[Business Report]

- **Status of the Corporate Group**

Major sales offices and plants (as of December 31, 2023)

(i) Major sales offices and plants of the Company

Name	Location	Name	Location
Head Office	Minato-ku, Tokyo	Niigata Sales Office	Niigata-shi
Nagasaka Plant	Hokuto-shi, Yamanashi Pref.	Hokuriku Sales Office	Toyama-shi
Ina Plant	Ina-shi, Nagano Pref.	Koshin Sales Office	Chino-shi, Nagano Pref.
Chino Plant	Chino-shi, Nagano Pref.	Tokai Sales Office	Shizuoka-shi
Hokkaido Sales Office	Sapporo-shi	Nagoya Sales Office	Nagoya-shi
Tohoku Sales Office	Sendai-shi	Osaka Sales Office	Osaka-shi
Kita-Kanto Sales Office	Saitama-shi	Okayama Sales Office	Okayama-shi
Tokyo Sales Office	Minato-ku, Tokyo	Hiroshima Sales Office	Hiroshima-shi
Chiba Sales Office	Chiba-shi	Kyushu Sales Office	Fukuoka-shi
Yokohama Sales Office	Yokohama-shi		

Notes:

1. Head office was relocated from Chiba-shi on December 8, 2023.
2. Tokyo Sales Office was relocated from Chuo-ku, Tokyo on December 8, 2023.

(ii) Major sales offices and plants of subsidiaries

Name	Location
Toyo Valve Co., Ltd.	Minato-ku, Tokyo
Shimizu Alloy Mfg. Co., Ltd.	Hikone-shi, Shiga Pref.
KITZ SCT Corporation	Ota-shi, Gunma Pref.
KITZ Micro Filter Corporation	Chino-shi, Nagano Pref.
KITZ (Thailand) Ltd.	Samutprakarn, Thailand
KITZ Corporation of Taiwan	Kaohsiung, Taiwan
KITZ Corporation of Jiangsu Kunshan	Jiangsu, P.R. China
KITZ Corporation of Kunshan	Jiangsu, P.R. China
KITZ SCT Corporation of Kunshan	Jiangsu, P.R. China
KITZ Corporation of Lianyungang	Jiangsu, P.R. China
KITZ Corporation of Shanghai	Shanghai, P.R. China
KITZ Corp. of America	Texas, U.S.A.
Metalúrgica Golden Art's Ltda.	Rio Grande do Sul, Brazil
KITZ Corp. of Europe, S.A.	Barcelona, Spain
Perrin GmbH	Hessen, Germany
KITZ Corp. of Asia Pacific Pte. Ltd.	Singapore
KITZ Corp. of Korea	Korea (Busan Metropolitan City)
KITZ Corp. of Vietnam Co., Ltd.	Vinh Phuc, Vietnam
KITZ Metal Works Corporation	Chino-shi, Nagano Pref.
Hotel Beniya Co., Ltd.	Suwa-shi, Nagano Pref.

Notes:

1. Toyo Valve Co. Ltd. relocated its head office from Chuo-ku, Tokyo on December 8, 2023.
2. The "Location" for KITZ SCT Corporation indicates the location of its plant.
3. Cephas Pipelines Corp. and KITZ Corp. of Korea merged on September 20, 2023; the surviving company is Cephas Pipelines Corp. and the disappearing company is KITZ Corp. of Korea. Cephas Pipelines Corp., the surviving company, was renamed KITZ Corp. of Korea.
4. KITZ Corp. of Vietnam Co., Ltd. was newly established on March 15, 2023, and became a consolidated subsidiary.

Status of employees (as of December 31, 2023)

(i) Employees of the corporate group

Business segment	Number of employees	Year-on-year change
Valve Manufacturing Business	4,927	+34
Brass Bar Manufacturing Business	231	-11
Other	85	+3
Corporate (common)	139	+4
Total	5,382	+30

Notes:

1. The above figures do not include employees seconded from the Company Group to an external company or employees hired on a temporary/contractual basis.
2. "Corporate (common)" indicates the number of employees serving in administrative divisions which do not belong to a specific segment.

(ii) Employees of the Company

Number of employees	Year-on-year change	Average age	Average number of years of service
1,443	+21	40.1	14.2

Note: The above figures do not include employees seconded or employees hired on a temporary/contractual basis.

Major lenders of the corporate group and amount of debt (as of December 31, 2023)

(Units: Millions of yen)

Name	Outstanding debt
The Hachijuni Bank, Ltd.	2,623
Sumitomo Mitsui Banking Corporation	1,283
Mizuho Bank, Ltd.	776
The Chiba Bank, Ltd.	415
The Yamanashi Chuo Bank, Ltd.	414
MUFG Bank, Ltd.	344

- **Status of the Company**

Matters regarding shares (as of December 31, 2023)

(i) Total number of authorized shares: 400,000,000 shares

(ii) Total number of issued shares: 90,110,946 shares

Note: Total number of issued shares shown above does not include 285,565 shares of treasury stock that were held as of the end of the fiscal year under review.

(iii) Number of shareholders: 14,448

Note: The number of shareholders does not include the Company.

(iv) Major shareholders (top 10 shareholders)

Name	Investment	
	Shareholdings (thousands)	Holding ratio (%)
The Master Trust Bank of Japan, Ltd.	9,786	10.86
Kitazawa-kai Stock Ownership Plan	5,134	5.70
Nippon Life Insurance Company	4,303	4.78
Sumitomo Life Insurance Company	3,448	3.83
Kitazawa Ikueikai Foundation	3,411	3.79
KITZ Corporation Trading Partner Stock Ownership Plan	3,287	3.65
Custody Bank of Japan, Ltd.	2,596	2.88
Sumitomo Mitsui Banking Corporation	2,553	2.83
KITZ Corporation Employee Stock Ownership Plan	2,105	2.34
SECOM General Insurance Co., Ltd.	1,702	1.89

Notes:

1. The Company held 285 thousand shares of treasury stock as of December 31, 2023.
   The holding ratio is calculated with the total number of issued shares excluding treasury stock.
   The Company adopted a BIP trust, and The Master Trust Bank of Japan, Ltd. holds 396 thousand shares of the Company in the trust. These 396 thousand shares are not included in the concerned treasury stock.
2. The above number of shares held includes shares associated with trust operations as follows:
   The Master Trust Bank of Japan, Ltd. 9,786 thousand shares
   Custody Bank of Japan, Ltd. 2,596 thousand shares
3. The number of shares held by Sumitomo Life Insurance Company includes 6 thousand shares in the variable insurance account and 32 thousand shares in the separate account.

(v) Matters regarding subscription rights to shares

Not applicable.

Officers of the Company (as of December 31, 2023)

(i) Summary of liability limitation agreements

In order to limit the liability of Directors (excluding persons who are Executive Directors; likewise, hereinafter in this paragraph) and Audit & Supervisory Board Members a reasonable extent and ensure that they fully perform the roles expected of them, the Company has, pursuant to the stipulations of Article 427, paragraph (1) of the Companies Act, included provisions in its Articles of Incorporation to the effect that the Company can conclude agreements with its Directors and Audit & Supervisory Board Members limiting their liability under Article 423, paragraph (1) of the same Act provided that the Director or Audit & Supervisory Board Member concerned has undertaken his or her duties in good faith and has not committed any gross errors. Based on these provisions, the Company has concluded agreements with each of its Directors and Audit & Supervisory Board Members.

Based on the concerned agreements, the amount of liability is limited to ¥5 million or the amount prescribed by laws and regulations, whichever is higher.

(ii) Major concurrent positions of Directors and Audit & Supervisory Board Members

Position	Name	Name of organization in which concurrent position is held	Concurrent position
Director	Yasuyuki Hotta	KITAZAWA MUSEUM OF ART	Chairman
	Makoto Kohno	KITZ SCT Corporation	Director
	Toshiyuki Murasawa	KITZ Metal Works Corporation	Director
		KITZ Micro Filter Corporation	Director
		Hotel Beniya Co., Ltd.	Director
Standing Audit & Supervisory Board Member	Masahiko Kondo	Toyo Valve Co., Ltd.	Audit & Supervisory Board Member
		KITZ SCT Corporation	Audit & Supervisory Board Member
		KITZ Micro Filter Corporation	Audit & Supervisory Board Member
		Hotel Beniya Co., Ltd.	Audit & Supervisory Board Member
		KITZ Corporation of Taiwan	Audit & Supervisory Board Member
		KITZ Corporation of Kunshan	Audit & Supervisory Board Member
		KITZ SCT Corporation of Kunshan	Audit & Supervisory Board Member
		KITAZAWA MUSEUM OF ART	Auditor
	Taro Kimura	Shimizu Alloy Mfg. Co., Ltd.	Audit & Supervisory Board Member
		KITZ Metal Works Corporation	Audit & Supervisory Board Member
		KITZ Corporation of Jiangsu Kunshan	Audit & Supervisory Board Member
		KITZ Corporation of Lianyungang	Audit & Supervisory Board Member
		KITZ Corporation of Shanghai	Audit & Supervisory Board Member

Notes:

1. The organizations in which a concurrent position is held and which belong in the same business categories as the Company are as follows:

(Name)	(Business)
Toyo Valve Co., Ltd.	Sales, marketing and distribution of valves
Shimizu Alloy Mfg. Co., Ltd.	Manufacturing and sales of valves
KITZ SCT Corporation	Manufacturing and sales of valves and fittings for semiconductor production equipment
KITZ Corporation of Taiwan	Manufacturing and sales of valves
KITZ Corporation of Jiangsu Kunshan	Manufacturing and sales of valves
KITZ Corporation of Kunshan	Manufacturing and sales of valves
KITZ SCT Corporation of Kunshan	Manufacturing and sales of valves and fittings for semiconductor production equipment
KITZ Corporation of Lianyungang	Manufacturing and sales of valves
KITZ Corporation of Shanghai	Sales, marketing and distribution of valves

2. Of the major concurrent position held by Director Yasuyuki Hotta, the concurrent position of Chairman of KITAZAWA MUSEUM OF ART is a significant concurrent position.
3. Of the major concurrent positions held by Audit & Supervisory Board Member Masahiko Kondo, the concurrent position of Auditor of KITAZAWA MUSEUM OF ART is a significant concurrent position.

(iii) Outline of Directors and Officers Liability Insurance contract

The Company has entered into a Directors and Officers Liability Insurance contract with an insurance company, as stipulated in Article 430-3, paragraph (1) of the Companies Act. The scope of the insured under the insurance contract is directors and auditors of the Company and its subsidiaries (including their retirees), and the insured does not bear any insurance premium. The insurance contract covers the insured's losses and such costs as related litigation expenses incurred from shareholders' or a third party's claims for damages arising from the insured's acts (including nonfeasance) as an officer of the Company; provided, however, that in order to ensure that the proper performance of duties of the insureds is not impaired, the contract shall not cover the officer's damages resulting from his or her criminal acts or intentionally illegal acts.

(iv) Matters regarding outside officers

a. Significant concurrent positions in or relationships with other companies

(a) Outside Director Minoru Amoh concurrently holds the positions of Outside Director of Otsuka Chemical Co., Ltd. and Outside Director (Audit & Supervisory Committee Member) of Enplas Corporation. There is no special relationship between these companies and the Company.

(b) Outside Director Yutaka Fujiwara concurrently holds the position of External Audit & Supervisory Board Member at Konoike Transport Co., Ltd. There is no special relationship between Konoike Transport Co., Ltd. and the Company.

(c) Outside Director Yukino Kikuma is concurrently a Managing Partner at MATSUO & KOSUGI (legal professional corporation) that has concluded a legal counsel agreement with the Company. The total amount of fees (consulting fees, legal advising fees, etc.) that the Group pays to the law firm is less than 2% of the average annual sales of the law firm for the past three fiscal years and less than 1% of the Company's annual consolidated net sales for the fiscal year under review.

Outside Director Yukino Kikuma concurrently holds the position of Outside Director of ALCONIX CORPORATION. The ALCONIX group conducts business with the Group. The amount of transactions of castings and materials that the Group purchases from the ALCONIX group is less than 3% of the Company's annual consolidated net sales for the fiscal year under review. The amount of transactions of products that the Group sells to the ALCONIX group is less than 1% of the Company's annual consolidated net sales for the fiscal year under review.

Also, Outside Director Yukino Kikuma concurrently holds the positions of External Director of KOSÉ Corporation and Outside Director (member of the audit and supervisory committee) of Takihyo Co., Ltd. There is no special relationship between these companies and the Company.

(d) Outside Audit & Supervisory Board Member Shuhei Sakuno concurrently holds the position of Outside Audit & Supervisory Board Member at JAPANIACE Co., Ltd. There is no special relationship between JAPANIACE Co., Ltd. and the Company.

(e) Outside Audit & Supervisory Board Member Ayako Kobayashi is concurrently an attorney (partner) at KATAOKA & KOBAYASHI LPC and holds the positions of Outside Director of The Musashino Bank, Ltd. and Professor of Keio University Law School. There is no special relationship between KATAOKA & KOBAYASHI LPC, The Musashino Bank, Ltd., Keio University Law School, and the Company.

b. Significant activities during the fiscal year under review

Position	Name	Attendance at meetings	Main Activities and Outline of Duties Performed Regarding Roles Expected of Outside Directors
Outside Director	Kazuyuki Matsumoto	Board of Directors' meetings 16/16 (100%)	Fulfilled the role appropriately by making active and useful statements at meetings of the Board of Directors, leveraging his extensive experience as a corporate manager in the manufacturing industry and high level of insight into technological development, manufacturing, etc. In addition, chaired the Nominating and Compensation Committees.
Outside Director	Minoru Amoh	Board of Directors' meetings 16/16 (100%)	Fulfilled the role appropriately by making active and useful statements at meetings of the Board of Directors, leveraging his extensive experience as a corporate manager in the manufacturing industry and high level of insight into global business development, technology development, etc. In addition, served as a member of the Nominating and Compensation Committees.
Outside Director	Yutaka Fujiwara	Board of Directors' meetings 16/16 (100%)	Fulfilled the role appropriately by making active and useful statements at the meetings of the Board of Directors, leveraging his extensive experience as a manager of overseas operations and a financial officer in manufacturing industry at a financial institution, and high level of insight into business management, financial strategy, governance, etc. In addition, served as a member of the Nominating and Compensation Committees.
Outside Director	Yukino Kikuma	Board of Directors' meetings 16/16 (100%)	Fulfilled the role appropriately by making active and useful statements at meetings of the Board of Directors, utilizing her extensive experience as an attorney at law and high level of insight into corporate legal affairs, including compliance and risk management, etc. In addition, served as a member of the Nominating and Compensation Committees.

Position	Name	Attendance at meetings	Main Activities
Outside Audit & Supervisory Board Member	Tatsuhiko Takai	Board of Directors' meetings 16/16 (100%) Audit & Supervisory Board meetings 14/14 (100%)	Fulfilled the role appropriately by making active and useful statements at the meetings of the Board of Directors and Audit & Supervisory Board, leveraging his abundant experience as CFO and audit & supervisory board member in the manufacturing industry and high level of insight into financial accounting and corporate planning, etc.
Outside Audit & Supervisory Board Member	Shuhei Sakuno	Board of Directors' meetings 16/16 (100%) Audit & Supervisory Board meetings 14/14 (100%)	Fulfilled the role appropriately by making active and useful statements at the meetings of the Board of Directors and Audit & Supervisory Board, leveraging his abundant experience as a corporate management officer in the manufacturing industry and high level of insight into financial accounting, internal controls, risk management and development of internal audit structure, etc.
Outside Audit & Supervisory Board Member	Ayako Kobayashi	Board of Directors' meetings 16/16 (100%) Audit & Supervisory Board meetings 14/14 (100%)	Fulfilled the role appropriately by making active and useful statements at meetings of the Board of Directors and Audit & Supervisory Board, utilizing her extensive experience as an attorney at law and high level of insight into corporate legal affairs, including compliance and risk management.

Matters regarding Financial Auditor

(i) Name

Ernst & Young ShinNihon LLC

(ii) Amount of remuneration

Amount of remuneration to be paid by the Company for services with respect to the current fiscal year a. Amount of remuneration to be paid for services stipulated in Article 2, paragraph (1) of the Certified Public Accountants Act b. Amount of remuneration to be paid for services (non-auditing services) other than those stipulated in Article 2, paragraph (1) of the Certified Public Accountants Act	 ¥76 million ¥22 million
Total amount of money and other financial benefits to be paid to Financial Auditor by the Company and its subsidiaries	¥124 million

Notes:

1. In the audit contract between the Company and Financial Auditor, remuneration paid for audits under the Companies Act and audits under the Financial Instruments and Exchange Act are not distinguished and cannot be practically separated. Therefore, the amount of payment for both is shown in Amount of remuneration above.
2. The Company pays to the Financial Auditor a consideration for the support for developing the Group's Accounting Policy, which is non-auditing services other than those stipulated in Article 2, paragraph (1) of the Certified Public Accountants Act.
3. Significant overseas subsidiaries of the Company receive audits from auditors other than the Company's Financial Auditor.

(iii) Reason for Audit & Supervisory Board' consent toward the remuneration of the Financial Auditor

In accordance with the auditing standards determined by the Audit & Supervisory Board, the Audit & Supervisory Board has reviewed whether the Financial Auditor's audit plans will provide an auditing system and auditing timeframe sufficient to secure the quality of audits, and the members have considered and deliberated matters such as the effectiveness and efficiency of the audits in the previous period, whether there is additional remuneration to calculate, the auditing timeframe and remuneration units trends in previous years, the basis for estimating remuneration, and the status of non-auditing services agreement. Based on the results of such review and deliberation, the Audit & Supervisory Board determined that the Financial Auditor's audit plans were appropriate, and that the amount of remuneration was commensurate with the Financial Auditor's duties. Accordingly, the Audit & Supervisory Board provided their consent toward the remuneration of the Financial Auditor.

(iv) Policy for determining the dismissal or non-reappointment of the Financial Auditor

a. The Audit & Supervisory Board will, by the unanimous consent of all members thereof, dismiss the Financial Auditor if the Financial Auditor is deemed to fall under any of the items listed in Article 340, paragraph (1) of the Companies Act.

b. The Audit & Supervisory Board will determine the contents of a proposal to the General Meeting of Shareholders for the dismissal or non-reappointment of the Financial Auditor and the contents of a proposal for a new Financial Auditor in cases where it is judged that the Financial Auditor is unable to maintain the quality of audits or to continue to duly perform its duties, such as cases where there is serious doubt regarding the Financial Auditor's independence or aptitude, and cases where there are serious deficiencies in the system for enabling the Financial Auditor to duly perform its duties, and where there is no prospect of making improvements to secure the quality of audits.

c. If the Audit & Supervisory Board comprehensively reviews the existing Financial Auditor, including with respect to quality of audits, independence, aptitude, reliability, effectiveness, and efficiency, and concludes that it will be necessary to elect a new Financial Auditor with prospects of delivering more suitable audits, the Audit & Supervisory Board will determine the contents of a proposal to the General Meeting of Shareholders for the non-reappointment of the existing Financial Auditor and the election of the new Financial Auditor.

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

1. Systems for ensuring the appropriateness of operations

   The Company stipulated the Basic Policy on Internal Control at the Board of Directors to arrange the system to ensure the appropriateness of operations.

   [1] Basic Policy on Internal Control

   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 Incorporation
      (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 Incorporation, 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 Executive Directors and Executive Officers and shall oversee the performance of the duties of each director.
      (3) Audit & Supervisory Board Members shall carry out auditor audits of the performance of the duties of Directors based on the rules of the Audit & Supervisory Board and the standards for auditor 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 & 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 Incorporation.
(4) Representative Directors, 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 & 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 auditors of subsidiaries that have established boards of auditors, Standing Audit & Supervisory Board Members shall cooperate closely with the Financial 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 & 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 & 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 & Supervisory Board Members

(1) The Auditors Board Office, under the direct control of the Audit & Supervisory Board, shall be established as an organization to assist in the duties of the Audit & Supervisory Board and Audit & 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 & Supervisory Board in addition to performing its duties as instructed by Audit & Supervisory Board Members.

8. Matters related to securing the independence from Directors of employees assisting in the duties of Audit & Supervisory Board Members as described in the preceding paragraph and to ensuring the efficacy of the instructions of Audit & 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 Directors and shall not serve in other concurrent business-execution posts. However, they may serve concurrently as auditors of subsidiaries.
   (2) The prior consent of the Audit & 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 & Supervisory Board in accordance with the rules of the Audit & Supervisory Board.

9. Structures for reporting by directors and employees of the Company and subsidiaries to Company Audit & Supervisory Board Members, structures for other reporting to Audit & 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 auditors of subsidiaries shall report swiftly to Company Audit & Supervisory Board Members concerning any acts in violation of laws, regulations, or the Articles of Incorporation and other acts, matters, or states with a major impact on Company management or business results.
   (2) Company Directors and directors and auditors of subsidiaries shall respond appropriately to any requests from Company Audit & 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 & Supervisory Board Members, report to Audit & 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 & Supervisory Board Members.
   (5) The C&C Control Committee shall share information with Audit & 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 & Supervisory Board Members or policies related to processing of obligations
    (1) Costs recognized to be necessary for the performance of duties of the Audit & Supervisory Board and Audit & 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 & Supervisory Board Members and the Audit & Supervisory Board shall be borne by the Company, including those paid in advance.

11. Other structures for ensuing the efficacy of auditing by Audit & Supervisory Board Members
    (1) In addition to periodically holding meetings for exchange of opinions with Representative Directors, the Audit & Supervisory Board Members also shall establish opportunities for exchange of information and opinions with Executive Directors and Executive Officers concerning management topics.
    (2) The Audit & Supervisory Board shall periodically hold a Tripartite Audit Assembly among the Financial Auditor, Audit & 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 & Supervisory Board shall periodically hold a Four-Party Audit and Supervision Meeting among the Financial Auditor, Audit & 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 & Supervisory Board Members and the oversight functions of independent Directors.
    (4) Standing Audit & Supervisory Board Members may serve concurrently as auditors of subsidiaries that have board of auditors 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 & Supervisory Board Members and the Audit & Supervisory Board may employ attorneys, certified public accountants, and other professionals.

[2] Internal Control System and Corporate Governance Structure

(1) 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, Financial Auditor and Internal Audit Office work closely to assess the effectiveness of group-wide internal controls.

As for internal audits, the Internal Audit Office audits and confirms the functioning of internal controls through operational and internal control audits of the Company and its Group companies, as well as monitors the status of group-wide internal controls and appropriateness of business processes. Audit results, etc. are communicated to the President and Chief Executive Officer, 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.

(2) Corporate governance structure

(i) Basic approach to corporate governance

The Group recognizes that the effective functioning of corporate governance contributes to the fulfillment of corporate social responsibility, improvement of management efficiency and transparency, and sustainable enhancement of corporate value. For this, we aim to achieve effective corporate governance by responding to the trust of all stakeholders, fulfilling our corporate social mission and responsibilities, emphasizing compliance, and developing and continuously operating an appropriate and timely top management and business execution structure that can respond to changes in the business environment.

To realize these aims, the Group strives to enhance and strengthen corporate governance based on the "Basic Policy on Corporate Governance."

*Please refer to the following website for details on matters related to corporate governance, including the "Basic Policy on Corporate Governance" and the "Corporate Governance Report."

Overview of corporate governance: https://www.kitz.com/en/sustainability/governance/

(ii) Corporate governance system

The Company has adopted a company with a board of auditors as its organizational design under the Companies Act, and while aiming to strengthen its management oversight function by appointing Independent Outside Directors as one third or more of the members of the Board of Directors, the Company has adopted an executive officer system in order to make swift decisions regarding business execution.

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 Members and Audit & Supervisory Board provide highly effective oversight of the Board of Directors from an independent and objective standpoint. The Company accordingly judges the corporate governance system to be functioning effectively.

The Company has judged that it is appropriate to shift its organizational design to a company with a nominating committee, etc. to further strengthen the corporate governance system, and at this General Meeting of Shareholders, the Company has presented proposals to amend the Articles of Incorporation to accompany the shift to a company with a nominating committee, etc. in Proposal 1 "Partial amendments to the Articles of Incorporation," and to elect Directors as a condition for shifting to a company with a nominating committee, etc. in Proposal 2 "Election of ten (10) Directors."

(iii) Board of Directors/Directors

Based on their fiduciary responsibility and accountability for management to shareholders, the Board of Directors and the Directors have a mission to ensure sustainable growth of the Company and maximize corporate value over the medium-to-long term. To fulfill such responsibilities, the Board of 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, deliberate on important matters stipulated in laws and regulations, the Articles of Incorporation, and the Rules of Board of Directors, and make management decisions. In addition, Directors mutually oversee execution of duties by receiving regular reports on the status of business execution from each Executive Director. As of December 31, 2023, the Board of Directors consists of seven (7) Directors, four (4) of whom are Independent Outside Directors (the majority of the Board of Directors), to strengthen the management oversight function. To ensure diversity of Board of Directors, one (1) female Director (Outside Director) is appointed.

In principle, the Board of Directors holds regular Board of Directors meetings every month, quarterly Board of Directors meetings for financial results, and extraordinary Board of Directors meetings as necessary.

(iv) Nominating Committee/Compensation Committee

Regarding the appointment of candidates for Directors, Audit & Supervisory Board Members and Executive Officers, and the remuneration of Directors and Executive Officers, the Board of Directors has, in order to ensure fairness and transparency, established the Nominating Committee and the Compensation Committee, with the majority of which are composed of their members being Independent Outside Directors, as voluntary advisory bodies to the Board of Directors.

Based on the "Officers' Election and Dismissal Policy" established by the Company, the Nominating Committee is responsible for the nomination of candidates for Directors, Audit & Supervisory Board Members, and Executive Officers, as well as the human resource development of candidates for the next term. The Compensation Committee deliberates on the remuneration policy for Directors and Executive Officers and other important matters related to executive remuneration, and reports the results of its deliberations to the Board of Directors.

The Nominating Committee and Compensation Committee both consist of three (3) or more Directors selected by the Board of Directors (a majority of whom are Independent

Outside Directors), and the chairman of each Committee is selected from among the Independent Outside Directors by mutual election of the Committee members. One (1) of the Committee members shall be Chairman and Director (or President and Director if the position is vacant).

(v) Ensuring the effectiveness of the Board of Directors

Each year, the Company conducts a questionnaire-based “evaluation of the effectiveness of the Board of Directors,” targeting all Directors and Audit & Supervisory Board Members, with the aim of enhancing the effectiveness of corporate governance and improving the overall functioning of the Board of Directors. Based on each principle of the Corporate Governance Code, the questionnaire survey is conducted by distributing questionnaires that require the responders name to be entered for particularly important matters and obtaining responses. According to the aggregated results of responses and opinions regarding future improvements in effectiveness, we verify the current evaluation results, share issues, and discuss future improvement measures.

The survey conducted in February 2023 included questions regarding formulating and implementing management strategies, commitment to sustainability management, the composition of the Board of Directors, officer nomination/remuneration, audits, Outside Directors, invigorating Board of Directors deliberations, and responding to shareholders, investors, and other stakeholders. Feedback regarding discussions at Board meetings was also collected. The results indicated that the Board of Directors was considered to generally be effective.

(vi) Audit & Supervisory Board/Audit & Supervisory Board Members

The 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, based on their fiduciary responsibility and accountability to shareholders. 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 Financial Auditor. In addition, they monitor the performance of reporting obligations of Executive 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 express necessary opinions in the Board of Directors.

The Audit & Supervisory Board prepares audit reports, conducts auditor audits in accordance with the Standards for auditor audits, audit plans, and role assignments, and monitors the execution of Directors' duties and verifies the fulfillment of legal obligations. In addition, it confirms the quality control system, independence and other matters related to the Financial Auditor, monitors the performance of its duties, and verifies the reasonableness of the audit results. Furthermore, the Audit & Supervisory Board deliberates on the appropriateness of the reappointment of the Financial Auditor for each fiscal year, as well as on the appropriateness of the audit plan and audit fee.

As of December 31, 2023, the Audit & Supervisory Board consists of five (5) Audit & Supervisory Board Members, three (3) of whom are Outside Audit & Supervisory Board Members (independent officers) to ensure highly effective audits and strengthen the management oversight function. In addition, based on the "Officers' Election and Dismissal Policy," the Audit & Supervisory Board is composed of Audit & Supervisory Board Members with well-balanced knowledge, experience, ability, and expertise necessary to fulfill the roles and responsibilities of Audit & Supervisory Board Members as a whole, and includes at least one (1) person with sufficient knowledge of finance and accounting. Furthermore, in order to ensure diversity in the Audit & Supervisory Board, one (1) female Audit & Supervisory Board Member (Outside Audit & Supervisory Board Member) is appointed.

In principle, the Audit & Supervisory Board holds regular Audit & Supervisory Board meetings every month, and extraordinary Audit & Supervisory Board meetings are held as necessary. In addition, the Audit & Supervisory Board holds a Tripartite Audit Assembly with the Financial Auditor and Internal Audit Office on a regular basis to mutually share reports and audit information and exchange opinions on key audit points, etc., in an effort to coordinate internal audits, financial audits, and auditor audits. Furthermore, for two or three times a year of the Tripartite Audit Assembly, Four-Party Audit and Supervision Meeting is held with the addition of an Independent Outside Director to share information and exchange opinions.

(vii) Independent Officers

The Company has established the "Standards for Judging the Independence of Outside Directors and Outside Audit & Supervisory Board Members," and they have stricter requirements than the criteria set by the Tokyo Stock Exchange for determining the independence of outside officers. In addition, all Outside Directors and Outside Audit & Supervisory Board Members meet the "Standards for Judging the Independence of Outside Directors and Outside Audit & Supervisory Board Members" of the Company and the "Independence Criteria for Outside Officers" stipulated by the Tokyo Stock Exchange, and have been reported to the Tokyo Stock Exchange as independent officers.

(viii) System for promoting compliance management

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 / Risk Management Committee (hereinafter, the “C&C Control Committee”) chaired by the President of each company. The committee is 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.

(ix) System for promoting risk management

Under the supervision of the Board of Directors, the C&C Control Committee, chaired by the President and Chief Executive Officer, 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 the Company and its Group companies.

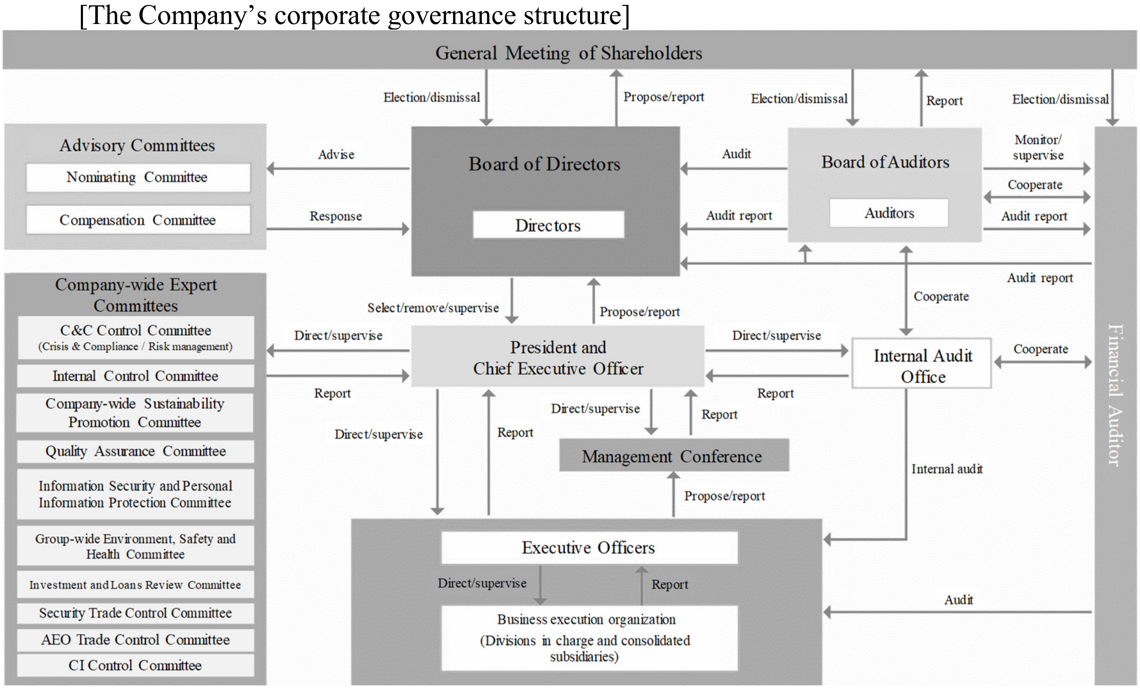
In accordance with the basic policy and criteria for risk assessment formulated by the C&C Control Committee, the criticality of impact of risks on the management is quantitatively assessed based on the two axes of “frequency of risk events” and “degree of impact on management” for the assumed risks (128 items in total) related to business activities to identify and evaluate 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 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. Executive officers and presidents of Group companies are responsible for planning and implementing the necessary countermeasures.

The identified "major risks" 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. 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 or reduce risks.

In addition, the Board of Directors conducts necessary deliberations, based on the reports of "critical risks" identified by the Management Conference, countermeasures formulated, and the assessment results of the Internal Audit Office, and makes the final decision and supervises risk management in the Group.

[The Company's corporate governance structure]



(As of December 31, 2023)

2. Summary of the operational status of systems for ensuring the appropriateness of operations

In the 110th term, mainly the following initiatives were carried out to operate systems for ensuring the appropriateness of operations.

[1] Internal Control System

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 companies, 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 Group companies' internal controls and deliberated on future plans.
c. The Internal Audit Office implemented 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 Group companies above a certain scale. In addition, the Company was subject to an internal control audit performed by the Financial Auditor.

[2] Corporate Governance

(1) Board of Directors/Directors

a. The Board of Directors held 16 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 Group companies. Compliance, risk management, internal controls, sustainability promotion, quality assurance, information security, investment and financing, and other important matters were reported.
b. Based on the Basic Policy on Internal Control, which was stipulated by the Board of Directors, the Board of Directors and the Directors received the evaluation results of the effectiveness of internal controls from an officer in charge of the Internal Audit Office and offered advice and supervision for improvement.
c. 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.

d. Change in the organizational structure, business portfolio, investment for growth, avoidance of geographical risks, etc., were discussed at the Board of Directors.
e. The “KITZ Group Management Plan 2023” was agreed upon at the Board of Directors and announced.
f. Measures related to the management paying close attention to cost of capital and share price were resolved at the Board of Directors and announced.
g. In order to promote the understanding of the Group’s business and management environment, the Board of Directors has provided Directors and Audit & Supervisory Board Members, 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.
h. 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 2023. A summary of the evaluation is available in the Corporate Governance Report. The Company confirmed that the Board of Directors operates in an effective and appropriate manner. We also received constructive comments, including points to be modified, such as the improvement in employee engagement, business portfolio management and Price Book-value Ratio. We will hold further discussions to address these issues and work to ensure further effectiveness.
i. The Board of Directors deliberated on nomination of each candidate for Director, Audit & Supervisory Board Member, and Executive Officer after receiving reports from the Nominating Committee. It also deliberated on nomination of each candidate for Director, Executive Officer, etc., related to the change in the organizational structure as well as each candidate for members and chairman of committees after receiving reports from the Nominating Committee.
j. The Board of Directors deliberated on the remuneration for Directors and Executive Officers and the provision of incentives to Directors to continuously enhance the corporate value of the Group after receiving reports from the Compensation Committee. In addition, it discussed the remuneration system for the Directors, Executive Officers, etc., associated with the change in the organizational structure after receiving reports from the Compensation Committee.
k. 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 security analysts, and participated in IR events for individual investors.

l. The Directors and Executive Officers who supervise the Group companies served concurrently as directors or auditors of the Group companies. They not only attended meetings of the Group companies' boards of directors, but also audited and monitored the execution of duties by the directors.
m. 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.

(2) Audit & Supervisory Board/Audit & Supervisory Board Members

a. The Audit & Supervisory Board held 14 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 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 Audit & Supervisory Board organized five meetings of Tripartite Audit Assembly to strengthen collaboration with the Financial Auditor and the Internal Audit Office and improve the effectiveness and efficiency of each party's audits. The Audit & Supervisory Board organized one meeting of Four Parties Audit and Supervision Meeting, including independent Outside Directors, and strove to link audit and supervisory functions. In addition, Audit & Supervisory Board Members held three conferences of exchange opinions with the Representative Director, expressing their opinions as necessary.
d. The Auditors Board Office provided the Audit & Supervisory Board Members with information useful for audit, and facilitated the auditing duties of Audit & Supervisory Board Members while liaising with the Financial Auditor and other parties to enhance the effectiveness of auditor audits.

[3] Compliance

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 Group companies, the President and Chief Executive Officer himself took the initiative in implementing these to thoroughly comply with laws and regulations and corporate ethics.

c. In the 109th term, 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 and promotion structure of the compliance management, the Compliance Code of Conduct, and the whistleblowing system. We enhanced the description concerning social issues such as human rights, labor, environment, and prevention of corruption and translated the guidebook into the language of each country where the KITZ Group has business bases to distribute it to directors, executive officers and employees of KITZ and Group companies around the world. In addition, during the 110th term, we explained and raised awareness about compliance by creating a guidebook and video to explain compliance breach cases and provide online education to employees of the Company and all Group companies in Japan and overseas.

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 Group companies, 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 in person and online via an e-learning method to raise awareness and improve knowledge of compliance management. We focused on planning and executing face-to-face compliance training in Group companies in foreign countries, including Thailand, China and Taiwan, in particular.

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] Risk Management

a. Based on the results of analysis, assessment, planning of countermeasures, and implementation for the risks identified in each business unit and Group company, the progress was reported to the Board of Directors and the Management Conference, 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 crisis response, compliance, risk management, internal control, sustainability promotion, quality assurance, information security, personal information protection, the environment, safety and health, investment and loans, security trade, AEO trade, and corporate identity (CI).

[Consolidated Financial Statements]

Consolidated Statements of Changes in Net Assets (From January 1, 2023 to December 31, 2023)

(Units: Millions of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of start of current fiscal year	**21,207**	**5,729**	**57,911**	**(460)**	**84,387**
Changes during fiscal year					
Dividends from surplus			(3,244)		(3,244)
Net income attributable to owners of the parent			10,591		10,591
Acquisition of treasury stock				(66)	(66)
Sales of treasury stock		3		13	16
Restricted stock compensation		6		54	61
Items other than changes in shareholders' equity, net					
Total change during fiscal year	**–**	**10**	**7,347**	**1**	**7,358**
Balance as of end of current fiscal year	**21,207**	**5,739**	**65,258**	**(459)**	**91,745**

	Accumulated other comprehensive income				Share award rights	Non–controlling interests	Total net assets
	Net unrealized gains on other securities	Translation adjustments	Cumulative adjustments related to retirement benefits	Total accumulated other comprehensive income			
Balance as of start of current fiscal year	**1,916**	**3,716**	**(79)**	**5,553**	**20**	**1,081**	**91,042**
Changes during fiscal year							
Dividends from surplus							(3,244)
Net income attributable to owners of the parent							10,591
Acquisition of treasury stock							(66)
Sales of treasury stock							[illegible]
Restricted stock compensation							[illegible]
Items other than changes in shareholders' equity, net	286	3,218	69	3,574	(20)	251	3,806
Total change during fiscal year	**286**	**3,218**	**69**	**3,574**	**(20)**	**251**	**11,164**
Balance as of end of current fiscal year	**2,203**	**6,935**	**(9)**	**9,128**	**—**	**1,333**	**102,207**

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: 35

The consolidated subsidiaries are:

KITZ Corp. of America, Metalúrgica Golden Art's Ltda., KITZ Corp. 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 Corp. of Asia Pacific Pte. Ltd., KITZ Corp. of Korea, KITZ Corp. of Vietnam Co., Ltd., 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. Since KITZ Corp. of Vietnam Co., Ltd. was newly established, we brought the company into the scope of consolidation.

2. 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.

3. Cephas Pipelines Corp. and KITZ Corp. of Korea merged on September 20, 2023; the surviving company is Cephas Pipelines Corp. and the disappearing company is KITZ Corp. of Korea. Cephas Pipelines Corp., the surviving company, was renamed KITZ Corp. of Korea.

(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 Pvt. Ltd. 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 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 allocation treatment for monetary receivables and payables denominated in foreign currencies with forward exchange contracts that fulfill the requirements of allocation treatment, and exceptional accounting method for interest rate swaps that fulfill the requirements for exceptional accounting.

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 group tax sharing system

The Company has applied the group tax sharing system since the year ended December 31, 2023.

c. Application of "Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System"

The Company and some of its consolidated domestic subsidiaries transited from the consolidated tax payment system to the group tax sharing system from this fiscal year. Accordingly, as for the accounting and disclosure of corporation tax, local corporate tax and tax effect accounting, the "Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System" (Practical Solution No. 42, August 12, 2021, hereinafter referred to as "Practical Solution No. 42"), is applied. Moreover, we believe that there is no effect from the changes in accounting policies based on the Practical Solution No. 42 Paragraph 32 (1), along with the application of Practical Solution No. 42.

2. Notes on Changes in Presentation Method

(Consolidated balance sheet)

The amount of "Leased assets," which had been included in "Other" under property, plant and equipment up until the previous fiscal year, is presented separately from the current fiscal year as "Leased assets" has exceeded 1% of the total amount of assets.

The amount of "Leased assets" was ¥1,583 million in the previous year.

(Consolidated statements of income)

The amount of "Insurance income," which had been included in "Other" under non-operating income up until the previous fiscal year, is presented separately from the current fiscal year as "Insurance income" has exceeded 10% of the total amount of non-operating income.

The amount of "Insurance income" was ¥129 million in the previous year.

3. 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	¥242 million
Property, plant and equipment	¥49,932 million
Intangible assets	¥1,964 million
Investments and other assets	¥190 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. Additionally, 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
The Company	Investments and other assets	¥190 million
Shimizu Alloy Mfg. Co., Ltd.	Property, plant and equipment	¥3,098 million
KITZ Corp. of Korea	Property, plant and equipment	¥852 million
KITZ Corp. of Korea	Intangible assets	¥15 million

Based on the result of review, regarding assets or asset groups for which the recoverable amount is less than the book value, the book value is reduced to the recoverable amount, and the amount of reduction is recorded as an impairment loss.

Such estimates are affected by 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.

4. 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 396,076, the carrying amount of which is ¥236 million.

5. 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	¥139 million
Machinery	¥0 million
Land	¥559 million

(ii) Secured liabilities

Not applicable.

(3) Accumulated depreciation of property, plant and equipment ¥87,159 million

(4) Contingent liabilities

Amount of discount in notes receivables and electronically recorded monetary claims

¥177 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 ¥134 million in notes receivable–trade and ¥719 million in electronically recorded monetary claims.

6. 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 22, 2023	Common stock	1,622	18	December 31, 2022	March 13, 2023
Board of Directors meeting held on August 7, 2023	Common stock	1,622	18	June 30, 2023	September 19, 2023
Total		3,244	36		

Notes:

1. 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.
2. The total amount of dividends to be paid based on the resolution of the Board of Directors on August 7, 2023 includes ¥7 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 27, 2024:

a. Total amount of dividends ¥2,072 million

b. Source of dividends Retained earnings

c. Dividends per share ¥23

d. Record date December 31, 2023

e. Effective date March 11, 2024

Note: The total amount of dividends to be paid based on the resolution of the Board of Directors on February 27, 2024 includes ¥9 million of dividend payable for the Company's shares held through the BIP Trust.

(3) 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.

7. 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 and risk of exchange rate fluctuations, but are hedged using derivatives.

Derivative transactions include forward exchange contracts and currency swaps 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 and foreign currency-denominated long-term debts are hedged against the risk of exchange rate fluctuations by using forward exchange contracts and currency swaps in accordance with internal management regulations. In addition, the Group uses 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, 2023.

(Units: Millions of yen)

	Amount recorded on consolidated balance sheet (*3)	Fair value (*3)	Difference
(i) Investment securities			
Stocks of affiliates	1,724	[illegible]	326
Other securities	4,950	[illegible]	–
(ii) Corporate bonds	(30,405)	(30,218)	186
(iii) Long-term debt	(5,110)	(5,130)	(19)
(iv) Derivative transactions (*4)	(19)		–

*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.

(i) 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	4,950	–	–	4,950
Asset Total	4,950	–	–	4,950
Derivative transactions Currency-related	–	19	–	19
Liability Total	–	19	–	19

(ii) 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	2,051	–	–	2,051
Asset Total	2,051	–	–	2,051
Corporate bonds	–	30,218	–	30,218
Long-term debt	–	5,130	–	5,130
Liability Total	–	35,348	–	35,348

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. 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.

8. Notes on Per-Share Information

(1) Net assets per share	¥1,124.39
(2) Net income per share	¥118.07

Notes:

1. Basis for calculating net income per share

Net income attributable to owners of the parent	¥10,591 million
Amount not attributable to common shareholders	¥– million
Net Income attributable to owners of the parent pertaining to common stock	¥10,591 million
Average number of shares outstanding during the term	89,696,278 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: 396,076 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: 404,142 shares)

9. Notes on Revenue Recognition

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

(Units: Millions of yen)

	Reporting segment			Others (Note 1)	Total
	Valve Manufacturing	Brass Bar Manufacturing	Total		
Japan	80,241	27,362	107,604	2,423	110,027
the Americas	18,089	–	18,089	–	18,089
Europe	4,638	–	4,638	–	4,638
China	12,244	744	12,989	–	12,989
ASEAN	11,401	295	11,697	–	11,697
India	2,266	21	2,287	–	2,287
Other	7,134	1	7,136	–	7,136
Revenue arising from contracts with customers	136,016	28,425	164,441	2,423	166,864
Other revenue (Note 2)	–	–	–	76	76
Sales to external customers	136,016	28,425	164,441	2,499	166,941

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)	32,890
Receivables arising from contracts with customers (balance at the end of the period)	33,719
Contract assets (balance at the beginning of the period)	646
Contract assets (balance at the end of the period)	560
Contract liabilities (balance at the beginning of the period)	815
Contract liabilities (balance at the end of the period)	1,351

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.

Among the revenue recognized during the current consolidated fiscal year, the amount included in the balance of contract liabilities at the beginning of the period is ¥815 million.

(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, which arises from the contract with the customer, has no amount of money not included in the transaction price.

10. 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	¥5,391 million
Pension plan assets	¥(5,406) million
	¥(14) million
Unfunded retirement benefit obligations	¥568 million
Net liabilities and assets recorded on the consolidated balance sheet	¥553 million
Retirement benefit liabilities	¥799 million
Retirement benefit assets	¥(245) million
Net liabilities and assets recorded on the consolidated balance sheet	¥553 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 1.159% and 2.520%.

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

Balance at beginning of current fiscal year	¥500 million
Increase associated with purchase of property and equipment	¥135 million
Reconciliation associated with the passage of time	¥7 million
Decrease associated with the performance of asset retirement obligations	¥(0) million
Other changes (decrease indicated in brackets)	¥4 million
Balance at end of fiscal year	¥646 million

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

[Non-Consolidated Financial Statements]

Non-Consolidated Statements of Changes in Net Assets (From January 1, 2023 to December 31, 2023)

(Units: Millions of yen)

	Shareholders' equity					
		Capital surplus		Retained earnings		
				Other retained earnings		
	Common stock	Legal capital surplus	Other capital surplus	Retained earnings brought forward	Treasury stock	Total shareholders' equity
Balance as of start of current fiscal year	**21,207**	**5,715**	**2**	**27,276**	**(460)**	**53,741**
Changes during fiscal year						
Dividends from surplus				(3,244)		(3,244)
Net income				6,957		6,957
Acquisition of treasury stock					(66)	(66)
Sales of treasury stock			3		13	16
Restricted stock compensation			6		54	61
Items other than changes in shareholders' equity, net						
Total change during fiscal year	**–**	**–**	**10**	**3,713**	**1**	**3,725**
Balance as of end of current fiscal year	**21,207**	**5,715**	**12**	**30,990**	**(459)**	**57,466**

	Valuation and translation adjustments			
	Net unrealized gains on other securities	Total valuation and translation adjustments	Share award rights	Total net assets
Balance as of start of current fiscal year	**1,884**	**1,884**	**20**	**55,645**
Changes during fiscal year				
Dividends from surplus				(3,244)
Net income				6,957
Acquisition of treasury stock				(66)
Sales of treasury stock				16
Restricted stock compensation				61
Items other than changes in shareholders' equity, net	265	265	(20)	245
Total change during fiscal year	**265**	**265**	**(20)**	**3,970**
Balance as of end of current fiscal year	**2,150**	**2,150**	**–**	**59,616**

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 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 allocation treatment for monetary receivables and payables denominated in foreign currencies with forward exchange contracts that fulfill the requirements of allocation treatment, and exceptional accounting method for interest rate swaps that fulfill the requirements for exceptional accounting.

(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 loans receivable denominated in foreign currencies and 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 group tax sharing system

The Company has applied the group tax sharing system since the fiscal year ended December 31, 2023.

(iii) Application of “Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System”

The Company transited from the consolidated tax payment system to the group tax sharing system from this fiscal year. Accordingly, as for the accounting and disclosure of corporation tax, local corporate tax and tax effect accounting, the “Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System” (Practical Solution No. 42, August 12, 2021, hereinafter referred to as “Practical Solution No. 42”), is applied. Moreover, we believe that there is no effect from the changes in accounting policies based on the Practical Solution No. 42 Paragraph 32 (1), along with the application of Practical Solution No. 42.

2. Notes on Changes in Presentation Method

(Non-consolidated statements of income)

The amount of "Losses on sales of notes receivable," which had been included in "Other" under non-operating expenses up until the previous fiscal year, is presented separately from the current fiscal year as "Losses on sales of notes receivable" has exceeded 10% of the total amount of non-operating expenses.

The amount of "Losses on sales of notes receivable" was ¥36 million in the previous year.

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	¥32,174 million (KITZ Corp. of Korea ¥1,390 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 "3. 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 KITZ Corp. of Korea. 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 to the Balance Sheets

(1) Accumulated depreciation of property, plant and equipment ¥37,343 million

(2) Contingent liabilities

The liabilities for the borrowings of the following subsidiaries and affiliates

Hotel Beniya Co., Ltd.	¥5 million
KITZ SCT Corporation	¥100 million
Micro Pneumatics Pvt. Ltd.	¥1 million
KITZ Corp. of Korea	¥924 million
Total	¥1,031 million

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

Short-term monetary receivables	¥11,744 million
Long-term monetary receivables	¥3,782 million
Short-term monetary payables	¥9,440 million
Long-term monetary payables	¥4 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 ¥41 million in notes receivable–trade and ¥366 million in electronically recorded monetary claims.

5. Notes to the Statement of Income

Transactions with affiliates during the current fiscal year

Net sales	¥22,602 million
Purchases	¥25,022 million
Selling, general and administrative expenses	¥165 million
Non-business transactions	¥4,463 million

6. 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	697,124	77,200	92,683	681,641

Notes:

1. The 77,200 increase in shares during the current fiscal year reflects the 76,600 increase in shares following the purchase of shares of treasury stock based on the resolution of the Board of Directors and the 600 increase in shares following the purchase of less-than-one-unit shares.
2. The 92,683 decrease in shares during the current fiscal year reflects the 70,172 decrease in shares following the disposition of shares of treasury stock as stock compensation with restrictions on transfer and the 22,511 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 396,076 shares held in the BIP Trust.

7. Notes on Tax Effect Accounting

Significant components of deferred tax assets and deferred tax liabilities

(Deferred tax assets)	
Accrued bonuses to employees	¥415 million
Provision for retirement benefits	¥64 million
Loss on valuation of stocks of subsidiaries and affiliates	¥1,884 million
Loss on valuation of investment securities	¥133 million
Impairment loss	¥477 million
Loss on valuation of inventories	¥243 million
Other	¥893 million
Deferred tax assets (subtotal)	¥4,109 million
Valuation allowance	¥(2,680) million
Deferred tax assets (total)	¥1,429 million
(Deferred tax liabilities)	
Net unrealized gains on other securities	¥(833) million
Other	¥(76) million
Deferred tax liabilities (total)	¥(909) million
Deferred tax assets	¥519 million

8. Notes on Transactions with Related Parties

(1) 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 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	7,882	Accounts receivable–trade	731
Subsidiary	KITZ Corporation of Taiwan	100% direct holding	1	Supplier to the Company	The Company procures finished goods from the affiliate	8,942	Accounts payable–trade	1,226
Subsidiary	KITZ (Thailand) Ltd.	92% direct holding	–	Supplier to the Company	The Company procures finished goods from the affiliate	8,606	Accounts payable–trade	1,603
Subsidiary	KITZ Metal Works Corporation	100% direct holding	2	Supplier to the Company	The Company lends the affiliate funds	33,829	Short-term loans receivable Long-term loans receivable	6,980 2,153
Subsidiary	Shimizu Alloy Mfg. Co., Ltd.	100% direct holding	1	Customer of the Company	The receipt of dividends	1,192	–	–
Subsidiary	KITZ SCT Corporation	100% direct holding	2	Supplier to the Company	The Company lends the affiliate funds The receipt of dividends	15,836 896	Short-term loans receivable Long-term loans receivable	822 1,282

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

(2) Officers and major individual shareholders

Type of related party	Name	Share of voting rights held	Relationship with the related party	Description of transactions	Transaction amount (million yen)	Account item	Balance at end of fiscal year (million yen)
Officer	Yasuyuki Hotta	0.2% direct holding	Chairman and Representative Director of the Company	Disposal of treasury stock as a result of contribution in kind of monetary remuneration claims	12	–	–
Officer	Makoto Kohno	0.1% direct holding	President and Chief Executive Officer of the Company	Disposal of treasury stock as a result of contribution in kind of monetary remuneration claims	13	–	–

Note: This is due to contribution in kind of monetary remuneration claims associated with the restricted stock compensation plan. The disposal price of treasury stock was determined based on the closing price of common stock of the Company on the Tokyo Stock Exchange on March 28, 2023 (the business day preceding the date of the resolution at the Board of Directors meeting for this disposal of treasury stock).

9. Notes on Per-Share Information

(1) Net assets per share ¥664.50

(2) Net income per share ¥77.56

Notes:

1. Basis for calculating net income per share

Net income	¥6,957 million
Amount not attributable to common shareholders	¥– million
Net income attributable to common stock	¥6,957 million
Average number of shares outstanding during the term	89,696,278 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: 396,076 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: 404,142 shares)

10. 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, 9. Notes on Revenue Recognition."

11. Other Notes

(1) Notes on retirement benefits

Retirement benefit obligations and the breakdown thereof

(i) Retirement benefit obligations	¥3,706 million
(ii) Pension plan assets	¥(3,895) million
(iii) Unfunded retirement benefit obligations (i) + (ii)	¥(189) million
(iv) Unrecognized actuarial gain and loss	¥2 million
(v) Prepaid pension cost (iii) + (iv)	¥(186) 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 1.159% and 2.305%.

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

Balance at beginning of current fiscal year	¥275 million
Increase associated with purchase of property and equipment	¥135 million
Reconciliation associated with the passage of time	¥4 million
Balance at end of fiscal year	¥415 million

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