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

(1) Systems for ensuring the appropriateness of operations

The Company has set the following basic policies regarding the system to ensure that the Directors' execution of their duties complies with laws, regulations, and the Articles of Incorporation and the system to ensure the appropriateness of other operations.

Basic Policy on the Internal Control System

As stated in KITZ's Statement of Corporate Mission, the corporate philosophy of the Company and its subsidiaries (hereinafter, the "Group"), the Company's mission is "to contribute to the global prosperity" by being "dedicated to continually enriching its corporate value by offering originality and quality in all products and services." To attain this, in order to ensure that the Group has a healthy and robust operating base, the Company has, pursuant to the provisions of the Companies Act and the Regulation for Enforcement of the Companies Act, established and operates the following internal control system (systems for ensuring that the performance of duties by the Directors conforms to the applicable laws and regulations and Articles of Incorporation, and other system necessary for ensuring the properness of operations of the enterprises consisting of the Company and its subsidiaries):

1. Systems for ensuring compliance with laws, regulations, and the Company's Articles of Incorporation in the execution of duties by directors and employees of the Company and its subsidiaries
   (1) Directors and employees of the Company and its subsidiaries act in compliance with, uphold, and thoroughly observe applicable laws, regulations, the Company's Articles of Incorporation, KITZ's Statement of Corporate Mission, the Action Guide, the code of conduct related to compliance, environmental management policy, the basic policy concerning Group finances, and other policies determined by the boards of directors of the Company and its subsidiaries.
   (2) The Board of Directors receives regular reports on the status of the execution of operations from Executive Directors and Executive Officers and supervises the execution of duties of each Director.
   (3) Audit & Supervisory Board Members conduct audits of the Directors' execution of duties based on Rules of the Audit & Supervisory Board and Auditing Standards of Audit & Supervisory Board Members.
   (4) The Company has established the C&C Management Committee, chaired by the president, as a body responsible for creating a Group-wide compliance system,

ascertaining and responding to related problems, handling crises, and undertaking risk management, to promote adherence throughout the Group.

(5) The Group will establish a Group-wide whistle-blowing hotline for informing of, reporting, and advising on violations or grounds for suspicion of violation of laws, regulations, or the code of conduct related to compliance. Calls through this hotline will be handled by the Compliance Helpline set up in the Company, each of the subsidiaries, and the corporate lawyer's office.

(6) To educate and raise awareness concerning compliance, the Company distributes the Compliance Guidebook to the directors and employees of the Company and its subsidiaries, and inform them about the Compliance Helpline.

(7) The Group will take a resolute stance against "anti-social forces" (members of organized crime groups); we will avoid engaging with them, refuse to yield to any threats or respond to any demands that they may make.

2. Systems for storing and managing information related to the execution of duties by directors of the Company

(1) Important documents related to Directors' execution of duties (including electromagnetic records) will be appropriately stored and managed in accordance with laws, regulations and internal rules.

(2) Information included in the above documents, etc., is maintained so that it can be viewed when necessary by Directors and Audit & Supervisory Board Members.

3. Procedures and other systems related to managing the risk of losses to the Company and its subsidiaries

(1) An officer is put in charge of Group risk management in order to promote risk management related to the execution of the Group's business.

(2) The Management Conference identifies, analyzes and evaluates risks related to the execution of the Group's business, and considers and implements countermeasures against the risks, based on the risk management policy and evaluation standards that are developed by the C&C Management Committee. The Board of Directors determines the policy for identifying material risk items and implementing countermeasures against them.

(3) The Group will establish a Business Continuity Plan (BCP) and operate in such a way as to counter the risk of business being interrupted by emergencies such as natural disasters.

(4) In addition to establishing systems to manage various risks pertaining to business

execution of the Group, the Company manages information on risks faced by its subsidiaries by receiving approval applications and reports from subsidiaries as stipulated in Group Company Rules, and promotes risk management to prevent losses as a unified Group through internal audits by the Internal Audit Office and other measures.

(5) In order to evaluate risks pertaining to business execution of the Group, necessary steps are taken by establishing and operating a system of committees for internal control, crisis and risk management, compliance promotion, security trade controls, investment and loan evaluation, information security, and personal information protection.

4. Systems for ensuring that the Directors of the Company and its subsidiaries execute their duties efficiently

(1) Efforts are made to not only have a proper number of Directors but also to have quick decision-making by the Board of Directors and to clarify responsibility for strengthening audit functions and execution of business by introducing a system of Executive Officers.

(2) Outside Directors who have extensive experience and fair judgment are recruited, increasing the propriety and appropriateness of business decisions by the Board of Directors.

(3) Decision-making by the Boards of Directors of the Company and its subsidiaries is based on Rules of the Board of Directors and Draft Proposal Rules.

(4) The Company stipulates the scope of the Board of Directors' delegation of authority and tries to quickly and effectively conduct business based on Regulations concerning Official Authority, Draft Proposal Rules, Group Company Rules, etc.

(5) The Company formulates a Basic Management Policy, Medium-term Management Plan, Annual Business Plan related to Group business activities, which are approved at Board of Directors.

(6) The Management Conference confirms and coordinates progress related to implementing the Management Policy and Management Plan decided upon by the Board of Directors and debates and decides on important issues related to management and the execution of business.

(7) In addition to stipulating response guidelines for implementing the principals of the Corporate Governance Code and working to expand corporate governance, the Company conducts transparent, fair, quick, and bold decision-making.

(8) There is a regular examination of whether the Board of Directors is functioning

properly and efficiently, and appropriate responses are implemented based on the results of the examination.

5. Systems for ensuring that the Group executes operations appropriately
   (1) The Company formulates various rules to ensure appropriateness and efficiency of the Group's operations and builds an information system to ascertain and act upon the status of achievement of the management target.
   (2) The Company ensures that all inter-company exchanges among the Group companies are fair and appropriate in accordance with relevant laws and regulations, accounting principles and other social norms.
   (3) In accordance with Group Company Rules, the Company has stipulated an organization to manage the various subsidies and strives to properly conduct operations within the Group, which has included establishing a system for reporting matters related to the Boards of Directors of subsidiaries executing their duties, a system for managing the risk of losses, a system so that operations are efficiently conducted, and a system to ensure compliance with laws, regulations, and Articles of Incorporation.
   (4) Representative director, executive directors, and executive officers perform their allotted duties, and guide subsidiaries so that they develop and operate appropriate internal control system. They also instruct the representative director and directors of subsidiaries to store and manage information pertaining to the execution of directors' duties.
   (5) The divisions or other entities within the Company responsible for subsidiaries function as the director of the subsidiaries they are responsible for, and monitor and supervise management. The divisions also provide prior approval for important matters related to the execution of subsidiaries business based on Group Company Rules.
   (6) The corporate staff divisions, in accordance with their respective functions, guide the subsidiaries as necessary, and help them execute their business operations efficiently and appropriately.
   (7) The Company carries out internal audits of itself and its subsidiaries through its Internal Audit Office and ensures the effectiveness and propriety of internal controls with respect to the full range of each company's operations.
   (8) Depending on the level of importance thereof, the Internal Audit Office reports on operation audit plans and the state of conducting those audits to the Company's representative director, director, executive officer, and the Company's Audit &

Supervisory Board Member who are responsible for each subsidiary, and the representative director of the subsidiary.

(9) In order to ensure the reliability of financial reports, the Company evaluates, makes improvements to, and documents the state of internal controls and business process in line with the Internal Control Committee's policy, and the Board of Directors regularly checks these activities.

(10) The Standing Audit & Supervisory Board Member effectively and appropriately monitors and verifies the state of management at subsidiaries by concurrently serving as an Audit & Supervisory Board Member of subsidiaries that have such boards and collaborates closely with the Accounting Auditor and Internal Audit Office so they can ascertain the state of management throughout the Group.

(11) Directors and Directors of subsidiaries report on the execution of business that they are responsible for at venues such as Board of Directors meetings, Management Conference meetings, and other important meetings that Audit & Supervisory Board Members attend or are present at.

6. System for reporting to the Company matters related to the Boards of Directors of subsidiaries executing their duties

(1) The Company applies Group Company Rules to all subsidiaries and requires that subsidiaries seek advance approval for important business decisions and report on important business decisions to the Board of Directors and Management Conference in line with the Board of Directors and Management Conference Decision/Report Standards.

(2) The Company's Director and Executive Officer responsible for subsidiaries receive reports as necessary on important issues related to the execution of duties from the Board of Directors and employees of subsidiaries they are responsible for.

7. Assignment of employees to support the Company's Audit & Supervisory Board Members

(1) An Auditors Board Office, which is attached to the Audit & Supervisory Board, has been established as an entity to support the work of the Audit & Supervisory Board and Audit & Supervisory Board Members

(2) Employees with skills to fulfill the duties stipulated above (hereinafter, "Auditors Board Office staff") are assigned to the Auditors Board Office.

(3) The Auditors Board Office conducts duties as directed by Audit & Supervisory Board Members and conducts secretariat related operations office for the Audit & Supervisory Board.

8. Independence of the above-mentioned employees who support Audit & Supervisory Board Members from directors and the effectiveness of Audit & Supervisory Board Members instructions
   (1) The Auditors Board Office staff will serve on a full-time basis, maintain independence from Directors, and not concurrently hold any managerial positions related to the execution of the Company's business.

       However, they may concurrently serve as auditors of the Company's subsidiaries.
   (2) Prior consent of the Audit & Supervisory Board is required with regard to appointments and transfers of Auditors Board Office staff.
   (3) The Audit & Supervisory Board will conduct personnel appraisals of the Auditors Board Office staff, in accordance with the Rules of the Audit & Supervisory Board.

9. Systems for reporting to Audit & Supervisory Board Members matters concerning the execution of duties by directors and employees of the Company and its subsidiaries, other systems concerning reporting to Audit & Supervisory Board Members, and systems for ensuring that persons who make reports do not suffer any disadvantage by reason of such reporting
   (1) Directors of the Company and Directors and Audit & Supervisory Board Members of subsidiaries notify the Company's Audit & Supervisory Board Members without delay if they discover any violation of laws, regulations, or the Company's Articles of Incorporation, or any practice, matter, or circumstance, etc. that has the potential to significantly impact the Company's management or performance.
   (2) Directors of the Company and Directors and Audit & Supervisory Board Members of subsidiaries comply unerringly with any request from Audit & Supervisory Board Members of the Company to report on the status of the execution of business operations, the status of assets, or other matters. This also applies to employees of the Company and subsidiaries.
   (3) The necessary steps are taken so that parties who submit reports stipulated above do not suffer any disadvantage for submitting such a report.
   (4) The Internal Audit Office collaborates with Audit & Supervisory Board Members, report to Audit & Supervisory Board Members the results of audits and any important internal information obtained in the course of audits in a timely manner, and furnishes Audit & Supervisory Board Members with audit information when requested.
   (5) The C&C Management Committee shares with Audit & Supervisory Board Members information related to in-house reports submitted to the Group Compliance Helpline or other parties and the state of response to those reports.

10. Matters concerning policies on the settlement of expenses or liabilities incurred in connection with Audit & Supervisory Board Members' execution of duties
    (1) Expenses deemed necessary for the execution of duties by the Audit & Supervisory Board and Audit & Supervisory Board Members shall be budgeted for and recorded in advance. However, emergency and extraordinary expenses can be reimbursed afterwards.
    (2) The Company will pay the fees for the services of attorneys and other experts utilized by Audit & Supervisory Board Member and the Audit & Supervisory Board in connection with the execution of their duties, and other expenses related to such, including such expenses to be paid in advance.

11. Other systems for ensuring effective audits by Audit & Supervisory Board Members
    (1) The Audit & Supervisory Board regularly holds informal meetings with the representative director and provides opportunities to exchange information and opinions with executive directors and the executive officers concerning business-related matters.
    (2) The Audit & Supervisory Board regularly convenes a Tripartite Audit Assembly with the Accounting Auditor and the Internal Audit Office, receives reports on various issues including the state of audits, exchanges information and opinions, and works to maintain close cooperation.
    (3) The Audit & Supervisory Board regularly convenes Four-Party Audit and Supervision Meetings, which consists of the Accounting Auditor, Outside Directors, and the Internal Audit Office; works to share information and awareness based on an independent, objective perspective; and strives to improve the audit functions of Audit & Supervisory Board Members and the supervisory functions of outside officers.
    (4) Standing Audit & Supervisory Board Members may concurrently serve as Audit & Supervisory Board Members of subsidiaries with Audit & Supervisory Boards, work to ascertain the status of management, attend important meetings of the Company and subsidiaries when necessary, and state their opinions.
    (5) Audit & Supervisory Board Members and the Audit & Supervisory Board have the right to use the services of attorneys, certified public accountants, and other experts when necessary in connection with the performance of their audits.

(2) Summary of the Operational Status of Systems for Ensuring the Appropriateness of Operations

1. General matters concerning the internal control system

   (1) In order for the Group's internal control system to effectively function, the basic policies and management rules for managing the Group were set, and efforts are made to strengthen and promote the Group's internal controls through the department responsible for promoting internal controls.

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

   (3) The Basic Policy on the Internal Control System were revised to clarify the system to promote risk management.

2. General matters concerning corporate governance

   (1) The Board of Directors held 11 meetings, made decisions regarding important issues based on the Submission Standards stipulated in the Rules of the Board of Directors, and reported on the execution of operations by the Company and all consolidated subsidiaries. In addition to safety, compliance, and risks, there are also reports on the recent important issues and topics.

   (2) 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, three (3) of whom are Outside Audit & Supervisory Board Members, contributed to animated discussions on managerial matters, raising opinions, comments, and suggestions as necessary.

   (3) In order to ensure the effectiveness of the overall Board of Directors, the Board of Directors analyzed and evaluated in June 2020 by surveying all Directors, including Outside Directors, and all Audit & Supervisory Board Members, including Outside Audit & Supervisory Board Members, in May 2020. A summary of the evaluation is available in the Corporate Governance Report. The results of the investigation confirmed that the Board of Directors operates in an effective and appropriate manner. However, there were also several constructive points, such as presentation of improvements regarding the succession plans for the CEO and other officers and diversity of the Board of Directors. Therefore, the Company will discuss these points and work to ensure greater effectiveness.

(4) The Company revised the policy related to the Corporate Governance Code.

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

(6) The Executive Compensation Committee deliberated on remuneration for Directors and Executive Officers and reported on those deliberations to the Board of Directors.

(7) The Company examined sales of its strategic shareholdings and sold off as much as possible in accordance with the policy on strategic shareholdings set by the Company.

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

(9) In order to conduct timely, appropriate disclosure to all stakeholders, including shareholders and investors, and maintain the fairness and transparency of management, the Company held a quarterly earnings briefing for institutional investors and analysts and a company explanatory meeting for individual investors.

(10) The directors and executive officers who supervise the subsidiaries served concurrently as directors or Audit & Supervisory Board Members of the subsidiaries. They attended meetings of the subsidiaries' boards of directors and audited and monitored the execution of duties by the directors.

(11) 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.

3. General matters concerning compliance

(1) The Crisis & Compliance Management Committee (hereinafter, the "C&C Management Committee"), which is responsible for the promotion of compliance and crisis response held four meetings, which include both regular and emergency meetings, 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.

(2) The Company formulated a KITZ's Statement of Corporate Mission, Action Guide, and code of conduct related to compliance as guidelines for the behavior of all the

Company’s Directors, Executive Officers, employees, as well as directors and employees of its subsidiaries, and corporate activity; these items were put into practice with the President and Chief Executive Officer of the Company serving as an example; and laws, ordinances, and corporate ethics were thoroughly adhered to.

(3) Taking into consideration the results of the compliance survey, the Company clarified the compliance policy and implementation status for each organization in the Company and domestic Group companies, and proceeded with its improvement. The situation was reported at a meeting of the Management Conference and its members shared the information and confirmed issues in the future.

(4) The Company reviewed the whistle-blowing hotline, changing the name and address of contact for whistle blowing and making a Group-wide notification of the system. Actual whistle-blowing reports received and a summary of the response were reported at meetings of the Management Conference and the Board of Directors.

(5) The Company worked to raise awareness of and increase knowledge of compliance by having various bodies, including the Legal Department and Internal Audit Office strategically conducted in-house seminars related to the KITZ’s Statement of Corporate Mission, internal controls, compliance, internal audits, security trade controls, information security (personal information, etc.), intellectual property, and general corporate legal matters to the Directors, Executive Officers, and employees of the Company and directors and employees of its subsidiaries. In addition, taking into consideration the results of the compliance survey, seminars on prevention of harassment were strategically held for officers, managers, and employees of all subsidiaries in Japan.

4. General matters concerning risk management

(1) The Company revised the Basic Policy on the Internal Control System to clarify the system to promote risk management. This revision clarified that the Management Conference identifies, analyzes and evaluates risks related to the execution of the Group’s business, and considers and implements countermeasures against the risks, based on the risk management policy and evaluation standards that were developed by the C&C Management Committee, and that the Board of Directors determines the policy for identifying material risk items and implementing countermeasures against them.

(2) Based on the risk management policy and evaluation standards that were developed by the C&C Management Committee, each business department identified, analyzed, and evaluated risks. Based on the results, the Management Conference evaluated all

risk items identified, specified material risk items, and considered implementing countermeasures.

(3) The Investment and Loans Review Committee held three meetings (on an ad-hoc basis). The committee comprehensively reviewed material investments and loans of the Company and its subsidiaries and determined whether to promote, modify, or suspend the plan.

(4) The Group-wide Security Trade Control Committee, the company-wide Environment and Safety & Health Committee, the Quality Assurance Committee, and the Information Security and Personal Information Protection Committee held regular meetings. These committees reviewed legal matters concerning the Company and its subsidiaries as well as other specific issues, and formulated basic policies as well as implemented measures.

5. General matters concerning Audit & Supervisory Board Members

(1) During the 107th term, the Audit & Supervisory Board held 11 meetings.

(2) Standing Audit & Supervisory Board Members made use of the Auditors' Board Office in Chino plant and efficiently conducted audits of factories and peripheral Group companies. To monitor and evaluate the internal controls within the Group, the Standing Audit & Supervisory Board Members served concurrently as corporate auditors of Group companies in Japan, China, and Taiwan, and audited the execution of duties of the directors in the boards of directors of these Group companies, expressing their opinion as necessary.

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

(4) The Audit & Supervisory Board organized four meetings of Tripartite Audit Assembly to strengthen collaboration with the Accounting Auditor and the Internal Audit Office and improve the effectiveness and efficiency of each party's audits. The Audit & Supervisory Board also planned to hold a Four-Party Audit and Supervision Meeting, including the three auditing parties and Outside Directors. However, from the standpoint of preventing the COVID-19 infection, they strove to link audit and supervisory functions by way of exchange of opinions in writing. In addition, Audit & Supervisory Board Members held an exchange of opinions in writing (once) and a Web conference (once) with the President and Chief Executive Officer, expressing their opinions as necessary.

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: 36

The consolidated subsidiaries are:

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

(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 balance sheet date

The Company had set its consolidated balance sheet date on March 31. To further strengthen its management structure as a global company by standardizing when Group companies, including overseas subsidiaries, close their books and thus improve transparency of business management, by understanding and disclosing the performance of the entire Group in timely and accurate manner, the Company has changed its consolidated balance sheet date to December 31. As a result, the fiscal year ended December 31, 2020, which is the transitional period, is the nine-month period from April 1, 2020 to December 31, 2020.

(4) Fiscal year of consolidated subsidiaries

Among the consolidated subsidiaries, the balance sheet date of MICRO PNEUMATICS PRIVATE LIMITED is March 31. The Company prepared the consolidated financial statements based on a provisional closing of accounts as of the consolidated balance sheet date that were prepared in the same way as the settlement of full-year accounts. In the current fiscal year, the balance sheet date of Toyo Valve Co., Ltd. and 12 other companies has changed from March 31 to December 31, which is the same as the Company's consolidated balance sheet date. As a result, the accounting period for the current fiscal year is nine months. Due to this change in the period of the fiscal year, the profit and loss of all consolidated subsidiaries is consolidated for the period between April 1, 2020 to December 31, 2020. Profit and loss of overseas consolidated subsidiaries from January 1, 2020 to March 31, 2020 are adjusted as changes in retained earnings.

(5) 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 with fair market value:

Stated at fair value based on market price on the balance sheet date (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 fair market value:

Stated at cost by the moving average cost method

Derivatives:

Stated at fair value

Inventories:

Finished goods and work in process:

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

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

Raw materials:

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

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

Supplies:

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

(ii) Depreciation and amortization method for important depreciable assets

Property, plant and equipment (excluding leased assets)

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

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

Intangible assets (excluding leased assets)

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

Leased assets

Lease claims in finance lease transactions without ownership transfer

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

(iii) Method for processing deferred assets

Corporate bond issuance expenses

Corporate bond issuance expenses are charged to expense as incurred.

(iv) Standards for recording important allowances

Allowance for doubtful accounts

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

Accrued bonuses to employees

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

Accrued bonuses to directors

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

Accrued retirement benefits to directors

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

Allowance for stock benefit for directors and operating officers

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

(v) Method for processing important hedge accounting

a. Hedge accounting method

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

b. Hedging instruments and hedged items

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

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

c. Hedging policy

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

d. Method for appraising hedge effectiveness

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

(vi) 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).

(vii) 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 differences and prior service cost

  Actuarial differences 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.

  Prior 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 differences and unrecognized prior 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. Accounting of consumption tax

The Company and the consolidated subsidiaries in Japan account for consumption tax by the tax-exclusion method.

c. Application of the consolidated tax payment system

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

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

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

2. Notes on Changes in Presentation Method

(Consolidated statements of income)

"Insurance income" under non-operating income (¥28 million in the current fiscal year), which was presented separately in the previous fiscal year, has lost monetary significance, so it is included in "other" under non-operating income from the current fiscal year.

"Loss on retirement of intangible assets" under extraordinary loss (¥2 million in the current fiscal year) and "loss on valuation of investment securities" (¥0 million in the current fiscal year), which were presented separately in the previous fiscal year, has lost monetary significance, so it is included in "other" under extraordinary loss from the current fiscal year.

3. Additional Information

(Stock Remuneration System for the Directors and Executive Officers of the Company)

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.

Upon introducing the System, the Company has adopted a scheme titled "Executive Remuneration Board Incentive Plan Trust" (the "BIP Trust").

(i) 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.

(ii) 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 477,535, the carrying amount of which is ¥285 million.

(Accounting estimates for the impact of the spread of the novel coronavirus disease (COVID-19))

The rapid deterioration of the domestic and overseas economies associated with the spread of

COVID-19 is affecting the business performance of all of the Group's businesses. In the Valve Manufacturing business and the Brass Bar Manufacturing business, net sales declined due to a decrease in demand. The Other, Hotels business, has been affected, with cancellations of hotel bookings and other such factors.

Under these circumstances, the Group has made accounting estimates for the impairment of fixed assets and the recoverability of deferred tax assets based on the assumption that the effects of COVID-19 will continue through FY2021.

There are many uncertainties regarding the impact of COVID-19, and any changes in the timing of the convergence of the disease and its impact on the business environment may affect our future financial position and operating results.

4. 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	¥157 million
Machinery	¥0 million
Land	¥481 million

(ii) Secured liabilities

Long-term debt (including debt payable within one year)	¥194 million

(3) Accumulated depreciation of property, plant and equipment ¥71,905 million

(4) Contingent liabilities

Amount of discount in notes receivables and electronically recorded monetary claims ¥112 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 ¥199 million in notes receivable - trade and ¥411 million in electronically recorded monetary claims.

5. Notes to Consolidated Statements of Income

Losses on temporary closure are fixed expenses (personnel expenses, depreciation expenses, etc.) incurred during the period during which the Group's hotel was temporarily closed after the government declared the state of emergency due to the spread of COVID-19.

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 May 27, 2020	Common stock	927	10	March 31, 2020	June 11, 2020
Board of Directors meeting held on November 12, 2020	Common stock	450	5	September 30, 2020	December 17, 2020
Total		1,377	15		

Notes:

1. The total amount of dividends to be paid based on the resolution of the Board of Directors on May 27, 2020 includes ¥5 million of dividend payable for the Company's shares held through the BIP Trust.
2. The total amount of dividends to be paid based on the resolution of the Board of Directors on November 12, 2020 includes ¥2 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 12, 2021:

a. Total amount of dividends ¥360 million

b. Source of dividends Retained earnings

c. Dividends per share ¥4

d. Record date December 31, 2020

e. Effective date March 12, 2021

Note: The total amount of dividends to be paid based on the resolution of the Board of Directors on February 12, 2021 includes ¥1 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, but are hedged using derivatives (interest rate swaps).

Derivative transactions include forward exchange contracts for the purpose of hedging foreign exchange fluctuation risk related to receivables and payables denominated in foreign currencies, interest rate swaps for the purpose of hedging interest rate fluctuation risk related to long-term debt, and commodity futures contracts for the purpose of hedging the risk of raw material price fluctuations in the Brass Bar Manufacturing business. For hedging instruments, hedged items, hedging policies, and the method of evaluating the effectiveness of hedges, etc. relating to hedge accounting, please refer to “1. Notes on Important Items underlying the Preparation of the Consolidated Financial Statements, (5) Accounting policies, (v) 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 Department regularly monitors the status of major business partners and manages due dates and balances for each business partner for trade receivables. The Company also works to mitigate risks by taking proactive measures for early identification of concerns about collection due to deterioration in financial conditions, etc., and to protect receivables through the acquisition of collateral and trade credit insurance, etc. Consolidated subsidiaries are managed in a similar manner in accordance with the Company's credit management regulations.

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

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

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

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

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

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

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

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

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

The fair value of financial instruments includes the value based on market prices or, in cases where market prices are not available, reasonably calculated values. Since variable factors are factored into the calculation of the said value, the said value may vary due to the adoption of different assumptions, etc.

(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, 2020. The table does not include financial instruments whose fair value is considered extremely difficult to determine or those that are not considered important.

(Units: Millions of yen)

	Amount recorded on consolidated balance sheet (*1)	Fair value (*1)	Difference
(i) Cash in hand and in banks	33,720	33,720	–
(ii) Notes, accounts receivable–trade	16,209	16,209	–
(iii) Electronically recorded monetary claims	8,017	8,017	–
(iv) Investment securities			
Stocks of affiliates	1,724	1,297	(427)
Other securities	4,529	4,529	–
(v) Notes, accounts payable–trade	(5,693)	(5,693)	–
(vi) Corporate bonds	(31,666)	(31,864)	(197)
(vii) Long-term debt	(9,621)	(9,693)	(71)
(viii) Derivative transactions (*2)	(69)	(69)	–

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

*2: 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.

Notes:

1. Method for calculating fair value of financial instruments

(1) (i) Cash in hand and in banks, (ii) Notes, accounts receivable–trade, and (iii) Electronically recorded monetary claims

The fair value of the items that fall under (i) Cash in hand and in banks, (ii) Notes, accounts receivable–trade, and (iii) Electronically recorded monetary claims is stated at the carrying amount; this is because they are settled in the short term period of time, such that their fair value is approximately equal to the carrying amount.

(2) (iv) Investments in securities

The fair value of items that fall under (iv) Investments in securities is measured at the quoted market price of the stock exchange.

(3) (v) Notes, accounts payable–trade

The fair value of the items that fall under (v) Notes and accounts payable–trade is stated at the carrying amount; this is because they are settled in the short term period of time, such that their fair value is approximately equal to the carrying amount.

(4) (vi) Corporate bonds

The fair value of items that fall under (vi) Corporate bonds is based on the quoted market price when available. When not available, it is based on the present value of the total of principal and interest after discounting based on an interest rate that reflects the relevant corporate bond's remaining period and current credit risk.

(5) (vii) Long-term debt

The fair value of items that fall under (vii) Long-term debt is based on the present value of the total of principal and interest after discounting based on the interest rate that would be applied if similar new borrowings were entered into.

(6) (viii) Derivative transactions

Of the items that fall under (viii) Derivative transactions, those that are forward exchange contracts, interest rate swap contracts and currency swap contracts are stated at the price presented by the financial institution, and those that are commodity forward contracts are stated at the price presented by the corresponding trader. Interest rate swaps subject to exceptional accounting and currency swaps subject to allocation treatment are accounted for as an integral part of long-term debt that are treated as hedged items. Accordingly, the fair value of such items is included in the fair value of the related long-term debt.

2. Financial instruments whose fair value is deemed to be extremely difficult to determine

(Units: Millions of yen)

Category	Amount recorded on consolidated Balance Sheet
Unlisted shares	212

Since unlisted shares have no quoted market price and no estimable future cash flows, their fair value is considered extremely difficult to determine. Accordingly, they are not included under "(iv) Investment securities, other securities."

8. Notes on Per-share Information

(1) Net assets per share ¥828.76

(2) Net income per share ¥23.38

Notes:

1. Basis for calculating net income per share

   Net income attributable to owners of the parent ¥2,113 million

   Amount not attributable to common shareholders ¥– million

   Net Income attributable to owners of the parent pertaining to common stock ¥2,113 million

   Average number of shares outstanding during the term 90,397,812 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: 477,535 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: 493,594 shares)

9. Other Notes

(1) Notes on retirement benefits

The following table shows the reconciliation between a) retirement benefit obligations and the balance of pension plan assets at the end of the fiscal year and b) liabilities and assets related to retirement benefits as recorded on the consolidated balance sheet

Funded retirement benefit obligations	¥5,520 million
Pension plan assets	¥(5,804) million
	¥(284) million
Unfunded retirement benefit obligations	¥486 million
Net liabilities and assets recorded on the consolidated balance sheet	¥202 million
Retirement benefit liabilities	¥699 million
Retirement benefit assets	¥(497) million
Net liabilities and assets recorded on the consolidated balance sheet	¥202 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 companies 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, 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 rates is mainly 2.520%.

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

Balance at beginning of current fiscal year	¥414 million
Increase associated with purchase of property and equipment	¥0 million
Reconciliation associated with the passage of time	¥4 million
Other changes (decrease indicated in brackets)	¥(1) million
Balance at end of fiscal year	¥417 million

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

Notes to the Non-consolidated Financial Statements

1. Notes on Important Items underlying the Preparation of the Non-consolidated Financial Statements

(1) Standards and methods of evaluation of assets

(i) Securities

Stocks in subsidiaries and associates:

Stated at cost by the moving average cost method

Other securities

Securities with fair market value:

Stated at fair value based on market price on the balance sheet date (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 fair market value:

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 differences and prior service cost

  Actuarial difference 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 the current fiscal year.

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

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

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

(5) Method for processing hedge accounting

(i) Hedge accounting method

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

(ii) Hedging instruments and hedged items

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

(iii) Hedging policy

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

(iv) Method for appraising hedge effectiveness

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

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

(i) Accounting of retirement benefits

The manner in which unrecognized actuarial differences and prior 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) Accounting of consumption tax

The Company accounts for consumption tax and local consumption tax by the tax-exclusion method.

(iii) Application of the consolidated tax payment system

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

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

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

(v) Matters regarding change in balance sheet date

The Company had set its balance sheet date on March 31. To further strengthen its management structure as a global company by standardizing when Group companies, including overseas subsidiaries, close their books and thus improve transparency of business management, by understanding and disclosing the performance of the entire Group in timely and accurate manner, the Company has changed its balance sheet date to December 31. As a result, the fiscal year ended December 31, 2020, which is the transitional period, is the nine-month period from April 1, 2020 until December 31, 2020.

2. Notes to the Balance Sheets

(1) Accumulated depreciation of property, plant and equipment ¥34,828 million

(2) Contingent liabilities

The liabilities for the borrowings of the following subsidiaries

KITZ Metal Works Corporation	¥12 million
Hotel Beniya Co., Ltd.	¥67 million
KITZ SCT Corporation	¥115 million
Micro Pneumatics Pvt. Ltd.	¥26 million
Cephas Pipelines Corp.	¥1,045 million
Metalúrgica Golden Art's Ltda.	¥59 million
Total	¥1,325 million

(3) Monetary claims and liabilities with respect to affiliated companies

Short-term monetary receivables	¥7,859 million
Long-term monetary receivables	¥6,774 million
Short-term monetary payables	¥8,223 million
Long-term monetary payables	¥1 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 ¥83 million in notes receivable - trade and ¥279 million in electronically recorded monetary claims.

3. Notes to the Statement of Income

Transactions with affiliates during the current fiscal year

Net sales	¥11,542 million
Purchases	¥11,834 million
Selling, general and administrative expenses	¥52 million
Non-business transactions	¥1,440 million

4. 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	8,174,608	2,610,568	10,032,119	753,057

Notes:

1. The 2,610,568 increase in shares during the current fiscal year reflects the 2,610,300 increase in shares following the purchase of treasury stock carried out pursuant to the resolution of the Board of Directors and the 268 increase in shares following the purchase of less-than-one-unit shares.
2. The 10,032,119 decrease in shares during the current fiscal year reflects the 10,000,000 decrease in shares following the cancellation of treasury stock and the 32,119 decrease in shares following the disposal of the Company’s stock under the BIP Trust.
3. The number of shares of treasury stock at end of current fiscal year includes 477,535 shares held in the BIP Trust.

5. Notes on Tax Effect Accounting

Significant components of deferred tax assets and deferred tax liabilities

(Deferred tax assets)	
Accrued bonuses to employees	¥145 million
Provision for retirement benefits	¥104 million
Loss on valuation of stocks of subsidiaries and affiliates	¥1,884 million
Loss on valuation of investment securities	¥133 million
Impairment loss	¥572 million
Loss on valuation of inventories	¥214 million
Other	¥517 million
Deferred tax assets (subtotal)	¥3,569 million
Valuation allowance	¥(2,779) million
Deferred tax assets (total)	¥790 million
(Deferred tax liabilities)	
Net unrealized gains on other securities	¥(580) million
Other	¥(18) million
Deferred tax liabilities (total)	¥(598) million
Deferred tax assets	¥191 million

6. Notes on Transactions with Related Parties

Subsidiaries

Type of related party	Company name	Share of voting rights in the company	Description of relationship		Description of transactions	Transaction amount (million yen)	Account item	Balance at end of fiscal year (million yen)
			Number of executive officers holding concurrent positions in the company	Business relationship				
Subsidiary	Toyo Valve Co., Ltd.	100% direct holding	1	Customer of the Company	The Company sells finished goods to the affiliate	4,417	Accounts receivable - trade	608
Subsidiary	KITZ Corporation of Taiwan	100% direct holding	1	Supplier to the Company	The Company procures finished goods from the affiliate	4,066	Accounts payable– trade	521
Subsidiary	KITZ (Thailand) Ltd.	92% direct holding	–	Supplier to the Company	The Company procures finished goods from the affiliate	4,175	Accounts payable– trade	921
Subsidiary	KITZ Metal Works Corporation	100% direct holding	3	Supplier to the Company	The Company lends the affiliate funds	–	Short-term loans receivable Long-term loans receivable	3,959 4,176
Subsidiary	Hotel Beniya Co., Ltd.	100% direct holding	3	Using facilities	The Company lends the affiliate funds	569	Short-term loans receivable Long-term loans receivable	1,210 2,437
Subsidiary	Shimizu Alloy Mfg. Co., Ltd.	100% direct holding	1	Customer of the Company	The Company borrows funds from the affiliate	3,839	Short-term borrowings	2,269

Notes:

1. The transaction amounts above do not include consumption taxes, but the amounts shown for balance at end of fiscal year do include consumption taxes in the case of domestic transactions.
2. 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.
3. The interest rates for lending and borrowing transactions are determined such that they are reasonable in light of market interest rates.
4. The amounts for lending and borrowing transactions indicate the amount of loan or the amount borrowed.
5. The liabilities for guarantees of external borrowings by affiliated companies are stated in 2. Notes to the Balance Sheets: (2) Contingent liabilities.

7. Notes on Per-share Information

(1) Net assets per share ¥578.72

(2) Net income per share ¥15.89

Notes:

1. Basis for calculating net income per share

Net income	¥1,436 million
Amount not attributable to common shareholders	¥– million
Net income attributable to common stock	¥1,436 million
Average number of shares outstanding during the term	90,397,812 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: 477,535 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: 493,594 shares)

8. Other Notes

(1) Notes on retirement benefits

Retirement benefit obligations and the breakdown thereof

(i) Retirement benefit obligations	¥(4,004) million
(ii) Pension plan assets	¥4,402 million
(iii) Unfunded retirement benefit obligations (i) + (ii)	¥398 million
(iv) Unrecognized actuarial differences	¥(182) million
(v) Prepaid pension cost (iii) + (iv)	¥215 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, and records such expenses as asset retirement obligations.

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

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

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

Balance at beginning of current fiscal year	¥216 million
Reconciliation associated with the passage of time	¥2 million
Balance at end of fiscal year	¥219 million

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