it shall establish a Compliance Helpline at the Company and subsidiaries, as well as inside a law firm.

(6) The Compliance Guidebook shall be distributed to directors and employees of the Company and subsidiaries as part of compliance awareness-raising and educational activities and to publicize the Compliance Helpline.

(7) The Group shall respond resolutely to antisocial forces by refusing any and all relationships with such forces, refusing to yield to any threats, and rejecting their demands of any kind.

2. Structure for retention and management of information concerning the performance of duties of Company directors

(1) Information in important documents and other materials (including electromagnetic records) concerning the performance of the duties of directors shall be retained and managed appropriately in accordance with laws, regulations, and internal rules.

(2) Information in the above documents and other materials shall be kept in a state in which directors and audit and supervisory board members may view it as needed.

3. Rules and other structures related to management of risks of losses by Company subsidiaries

(1) An executive officer responsible for Group risk management shall be appointed to promote risk management in business execution by the Group.

(2) As for risks in Group business execution, the Management Conference shall identify, analyze, and assess the risks, and consider and implement countermeasures against the risks based on policies and assessment standards on risk management formulated by the C&C Control Committee. The board of directors shall make decisions on the identification of important risk items and policies for implementing countermeasures.

(3) A Business Continuity Plan (BCP) shall be developed and implemented to be prepared for risks related to business interruption due to natural disasters or other causes as anticipated by the Group.

(4) In addition to the development of a management structure for various risks related to the Group's business execution and management of information on risks at subsidiaries through Group company rules specifying such matters as items for which application for approval and reporting to the Company are required, other efforts for internal auditing by the Internal Audit Office shall be employed to promote integrated crisis management related to losses Groupwide.

(5) To assess risks related to Group business execution, various committee organizations shall be established and utilized to carry out the necessary responses regarding such matters as internal controls, responding to crises, risk management, compliance, quality assurance, the environment, safety and health, security trade control, investment and loans, information security, personal information protection, corporate identity, and promotion of sustainability.

4. Structure for ensuring efficiency in the performance of duties of directors of the Company and subsidiaries

(1) Efforts will be made toward swift decision-making by the board of directors, enhancement of its supervision functions, and clarification of responsibility in business execution by ensuring a more appropriate number of directors and adopting an executive officer system.

(2) Independent outside directors will be appointed who have a wealth of experience, as well as fair and impartial discernment, to increase the appropriateness and validity of management decisions by the board of directors.

(3) Decision-making by the boards of directors of the Company and subsidiaries shall be conducted in accordance with the rules of the board of directors and the rules on decisions on applications for approval.

(4) The scope of delegation of authority from the board of directors shall be established, and efforts shall be made to ensure swift and efficient business execution through rules on the delegation of authority, rules on decisions on applications for approval, rules on Group companies, and other rules.

(5) Basic policies on management, policies on medium-term management, annual business plans, and related matters concerning Group business activities shall be decided by the board of directors.

(6) The Management Conference shall confirm progress on policies on management and management plans decided by the board of directors and make related adjustments, as well as discussing and deciding on important matters related to management and business execution.

(7) Together with deciding on response policies to realize each of the principles of the Corporate Governance Code and enhancing corporate governance, decision-making shall be carried out in fair, transparent, swift, and decisive ways.
(8) It shall be periodically verified whether the board of directors is functioning properly and efficiently, and appropriate measures shall be implemented based on the results.

5. Structure for ensuring the propriety of Group business operations
(1) To ensure the propriety and efficiency of Group business operations, in addition to the establishment and maintenance of rules, progress shall be made on the development and maintenance of information systems to ascertain the state of achievement of management goals and to utilize related information in a timely manner.
(2) Transactions between Group member companies shall be carried out fairly and appropriately in light of laws, regulations, accounting principles, and other social norms.
(3) Based on the rules on Group companies, the Company shall strive to ensure the propriety of Group business operations through means that include the establishment of organizations to supervise individual subsidiaries and the development of structures related to reporting to the Company on matters related to the performance of duties of subsidiary directors and other management, structures related to the management of the risk of losses, structures for the efficient performance of duties, and structures to ensure conformity to laws, regulations, and the articles of association.
(4) Representative directors, managing executive directors, and executive officers shall guide subsidiaries to enable them to maintain and operate appropriately the internal controls systems in accordance with their individual job duties. They also shall guide the representative directors and other directors of subsidiaries to retain and manage information related to the performance of the duties of directors.
(5) Together with serving concurrently as directors of subsidiaries and monitoring and overseeing their management, Company sections in charge of subsidiaries and others shall carry out prior approval of important matters related to the execution of subsidiaries' business operations based on the Group company rules.
(6) Corporate staff sections shall provide guidance to subsidiaries as necessary based on their individual functions to support efficient and appropriate business execution.

(7) An Internal Audit Office shall be established to ensure the efficacy and validity of internal controls throughout the business operations of all Group companies by implementing internal audits of the Company and subsidiaries.

(8) The Internal Audit Office shall plan business audits and report on the state of implementation and results to Company representative directors, directors and executive officers responsible for individual subsidiaries, Company audit and supervisory board members, and subsidiary representative directors in accordance with their degrees of importance. As necessary, it also shall attend meetings of the board of directors to report directly on the state of internal auditing.

(9) To ensure the reliability of financial reporting, the state of internal controls and business processes of all Group companies shall be subjected to evaluation, improvement, and documentation in accordance with the policies of the Internal Control Committee, and the board of directors shall check on these activities periodically.

(10) By serving concurrently as audit and supervisory board members of subsidiaries that have established audit and supervisory boards, standing audit and supervisory board members shall cooperate closely with the accounting auditor and the Internal Audit Office to enable effective and appropriate monitoring and verification of the states of management of subsidiaries, as well as ascertaining of the state of consolidated management Groupwide.

(11) Company directors and directors of subsidiaries shall report to audit and supervisory board members on the state of execution of their duties in meetings of the board of directors, the Management Conference, and other important meetings in which audit and supervisory board members participate or are in attendance.

6. Structures related to reporting to the Company on matters related to the performance of duties of directors of subsidiaries

(1) The Group company rules shall apply to all subsidiaries, and subsidiaries shall be obligated, under the standards for decisions and reporting in the board of directors and the Management Conference, to obtain prior approval from the Company for important matters concerning management and to report to the board of directors and the Management Conference.

(2) Directors and executive officers of Company sections responsible for subsidiaries shall receive, from directors and other employees of the subsidiaries of which they are responsible, reports on important matters related to the performance of their duties.

7. Matters related to appointment of employees to assist the Company's audit and supervisory board members
   (1) The Auditors Board Office, under the direct control of the audit and supervisory board, shall be established as an organization to assist in the duties of the audit and supervisory board and audit and supervisory board members.
   (2) Employees capable of fulfilling the duties described in the preceding paragraph shall be appointed to the Auditors Board Office (hereinafter "Auditors Board Office staff").
   (3) The Auditors Board Office shall serve as the administrative secretariat of the audit and supervisory board in addition to performing its duties as instructed by audit and supervisory board members.

8. Matters related to securing the independence from directors of employees assisting in the duties of audit and supervisory board members as described in the preceding paragraph and to ensuring the efficacy of the instructions of audit and supervisory board members
   (1) The post of Auditors Board Office staff shall be a full-time post. Auditors Board Office staff shall be independent of the directors and shall not serve in other concurrent business-execution posts. However, they may serve concurrently as audit and supervisory board members of subsidiaries.
   (2) The prior consent of the audit and supervisory board shall be obtained regarding matters related to the appointment, transfer, and other personnel decisions regarding the Auditors Board Office staff.
   (3) Personnel evaluations of Auditors Board Office staff shall be conducted by the audit and supervisory board in accordance with the rules of the audit and supervisory board.

9. Structures for reporting by directors and employees of the Company and subsidiaries to Company audit and supervisory board members, structures for other reporting to audit and supervisory board members, and structures for ensuring that those who have made such reports will not be treated at a disadvantage for reason of having made such reports
   (1) Company directors and directors and audit and supervisory board members of subsidiaries shall report swiftly to Company audit and supervisory board members concerning any acts in violation of laws, regulations, or the articles of association and other acts, matters, or states with a major impact on Company management or business results.
   (2) Company directors and directors and audit and supervisory board members of subsidiaries shall respond appropriately to any requests from Company audit and supervisory board members for reports on the state of business execution, financial

standing, and other matters. The same shall apply to employees of the Company and subsidiaries.

(3) Necessary measures shall be implemented to ensure that those who have made reports as described in the preceding paragraphs will not be treated at a disadvantage for the reason of having made such reports.

(4) The Internal Audit Office shall cooperate with audit and supervisory board members, report to audit and supervisory board members in a timely manner concerning the results of auditing and important internal information learned in the auditing process, and provide audit information as requested by audit and supervisory board members.

(5) The C&C Control Committee shall share information with audit and supervisory board members concerning the details of internal whistleblowing reports made to the Compliance Helpline and other parties in the Group and the state of responses to such reports.

10. Matters related to costs arising from the performance of duties of audit and supervisory board members or policies related to processing of obligations

(1) Costs recognized to be necessary for the performance of duties of the audit and supervisory board and audit and supervisory board members shall be budgeted in advance. However, emergency or extraordinary cost expenditures may be repaid after the fact.

(2) Remuneration to attorneys and other professionals and other expenses incurred in the performance of duties of audit and supervisory board members and the audit and supervisory board shall be borne by the Company, including those paid in advance.

11. Other structures for ensuing the efficacy of auditing by audit and supervisory board members

(1) In addition to periodically holding meetings for exchange of opinions with representative directors, the audit and supervisory board also shall establish opportunities for exchange of information and opinions with managing executive directors and executive officers concerning management topics.

(2) The audit and supervisory board shall periodically hold tripartite audit meetings among the accounting auditor, audit and supervisory board members, and the Internal Audit Office, to receive reports on the state of auditing and other matters, exchange information and opinions, and promote close cooperation.

(3) The audit and supervisory board shall periodically hold four-party audit meetings among the accounting auditor, audit and supervisory board members, independent outside directors, and the Internal Audit Office to exchange information and achieve

shared understanding based on independent, objective points of view and to strive to improve the auditing functions of audit and supervisory board members and the oversight functions of independent directors.

(4) Standing audit and supervisory board members may serve concurrently as audit and supervisory board members of subsidiaries that have audit and supervisory board structures, to ascertain the state of their management. As necessary, they also may attend important meetings of the Company and subsidiaries and offer opinions.

(5) As they judge necessary for purpose of auditing, audit and supervisory board members and the audit and supervisory board may employ attorneys, certified public accountants, and other professionals.

2. Summary of the Operational Status of Systems for Ensuring the Appropriateness of Operations

(1) General matters concerning the internal control system

In order to ensure that the Group's management foundations are sound and solid, the Company has established an internal control system based on the Companies Act as well as the Financial Instruments and Exchange Act.

Based on the key items of internal control systems under the Companies Act, including risk management, compliance with laws and regulations, appropriate business operations, and proper financial reporting, we are committed to working on risk management and compliance, establishment of a system for appropriate evaluation and handling of all business activities, and development and operation of a structure for the prevention of misstatements in financial reporting (financial statements). In addition, based on the key items of the Financial Instruments and Exchange Act, such as effectiveness and efficiency of operations, reliability of financial reporting, compliance with laws and regulations related to business activities, and preservation of assets, we conduct internal controls over financial reporting in accordance with the basic framework for internal controls set forth in "Evaluation and Audit Standards for Internal Controls over Financial Reporting and Establishment of Implementation Standards for Internal Controls and Audit over Financial Reporting (Opinion Statement)" published by the Business Accounting Council. At the same time, the Audit & Supervisory Board, Accounting Auditor and Internal Audit Office work closely to assess the effectiveness of group-wide internal controls.

As for internal audits, the Internal Audit Office conducts operational and internal control audits of the Company and its Group companies to audit and confirm the functioning of internal controls and monitor the status of group-wide internal controls and appropriateness of business processes. Audit results, etc. are communicated to the Director & President, Audit & Supervisory Board Members, and related divisions, and follow-up audits are conducted for corrective actions. The Internal Control Committee thoroughly examines the results and reports to the Board of Directors on a regular basis.

In addition, operations of each organization are conducted in accordance with the Regulations concerning Official Authority, Draft Proposal Rules, and the decisions of the Board of Directors of the Company and its Group companies are made in accordance with the Rules of the Board of Directors and the Group Companies Regulations. In addition, we deliberate and evaluate important matters related to appropriate decision-making in group management by establishing and operating various committee organizations for crisis response, compliance, risk management, internal control, sustainability promotion, quality assurance, information security, personal information protection, environment, safety and health, investments and loans, security export control, AEO trade and CI, etc.

In the 109th term, mainly the following initiatives were carried out.

a. In order for the Group's internal control system to effectively function, in accordance with the basic policies and management rules for managing the Group, efforts are made to strengthen and promote the Group's internal controls through the Internal Audit Office.

b. The Internal Control Committee and the Group Company Internal Control Liaisonary Committee held regular meetings. During these meetings, the members confirmed the operational status of the Company and its subsidiaries' internal controls and deliberated on future plans.

(2) General matters concerning corporate governance

(i) Organizational design

The Company has adopted the form of a company with an Audit & Supervisory Board as an organizational design for corporate governance, by which the authority and responsibility for decision-making on important management matters and supervision of business execution are concentrated in the Board of Directors, and the Audit & Supervisory Board and Audit & Supervisory Board Members provide highly effective oversight of the Board of Directors from an independent and objective standpoint.

(ii) Board of Directors and Directors

Based on their fiduciary responsibility and accountability to shareholders, and considering their mission of ensuring sustainable growth of the Company and maximizing corporate value over the medium to long term, the Board of Directors and Directors shall, in addition to ensuring fairness and transparency in management by exercising a supervisory function on overall management, engage in vigorous discussions on various important management issues, decide on management strategies, medium-term management plans, annual management plans, and basic management policies, and deliberate on important matters stipulated in laws and regulations, the Articles of Incorporation, and the Rules of the Board of Directors to make management decisions.

In the 109th term, mainly the following initiatives were carried out.

a. The Board of Directors held 15 meetings, made decisions regarding important issues based on the Submission Standards stipulated in the Rules of the Board of Directors, and reported on the execution of operations by the Company and all consolidated subsidiaries. Compliance, risk management, internal controls, sustainability promotion, quality assurance, information security, investment and financing, and other important matters were reported.

b. For deliberations of agenda and reports on the execution of business at the Board of Directors meetings, sufficient time was provided for full deliberations. Also, four (4) Outside Directors and five (5) Audit & Supervisory Board Members, including three (3) Outside Audit & Supervisory Board Members, contributed to animated discussions on managerial matters, raising necessary opinions, comments, and suggestions.

c. The "KITZ Group Long-term Management Vision" and the "1st Medium-term Management Plan 2024" were resolved at the Board of Directors and announced.

d. The initiatives for climate change were announced.

e. In order to promote the understanding of the Group's business and management environment, the Board of Directors has provided Directors and Auditors, including Outside Officers, with opportunities to participate in the President Meeting of Group Companies and informal technical meetings within the Group, and conducted field visits of the Company and the Group company offices.

f. In order to ensure the effectiveness of the overall Board of Directors, the Board of Directors analyzed and evaluated by surveying all Directors and Audit & Supervisory Board Members about implement evaluation of the effectiveness of the Board of Directors in February 2022. A summary of the evaluation is available in the Corporate Governance Report. The results of the investigation confirmed that the Board of Directors operates in an effective and appropriate manner. On the other hand, several constructive comments and suggestions were received regarding the initiatives for sustainability, promotion of the disclosure of non-financial information, progress in the Medium-term Management Plan, human resource development, and response to the risks for business continuity, etc. We plan to hold further discussions to address these issues and work to ensure further effectiveness.

g. The Nomination Committee deliberated on nomination of each candidate for Director, Audit & Supervisory Board Member, and Executive Officer in accordance with policies on the selection/removal of officers set by the Company and reported on those deliberations to the Board of Directors.

h. The Compensation Committee deliberated on remuneration for Directors and Executive Officers and reported on those deliberations to the Board of Directors. In addition, a performance-based stock compensation plan with restrictions on transfer and post-hoc performance-based stock compensation plan were newly introduced for Directors (other than Outside Directors) for the purpose of further promoting the sharing of value between Directors and shareholders, as well as providing incentives to Directors for improving the sustainable corporate value of the Group.

i. In accordance with the Internal Audit Rules, the Internal Audit Office worked with Audit & Supervisory Board Members and the Accounting Auditor to implement internal control audit over financial reporting and operating audits. To ensure reliable financial reporting, the Company evaluated the development and operational status of the Company's internal controls and those of its subsidiaries above a certain scale. In addition, the Company was subject to an internal control audit performed by the Accounting Auditor.

j. In order to disclose information in a timely and appropriate manner to shareholders, investors and other stakeholders, we held quarterly financial results briefings for institutional investors and analysts, and participated in IR events for individual investors.

k. The directors and executive officers who supervise the subsidiaries served concurrently as directors or Audit & Supervisory Board Members of the subsidiaries. They not only attended meetings of the subsidiaries' boards of directors, but also audited and monitored the execution of duties by the directors.

l. The Company properly stores and manages minutes of Board of Directors meetings, draft proposals, etc., as stipulated in the in-house rules on document management.

(iii) Audit & Supervisory Board and Audit & Supervisory Board Members

Audit & Supervisory Board and Audit & Supervisory Board Members are independent organizations entrusted by shareholders to ensure the sound and sustainable growth of the company and to establish a corporate governance system that meets the trust of society. As independent organizations entrusted by shareholders, they audit business operations and legal compliance of the execution of duties by Directors, and judge the appropriateness of the methodology and results of audits of financial statements, etc. by the Accounting Auditor. In addition, they monitor the performance of reporting obligations of Directors to the Board of Directors and the effectiveness of a mutual oversight function led by Outside Directors, verify legal compliance and appropriateness of the decision-making process and the content of decisions, and develop and confirm the operational status of internal control system.

In the 109th term, mainly the following initiatives were carried out.

a. During the 109th term, the Audit & Supervisory Board held 15 meetings.

b. Standing Audit & Supervisory Board Members made use of the Auditors' Board Office in Chino plant and efficiently conducted audits of factories and peripheral Group companies. To monitor and evaluate the internal controls within the Group, the

Standing Audit & Supervisory Board Members served concurrently as corporate auditors of Group companies in Japan, China, and Taiwan, and audited the execution of duties of the directors in the boards of directors of these Group companies, expressing their opinion as necessary.

c. The Auditors Board Office provided the Audit & Supervisory Board Members with information concerning the members' auditing duties, and facilitated the audit duties of its members while liaising with the Accounting Auditor and other parties to enhance the effectiveness of the Audit & Supervisory Board.

d. The Audit & Supervisory Board organized four meetings of Tripartite Audit Assembly to strengthen collaboration with the Accounting Auditor and the Internal Audit Office and improve the effectiveness and efficiency of each party's audits. The Audit & Supervisory Board organized two meetings of Four Parties Audit and Supervision Meeting, including the three auditing parties and Outside Directors, and strove to link audit and supervisory functions. In addition, Audit & Supervisory Board Members held four conferences of exchange opinions with the Representative Director, expressing their opinions as necessary.

(3) General matters concerning compliance

Recognizing compliance management is a fundamental and essential requirement for the sustainable development of a company, the Company has placed "Do it True" at the apex of "Action Guide" in the KITZ Group's Corporate Mission structure. In order to achieve this goal, the Company and its Group companies have established the Crisis & Compliance Control Committee (hereinafter, the "C&C Control Committee") chaired by the President of each company. The committee is responsible for promoting various initiatives relating to compliance management such as crisis response and risk management, developing and operating compliance promotion programs, conducting compliance education, and operating an internal reporting system.

In the 109th term, mainly the following initiatives were carried out.

a. The C&C Control Committee deliberated on issues, such as lawsuits and disputes the Group is involved in, reports on internal problems, business-related risks, etc., set basic policy, and implemented measures.

b. Under the KITZ Group's Corporate Mission structure and Compliance Code of Conduct, which are the guidelines for the actions and corporate activities of the Directors, Executive Officers and employees of the Company as well as the directors and employees of the subsidiaries, the President and Chief Executive Officer himself took the initiative in implementing these to thoroughly comply with laws and regulations and corporate ethics.

c. We revised a Group-wide Compliance Guidebook that describes the compliance program based on the thinking of Group top management (the Company president) concerning compliance management, the importance of compliance management, the compliance management promotion structure, the Compliance Code of Conduct, and the whistleblowing system, enhancing the description concerning social issues such as human rights, labor, environment, and prevention of corruption. After translating the guidebook into the language of each country where the KITZ Group has business bases (Japanese, English, Chinese (Simplified and Traditional), Korean, Thai, German, Spanish and Portuguese), we distributed it to directors, executive officers and employees of KITZ and Group member companies around the world to educate and raise awareness concerning compliance, while disclosing its Japanese and English versions on the Company website.

d. The Legal Department, Internal Audit Office, and other divisions organized internal training for Directors, Executive Officers, and employees of the Company, as well as Directors and employees of subsidiaries, on the KITZ Group's Corporate Mission structure, internal controls, compliance, laws and regulations, contracts, intellectual property, security trade control, and information security. Internal training was conducted online via an e-learning method to raise awareness and improve knowledge of compliance management.

   Moreover, as in the 108th term, a harassment training program for officers, managers and employees of all domestic subsidiaries was conducted.

e. The "Compliance Helpline" and its method of use have been disseminated to Group employees. The Helpline is set up as a contact point for reporting and consulting on any violation of laws and regulations and non-compliance detected by officers and employees of the Company and Group companies. In addition, the C&C Control Committee promptly investigated the reports and related information received through the Compliance Helpline while strictly maintaining confidentiality of informants, and took timely and appropriate corrective measures.

(4) General matters concerning risk management

Under the supervision of the Board of Directors, the C&C Control Committee, chaired by the President, has established a basic policy to control various risks that could have a significant impact on the corporate management of the Company and its Group companies. Under this policy, the executive officer in charge of risk management, who also serves as a member of the C&C Control Committee, promotes risk management at KITZ and its Group companies.

Specifically, in accordance with the basic policy and criteria for risk assessment formulated by the C&C Control Committee, the criticality of risks is quantitatively assessed based on the two axes of "frequency of risk events" and "degree of impact on management" for the assumed risks (128 items in total) related to business activities to identify major risks and critical risks. Concretely, points are scored for each evaluation item in "Criteria for Frequency of Incidence" and "Criteria for Impact" of the risks (consisting of the following items: personal damage, property damage, liability, loss of profit, loss of trust, and environmental damage), and one of the following zones is judged on the four-quadrant risk map: "High damage/high frequency," "Low damage/high frequency," "High damage/low frequency," and "Low damage/low frequency."

For the implementation of risk management, based on the results of risk assessment conducted by each organizational unit, the Management Conference identifies the "major risks" and the "critical risks" that are most likely to have a significant impact on the management among the major risks, and selects a countermeasure policy of either avoidance, transfer, reduction or acceptance based on the criticality of each risk. Each executive officer and the President of each Group company is responsible for planning and implementing the necessary countermeasures.

The identified major and critical risks and the proposed countermeasures are shared with the general manager of the Internal Audit Office, who evaluates the operation of countermeasures from an independent standpoint by confirming the progress and results of the countermeasures in operational audits, etc. In addition, the Board of Directors makes the final decision and supervises risk management in the Group by conducting necessary deliberations and confirming the final results of the implementation of countermeasures, based on the reports of critical risks identified by the Management Conference, countermeasures formulated, and the assessment results of the Internal Audit Office. Furthermore, the Internal Audit Office conducts audits of critical risks at each Group company, clarifies the risks involved, and supports the establishment of a business improvement and legal compliance structure to avoid and reduce risks.

In the 109th term, mainly the following initiatives were carried out.

a. Based on the results of analysis, assessment, and planning of countermeasures for the risks identified in each business unit, the progress was reported to the Management Conference and the Board of Directors, and policies and measures were formulated on how to proceed in the future.

b. Evaluation, checking, improvement, and other necessary controls were carried out for important matters related to appropriate and legal decision-making in the Group’s management by establishing and operating various committees related to internal control, crisis response, compliance, risk management, sustainability promotion quality assurance, information security, personal information protection, the environment, safety and health, investment and loans, security trade, and corporate identity (CI).

Notes to the Consolidated Financial Statements

1. Notes on Important Items Underlying the Preparation of the Consolidated Financial Statements

(1) Scope of consolidation

Number of consolidated subsidiaries: 34

The consolidated subsidiaries are:

KITZ Corporation of America, Metalúrgica Golden Art's Ltda., KITZ Corporation of Europe, S.A., Perrin GmbH, KITZ (Thailand) Ltd., KITZ Corporation of Taiwan, KITZ Corporation of Kunshan, KITZ Corporation of Jiangsu Kunshan, KITZ Corporation of Lianyungang, KITZ SCT Corporation of Kunshan, KITZ Corporation of Shanghai, KITZ Corporation of Asia Pacific Pte. Ltd., Cephas Pipelines Corp., Toyo Valve Co., Ltd., Shimizu Alloy Mfg. Co., Ltd., KITZ SCT Corporation, KITZ Micro Filter Corporation, KITZ Metal Works Corporation, Hotel Beniya Co., Ltd., and 15 other companies.

Notes:

1. Miyoshi Valve Co., Ltd. is excluded from the scope of consolidation as it was extinguished as of January 1, 2022 through an absorption-type merger with the Company as the surviving company and Miyoshi Valve Co., Ltd. as the disappearing company.

2. Perrin GmbH is excluded from the scope of consolidation as it was extinguished as of January 1, 2022 through an absorption-type merger with KITZ Europe GmbH as the surviving company and Perrin GmbH as the disappearing company. KITZ Europe GmbH, the surviving company, has changed its trade name to Perrin GmbH.

3. The Chinese name of the subsidiary in Shanghai, China, was renamed (the English name KITZ Corporation of Shanghai remained unchanged) as of January 29, 2023.

(2) Application of the equity method

The affiliate that is not accounted for by the equity method (Unimech Group Berhad) has been excluded from the scope of equity method companies since such exclusion has an immaterial effect on the Company's consolidated financial statements in terms of profit or loss (the amount equivalent to equity), retained earnings (the amount equivalent to equity) and others, and it is not material as a whole.

(3) Fiscal year of consolidated subsidiaries

Among the consolidated subsidiaries, the balance sheet date of MICRO PNEUMATICS PRIVATE LIMITED is March 31. The Company prepared the consolidated financial statements based on a provisional closing of accounts as of the consolidated balance sheet date that were prepared in the same way as the settlement of full-year accounts.

(4) Accounting policies

(i) Standards and methods of evaluation of important assets

Securities:

Stock of affiliates

Stated at cost by the moving average cost method

Other securities

Securities other than shares without market price, etc.:

Stated at fair value (all valuation gains or losses are directly included in a component of net assets, with the cost of securities sold calculated according to the moving average cost method)

Securities without market price, etc.:

Stated at cost by the moving average cost method

Derivatives:

Stated at fair value

Inventories:

Finished goods and work in process:

Stated at cost by the periodic-average method (the amount stated in the balance sheet is calculated by the book value write-down method based on the decreased profitability)

However, some work in process is stated at cost by the moving average cost method (the amount stated in the balance sheet is calculated by the book value write-down method based on the decreased profitability).

Raw materials:

Stated at cost by the moving average cost method (the amount stated in the balance sheet is calculated by the book value write-down method based on the decreased profitability)

However, in some consolidated subsidiaries, raw materials are stated based on the last cost method (the amount stated in the balance sheet is calculated by the book value write-down method based on the decreased profitability).

Supplies:

Stated based on the last cost method (the amount stated in the balance sheet is calculated by the book value write-down method based on the decreased profitability)

(ii) Depreciation and amortization method for important depreciable assets

Property, plant and equipment (excluding leased assets)

The Company and the consolidated subsidiaries in Japan primarily apply the declining-balance method (however, the straight-line method is used for buildings [excluding annexed equipment] acquired on and after April 1, 1998, and for annexed equipment and structures acquired on and after April 1, 2016).

However, some of the consolidated subsidiaries apply the straight-line method.

Intangible assets (excluding leased assets)

The Company and the consolidated subsidiaries in Japan apply the straight-line method. The straight-line method is used for in-house use software based on the in-house use period (five years).

Leased assets

Lease claims in finance lease transactions without ownership transfer

The straight-line method is applied, with useful life defined as the remaining period of the lease and with zero residual value.

(iii) Method for processing deferred assets

Corporate bond issuance expenses

Corporate bond issuance expenses are charged to expense as incurred.

(iv) Standards for recording important allowances

Allowance for doubtful accounts

The allowance for doubtful accounts is provided to prepare for loss from uncollectible credits. For ordinary receivables, the amount is estimated using the rate based on the historical bad debt experience. For special receivables with higher uncertainty of collectivity is considered on individual cases, and prospective uncollectible amount is provided.

Accrued bonuses to employees

The Company makes provision for employees' bonuses by recording the estimated amounts of the future payments attributed to the current fiscal year.

Accrued bonuses to directors

The Company and some of the consolidated subsidiaries make provision for the payment of bonuses to directors by posting the estimated amounts of the future payments, which reflect the operating results for the period.

Accrued retirement benefits to directors

Some of the subsidiaries make provision for retirement benefits to directors, by posting the amount payable at the end of each fiscal year in accordance with the relevant company's rules on directors' retirement benefits.

Allowance for stock benefit for directors and operating officers

In order to prepare for the granting of stock benefit, in accordance with stock benefit rule, to directors and executive officers of the Company, this has been posted based on the estimated value of stock benefit liabilities at the end of the current fiscal year.

(v) Standards for recording important revenues and expenses

The Company and its consolidated subsidiaries are mainly engaged in the manufacture and sales of valves and copper alloy products.

With regard to the sales of these products, etc., the Group recognizes performance obligations to be delivery of products, etc. to the customer, and as performance obligations are deemed to be satisfied when the customer obtains control over the product, etc. at the time of delivery of the product, etc., revenue is recognized at the time the product, etc. is delivered to the customer. As for domestic sales, revenue is recognized at the time of shipment in case the period from shipment until control of products transferred to the customer is the usual period. Moreover, revenue for export sales is primarily recognized at the time that the bearing of risks transfers to customer pursuant to the terms and conditions of the trade set forth by the Incoterms, etc.

In case performance obligations are fulfilled over a certain period, such as maintenance services and construction contracts related to products sold, the revenue is recognized as the corresponding performance obligation is satisfied.

(vi) Method for processing important hedge accounting

a. Hedge accounting method

The Company applies the deferred hedge accounting method. However, the Company applies the exceptional accounting method for interest rate swaps that fulfill the requirements for exceptional accounting, and allocation treatment for currency swaps that fulfill the requirements of allocation treatment.

b. Hedging instruments and hedged items

Hedging instruments: Forward exchange contracts, interest rate swaps, currency swaps

Hedged items: Monetary receivables and payables denominated in foreign currencies, debts denominated in foreign currencies, interest on loans payable

c. Hedging policy

The Company engages in forward exchange contracts for the purpose of offsetting the risk of foreign exchange fluctuations, and only insofar as to cover actual foreign exchange needs. The Company engages in interest rate swaps to offset the risk of interest rate on loans to increase, and it engages in currency swaps to offset the risk of foreign exchange fluctuations in long-term debts denominated in foreign currencies; both types of transaction are used only insofar as to cover actual needs.

d. Method for appraising hedge effectiveness

The cumulative amounts of fluctuations in the rates or in the cash flows of the hedged items are compared with the cumulative amounts of fluctuations in the rates or in the cash flows of the hedging instruments, and hedge effectiveness is assessed based on the ratio between the two amounts. However, if the material conditions of the hedging instrument and the hedged item are the same and if they can be assumed to completely offset fluctuations in the rates or cash flows at the time of commencement of hedging and continuously thereafter, confirmation that the material conditions of the hedging instrument and the hedged item are the same is used in place of a hedge effectiveness appraisal.

(vii) Amortization of goodwill

The Group reasonably estimates the period for which the effects of goodwill are expected to emerge and amortizes the goodwill on a straight-line basis over the estimated period (five to ten years).

(viii) Other important items underlying the preparation of consolidated financial statements

a. Accounting of retirement benefits

- Method for estimating retirement benefits

  With regard to the calculation of retirement benefit obligations, the Company uses the benefit formula method as its method for attributing expected retirement benefits to periods until the end of the current fiscal year.

- Method for amortization of actuarial gain and loss and past service cost

  Actuarial gain and loss are mainly amortized as incurred over the periods, which are shorter than the average remaining service years of employees (five years), by the straight-line method, starting from the following fiscal years.

  Past service costs are amortized on a straight-line basis over a five-year period beginning in the fiscal year, this period being less than the eligible employees' average remaining period of service at the time of occurrence.

  After adjustments for tax, unrecognized actuarial gain and loss and unrecognized past service costs are recorded as the net assets item "cumulative adjustments related to retirement benefits" under "accumulated other comprehensive income."

- Application of simplified methods for small-sized companies

  Some of the consolidated subsidiaries apply a simplified method for calculating retirement benefit liabilities and retirement benefit expenses. This method assumes the retirement benefit obligations to be equal to the benefits to be paid in cases where all eligible employees retired at the end of the fiscal year.

b. Application of the consolidated tax payment system

The Company has applied the consolidated tax payment system since the year ended March 31, 2003.

c. Application of tax effect accounting for transition from the consolidated taxation system to the group tax sharing system

The Company and some of its consolidated domestic subsidiaries shall transit from the consolidated tax payment system to the group tax sharing system from the following fiscal year. The Company and some of its consolidated domestic subsidiaries apply the treatment under Article 3 of "The Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System" (ASBJ Practical Issues Task Force No. 39, March 31, 2020) in relation to items that are revised for the transition to the group tax sharing system established under the "Act for Partial Revision of the Income Tax Act, etc." (Act No. 8 of 2020) and for the non-consolidated tax payment system in conjunction with the transition to the group tax sharing system, but do not apply the provisions of Article 44 of the "Implementation Guidance on Accounting Standards for Tax Effect Accounting, etc." (ASBJ Implementation Guidance No. 28, February 16, 2018) and the amounts of deferred tax assets and deferred tax liabilities are in accordance with the provisions of tax act before the revision.

The "Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System" (Practical Solution No. 42, August 12, 2021), which stipulates the accounting and disclosure of corporation tax, local corporate tax and tax effect accounting under the group tax sharing system, shall be applied from the start of the following fiscal year.

2. Notes on Changes in Accounting Policies

(Application of the Revenue Recognition Accounting Standard)

The "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020; hereinafter the "Revenue Recognition Accounting Standard"), etc., shall be applied from the beginning of the current fiscal year, to recognize revenue as the expected amount to be received in exchange for the committed goods or services when control over the said goods or services is transferred to the customer. With the application of Paragraph 98 set forth in the "Implementation Guidance on Accounting Standard for Revenue Recognition," for domestic sales of merchandise or products, revenue is recognized at the time of shipment in case the period from the shipment until control of the said merchandise or products transferred to the customer is the usual period.

The following are changes due to the application of the Revenue Recognition Accounting Standard.

(1) Revenue recognition of the consideration paid to the customer

For part of expenses previously recorded as cost of sales, selling, general and administrative expenses, and sales discounts previously recorded as non-operating expenses, it was changed to deduct them from net sales as the consideration paid to the customer.

(2) Revenue recognition for agent transactions

For transactions whose role of providing goods or services to the customer falls under the agent, while the total amount of consideration received from the customer had previously been recognized as revenue, it was changed to recognize revenue as the net amount deducting the amount paid to the supplier from the amount received from the customer.

(3) Revenue recognition for construction contract

While the completed contract method had been previously applied, for the contracts whose performance obligations are fulfilled for a certain period of time, it was changed to recognize revenue for a certain period of time based on the progress by estimating the progress in fulfilling the performance obligations.

The method for estimating the progress in fulfilling performance obligations calculates using the ratio of the incurred cost to the estimated total costs (input method). For the construction contract with a very short period, revenue is not recognized for a certain period but recognized when performance obligations are completely fulfilled.

(4) Revenue recognition for the contract with fee payment

While extinguishment had previously been recognized for supplies with fee payment, it was changed not to recognize the extinguishment of the said supplies if there is an obligation to buy back the supplies.

For the application of the Revenue Recognition Accounting Standard, we follow the transitional treatment set forth in the proviso to Paragraph 84 of the Revenue Recognition Accounting Standard, applying the new accounting policies from the start balance by adding/deducting, from retained earnings as of the beginning of the current fiscal year, the accumulated amount affected in the case of retroactive application of the new accounting policies to prior to the beginning of the current fiscal year. With the application of the method set forth in Paragraph 86 of the Revenue Recognition Accounting Standard, however, new accounting policies are not applied to the contracts which have recognized almost all revenues in accordance with the previous treatment before the beginning of the current fiscal year. In addition, with the application of additional clause (1) of Paragraph 86 of the Revenue Recognition Accounting Standard, contractual changes made before the beginning of the current fiscal year are accounted for based on the terms and conditions of the contracts after reflecting all contractual changes, and the amount of cumulative effects is added/deducted from retained earnings as of the beginning of the current fiscal year.

In addition, “Notes, accounts receivable–trade” shown under “Current assets” in the Consolidated Balance Sheet for the previous fiscal year is included in “Notes, accounts receivable–trade and contract assets” from the current fiscal year.

As a result, notes receivable, accounts receivable and contract assets increased by ¥13 million, goods and products increased by ¥64 million, work-in-process decreased by ¥8 million, raw materials and stored goods increased by ¥136 million, and current liabilities and others increased by ¥205 million in the balance sheet for the consolidated fiscal year under review compared with before applying the revenue recognition accounting standards, etc. Net sales of the current fiscal year decreased by ¥1,025 million, cost of sales decreased by ¥408 million, selling, general and administrative expenses decreased by ¥311 million, operating income decreased by ¥305 million, ordinary income and net income before income taxes increased by ¥0 million in the Consolidated Statements of Income, each.

With the reflection of the amount of cumulative effects on net assets as of the beginning of the current fiscal year, balance of retained earnings in the Consolidated Statements of Changes in Net Assets as of the beginning of the current fiscal year decreased by ¥3 million.

(Application of Accounting Standard for Fair Value Measurement)

The “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019; hereinafter the “Fair Value Measurement Accounting Standard”), etc., shall be applied from the beginning of the current fiscal year, and new accounting policies set forth by the Fair Value Measurement Accounting Standard, etc., shall be applied in the future, in accordance with the transitional treatment set forth by Paragraph 19 of the Fair Value Measurement Accounting Standard and Paragraph 44-2 of the “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, July 4, 2019). This has no impact on the consolidated financial statements.

In “Notes on Financial Instruments,” moreover, notes shall be made on matters concerning the breakdown, etc., of each appropriate category of the fair value of financial instruments.

3. Notes on Changes in Presentation Method

(Consolidated statements of income)

“Insurance income” under non-operating income (¥129 million in the current fiscal year), which was presented separately in the previous fiscal year, has lost monetary significance, so it is included in “Other” under non-operating income from the current fiscal year.

"Loss on valuation of derivatives" under non-operating expenses (¥20 million in the current fiscal year), which was presented separately in the previous fiscal year, has lost monetary significance, so it is included in "Other" under non-operating expenses from the current fiscal year.

4. Notes to Accounting Estimates

Accounting estimates are reasonably calculated based on information available at the time of preparing consolidated financial statements. Of the amounts recorded in the consolidated financial statements for the current fiscal year that are due to accounting estimates, the items that have a significant impact on the consolidated financial statements for the next fiscal year are as follows.

(Impairment of non-current assets)

(1) Amount recorded in the consolidated financial statements for the consolidated fiscal year

Impairment loss	¥- million
Property, plant and equipment	¥45,200 million
Intangible assets	¥3,164 million

(2) Information on the material accounting estimates for identified items

The Group performs grouping of assets according to business units that can be reasonably managed for profit and loss; provided, however, that idle assets and assets to be disposed of are grouped by individual asset. Regarding assets or asset groups for which there is an indication of impairment, if the recoverable amount is less than the book value due to a decline in profitability or market value, the book value is reduced to the recoverable amount and the amount of reduction is recorded as an impairment loss.

The recoverable amount is the higher of the value in use or the true cash value.

The value in use is calculated by discounting to the present value using a discount rate on the basis of future cash flows according to the internally approved business plan. Future cash flows reflect past performance and future projections. The discount rate used is a weighted average cost of capital.

True cash value is calculated primarily based on real estate appraisals, etc., after deducting estimated disposal costs.

The main assets or asset groups for which there were indications of impairment for the current consolidated fiscal year are as follows.

Asset/Asset Group		At the End of Current Consolidated Fiscal Year
Cephas Pipelines Corp.	Property, plant and equipment	¥782 million
	Intangible assets	¥47 million

Based on the result of a review, impairment losses are not recognized in the current consolidated fiscal year. Such estimates are affected by the impact of COVID-19 and changes in uncertain future economic conditions, and if it becomes necessary to re-consider the assumptions used in the estimates, additional impairment losses may be recognized in the following consolidated fiscal year.

5. Notes on Changes in Accounting Estimates

In the current consolidated fiscal year, due to the decision on the relocation of the Company's head office, useful life of fixed assets, which are not expected to be used after the relocation, is shortened to be changed into the future. Moreover, for asset retirement obligations related to the obligation to restore an asset to its original condition pursuant to the real estate lease agreement before relocation, the estimates regarding the cost of restoration to original condition and the usage period have changed.

Due to these changes, operating income, ordinary income and net income before income taxes decreased by ¥19 million in the current consolidated fiscal year.

6. Additional Information

(Stock Remuneration System for the Directors and Executive Officers)

The Company has introduced a stock remuneration system (the "System") in order to further motivate the Company's directors and executive officers (other than outside directors; hereunder, the "Directors, etc.") to contribute toward improving the Company's performance and enhancing its corporate value in the medium-to-long term. Regarding the System, the Company has adopted a scheme titled "Executive Remuneration Board Incentive Plan Trust" (the "BIP Trust").

(1) Overview of transactions

During the trust period, the Company will award certain points to Directors, etc. commensurate with their position and attainment of performance targets in the relevant fiscal year.

Directors, etc. who have satisfied certain eligibility requirements will, upon their retirement as Director, etc., receive the Company's stock corresponding to a certain percentage of the points awarded to them. They will also receive a cash sum equivalent to the monetary value of the number of shares corresponding to the remaining points after these shares are liquidized within the trust in accordance with the provisions of the trust agreement.

(2) The Company's stock remaining in the trust

Shares remaining in the trust are recorded as treasury stock under the net assets section based on the carrying amount in the trust (excluding associated expenses). The number of shares of treasury stock held at the end of current fiscal year is 418,587, the carrying amount of which is ¥250 million.

7. Notes to the Consolidated Balance Sheets

(1) Stocks of affiliates included in the investment securities ¥1,724 million

(2) Assets pledged as collateral and secured liabilities

(i) Assets pledged as collateral

Buildings	¥147 million
Machinery	¥0 million
Land	¥534 million

(ii) Secured liabilities

Not applicable.

(3) Accumulated depreciation of property, plant and equipment ¥81,180 million

(4) Contingent liabilities

Amount of discount in notes receivables and electronically recorded monetary claims

¥173 million

(5) Notes maturing on consolidated balance sheet date

Accounting of notes maturing on the last day of the fiscal year is settled on the clearing date or settlement date. Because financial institutions are closed on the last day of this fiscal year, notes receivable, etc., due at the end of the current fiscal year include ¥194 million in notes receivable–trade and ¥569 million in electronically recorded monetary claims.

8. Notes on the Consolidated Statements of Changes in Net Assets

(1) Type and number of issued shares as of this fiscal year-end

Common stock 90,396,511 shares

(2) Notes on dividends

(i) Amount of dividends paid

Meeting in which the relevant item was resolved	Type of shares	Total amount of dividends (million yen)	Dividends per share (yen)	Record date	Effective date
Board of Directors meeting held on February 24, 2022	Common stock	991	11	December 31, 2021	March 11, 2022
Board of Directors meeting held on August 4, 2022	Common stock	1,351	15	June 30, 2022	September 16, 2022
Total		2,343	26		

Notes:

1. The total amount of dividends to be paid based on the resolution of the Board of Directors on February 24, 2022 includes ¥5 million of dividend payable for the Company’s shares held through the BIP Trust.
2. The total amount of dividends to be paid based on the resolution of the Board of Directors on August 4, 2022 includes ¥6 million of dividend payable for the Company’s shares held through the BIP Trust.

(ii) Dividends whose record date falls in the current fiscal year and whose effective date falls in the next fiscal year

The following items are expected to be resolved at a meeting of the Board of Directors to be held on February 22, 2023:

a.	Total amount of dividends	¥1,622 million
b.	Source of dividends	Retained earnings
c.	Dividends per share	¥18
d.	Record date	December 31, 2022
e.	Effective date	March 13, 2022

Note: The total amount of dividends to be paid based on the resolution of the Board of Directors on February 22, 2023 includes ¥7 million of dividend payable for the Company's shares held through the BIP Trust.

(3) Class and total number of shares relating to share award rights as of the end of the fiscal year under review

Common stock 40,000 shares

The above-mentioned number of shares is the number of shares under the post-hoc performance-based stock compensation plan, which determines whether or not to grant shares and the number of shares to grant when it does grant shares based on performance indicators during the evaluation period. 40,000 shares or less will be delivered based on the results of the performance indicators.

(4) The type and number of shares underlying the share acquisition rights at the end of the current fiscal year

There were no share acquisition rights at the end of the current fiscal year.

9. Notes on Financial Instruments

(1) Overview of financial instruments

(i) Policy regarding financial instruments

The Group raises necessary finances (mainly bank borrowings and corporate bonds issuance) in accordance with its capital investment plan. Temporary surplus funds are invested in financial assets with high liquidity and low risk, and short-term working capital is procured through bank borrowings. Derivatives are utilized to avoid risks described below, and the Group does not engage in speculative transactions.

(ii) Details of financial instruments and associated risks

Notes, accounts receivable–trade and electronically recorded monetary claims, which are trade receivables, are exposed to customer credit risk. In addition, trade receivables denominated in foreign currencies arising from overseas business operations are exposed to the risk of exchange rate fluctuations, but in accordance with internal management regulations, are hedged using forward exchange contracts depending on the circumstances.

Investment in securities are mainly stocks of companies with which the Group has business relationships, and are exposed to the risk of market price fluctuations.

Most of the notes and accounts payable–trade, which are trade payables, are due within three months. Certain foreign currency-denominated items are exposed to the risk of exchange rate fluctuations, but in accordance with internal management regulations, are hedged using forward exchange contracts depending on the circumstances.

Corporate bonds and long-term debt are mainly for the purpose of financing for capital investment. Certain long-term debts are exposed to interest rate risk, but are hedged using derivatives (interest rate swaps).

Derivative transactions include forward exchange contracts for the purpose of hedging foreign exchange fluctuation risk related to receivables and payables denominated in foreign currencies, interest rate swaps for the purpose of hedging interest rate fluctuation risk related to long-term debt, and commodity futures contracts for the purpose of hedging the risk of raw material price fluctuations in the Brass Bar Manufacturing Business. For hedging instruments, hedged items, hedging policies, and the method of evaluating the effectiveness of hedges, etc. relating to hedge accounting, please refer to “1. Notes on Important Items Underlying the Preparation of the Consolidated Financial Statements, (4) Accounting policies, (vi) Method for processing important hedge accounting.”

(iii) Risk management system for financial instruments

a. Management of credit risk (risk related to non-performance of contract by business partners, etc.)

In accordance with the Credit Management Rules, the accounting and finance divisions regularly monitor the status of major business partners and manage due dates and balances for each business partner for trade receivables. The Company also works to mitigate risks by taking proactive measures for early identification of concerns about collection due to deterioration in financial conditions, etc., and to protect receivables through the acquisition of collateral and trade credit insurance, etc. Consolidated subsidiaries are managed in a similar manner in accordance with the Company's credit management regulations.

The Group recognizes that there is almost no credit risk with respect to derivative transactions because the counterparties are limited to financial institutions with high credit ratings.

b. Management of market risk (risk of fluctuations in exchange rate and interest rate, etc.)

   Foreign currency-denominated trade receivables and payables are hedged against the risk of exchange rate fluctuations by using forward exchange contracts in accordance with internal management regulations. In addition, the Company and some of its consolidated subsidiaries use interest rate swaps to mitigate the risk of interest rate fluctuations paid on long-term debt.

   With regard to investments in securities, the Group periodically monitors the market value and financial conditions of the issuer (business partner).

   Derivative transactions are carried out and managed by the department in charge with the approval of the person responsible for making decisions, in accordance with the management regulations that define the transaction authority and transaction limits.

c. Management of liquidity risk (risk of being unable to make payments on due dates) related to fund raising

   The Group manages liquidity risk by improving the efficiency of the Group funds through the cash management system operated by the Company, and by maintaining liquidity on hand by creating and updating cash flow plans in a timely manner through the department in charge, based on reports from each department of the Company and Group companies.

   In addition, the Company prepares for liquidity risks related to fund raising by concluding commitment line agreements for short-term borrowings with the banks with which the Company does business, in order to prepare for the occurrence of short-term working capital needs.

(iv) Supplementary explanation of notes on the fair value of financial instruments

As the calculation of the fair value of financial instruments includes variable factors, the values may vary if different assumptions or others are applied.

(2) Notes on the fair value of financial instruments

The following table shows the amounts recorded, fair value, and any differences in the consolidated balance sheet as of December 31, 2022.

(Units: Millions of yen)

		Amount recorded on consolidated balance sheet (*3)	Fair value (*3)	Difference
(i)	Investment securities			
	Stocks of affiliates	1,724	1,807	83
	Other securities	5,182	5,182	–
(ii)	Corporate bonds	(30,717)	(30,261)	455
(iii)	Long-term debt	(5,346)	(5,352)	(5)
(iv)	Derivative transactions (*4)	(7)	(7)	–

*1: "Cash in hand and in banks," "Notes, accounts receivable–trade," "Electronically recorded monetary claims" and "Notes, accounts payable–trade" are omitted, because they are cash and their fair value is close to the book value as they are settled in a short period of time.

*2: Shares without market price, etc., are not included in the above table. The amount of such financial instruments recorded in the consolidated balance sheet is as follows.

(Units: Millions of yen)

Category	Amount recorded on consolidated Balance Sheet
Unlisted shares	214

*3: Those recorded as liabilities are shown within brackets.

*4: Debts and credits derived from derivative transactions are stated on a net basis. Items to be recorded as net debts in the total are enclosed in brackets.

(3) Notes on fair value of financial instruments by levels

Fair value of financial instruments is classified into the following three levels, according to the observability and importance of input for the calculation of fair value.

Level 1: Fair value derived from quoted price in active markets for identical assets or liabilities

Level 2: Fair value derived from observable inputs that are not included in Level 1 inputs

Level 3: Fair value derived from unobservable inputs

If using multiple inputs giving important effects on the calculation of fair value, fair value is classified into the level with the lowest priority in the calculation of fair value among the levels such inputs belong to.

(1) Financial instruments recorded at fair value in the consolidated balance sheet

(Units: Millions of yen)

Category	Fair value			
	Level 1	Level 2	Level 3	Total
Investment securities				
Other securities				
Shares	5,182	–	–	5,182
Asset Total	5,182	–	–	5,182
Derivative transactions				
Currency-related	–	1	–	1
Commodity-related	–	5	–	5
Liability Total	–	7	–	7

(2) Financial instruments other than those recorded at fair value in the consolidated balance sheet

(Units: Millions of yen)

Category	Fair value			
	Level 1	Level 2	Level 3	Total
Investment securities				
Stocks of affiliates	1,807	–	–	1,807
Asset Total	1,807	–	–	1,807
Corporate bonds	–	30,261	–	30,261
Long-term debt	–	5,352	–	5,352
Liability Total	–	35,614	–	35,614

Notes: Description of evaluation methods used and input for fair value calculation

Investment securities

Listed shares are evaluated using market price. Since listed shares are traded in active markets, their fair value is classified into the level 1 fair value.

Derivative transactions

Since fair values of derivative transactions categorized as currency swaps or forward exchange contracts are based on the price presented by trading financial institutions, the fair values of those items are classified as the level 2 fair value. Since fair value of commodity futures contracts is based on the price presented by the corresponding trader, their fair value is classified into the level 2 fair value. Concerning currency swaps to which allocation treatment is applied, since such currency swaps are accounted for as an integral part of long-term debts that are deemed as hedged items, fair values of the currency swaps are included in the fair values of those long-term debts.

Corporate bonds

Since fair value of corporate bonds issued by the Company is calculated using the discount cash flow method based on the remaining period and interest rate with credit risk of such corporate bonds with the total amount of principal and interest, it is classified into the level 2 fair value.

Long-term debt

Fair value of long-term debts is calculated using the discount cash flow method based on the remaining period and interest rate with credit risk of such debts with the total amount of principal and interest, it is classified into the level 2 fair value.

10. Notes on Per-Share Information

(1) Net assets per share	¥1,002.69
(2) Net income per share	¥95.35

Notes:

1. Basis for calculating net income per share

Net income attributable to owners of the parent	¥8,549 million
Amount not attributable to common shareholders	¥– million
Net Income attributable to owners of the parent pertaining to common stock	¥8,549 million
Average number of shares outstanding during the term	89,663,099 shares

2. The Company’s stock held in the BIP Trust are included in the treasury stock deducted from the term-end total outstanding shares in the calculation of net assets per share. (current fiscal year: 418,587 shares)

   They are also included in the treasury stock deducted in the calculation of the average number of shares for the period as part of the calculation of net income per share. (current fiscal year: 444,618 shares)

11. Notes on Revenue Recognition

(1) Information on broken-down revenue arising from contracts with customers

(Units: Millions of yen)

	Reporting segment			Others (Notes)	Total
	Valve Manufacturing	Brass Bar Manufacturing	Total		
Japan	72,824	29,327	102,152	2,135	104,287
the Americas	16,696	–	16,696	–	16,696
Europe	3,758	–	3,758	–	3,758
China	10,749	1,090	11,840	–	11,840
ASEAN	11,338	1,360	12,699	–	12,699
India	1,729	734	2,464	–	2,464
Other	8,091	–	8,091	–	8,091
Revenue arising from contracts with customers	125,189	32,513	157,702	2,135	159,837
Other revenue	–	–	–	76	76
Sales to external customers	125,189	32,513	157,702	2,212	159,914

Notes:

1. The category of "Others" is a business segment that is not included in the reported segment and includes the hotel and restaurant businesses, etc.
2. Other revenue is real estate leasing income that is included in the scope of the "accounting standards for lease transactions."

(2) Information on the basis for understanding revenue arising from contracts with customers

The Company and its consolidated subsidiaries mainly manufacture and sell valves and copper alloy products. Revenue from the sale of these products is recognized upon delivery to the customer. As for domestic sales, revenue is recognized at the time of shipment in case the period from shipment until control of products transferred to the customer is the usual period. Also, we recognize revenue for a certain period of time as performance obligation that is fulfilled over a certain period of time for maintenance contracts and construction contracts for valves, etc.

Also, revenue is measured by deducting returns, discounts, rebates, and sales commissions paid to the customers from the consideration promised in the contract with the customer.

Consideration for transactions is received within one year from the time when the performance obligation is fulfilled and does not include any significant financial elements.

(3) Information for understanding the amount of revenue in the current and following consolidated fiscal years and after

(i) Balance of contract assets and liabilities, etc.

(Units: Millions of yen)

	Current fiscal year
Receivables arising from contracts with customers (balance at the beginning of the period)	29,905
Receivables arising from contracts with customers (balance at the end of the period)	32,890
Contract assets (balance at the beginning of the period)	123
Contract assets (balance at the end of the period)	646
Contract liabilities (balance at the beginning of the period)	610
Contract liabilities (balance at the end of the period)	815

Contract assets and receivables from the contracts with the customers are included in "Electronically recorded monetary claims" and "Notes receivables, accounts receivable and contract assets" on the consolidated balance sheet. Contract assets are rights to consideration received in exchange for the fulfilled portion of the performance obligation, which is measured based on the degree of progress as of the end of the reporting period in the contracts whose performance obligation is fulfilled over a certain period of time such as mainly valve maintenance contracts and construction contracts excluding receivables arising from the contracts with the customers. Contract assets are transferred to receivables arising from the contracts with the customers when the rights to the consideration become unconditional.

Also, contract liabilities are included in "Other" under current liabilities on the consolidated balance sheet. Contract liabilities are consideration received prior to the fulfillment of the contract and are mainly advances received from the customers based on the payment terms for the sales of valves, etc. Contract liabilities are transferred to revenues as the performance obligations are fulfilled.

(ii) Transaction prices allocated to remaining performance obligations

As of the end of the consolidated fiscal year under review, there are no important contracts with the initially expected contract period exceeding one year. For contracts with the initially expected contract period of one year or less, the practical expedient is applied and the description is omitted. Also, the consideration, that arises from the contract with the customer, has no amount of money not included in the transaction price.

12. Other Notes

(1) Notes on retirement benefits

Adjustment table of the ending balance of retirement benefit obligations and pension plan assets, and liabilities and assets related to retirement benefits as recorded on the consolidated balance sheet

Funded retirement benefit obligations	¥5,404 million
Pension plan assets	¥(5,371) million
	¥33 million
Unfunded retirement benefit obligations	¥518 million
Net liabilities and assets recorded on the consolidated balance sheet	¥551 million
Retirement benefit liabilities	¥744 million
Retirement benefit assets	¥(192) million
Net liabilities and assets recorded on the consolidated balance sheet	¥551 million

Note: The above data includes plans to which the simplified method is applied.

(2) Notes on asset retirement obligations

(i) Overview of asset retirement obligations

The Company and the Group reasonably estimate expenses for removing asbestos during the dismantling of structures provided for primarily in legislation such as the Industrial Safety and Health Act, Ordinance on Prevention of Health Impairment due to Asbestos, along with the obligations to restore assets, etc. such as offices to their original condition based on real estate lease agreements, and other expenses, and they record such expenses as asset retirement obligations.

(ii) Method for calculating the amount of asset retirement obligations

Asset retirement obligations are estimated on the assumption of the useful life of each applicable asset and the assumed discount rate is mainly 2.520%.

(iii) The changes in asset retirement obligations for the current fiscal year are as follows:

Balance at beginning of current fiscal year	¥421 million
Increase associated with purchase of property and equipment	¥26 million
Reconciliation associated with the passage of time	¥6 million
Changes due to changes of estimates	¥40 million
Decrease associated with the performance of asset retirement obligations	¥(0) million
Other changes (decrease indicated in brackets)	¥5 million
Balance at end of fiscal year	¥500 million

(3) The monetary figures presented in these notes are rounded down to the nearest unit.

Notes to the Non-Consolidated Financial Statements

1. Notes on Important Items Underlying the Preparation of the Non-Consolidated Financial Statements

(1) Standards and methods of evaluation of assets

(i) Securities

Stocks in subsidiaries and associates:

Stated at cost by the moving average cost method

Other securities

Securities other than shares without market price, etc.:

Stated at fair value (all valuation gains or losses are treated as a component of net assets, with the cost of securities sold calculated according to the moving average cost method)

Securities without market price, etc.:

Stated at cost by the moving average cost method

(ii) Derivatives:

Stated at fair value

(iii) Inventories:

Finished goods and work in process:

Stated at cost by the periodic-average method (the amount stated in the balance sheet is calculated by the book value write-down method based on the decreased profitability)

Raw materials:

Stated at cost by the moving average cost method (the amount stated in the balance sheet is calculated by the book value write-down method based on the decreased profitability)

Supplies:

Stated based on the last cost method (the amount stated in the balance sheet is calculated by the book value write-down method based on the decreased profitability)

(2) Depreciation and amortization method for fixed assets

(i) Property, plant and equipment (excluding leased assets)

The declining-balance method is applied primarily.

However, the straight-line method is used for buildings (excluding annexed equipment) acquired on and after April 1, 1998, and for annexed equipment and structures acquired on and after April 1, 2016.

(ii) Intangible assets (excluding leased assets)

The straight-line method is applied.

The straight-line method is used for in-house use software based on the in-house use period (five years).

(iii) Leased assets

Lease claims in finance lease transactions without ownership transfer

The straight-line method is applied, with useful life defined as the remaining period of the lease and with zero residual value.

(3) Method for processing deferred assets

Corporate bond issuance expenses

Corporate bond issuance expenses are charged to expense as incurred.

(4) Standards for recognition of allowances

(i) Allowance for doubtful accounts

The allowance for doubtful accounts is provided to prepare for loss from uncollectible credits. For ordinary receivables, the amount is estimated using the rate based on the historical bad debt experience. For special receivables with higher uncertainty of collectivity is considered on individual cases, and prospective uncollectible amount is provided.

(ii) Accrued bonuses to employees

The Company makes provision for employees' bonuses by recording the estimated amounts of the future payments attributed to the current fiscal year.

(iii) Accrued bonuses to directors

The Company makes provision for the payment of bonuses to directors by posting the estimated amounts of the future payments, which reflect the operating results for the period.

(iv) Provision for retirement benefits

The Company makes provision for employees' retirement benefits by recording an amount at the end of the current fiscal year based on the estimated amount of retirement benefit obligations and pension plan assets as of the end of the current fiscal year.

- Method for estimating retirement benefits

  With regard to the calculation of retirement benefit obligations, the Company uses the benefit formula method as its method for attributing expected retirement benefits to periods until the end of the current fiscal year.

- Method for amortization of actuarial gain and loss and past service cost

  Actuarial gain and loss adjustments are amortized on a straight-line basis over a five-year period beginning in the fiscal year following the accrual of such, this period being less than the eligible employees' average remaining period of service at the time of occurrence in each fiscal year.

Past service costs are amortized on a straight-line basis over a five-year period beginning in the fiscal year, this period being less than the eligible employees' average remaining period of service at the time of occurrence.

(v) Allowance for stock benefit for directors and operating officers

In order to prepare for the granting of stock benefit, in accordance with stock benefit rule, to directors and executive officers of the Company, this has been posted based on the estimated value of stock benefit liabilities at the end of the current fiscal year.

(5) Standards for recording revenues and expenses

The Company is mainly engaged in the manufacture and sales of valves.

With regard to the sales of these products, etc., the Company recognizes performance obligations to be delivery of products, etc. to the customer, and as performance obligations are deemed to be satisfied when the customer obtains control over the product, etc. at the time of delivery of the product, etc., revenue is recognized at the time the product, etc. is delivered to the customer. As for domestic sales, revenue is recognized at the end of shipment in case the period from shipment until control of products transferred to the customer is the usual period. Moreover, revenue for export sales is primarily recognized at the time that the bearing of risks transfers to customer pursuant to the terms and conditions of the trade set forth by the Incoterms, etc.

For performance obligations that are satisfied over a set period, such as in the case of maintenance services and construction contracts related to products sold, the revenue is recognized as the corresponding performance obligation is satisfied.

(6) Method for processing hedge accounting

(i) Hedge accounting method

The Company applies the deferred hedge accounting method. However, the Company applies the exceptional accounting method for interest rate swaps that fulfill the requirements for exceptional accounting, and allocation treatment for currency swaps that fulfill the requirements of allocation treatment.

(ii) Hedging instruments and hedged items

Hedging instruments:	Forward exchange contracts, interest rate swaps, currency swaps
Hedged items:	Monetary receivables and payables denominated in foreign currencies, loans receivable denominated in foreign currencies, debts denominated in foreign currencies, interest on loans receivable, interest on loans payable

(iii) Hedging policy

The Company engages in forward exchange contracts for the purpose of offsetting the risk of foreign exchange fluctuations, and only insofar as to cover actual foreign exchange needs. The Company engages in interest rate swaps to offset the risk of interest rate on loans to increase, and it engages in currency swaps to offset the risk of foreign exchange fluctuations in long-term debts denominated in foreign currencies; both types of transaction are used only insofar as to cover actual needs.

(iv) Method for appraising hedge effectiveness

The cumulative amounts of fluctuations in the rates or in the cash flows of the hedged items are compared with the cumulative amounts of fluctuations in the rates or in the cash flows of the hedging instruments, and hedge effectiveness is assessed based on the ratio between the two amounts. However, if the material conditions of the hedging instrument and the hedged item are the same and if they can be assumed to completely offset fluctuations in the rates or cash flows at the time of commencement of hedging and continuously thereafter, confirmation that the material conditions of the hedging instrument and the hedged item are the same is used in place of a hedge effectiveness appraisal.

(7) Other important items underlying the preparation of financial statements

(i) Accounting of retirement benefits

The manner in which unrecognized actuarial gain and loss and past service costs are treated in the non-consolidated balance sheets is different to the manner in which they are treated in the consolidated balance sheets.

(ii) Application of the consolidated tax payment system

The Company has applied the consolidated tax payment system since the year ended March 31, 2003.

(iii) Application of tax effect accounting for transition from the consolidated taxation system to the group tax sharing system

The Company shall transit from the consolidated tax payment system to the group tax sharing system from the following fiscal year. The Company applies the treatment under Article 3 of "The Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System" (ASBJ Practical Issues Task Force No. 39, March 31, 2020) in relation to items that are revised for the transition to the group tax sharing system established under the "Act for Partial Revision of the Income Tax Act, etc." (Act No. 8 of 2020) and for the non-consolidated tax payment system in conjunction with the transition to the group tax sharing system, but does not apply the provisions of Article 44 of the "Implementation

Guidance on Accounting Standards for Tax Effect Accounting, etc.” (ASBJ Implementation Guidance No. 28, February 16, 2018) and the amount of deferred tax assets and deferred tax liabilities are accordance with the provisions of tax act before the revision.

The “Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System” (Practical Solution No. 42, August 12, 2021), which stipulates the accounting and disclosure of corporation tax, local corporate tax and tax effect accounting under the group tax sharing system, shall be applied from the start of the following fiscal year.

2. Notes on Changes in Accounting Policies

(Application of the Revenue Recognition Accounting Standard)

The “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020; hereinafter the “Revenue Recognition Accounting Standard”), etc., shall be applied from the beginning of the current fiscal year, to recognize revenue as the expected amount to be received in exchange for the committed goods or services when control over the said goods or services is transferred to the customer. With the application of Paragraph 98 set forth in the “Implementation Guidance on Accounting Standard for Revenue Recognition,” for domestic sales of merchandise or products, revenue is recognized at the time of shipment in case the period from the shipment until control of the said merchandise or products transferred to the customer is the usual period.

The following are changes due to the application of the Revenue Recognition Accounting Standard.

(1) Revenue recognition of the consideration paid to the customer

For part of expenses previously recorded as cost of sales, selling, general and administrative expenses, and sales discounts previously recorded as non-operating expenses, it was changed to deduct them from net sales as the consideration paid to the customer.

(2) Revenue recognition for agent transactions

For transactions whose role of providing goods or services to the customer falls under the agent, while the total amount of consideration received from the customer had previously been recognized as revenue, it was changed to recognize revenue as the net amount deducting the amount paid to the supplier from the amount received from the customer.

(3) Revenue recognition for construction contract

While the completed contract method had been previously applied, for the contracts whose performance obligations are fulfilled for a certain period of time, it was changed to recognize revenue for a certain period of time based on the progress by estimating the progress in fulfilling the performance obligations.

The method for estimating the progress in fulfilling performance obligations calculates using the ratio of the incurred cost to the estimated total costs (input method). For the construction contract with a very short period, revenue is not recognized for a certain period but recognized when performance obligations are completely fulfilled.

(4) Revenue recognition for the contract with fee payment

If there is an obligation to buy back supplies in the case of supplies with fee payment, the Company applies Paragraph 104 of the “Implementation Guidance on Accounting Standard for Revenue Recognition” and recognizes extinguishment for those supplies at the time of the transfer of those supplies.

For the application of the Revenue Recognition Accounting Standard, we follow the transitional treatment set forth in the proviso to Paragraph 84 of the Revenue Recognition Accounting Standard, applying the new accounting policies from the start balance by adding/deducting, from retained earnings as of the beginning of the current fiscal year, the accumulated amount affected in the case of retroactive application of the new accounting policies to prior to the beginning of the current fiscal year. With the application of the method set forth in Paragraph 86 of the Revenue Recognition Accounting Standard, however, new accounting policies are not applied to the contracts which have recognized almost all revenues in accordance with the previous treatment before the beginning of the current fiscal year. In addition, with the application of additional clause (1) of Paragraph 86 of the Revenue Recognition Accounting Standard, contractual changes made before the beginning of the current fiscal year are accounted for based on the terms and conditions of the contracts after reflecting all contractual changes, and the amount of cumulative effects is added/deducted from retained earnings brought forward as of the beginning of the current fiscal year.

In addition, “Notes receivable–trade” and “Accounts receivable–trade” shown under “Current assets” in the Non-Consolidated Balance Sheet for the previous fiscal year are included in “Notes receivable–trade,” “Accounts receivable–trade” and “Contract assets” from the current fiscal year.

As a result, net sales of the current fiscal year decreased by ¥125 million, cost of sales increased by ¥259 million, selling, general and administrative expenses decreased by ¥210 million, operating income decreased by ¥174 million, ordinary income and net income before income taxes increased by ¥3 million each in the Non-Consolidated Statements of Income, compared with before applying the revenue recognition accounting standards, etc.

With the reflection of the amount of cumulative effects on net assets as of the beginning of the current fiscal year, balance of retained earnings brought forward in the Non-Consolidated Statements of Changes in Net Assets as of the beginning of the current fiscal year increased by ¥6 million.

(Application of Accounting Standard for Fair Value Measurement)

The “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019; hereinafter the “Fair Value Measurement Accounting Standard”), etc., has been applied from the beginning of the current fiscal year, and new accounting policies set forth by the Fair Value Measurement Accounting Standard, etc., shall be applied in the future, in accordance with the transitional treatment set forth by Paragraph 19 of the Fair Value Measurement Accounting Standard and Paragraph 44-2 of the “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, July 4, 2019). This has no impact on the non-consolidated financial statements.

3. Notes to Accounting Estimates

Accounting estimates are reasonably calculated based on information available at the time of preparing non-consolidated financial statements. Of the amounts recorded in the non-consolidated financial statements for the current fiscal year that are due to accounting estimates, the items that may have a significant impact on the non-consolidated financial statements for the next fiscal year are as follows.

(Valuation of shares of subsidiaries and associates)

(1) Amount recorded in the financial statements for the fiscal year

Loss on valuation of shares of subsidiaries and associates	¥ - million
Shares of subsidiaries and associates	¥29,054 million (Cephas Pipelines Corp. ¥653 million)

(2) Information on the material accounting estimates for identified items

For the valuation of shares of subsidiaries and associates that do not have a market price, the acquisition cost is used as the balance sheet amount. However, if the actual stock value declines significantly due to deterioration in the financial position of the company issuing the stocks, the value is reduced to the actual value and a loss on valuation is recognized.

A loss on valuation of shares of subsidiaries and associates has not been recorded in the current fiscal year; however, as stated in “4. Notes to Accounting Estimates” in “Notes to Consolidated Financial Statements” in the consolidated financial statements, there is an indication of impairment of fixed assets in Cephas Pipelines Corp. If the financial position of the subsidiary deteriorates, a loss on valuation of shares of subsidiaries and associates related to the stocks of the subsidiary may be recorded in the next fiscal year.

4. Notes on Changes in Accounting Estimates

In the current non-consolidated fiscal year, due to the decision on the relocation of the Company’s head office, useful life of fixed assets, which are not expected to be used after the relocation, is shortened to be changed into the future. Moreover, for asset retirement obligations related to the obligation to restore an asset to its original condition pursuant to the real estate lease agreement before relocation, the estimates regarding the cost of restoration to original condition and the usage period have changed.

Due to these changes, operating income, ordinary income and net income before income taxes decreased by ¥19 million in the current non-consolidated fiscal year.

5. Notes to the Balance Sheets

(1) Accumulated depreciation of property, plant and equipment ¥36,301 million

(2) Contingent liabilities

The liabilities for the borrowings of the following subsidiaries and affiliates

Hotel Beniya Co., Ltd.	¥23 million
KITZ SCT Corporation	¥100 million
Micro Pneumatics Pvt. Ltd.	¥5 million
Cephas Pipelines Corp.	¥671 million
Metalúrgica Golden Art's Ltda.	¥25 million
Total	¥826 million

(3) Monetary claims and liabilities with respect to subsidiaries and affiliates

Short-term monetary receivables	¥12,683 million
Long-term monetary receivables	¥3,676 million
Short-term monetary payables	¥9,601 million
Long-term monetary payables	¥5 million

(4) Notes maturing on balance sheet date

Accounting of notes maturing on the last day of the fiscal year is settled on the clearing date or closing date. Because financial institutions are closed on the last day of the current fiscal year, notes receivable, etc., due at the end of the current fiscal year include ¥95 million in notes receivable–trade and ¥234 million in electronically recorded monetary claims.

6. Notes to the Statement of Income

Transactions with affiliates during the current fiscal year

Net sales	¥22,566 million
Purchases	¥25,332 million
Selling, general and administrative expenses	¥189 million
Non-business transactions	¥2,762 million

7. Notes to the Statements of Changes in Net Assets

Notes on amount of treasury stock

Type of shares	Number of shares at beginning of current fiscal year	Amount of increase in shares during current fiscal year	Amount of decrease in shares during current fiscal year	Number of shares at end of current fiscal year
Common stock	753,976	66,393	123,245	697,124

Notes:

1. The 66,393 increase in shares during the current fiscal year reflects the 65,900 increase in shares following the purchase of shares of treasury stock based on the resolution of the Board of Directors and the 493 increase in shares following the purchase of less-than-one-unit shares.
2. The 123,245 decrease in shares during the current fiscal year reflects the 64,297 decrease in shares following the disposition of shares of treasury stock as stock compensation with restrictions on transfer and the 58,948 decrease in shares following the disposition of the Company's stock for the BIP Trust.
3. The number of shares of treasury stock at end of current fiscal year includes 418,587 shares held in the BIP Trust.

8. Notes on Tax Effect Accounting

Significant components of deferred tax assets and deferred tax liabilities

(Deferred tax assets)	
Accrued bonuses to employees	¥401 million
Provision for retirement benefits	¥63 million
Loss on valuation of stocks of subsidiaries and affiliates	¥1,884 million
Loss on valuation of investment securities	¥133 million
Impairment loss	¥485 million
Loss on valuation of inventories	¥269 million
Other	¥711 million
Deferred tax assets (subtotal)	¥3,946 million
Valuation allowance	¥(2,688) million
Deferred tax assets (total)	¥1,258 million
(Deferred tax liabilities)	
Net unrealized gains on other securities	¥(741) million
Other	¥(35) million
Deferred tax liabilities (total)	¥(776) million
Deferred tax assets	¥481 million

9. Notes on Transactions with Related Parties

Subsidiaries

Type of related party	Company name	Share of voting rights in the company	Description of relationship		Description of transactions	Transaction amount (million yen)	Account item	Balance at end of fiscal year (million yen)
			Number of executive officers holding concurrent positions in the company	Business relationship				
Subsidiary	Toyo Valve Co., Ltd.	100% direct holding	1	Customer of the Company	The Company sells finished goods to the affiliate	7,301	Accounts receivable–trade	687
Subsidiary	KITZ Corporation of Taiwan	100% direct holding	1	Supplier to the Company	The Company procures finished goods from the affiliate	8,921	Accounts payable–trade	1,619
Subsidiary	KITZ (Thailand) Ltd.	92% direct holding	–	Supplier to the Company	The Company procures finished goods from the affiliate	9,312	Accounts payable–trade	1,310
Subsidiary	KITZ Metal Works Corporation	100% direct holding	2	Supplier to the Company	The Company lends the affiliate funds	30,891	Short-term loans receivable Long-term loans receivable	7,408 2,390
Subsidiary	Shimizu Alloy Mfg. Co., Ltd.	100% direct holding	1	Customer of the Company	The Company borrows funds from the affiliate The receipt of dividends	5,291 415	Short-term borrowings	1,892
Subsidiary	KITZ SCT Corporation	100% direct holding	2	Supplier to the Company	The Company lends the affiliate funds The receipt of dividends	1,803 706	Short-term loans receivable Long-term loans receivable	224 1,011
Subsidiary	KITZ Corporation of America	100% direct holding	–	Customer of the Company	The Company sells finished goods to the affiliate The Company borrows funds from the affiliate	6,884 7,466	Accounts receivable–trade Short-term borrowings	1,573 1,739

Notes:

1. The amounts for transactions involving sales and supply of finished goods are determined such that they are similar to those of general transactions, taking into account the fair value and the subsidiary’s income.
2. The receipt of dividends is reasonably determined considering the business performance.

3. The interest rates for lending and borrowing transactions are determined such that they are reasonable in light of market interest rates.
4. The amounts for lending and borrowing transactions indicate the amount of loan or the amount borrowed.
5. The liabilities for guarantees of external borrowings by affiliated companies are stated in 5. Notes to the Balance Sheets: (2) Contingent liabilities.

10. Notes on Per-Share Information

(1) Net assets per share ¥620.13

(2) Net income per share ¥45.95

Notes:

1. Basis for calculating net income per share

Net income	¥ 4,120 million
Amount not attributable to common shareholders	¥– million
Net income attributable to common stock	¥ 4,120 million
Average number of shares outstanding during the term	89,663,099 shares

2. The Company's stock held in the BIP Trust are included in the treasury stock deducted from the term-end total outstanding shares in the calculation of net assets per share. (current fiscal year: 418,587 shares) They are also included in the treasury stock deducted in the calculation of the average number of shares for the period as part of the calculation of net income per share.
(current fiscal year: 444,618 shares)

11. Notes on Revenue Recognition

Information on the basis for understanding revenue arising from contracts with customers

Notes on information on the basis for understanding revenue arising from contracts with customers are omitted, because the same content is described in the Consolidated Financial Statements "Notes to the Consolidated Financial Statements, 11. Notes on Revenue Recognition."

12. Other Notes

(1) Notes on retirement benefits

Retirement benefit obligations and the breakdown thereof

(i) Retirement benefit obligations	¥(3,801) million
(ii) Pension plan assets	¥3,947 million
(iii) Unfunded retirement benefit obligations (i) + (ii)	¥145 million
(iv) Unrecognized actuarial gain and loss	¥81 million
(v) Prepaid pension cost (iii) + (iv)	¥227 million

(2) Notes on asset retirement obligations

(i) Overview of asset retirement obligations

The Company reasonably estimates expenses for removing asbestos during the dismantling of structures provided for primarily in legislation such as the Industrial Safety and Health Act, Ordinance on Prevention of Health Impairment due to Asbestos, along with the obligations to restore assets, etc. such as offices to their original condition based on real estate lease agreements, and other expenses, and it records such expenses as asset retirement obligations.

(ii) Method for calculating the amount of asset retirement obligations

Asset retirement obligations are estimated on the assumption of the useful life of each applicable asset and the assumed discount rates is mainly 2.305%.

(iii) The changes in asset retirement obligations for the current fiscal year are as follows:

Balance at beginning of current fiscal year	¥217 million
Increase associated with purchase of property and equipment	¥13 million
Reconciliation associated with the passage of time	¥3 million
Changes due to changes of estimates	¥40 million
Balance at end of fiscal year	¥275 million

(3) The monetary figures presented in these notes are rounded down to the nearest unit.