

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

### **1. Systems for ensuring the appropriateness of operations**

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

#### **Basic Policy on Internal Control**

In order to realize the KITZ' Statement of Corporate Mission, which is the corporate philosophy of the KITZ Group consisting of the Company and its subsidiaries (hereinafter, the "Group"), and to ensure sound and solid management foundations for the Group, the Company has, in accordance with the Companies Act and the Enforcement Regulations of the same Act, established and operates the following internal control system (a framework to ensure compliance of the execution of duties by Directors with laws and regulations and the Articles of Incorporation, and proper business operations of a stock company and corporate group consisting of the stock 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 shall thoroughly practice and comply with laws and regulations, the Articles of Incorporation, the KITZ' Statement of Corporate Mission, Long-term Management Vision, Action Guide, Basic Policy on Sustainability, Basic Policy on Corporate Governance, Compliance Code of Conduct, and other policies established by the Board of Directors of the Company or 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 Control 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 Control 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 assess risks related to the execution of the Group's business, necessary measures shall be taken by establishing and operating various committees related to internal control, crisis response, risk management, compliance, quality assurance, the environment, safety and health, security trade, investment and loans, information security, personal information protection, corporate identity (CI), and sustainability promotion.
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) Independent 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. In addition, it shall sit on the Board of Directors and report directly on the status of internal audits as necessary.

- (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 Control 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, Audit & Supervisory Board Members 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, Audit & Supervisory Board Members, Independent 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 independent 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

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

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

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

In addition, operations of each organization are conducted in accordance with the Regulations concerning Official Authority, Draft Proposal Rules, and the decisions of the Board of Directors of the Company and its Group companies are made in accordance with the Rules of the Board of Directors and the Group Companies Regulations. Furthermore, important matters related to proper decision-making in Group management are discussed and assessed by establishing and operating various committees related to internal control, crisis response, risk management, compliance, quality assurance, the environment, safety and health, security trade, investment and loans, information security, personal information

protection, corporate identity (CI), and sustainability promotion.

In the 108th term, mainly the following initiatives were carried out.

- a. In order for the Group's internal control system to effectively function, in accordance with the basic policies and management rules for managing the Group, efforts are made to strengthen and promote the Group's internal controls through the Internal Audit Office.
- b. The Internal Control Committee and the Group Company Internal Control Liaisonary Committee held regular meetings. During these meetings, the members confirmed the operational status of the Company and its subsidiaries' internal controls and deliberated on future plans.
- c. Based on the Corporate Governance Code and the establishment of our Basic Policy on Corporate Governance, we have revised the Basic Policy on Internal Control.

(2) General matters concerning corporate governance

(i) Organizational design

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

(ii) Board of Directors and Directors

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

In the 108th term, mainly the following initiatives were carried out.

- a. The Board of Directors held 16 meetings, made decisions regarding important issues based on the Submission Standards stipulated in the Rules of the Board of Directors, and reported on the execution of operations by the Company and all consolidated

subsidiaries. Internal controls, risk management, compliance, quality assurance, investment and financing, information security, and other important matters were reported.

- b. For deliberations of agenda and reports on the execution of business at the Board of Directors meetings, sufficient time was provided for full deliberations. Also, four (4) Outside Directors and five (5) Audit & Supervisory Board Members, three (3) of whom are Outside Audit & Supervisory Board Members, contributed to animated discussions on managerial matters, raising opinions, comments, and suggestions as necessary.
- c. In order to ensure the effectiveness of the overall Board of Directors, the Board of Directors analyzed and evaluated by surveying all Directors and Audit & Supervisory Board Members about implement evaluation of the effectiveness of the Board of Directors in February 2021. A summary of the evaluation is available in the Corporate Governance Report. The results of the investigation confirmed that the Board of Directors operates in an effective and appropriate manner. On the other hand, several constructive comments and suggestions were received regarding the training plan for next-generation management and organizational design, etc. We plan to hold further discussions to address these issues and work to ensure further effectiveness.
- d. Based on the Corporate Governance Code, the Board of Directors established the Company's Basic Policy on Corporate Governance.
- e. Based on the Corporate Governance Code and the Company's Basic Policy on Corporate Governance, the Board of Directors have revised the Basic Policy on Internal Control.
- f. Based on the Corporate Governance Code, the Board of Directors revised the Standards for Judging the Independence of Outside Directors and Outside Audit & Supervisory Board Members. In addition, accompanying the revision of the standard, as all outside officers of the Company (Outside Directors and Outside Audit & Supervisory Board Members) meet that standard of the Company and the "Independence Criteria for Outside Officers" stipulated by the Tokyo Stock Exchange, all of them have been designated as independent officers.
- g. Based on the Corporate Governance Code, the Board of Directors revised the Officers' Election and Dismissal Policy.
- h. Based on the Corporate Governance Code, the Company-wide Sustainability Promotion Committee has been established.
- i. The Nominating 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.

- j. The Remuneration Committee deliberated on remuneration for Directors and Executive Officers and reported on those deliberations to the Board of Directors.
- k. 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.
- l. In order to disclose information in a timely and appropriate manner to shareholders, investors and other stakeholders, and to maintain fairness and transparency in management, we held quarterly financial results briefings for institutional investors and analysts, and participated in IR events for individual investors.
- m. 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.
- n. The Company properly stores and manages minutes of Board of Directors meetings, draft proposals, etc., as stipulated in the in-house rules on document management.

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

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

In the 108th term, mainly the following initiatives were carried out.

- a. During the 108th term, the Audit & Supervisory Board held 15 meetings.
- b. Standing Audit & Supervisory Board Members made use of the Auditors' Board

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

- c. The Auditors Board Office provided the Audit & Supervisory Board Members with information concerning the members' auditing duties, and facilitated the audit duties of its members while liaising with the Accounting Auditor and other parties to enhance the effectiveness of the Audit & Supervisory Board.
- d. The Audit & Supervisory Board organized four meetings of Tripartite Audit Assembly to strengthen collaboration with the Accounting Auditor and the Internal Audit Office and improve the effectiveness and efficiency of each party's audits. The Audit & Supervisory Board organized two meetings of Four-Party Audit and Supervision Meeting, including the three auditing parties and Independent Outside Directors, and strove to link audit and supervisory functions. In addition, Audit & Supervisory Board Members held four conferences of exchange opinions with the President and Chief Executive Officer, expressing their opinions as necessary.

### (3) General matters concerning compliance

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

In the 108th term, mainly the following initiatives were carried out.

- a. The C&C Control Committee deliberated on issues, such as lawsuits and disputes the Group is involved in, reports on internal problems, business-related risks, etc., set basic policy, and implemented measures.
- b. The Company formulated the KITZ Group’s Corporate Mission structure 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.

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

Based on the results of compliance questionnaires, a harassment training program for officers, managers and employees of all domestic subsidiaries was also conducted.

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

#### (4) General matters concerning risk management

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

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

matrix scale: “High damage/high frequency,” “Low damage/high frequency,” “High damage/low frequency,” and “Low damage/low frequency.”

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

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

In the 108th term, mainly the following initiatives were carried out.

- a. Based on the results of analysis, assessment, and planning of countermeasures for the risks identified in each business unit, the progress is reported to the Management Conference and the Board of Directors, and policies and measures are formulated on how to proceed in the future.
- b. Evaluation, checking, improvement, and other necessary controls were carried out for important matters related to appropriate and legal decision-making in the Group’s management by establishing and operating various committees related to internal control, crisis response, risk management, compliance, quality assurance, the environment, safety and health, security trade, investment and loans, information security, personal information protection, corporate identity (CI), and sustainability promotion.

## **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 subsidiaries**

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

#### **(4) Accounting policies**

##### **(i) Standards and methods of evaluation of important assets**

Securities:

Stock of affiliates

Stated at cost by the moving average cost method

Other securities

Securities 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.

d. 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

(Application of “Accounting Standard for Disclosure of Accounting Estimates”)

“Accounting Standard for Disclosure of Accounting Estimates” (ASBJ Statement No. 31, March 31, 2020) has been applied to the consolidated financial statements for the current fiscal year, and the Notes to Accounting Estimates are included in the consolidated financial statements.

(Consolidated statements of income)

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

The amount of “Insurance income” was ¥28 million in the previous fiscal year.

The amount of “Gain on sales of investment property,” which had been included in “other” under extraordinary income up until the previous fiscal year, is presented separately from the current fiscal year as “Gain on sales of investment property” has exceeded 10% of the total amount of extraordinary income.

The amount of “Gain on sales of investment property” was ¥0 million in the previous fiscal year.

### 3. Notes to Accounting Estimates

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

(Impairment of non-current assets)

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

Impairment loss      ¥1,223 million

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

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

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

The value in use is calculated by discounting the present value using a discount rate on the basis of future cash flows according to the internally approved business plan. Future cash flows reflect past performance and future projections. It is assumed that the impact of COVID-19 will continue to a certain extent throughout FY2022. The discount rate used is a weighted average cost of capital.

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

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

	Asset/Asset Group	At the End of Current Consolidated Fiscal Year
(i)	Fixed assets in Cephas Pipelines Corp.	¥789 million
(ii)	Fixed assets in Hotel Beniya Co., Ltd.	¥785 million
(iii)	Investment property in the Company	¥201 million

Based on the result of review, as stated in “6. Notes to Consolidated Statements of Income,” regarding assets or asset groups for which the recoverable amount is less than the book value, the book value is reduced to the recoverable amount, and the amount of reduction is recorded as an impairment loss.

Such estimates are affected by the impact of COVID-19 and changes in uncertain future economic conditions, and if it becomes necessary to re-consider the assumptions used in the estimates, additional impairment losses may be recognized in the following consolidated

fiscal year.

#### **4. Additional Information**

##### **(Stock Remuneration System for the Directors and Executive Officers)**

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

###### **(1) Overview of transactions**

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

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

###### **(2) The Company’s stock remaining in the trust**

Shares remaining in the trust are recorded as treasury stock under the net assets section based on the carrying amount in the trust (excluding associated expenses). The number of shares of treasury stock held at the end of current fiscal year is 477,535, the carrying amount of which is ¥285 million.

## 5. Notes to the Consolidated Balance Sheets

- (1) Stocks of affiliates included in the investment securities      ¥1,724 million
- (2) Assets pledged as collateral and secured liabilities
  - (i) Assets pledged as collateral
 

Buildings	¥145 million
Machinery	¥0 million
Land	¥481 million
  - (ii) Secured liabilities
 

Not applicable.
- (3) Accumulated depreciation of property, plant and equipment      ¥75,901 million
- (4) Contingent liabilities
 

Amount of discount in notes receivables and electronically recorded monetary claims

¥168 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 ¥176 million in notes receivable - trade and ¥557 million in electronically recorded monetary claims.

## 6. Notes to Consolidated Statements of Income

### Impairment loss

The Group recorded ¥1,223 million of impairment loss for the current fiscal year. The main impairment losses are shown below.

Location	Purpose	Category	Amount
Suwa-shi, Nagano Pref.	Hotel facilities	Buildings and structures	¥359 million
		Land	¥106 million
		Other	¥9 million
Hokuto-shi, Yamanashi Pref., etc.	Training facilities Investment property	Buildings and structures	¥18 million
		Land	¥314 million
		Investment property	¥414 million
		Other	¥0 million

### (1) Circumstances

Regarding assets or asset groups for which the recoverable amount is less than the book value due to a decline in profitability or market value, the book value is reduced to the

recoverable amount.

(2) Grouping method

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

(3) Calculating recoverable amount

The recoverable amount of asset groups is measured by true cash value.

## 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 90,396,511 shares

### (2) Notes on dividends

#### (i) Amount of dividends paid

Meeting in which the relevant item was resolved	Type of shares	Total amount of dividends (million yen)	Dividends per share (yen)	Record date	Effective date
Board of Directors meeting held on February 12, 2021	Common stock	360	4	December 31, 2020	March 12, 2021
Board of Directors meeting held on August 4, 2021	Common stock	811	9	June 30, 2021	September 17, 2021
Total		1,171	13		

#### Notes:

1. 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.
2. The total amount of dividends to be paid based on the resolution of the Board of Directors on August 4, 2021 includes ¥4 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 24, 2022:

- a. Total amount of dividends ¥991 million
- b. Source of dividends Retained earnings
- c. Dividends per share ¥11
- d. Record date December 31, 2021
- e. Effective date March 11, 2022

Note: The total amount of dividends to be paid based on the resolution of the Board of Directors on February 24, 2022 includes ¥5 million of dividend payable for the Company's shares held through the BIP Trust.

### (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

#### (i) Policy regarding financial instruments

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

#### (ii) Details of financial instruments and associated risks

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

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

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

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

Derivative transactions include forward exchange contracts for the purpose of hedging foreign exchange fluctuation risk related to receivables and payables denominated in foreign currencies, interest rate swaps for the purpose of hedging interest rate fluctuation risk related to long-term debt, and commodity futures contracts for the purpose of hedging the risk of raw material price fluctuations in the Brass Bar Manufacturing business. For hedging instruments, hedged items, hedging policies, and the method of evaluating the effectiveness of hedges, etc. relating to hedge accounting, please refer to “1. Notes on Important Items underlying the Preparation of the Consolidated Financial Statements, (4) Accounting policies, (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, 2021. 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	27,943	27,943	–
(ii) Notes, accounts receivable—trade	19,826	19,826	–
(iii) Electronically recorded monetary claims	10,205	10,205	–
(iv) Investment securities			
Stocks of affiliates	1,724	1,440	(284)
Other securities	4,823	4,823	–
(v) Notes, accounts payable—trade	(8,037)	(8,037)	–
(vi) Corporate bonds	(31,192)	(31,222)	(30)
(vii) Long-term debt	(6,860)	(6,897)	(36)
(viii) Derivative transactions (*2)	(9)	(9)	–

\*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	209

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	¥896.55
(2) Net income per share	¥55.26

Notes:

1. Basis for calculating net income per share
 

Net income attributable to owners of the parent	¥4,954 million
Amount not attributable to common shareholders	¥- million
Net Income attributable to owners of the parent pertaining to common stock	¥4,954 million
Average number of shares outstanding during the term	89,643,016 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: 477,535 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	¥5,424 million
Pension plan assets	¥(5,754) million
	¥(329) million
Unfunded retirement benefit obligations	¥540 million
Net liabilities and assets recorded on the consolidated balance sheet	¥210 million
Retirement benefit liabilities	¥737 million
Retirement benefit assets	¥(526) million
Net liabilities and assets recorded on the consolidated balance sheet	¥210 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	¥417 million
Increase associated with purchase of property and equipment	¥0 million
Reconciliation associated with the passage of time	¥6 million
Decrease associated with the performance of asset retirement obligations	¥(6) million
Other changes (decrease indicated in brackets)	¥3 million
Balance at end of fiscal year	¥421 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.

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

(Application of “Accounting Standard for Disclosure of Accounting Estimates”)

“Accounting Standard for Disclosure of Accounting Estimates” (ASBJ Statement No. 31, March 31, 2020) has been applied to the non-consolidated financial statements starting from the current fiscal year, and the Notes to Accounting Estimates are included in the non-consolidated financial statements.

(Statements of income)

The amount of “Gain on sales of investment property,” which had been included in “other” under extraordinary income up until the previous fiscal year, is presented separately from the current fiscal year as “Gain on sales of investment property” has exceeded 10% of the total amount of extraordinary income.

The amount of “Gain on sales of investment property” was ¥0 million in the previous fiscal year.

### 3. Notes to Accounting Estimates

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

(Impairment of non-current assets)

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

Impairment loss    ¥747 million

(2) Information on the accounting estimates for identified items

Notes have been omitted as the same information is provided in “3. Notes to Accounting Estimates” in “Notes to Consolidated Financial Statements.”

(Valuation of shares of subsidiaries and associates)

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

Loss on valuation of shares of subsidiaries    ¥ - million  
and associates

Shares of subsidiaries and associates                ¥29,173 million

(Cephas Pipelines Corp. ¥743 million)

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

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

A loss on valuation of shares of subsidiaries and associates has not been recorded in the current fiscal year; however, as stated in “3. Notes to Accounting Estimates” in “Notes to Consolidated Financial Statements” in the consolidated financial statements, there is an indication of impairment of fixed assets in Cephas Pipelines Corp. If the financial position of the subsidiary deteriorates, a loss on valuation of shares of subsidiaries and associates related to the stocks of the subsidiary may be recorded in the next fiscal year.

#### 4. Notes to the Balance Sheets

(1) Accumulated depreciation of property, plant and equipment      ¥35,282 million  
 (2) Contingent liabilities

The liabilities for the borrowings of the following subsidiaries

KITZ Metal Works Corporation	¥2 million
Hotel Beniya Co., Ltd.	¥43 million
KITZ SCT Corporation	¥100 million
Micro Pneumatics Pvt. Ltd.	¥18 million
Cephas Pipelines Corp.	¥622 million
<u>Metalúrgica Golden Art's Ltda.</u>	<u>¥40 million</u>
<b>Total</b>	<b>¥827 million</b>

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

Short-term monetary receivables	¥11,118 million
Long-term monetary receivables	¥3,602 million
Short-term monetary payables	¥11,130 million
Long-term monetary payables	¥7 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 ¥44 million in notes receivable - trade and ¥324 million in electronically recorded monetary claims.

#### 5. Notes to the Statement of Income

(1) Transactions with affiliates during the current fiscal year

Net sales	¥16,657 million
Purchases	¥18,895 million
Selling, general and administrative expenses	¥181 million
Non-business transactions	¥2,941 million

(2) Impairment loss

Notes have been omitted as the same information is provided in “6. Notes to Consolidated Statements of Income” in “Notes to Consolidated Financial Statements.”

## 6. Notes to the Statements of Changes in Net Assets

### Notes on amount of treasury stock

Type of shares	Number of shares at beginning of current fiscal year	Amount of increase in shares during current fiscal year	Amount of decrease in shares during current fiscal year	Number of shares at end of current fiscal year
Common stock	753,057	949	30	753,976

Notes:

1. The 949 increase in shares during the current fiscal year reflects the increase in shares following the purchase of less-than-one-unit shares.
2. The 30 decrease in shares during the current fiscal year reflects the 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 477,535 shares held in the BIP Trust.

## 7. Notes on Tax Effect Accounting

### Significant components of deferred tax assets and deferred tax liabilities

#### (Deferred tax assets)

Accrued bonuses to employees	¥360 million
Provision for retirement benefits	¥85 million
Loss on valuation of stocks of subsidiaries and affiliates	¥1,884 million
Loss on valuation of investment securities	¥133 million
Impairment loss	¥485 million
Loss on valuation of inventories	¥240 million
<u>Other</u>	¥662 million
Deferred tax assets (subtotal)	¥3,849 million
<u>Valuation allowance</u>	¥(2,689) million
Deferred tax assets (total)	¥1,160 million
 (Deferred tax liabilities)	
Net unrealized gains on other securities	¥(654) million
<u>Other</u>	¥(18) million
<u>Deferred tax liabilities (total)</u>	¥(672) million
<u>Deferred tax assets</u>	¥487 million

## 8. 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	6,941	Accounts receivable - trade	679
Subsidiary	KITZ Corporation of Taiwan	100% direct holding	1	Supplier to the Company	The Company procures finished goods from the affiliate	5,617	Accounts payable - trade	1,270
Subsidiary	KITZ (Thailand) Ltd.	92% direct holding	—	Supplier to the Company	The Company procures finished goods from the affiliate The receipt of dividends	8,167 1,289	Accounts payable - trade	1,660
Subsidiary	KITZ Metal Works Corporation	100% direct holding	2	Supplier to the Company	The Company lends the affiliate funds	20,210	Short-term loans receivable Long-term loans receivable	5,948 3,283
Subsidiary	Shimizu Alloy Mfg. Co., Ltd.	100% direct holding	1	Customer of the Company	The Company borrows funds from the affiliate	5,475	Short-term borrowings	2,328
Subsidiary	KITZ SCT Corporation	100% direct holding	2	Supplier to the Company	The Company borrows funds from the affiliate	6,002	Short-term borrowings	1,623
Subsidiary	KITZ Corporation of America	100% direct holding	—	Customer of the Company	The Company borrows funds from the affiliate	4,237	Short-term borrowings	1,624

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 receipt of dividends is reasonably determined considering the business performance.
4. The interest rates for lending and borrowing transactions are determined such that they are reasonable in light of market interest rates.

5. The amounts for lending and borrowing transactions indicate the amount of loan or the amount borrowed.
6. The liabilities for guarantees of external borrowings by affiliated companies are stated in 4. Notes to the Balance Sheets: (2) Contingent liabilities.

## 9. Notes on Per-share Information

(1) Net assets per share	¥597.75
(2) Net income per share	¥29.70
Notes:	
1. Basis for calculating net income per share	
Net income	¥ 2,662 million
Amount not attributable to common shareholders	¥— million
Net income attributable to common stock	¥ 2,662 million
Average number of shares outstanding during the term	89,643,016 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: 477,535 shares)	

## 10. Other Notes

### (1) Notes on retirement benefits

Retirement benefit obligations and the breakdown thereof	
(i) Retirement benefit obligations	¥(3,880) million
(ii) <u>Pension plan assets</u>	<u>¥4,323 million</u>
(iii) Unfunded retirement benefit obligations (i) + (ii)	¥443 million
(iv) <u>Unrecognized actuarial differences</u>	<u>¥(229) million</u>
(v) Prepaid pension cost (iii) + (iv)	¥213 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	¥219 million
Reconciliation associated with the passage of time	¥3 million
Decrease associated with the performance of asset retirement obligations	¥(6) million
<hr/>	
Balance at end of fiscal year	¥217 million

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