

## 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.

Notes:

1. Cephas Pipelines Corp. is included in the scope of consolidation as the Company has acquired all shares of the corporation.
2. KITZ Valve & Actuation (Malaysia) Sdn. Bhd. is included in the scope of consolidation because the corporation was newly established.
3. KITZ G&I Co., Ltd. is no longer a consolidated subsidiary as of March 31, 2019 as it has been liquidated.

#### (2) Application of the equity method

None

#### (3) Fiscal year of consolidated subsidiaries

Except for those listed below, the consolidated subsidiaries use the same balance sheet date as the Company. The Company prepares the consolidated financial statements based on the financial statements of the consolidated subsidiaries as of their respective balance sheet dates. However, necessary adjustments to the consolidated statements are made to reflect important transactions occurring between the balance sheet dates of the consolidated subsidiaries and the consolidated balance sheet date.

The following subsidiaries have December 31 as their balance sheet date:

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 and eight

other consolidated subsidiaries.

(4) Accounting policies

(i) Standards and methods of evaluation of important assets

Securities:

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 in their entirety to income 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 and corporate auditors by posting the estimated amounts of the future payments, which reflect the operating results for the period.

##### Accrued retirement benefits to directors, corporate auditors and operating officers

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

## 2. Notes on Changes in Accounting Policies

(Change in the depreciation method for property, plant and equipment)

Consolidated subsidiaries of the Group that engage in the Brass Bar Manufacturing business had adopted mainly a declining balance method for depreciation of property, plant and equipment (excluding leased assets) (however, buildings acquired on or after April 1, 1998 [excluding annexed equipment] and annexed equipment and structures acquired on or after April 1, 2016 have been depreciated on a straight-line basis), but changed it to a straight-line method effective at the beginning of the current fiscal year.

This change is based on the examination of the status of use of property, plant and equipment

made in connection with the decision to make a capital investment to replace existing direct extruders with state-of-the-art indirect extruders, which indicated that as production facilities in plants as a whole including existing production facilities are expected to operate more stably, recognizing a constant amount of expense over the useful life reflects the actual use of such property, plant and equipment more appropriately.

As a result of this change, as compared with the figures that would have been stated under the old method, operating income, ordinary income, and net income before income taxes for the current fiscal year increased by ¥108 million.

### **3. Notes on Changes in Presentation Method**

Application of “Partial Amendments to Accounting Standard for Tax Effect Accounting” and relevant guidances

The Group has applied the “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, February 16, 2018) and relevant guidances effective from the beginning of the fiscal year ended March 31, 2019. Accordingly, deferred tax assets (if any) were presented under “Investments and other assets” and deferred tax liabilities (if any) were presented under “long-term liabilities.”

(Consolidated balance sheet)

The amount of “software in progress” which had been included in “other” in intangible assets until the previous fiscal year, is presented separately for the current fiscal year as it exceeded 5% of the total amount of assets.

The amount of “software in progress” was ¥5,257 million for the previous fiscal year.

### **4. 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 329,985, the carrying amount of which is ¥185 million.

## 5. Notes to the Consolidated Balance Sheets

### (1) Assets pledged as collateral and secured liabilities

#### (i) Assets pledged as collateral

Buildings	¥190 million
Machinery	¥0 million
Land	¥609 million

#### (ii) Secured liabilities

Short-term borrowings	¥34 million
Long-term debt (including debt payable within one year)	¥594 million

### (2) Accumulated depreciation of property, plant and equipment ¥65,693 million

### (3) Contingent liabilities

Amount of transfer from fluidity of notes receivables

¥20 million

Amount of discount in notes receivables and electronically recorded monetary claims

¥317 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.

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 ¥342 million in notes receivable - trade and ¥469 million in electronically recorded monetary claims.

## 6. Notes to the Consolidated Statements of Income

The Group recorded ¥2,675 million of impairment loss for the current fiscal year. The main impairment losses are shown below.

Location	Purpose	Category
Korea	Other	Goodwill
	Business assets	Other intangible assets

#### (i) Circumstances

The carrying amounts of goodwill and other items recognized as a result of the acquisition of a consolidated subsidiary in South Korea (Cephas Pipelines Corp.) were written down to the recoverable amount, and the reduced amount was recognized as an impairment loss because the level of profit expected at the time of acquisition is no longer considered attainable due to the sharp slowdown in the South Korean economy and a decrease in sales to Korean EPC companies, which are its major customers.

(ii) Amounts of impairment loss

Goodwill	¥2,394 million
Other intangible assets	¥88 million
Total	¥2,483 million

(iii) Calculating recoverable amount

The recoverable amount of groups of assets including goodwill is measured at value in use, using a discount rate of 14.6%.

(iv) Grouping method

The Group carries out asset grouping based on business units that allow for reasonable profit and loss management.

## 7. 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 100,396,511 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 29, 2018	Common stock	976	10	March 31, 2018	June 4, 2018
Board of Directors meeting held on October 30, 2018	Common stock	765	8	September 30, 2018	December 6, 2018
Total		1,742	18		

Notes: 1. The total amount of dividends to be paid based on the resolution of the Board of Directors on May 29, 2018 includes ¥3 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 October 30, 2018 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 May 29, 2019:

a. Total amount of dividends	¥1,146 million
b. Source of dividends	Retained earnings
c. Dividends per share	¥12
d. Record date	March 31, 2019
e. Effective date	June 7, 2019

Note: The total amount of dividends to be paid based on the resolution of the Board of Directors on May 29, 2019 includes ¥3 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.

## **8. Notes on Financial Instruments**

- (1) Overview of financial instruments

The capital investment activities of the Group are restricted to short-term deposits. The Group raises finances by borrowing from banks and other financial institutions and making public or private offerings of corporate bonds.

The Group minimizes the credit risk associated with “notes, accounts receivable–trade” and “electronically recorded monetary claims” in accordance with its credit management guidelines. The Company's investments in securities are primarily shares, and the fair value of listed shares is reviewed on a quarterly basis.

Funds raised from borrowings and corporate bonds are used as working capital and equipment capital. The Company engages in interest rate swaps to offset the risk of interest rate fluctuations in certain long-term debts. It engages in currency swaps to offset the risk of foreign exchange fluctuations in long-term debts denominated in foreign currencies. It engages in foreign currency forward contracts to hedge risks of monetary receivables and payables denominated in foreign currencies due to the effect of currency exchange rate fluctuations. It also engages in commodity futures transactions for the purpose of offsetting the risk to the brass bar manufacturing business of fluctuations in the price of raw materials. The Company uses derivatives in accordance with its internal control rules, and only insofar as to cover actual needs.

- (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 March 31, 2019. 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	13,660	13,660	–
(ii) Notes, accounts receivable–trade	19,484	19,484	–
(iii) Electronically recorded monetary claims	10,715	10,715	–
(iv) Investments in securities, other securities	4,728	4,728	–
(v) Accounts payable–trade	(6,625)	(6,625)	–
(vi) Corporate bonds	(22,678)	(22,883)	(204)
(vii) Long-term debt	(9,558)	(9,648)	(89)
(viii) Derivative transactions (*2)	(24)	(24)	–

\*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) Accounts payable–trade

The fair value of the items that fall under (v) 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 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	214

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.”

**9. Notes on Per-share Information**

(1) Net assets per share	¥793.74
(2) Net income per share	¥58.50

Notes:

1. Basis for calculating net income per share

Net income attributable to owners of the parent	¥5,625 million
Amount not attributable to common shareholders	¥– million
Net Income attributable to owners of the parent pertaining to common stock	¥5,625 million
Average number of shares outstanding during the term	96,148,840 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: 329,985 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: 329,985 shares)

## 10. 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	¥5,819 million
Pension plan assets	(¥5,843) million
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	(¥23) million
Unfunded retirement benefit obligations	¥445 million
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Net liabilities and assets recorded on the consolidated balance sheet	¥422 million
Retirement benefit liabilities	¥749 million
Retirement benefit assets	(¥326) million
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Net liabilities and assets recorded on the consolidated balance sheet	¥422 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	¥402 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)	(¥1) million
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Balance at end of fiscal year	¥408 million

**11. 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:

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 in their entirety to income 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 and corporate auditors 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.

## **2. Notes on Changes in Presentation Method**

Application of “Partial Amendments to Accounting Standard for Tax Effect Accounting” and relevant guidances

The Group has applied the “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, February 16, 2018) and relevant guidances effective from the beginning of the fiscal year ended March 31, 2019. Accordingly, deferred tax assets (if any) were presented under “Investments and other assets” and deferred tax liabilities (if any) were presented under “long-term liabilities.”

### 3. Notes to the Balance Sheets

(1) Accumulated depreciation of property, plant and equipment ¥33,326 million

(2) Contingent liabilities

The liabilities for the borrowings of the following subsidiaries

KITZ Metal Works Corporation ¥50 million

Hotel Beniya Co., Ltd. ¥182 million

KITZ SCT Corporation ¥60 million

Micro Pneumatics Pvt. Ltd. ¥35 million

Cephas Pipelines Corp. ¥293 million

Metalúrgica Golden Art's Ltda. ¥135 million

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Total ¥757 million

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

Short-term monetary receivables ¥9,530 million

Long-term monetary receivables ¥6,305 million

Short-term monetary payables ¥6,805 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.

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 ¥92 million in notes receivable - trade and ¥289 million in electronically recorded monetary claims.

### 4. Notes to the Statement of Income

Transactions with affiliates during the current fiscal year

Net sales ¥22,098 million

Purchases ¥24,745 million

Selling, general and administrative expenses ¥107 million

Non-business transactions ¥1,742 million

## 5. 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	3,053,936	2,101,275	17	5,155,194

#### Notes:

1. The 2,101,275 increase in shares during the current fiscal year reflects the 2,100,200 increase in shares following the purchase of treasury stock carried out pursuant to the resolution of the Board of Directors and the 1,075 increase in shares following the purchase of less-than-one-unit shares.
2. The 17 decrease in shares during the current fiscal year reflects the 17 decrease in shares following the sale of less-than-one-unit shares.
3. The number of shares of treasury stock at end of current fiscal year includes 329,985 shares held in the BIP Trust.

## 6. Notes on Tax Effect Accounting

Significant components of deferred tax assets and deferred tax liabilities

(Deferred tax assets)

Accrued bonuses to employees	¥453 million
Provision for retirement benefits	¥141 million
Loss on valuation of stocks of subsidiaries and affiliates	¥1,673 million
Write-down of investments in securities	¥141 million
Impairment loss	¥572 million
<u>Other</u>	<u>¥764 million</u>
Deferred tax assets (subtotal)	¥3,744 million
<u>Valuation allowance</u>	<u>(¥2,586) million</u>
Deferred tax assets (total)	¥1,158 million

(Deferred tax liabilities)

Net unrealized gains on other securities	(¥468) million
<u>Other</u>	<u>(¥18) million</u>
<u>Deferred tax liabilities (total)</u>	<u>(¥486) million</u>
<u>Deferred tax assets (brackets indicates liabilities)</u>	<u>¥671 million</u>

## 7. Notes on Transactions with Related Parties

### Subsidiaries

Type of related party	Company name	Share of voting rights in the company	Description of relationship		Description of transactions	Transaction amount (million yen)	Account item	Balance at end of fiscal year (million yen)
			Number of executive officers holding concurrent positions in the company	Business relationship				
Subsidiary	Toyo Valve Co., Ltd.	100% direct holding	1	Customer of the Company	The Company sells finished goods to the affiliate	7,365	Accounts receivable - trade	597
Subsidiary	KITZ Corporation of Taiwan	100% direct holding	1	Supplier to the Company	The Company procures finished goods from the affiliate	6,756	Accounts payable-trade	692
Subsidiary	KITZ SCT Corporation	100% direct holding	1	Supplier to the Company	Receipt of dividends	548	-	-
Subsidiary	KITZ (Thailand) Ltd.	92% direct holding	-	Supplier to the Company	The Company procures finished goods from the affiliate	9,146	Accounts payable-trade	1,359
Subsidiary	KITZ Metal Works Corporation	100% direct holding	2	Supplier to the Company	The Company lends the affiliate funds	5,804	Short-term loans receivable Long-term loans receivable	4,002 3,510
Subsidiary	Hotel Beniya Co., Ltd.	100% direct holding	2	Using facilities	The Company lends the affiliate funds	2,503	Short-term loans receivable Long-term loans receivable	989 2,217
Subsidiary	Shimizu Alloy Mfg. Co., Ltd.	93% direct holding	1	Customer of the Company	The Company borrows funds from the affiliate	2,996	Short-term borrowings	1,954

#### 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 3. Notes to the Balance Sheets: (2) Contingent liabilities.

## 8. Notes on Per-share Information

(1) Net assets per share	¥567.81
(2) Net income per share	¥31.05

Notes:

1. Basis for calculating net income per share

Net income	¥2,985 million
Amount not attributable to common shareholders	¥– million
Net income attributable to common stock	¥2,985 million
Average number of shares outstanding during the term	96,148,840 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: 329,985 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: 329,985 shares)

## 9. Other Notes

(1) Notes on retirement benefits

Retirement benefit obligations and the breakdown thereof

(i) Retirement benefit obligations	(¥4,124) million
<u>(ii) Pension plan assets</u>	<u>¥4,384 million</u>
(iii) Unfunded retirement benefit obligations (i) + (ii)	¥259 million
<u>(iv) Unrecognized actuarial differences</u>	<u>(¥145) million</u>
(v) Prepaid pension cost (iii) + (iv)	¥114 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	¥208 million
Reconciliation associated with the passage of time	¥3 million
Decrease associated with the performance of asset retirement obligations	¥– million
<hr/>	
Balance at end of fiscal year	¥212 million

**10. The monetary figures presented in these notes are rounded down to the nearest unit.**