

[Business Report]

• **Status of the Corporate Group**

Major sales offices and plants (as of December 31, 2024)

(i) Major sales offices and plants of the Company

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

(ii) Major sales offices and plants of subsidiaries

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

Notes:

1. The "Location" for KITZ SCT Corporation indicates the location of its plant.
2. As of January 1, 2025, the Company merged with Toyo Valve Co., Ltd., with the Company as the surviving company and Toyo Valve Co., Ltd., which is the Company's subsidiary, as the absorbed company. Toyo Valve Co., Ltd. was dissolved on the same day.
3. KITZ Valve & Actuation India Private Limited. was newly established on June 7, 2024, and has become a consolidated subsidiary.

Status of employees (as of December 31, 2024)

(i) Employees of the corporate group

Business segment	Number of employees	Year-on-year change
Valve Manufacturing Business	4,951	+24
Brass Bar Manufacturing Business	242	+11
Other	86	+1
Corporate (common)	136	-3
Total	5,415	+33

Notes:

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

(ii) Employees of the Company

Number of employees	Year-on-year change	Average age	Average number of years of service
1,461	+18	40.1	13.9

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

Major lenders of the corporate group and amount of debt (as of December 31, 2024)

(Units: Millions of yen)

Name	Outstanding debt
The Hachijuni Bank, Ltd.	2,302
Sumitomo Mitsui Banking Corporation	707
Mizuho Bank, Ltd.	467
The Chiba Bank, Ltd.	309
The Yamanashi Chuo Bank, Ltd.	308
Nippon Life Insurance Company	271
MUFG Bank, Ltd.	142

Other significant matters regarding status of the Corporate Group

Based on the resolution of the 110th Ordinary General Meeting of Shareholders held on March 28, 2024, the Company transitioned to a company with a Nominating Committee as of the same date.

• **Status of the Company**

Matters regarding shares (as of December 31, 2024)

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

(ii) Total number of issued shares: 87,273,037 shares

Notes: 1. As a result of the cancellation of treasury shares on December 25, 2024, the total number of issued shares decreased by 2,830,900.

2. Total number of issued shares shown above does not include 292,574 shares of treasury shares that were held as of the end of the fiscal year under review.

(iii) Number of shareholders: 21,059

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

(iv) Major shareholders (top 10 shareholders)

Name	Investment	
	Shareholdings (thousands)	Holding ratio (%)
The Master Trust Bank of Japan, Ltd.	10,463	11.99
Kitazawa-kai Stock Ownership Plan	5,342	6.12
Nippon Life Insurance Company	4,303	4.93
Kitazawa Ikueikai Foundation	3,416	3.92
Sumitomo Life Insurance Company	3,413	3.91
KITZ Corporation Trading Partner Stock Ownership Plan	3,377	3.87
Custody Bank of Japan, Ltd.	2,838	3.25
KITZ Corporation Employee Stock Ownership Plan	2,035	2.33
SECOM General Insurance Co., Ltd.	1,702	1.95
KITZ Corporation Nationwide Stock Ownership Plan	1,499	1.72

Notes:

- The Company held 292 thousand shares of treasury shares as of December 31, 2024.
The holding ratio is calculated with the total number of issued shares excluding treasury shares.
The Company adopted a BIP trust, and The Master Trust Bank of Japan, Ltd. holds 297 thousand shares of the Company in the trust. These 297 thousand shares are not included in the concerned treasury shares.
- The above number of shares held includes shares associated with trust operations as follows:
The Master Trust Bank of Japan, Ltd. 10,463 thousand shares
Custody Bank of Japan, Ltd. 2,838 thousand shares
- The number of shares held by Sumitomo Life Insurance Company includes 200 shares in the variable insurance account and 4 thousand shares in the separate account.

Matters regarding subscription rights to shares

Not applicable.

Officers of the Company (as of December 31, 2024)

(i) Summary of liability limitation agreements

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

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

(ii) Major concurrent positions of Directors and Senior Executive Officers

(a) Major concurrent positions of Directors (as of December 31, 2024)

Position	Name	Name of organization in which concurrent position is held	Concurrent position
Director	Yasuyuki Hotta	KITAZAWA MUSEUM OF ART	Chairman
	Makoto Kohno	KITZ SCT Corporation	Director
	Toshiyuki Murasawa	KITZ SCT Corporation	Auditor
		KITZ Micro Filter Corporation	Auditor
		Hotel Beniya Co., Ltd.	Auditor
		KITZ SCT Corporation of Kunshan	Auditor
Outside Director	Minoru Amoh	Otsuka Chemical Co., Ltd.	Outside Director
		Enplas Corporation	Outside Director (Audit & Supervisory Committee Member)
	Yukino Kikuma	MATSUO & KOSUGI	Managing Partner
		KOSÉ Corporation	External Director
		ALCONIX CORPORATION	Outside Director
		Money Forward, Inc.	External Director
		Tokio Marine Nichido Life Insurance Co., Ltd.	Outside Auditor
	Shuhei Sakuno	JAPANIACE Co., Ltd.	Outside Audit & Supervisory Board Member
	Ayako Kobayashi	KATAOKA & KOBAYASHI LPC	Partner
		The Musashino Bank, Ltd.	Outside Director
		Keio University Law School	Professor
	Toichi Maeda	EBARA CORPORATION	Chairman & Director

Notes:

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

(Name)	(Business)
KITZ SCT Corporation	Manufacturing and sales of valves and fittings for semiconductor production equipment
KITZ SCT Corporation of Kunshan	Manufacturing and sales of valves and fittings for semiconductor production equipment
- Of the major concurrent position held by Director Yasuyuki Hotta, the concurrent position of Chairman of KITAZAWA MUSEUM OF ART is a significant concurrent position.
- Director Makoto Kohno serves concurrently as Senior Executive Officer.
- Of the major concurrent positions held by Outside Director Minoru Amoh, the concurrent position of Outside Director of Otsuka Chemical Co., Ltd. and Outside Director (Audit & Supervisory Committee Member) of Enplas Corporation are significant concurrent positions.
- Of the major concurrent positions held by Outside Director Yukino Kikuma, Managing Partner of MATSUO & KOSUGI, External Director of KOSÉ Corporation, External Director of Money Forward, Inc., and Outside Auditor of Tokio Marine Nichido Life Insurance Co., Ltd. are significant concurrent positions.
- Of the major concurrent position held by Outside Director Shuhei Sakuno, Outside Audit & Supervisory Board Member of JAPANIACE Co., Ltd. is a significant concurrent position.
- Of the major concurrent positions held by Outside Auditor Ayako Kobayashi, Partner of KATAOKA & KOBAYASHI LPC, Outside Director of The Musashino Bank, Ltd., and Professor of Keio University Law School are significant concurrent positions.
- Of the major concurrent position held by Outside Director Toichi Maeda, Chairman & Director of EBARA CORPORATION is a significant concurrent position. He is scheduled to retire from his position as Director of EBARA CORPORATION on March 26, 2025.
- Yukino Kikuma's name on her family register is Yukino Yoshida.
- Ayako Kobayashi's name on her family register is Ayako Nakajima.

(b) Major concurrent positions of Senior Executive Officers (as of December 31, 2024)

Position	Name	Name of organization in which concurrent position is held	Concurrent position
Senior Executive Officer	Takaaki Kobayashi	KITZ Micro Filter Corporation	Director
		KITZ Corporation of Shanghai	Director
		KITZ Corp. of America	Director
		KITZ Corp. of Europe, S.A.	Director
		Perrin GmbH	Director
		KITZ Corp. of Asia Pacific Pte. Ltd.	Director
		KITZ Corp. of Korea	Director
		KITZ Corp. of Vietnam Co., Ltd.	Director
	Shuji Takei	KITZ Valve & Actuation India Private Limited.	Director
		Shimizu Alloy Mfg. Co., Ltd.	Director
		KITZ SCT Corporation	Director
		KITZ Micro Filter Corporation	Director
	Kenichi Bessho	KITZ Metal Works Corporation	Director
		Shimizu Alloy Mfg. Co., Ltd.	Auditor
		KITZ SCT Corporation	Auditor
		KITZ Micro Filter Corporation	Auditor
		KITZ Corporation of Shanghai	Director
		KITZ Corp. of America	Director
		KITZ Corp. of Europe, S.A.	Director
		Perrin GmbH	Director
KITZ Corp. of Asia Pacific Pte. Ltd.		Director	
KITZ Corp. of Korea		Auditor	
KITZ Valve & Actuation India Private Limited.		Director	
KITZ Metal Works Corporation		Auditor	

Note:

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

(Name)	(Business)
Shimizu Alloy Mfg. Co., Ltd.	Manufacturing and sales of valves
KITZ SCT Corporation	Manufacturing and sales of valves and fittings for semiconductor production equipment
KITZ Corporation of Shanghai	Sales, marketing and distribution of valves
KITZ Corp. of America	Sales, marketing and distribution of valves
KITZ Corp. of Europe, S.A.	Manufacturing and sales of valves
Perrin GmbH	Manufacturing and sales of valves
KITZ Corp. of Asia Pacific Pte. Ltd.	Sales, marketing and distribution of valves
KITZ Corp. of Korea	Manufacturing and sales of valves
KITZ Corp. of Vietnam Co., Ltd.	Manufacturing and sales of valves
KITZ Valve & Actuation India Private Limited.	Sales, marketing and distribution of valves

(iii) Outline of Directors and Officers Liability Insurance contract

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

(iv) Matters regarding outside officers

a. Significant concurrent positions in or relationships with other companies

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

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

Outside Director Yukino Kikuma concurrently holds the position of Outside Director of ALCONIX CORPORATION. The ALCONIX group conducts business with the Group. The amount of transactions of castings and materials that the Group purchases from the ALCONIX group is less than 2% of the Company's annual consolidated net sales for the fiscal year under review. The amount of transactions of products that the Group sells to the ALCONIX group is less than 1% of the Company's annual consolidated net sales for the fiscal year under review.

Also, Outside Director Yukino Kikuma concurrently holds the positions of External Director of KOSÉ Corporation, External Director of Money Forward, Inc., and Outside Auditor of Tokio Marine Nichido Life Insurance Co., Ltd. There is no special relationship between these companies and the Company.

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

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

(e) Outside Director Toichi Maeda concurrently holds the position of Chairman & Director of EBARA CORPORATION. He is scheduled to retire from his position as Director on March 26, 2025. There is no special relationship between EBARA CORPORATION and the Company.

b. Significant activities during the fiscal year under review

Position	Name	Attendance at meetings	Main Activities and Outline of Duties Performed Regarding Roles Expected of Outside Directors
Outside Director	Minoru Amoh	Board of Directors' meetings 18/18 (100%) Nominating Committee meetings 6/6 (100%)	Served as a Lead Independent Outside Director and fulfilled the role appropriately by making active and useful statements at meetings of the Board of Directors, leveraging his extensive experience as a corporate manager in the manufacturing industry and high level of insight into global business development, technology development, etc. In addition, served as the Nominating Committee Chairperson and fulfilled his responsibilities by leading the selection of candidates for Directors and planning the development of the next generation of managers.
Outside Director	Yutaka Fujiwara	Board of Directors' meetings 18/18 (100%) Compensation Committee meetings 4/4 (100%)	Fulfilled the role appropriately by making active and useful statements at meetings of the Board of Directors, leveraging his extensive experience as a manager of overseas operations and a financial officer in the manufacturing industry at a financial institution, and high level of insight into business management, financial strategy, governance, etc. In addition, served as the Compensation Committee Chairperson and fulfilled his responsibilities by leading activities including deliberations related to the remuneration system and determination of remuneration levels for the Company's Directors and Senior Executive Officers.
Outside Director	Yukino Kikuma	Board of Directors' meetings 17/18 (94%) Risk Committee meetings 3/3 (100%)	Fulfilled the role appropriately by making active and useful statements at meetings of the Board of Directors, utilizing her extensive experience as an attorney at law and high level of insight into corporate legal affairs, including compliance and risk management, etc. In addition, served as the Risk Committee Chairperson and fulfilled her responsibilities by leading oversight of the KITZ Group's risk management.
Outside Director	Shuhei Sakuno	Board of Directors' meetings 18/18 (100%) Audit Committee meetings 14/14 (100%)	Fulfilled the role appropriately by making active and useful statements at meetings of the Board of Directors, leveraging his abundant experience as a corporate management officer in the manufacturing industry and high level of insight into financial accounting, internal controls, risk management and development of internal audit structure, etc. In addition, served as the Audit Committee Chairperson and fulfilled his responsibilities by leading the audit and supervision of Directors and business execution.

Position	Name	Attendance at meetings	Main Activities
Outside Director	Ayako Kobayashi	Board of Directors' meetings 18/18 (100%) Audit Committee meetings 14/14 (100%) Risk Committee meetings 3/3 (100%)	Fulfilled the role appropriately by making proactive and useful statements at meetings of the Board of Directors, utilizing her extensive experience as an attorney at law and high level of insight into corporate legal affairs, including compliance and risk management. In addition, served as a member of the Audit Committee and Risk Committee and fulfilled her responsibilities by auditing and supervising Directors and business execution.
Outside Director	Toichi Maeda	Board of Directors' meetings 14/14 (100%) Nominating Committee meetings 6/6 (100%) Risk Committee meetings 3/3 (100%)	Fulfilled the role appropriately by making active and useful statements at meetings of the Board of Directors, utilizing his extensive experience as a corporate manager in the manufacturing industry and high level of insight into manufacturing and technological development, etc. In addition, served as a member of the Nominating Committee and Risk Committee and fulfilled his responsibilities by conducting the selection of candidates for Directors, planning the development of the next generation of managers, and the oversight of the Group's risk management.
Outside Director	Yasunobu Suzuki	Board of Directors' meetings 14/14 (100%) Compensation Committee meetings 4/4 (100%)	Fulfilled the role appropriately by making active and useful statements at meetings of the Board of Directors, utilizing his extensive experience as a corporate manager in the manufacturing industry and high level of insight into management strategy, global business development, and sales/marketing, etc. In addition, served as a member of the Compensation Committee and fulfilled his responsibilities by contributing to the activities including deliberations related to the remuneration system and determination of remuneration levels for the Company's Directors and Executive Officers.

Notes:

1. Effective March 28, 2024, the Company transitioned from a company with an Audit & Supervisory Board to a company with a Nominating Committee.
2. Attendance of Directors at each Committee meeting is recorded from March 28, 2024 onwards.
3. Attendance of Shuhei Sakuno and Ayako Kobayashi at the Board of Directors' meetings includes the number of times they attended as Audit & Supervisory Members prior to the change in the organizational design.
4. Attendance of Toichi Maeda and Yasunobu Suzuki at Board of Directors' meetings are recorded from the time of their appointment as Directors on March 28, 2024.

Matters regarding Financial Auditor

(i) Name

Ernst & Young ShinNihon LLC

(ii) Amount of remuneration

Amount of remuneration to be paid by the Company for services with respect to the current fiscal year	
a. Amount of remuneration to be paid for services stipulated in Article 2, paragraph (1) of the Certified Public Accountants Act	¥80 million
b. Amount of remuneration to be paid for services (non-auditing services) other than those stipulated in Article 2, paragraph (1) of the Certified Public Accountants Act	¥2 million
Total amount of money and other financial benefits to be paid to Financial Auditor by the Company and its subsidiaries	¥108 million

Notes:

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

(iii) Reason for Audit Committee's consent toward the remuneration of the Financial Auditor

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

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

- a. The Audit Committee will, by the unanimous consent of all members thereof, dismiss the Financial Auditor if the Financial Auditor is deemed to fall under any of the items listed in Article 340, paragraph (1) of the Companies Act.
- b. The Audit Committee will determine the contents of a proposal to the General Meeting of Shareholders for the dismissal or non-reappointment of the Financial Auditor and the contents of a proposal for a new Financial Auditor in cases where it is judged that the Financial Auditor is unable to maintain the quality of audits or to continue to duly perform its duties, such as cases where there is serious doubt regarding the Financial Auditor's independence or aptitude, and cases where there are serious deficiencies in the system for enabling the Financial Auditor to duly perform its duties, and where there is no prospect of making improvements to secure the quality of audits.

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

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

1. Systems for ensuring the appropriateness of operations

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

In accordance with the Company's transition to a company with a Nominating Committee as of March 28, 2024, the "Basic Policy on Internal Control" was revised at the Board of Directors meeting held on the same date. The detail of the revised policy is as follows.

[Basic Policy on Internal Control]

Under the KITZ' Statement of Corporate Mission, Long-term Management Vision, and Action Guide, which are elements of the corporate philosophy system (hereinafter collectively referred to as the "Corporate Philosophy System") of the corporate group consisting of the Company and its subsidiaries (hereinafter referred to as the "KITZ Group"), in order to make our business foundation sound and strong, we will design and operate the following structure to ensure the appropriateness of KITZ Group's operations and strive for continuous improvement.

1. **Structure for ensuring that the execution of duties by the Senior Executive Officers and employees of the Company and Directors and employees of its subsidiaries complies with laws and regulations and the Articles of Incorporation**

- (1) We will thoroughly disseminate the Corporate Philosophy System to all officers and employees working in the KITZ Group around the world.
- (2) We will establish a C&C Management Committee chaired by the Representative Executive Officer & President as an organization to practice and supervise the compliance management of the KITZ Group. In addition, we will establish a promotion supervisory division and make efforts to enhance group compliance management and group risk management by providing education and training for employees based on the basic concept of compliance management, and by confirming the effectiveness thereof.
- (3) We will establish a Compliance Code of Conduct that must be observed by the KITZ Group's officers and employees.
- (4) We will establish a help desk (hereinafter referred to as the "Compliance Helpline") for receiving reports or consultations from our Senior Executive Officers and employees as well

as the Directors, Auditors, and employees of subsidiaries regarding violations of laws and regulations, serious violations of internal regulations, and other compliance violations at the Company and its subsidiaries and will also establish a KITZ Group's common help desk at a law firm. Furthermore, we will strictly protect the privacy of information providers and ensure that they are not treated disadvantageously due to the provision of information.

- (5) We will disseminate information about the Compliance Code of Conduct and Compliance Helpline to the KITZ Group's officers and employees through the Compliance Guidebook prepared in the languages of the countries in which each KITZ Group company is located, the company intranet, compliance education, or otherwise.
- (6) The Senior Executive Officers in charge of compliance will report the whistleblowing content and its investigation results to the Audit Committee as well as the Board of Directors in accordance with the Compliance Helpline Regulations.
- (7) When the whistleblowing desk established by the Audit Committee receives reports and consultations about violations of laws and regulations that are suspected of involvement of the KITZ Group's management executives, such as Directors, Senior Executive Officers, and Auditors that have the potential to seriously impede the management of the KITZ Group, we will, based on a request from the Audit Committee, cooperate with the investigation, provide information, and provide other necessary support or implement the necessary measures to resolve the problem, as well as implement measures to make corrections and prevent recurrences.
- (8) We will establish an Internal Audit Office that is under the direct control of the Representative Executive Officer & President and, based on the Internal Audit Regulations, smoothly and effectively conduct internal audits regarding the "effectiveness and efficiency of business operations," the "reliability of reporting (financial reporting etc.)," the "compliance with laws and regulations related to business activities," the "safeguarding of assets" as well as the "evaluation of the effectiveness of the corporate governance process," the "evaluation of the effectiveness of risk management in business activities, and contribution to the improvement of risk control systems of the Company and its consolidated subsidiaries."
- (9) In order to ensure the "reliability of reporting (financial reporting etc.)," of the Company and its consolidated subsidiaries, the Internal Audit Office will regularly evaluate the design and operation status of the internal control system related to financial reporting, and based on that evaluation, implement continuous improvement activities.

- (10) The General Manager of the Internal Audit Office will report plans, results, and other necessary information regarding internal audit of the Company and its subsidiaries to the Representative Executive Officer & President, the Audit Committee, Senior Executive Officers, and the presidents of the subsidiaries.
- (11) Senior Executive Officers, Divisional Supervisors, and the presidents of the subsidiaries, upon receiving the pointing out of problems based on the internal audit results from the General Manager of the Internal Audit Office, will promptly consider and implement improvement measures.
- (12) The General Manager of the Internal Audit Office will, as necessary, attend the Board of Directors meetings and prepare a system that allows for directly reporting on the implementation status and results of internal audit of the KITZ Group.
- (13) We will dispatch Directors and Auditors to major subsidiaries to supervise the execution of duties by the Directors of the subsidiaries.
- (14) In the Board of Directors Regulations, Authority Regulations, Approval Regulations, Group Company Management Regulations, and other related regulations (hereinafter collectively referred to as the “Group Company Management Regulations”), we will ensure the appropriateness of operations at our subsidiaries by clarifying the important matters that we approve of our subsidiaries.
- (15) When transactions are conducted among companies within the KITZ Group, we will ensure that they are fair and reasonable in light of laws, accounting principles, and other social norms.
- (16) We will respond resolutely and organizationally to antisocial forces and other related organizations that threaten social order and safety, in cooperation with lawyers and other experts and the police. Additionally, in order to fulfill our social responsibility as the KITZ Group, we will continue to implement initiatives to eliminate antisocial forces.

2. Structure for storing and managing information related to the execution of duties

- (1) We will appropriately preserve and manage information in important documents (including electromagnetic records) related to the execution of duties by Senior Executive Officers in accordance with laws and regulations as well as internal regulations.
- (2) Senior Executive officers and Divisional Supervisors shall build and design a structure for appropriately storing and managing information on important documents (including electromagnetic records) related to the execution of duties by Directors at subsidiaries in

accordance with laws and regulations and the internal regulations of the relevant subsidiaries, and supervise its operation.

- (3) Based on our information security policy regarding the creation, use, and management of information and our personal information protection policy, we will ensure the appropriate storage and management of information and prevent leaks and inappropriate use of information. Additionally, the Information Security and Personal Information Protection Committee will comprehensively manage the information security of the KITZ Group and provide supervision over information security.
- (4) Based on internal regulations, we will keep important documents, such as approval documents, of the Representative Executive Officer and the Board of Senior Executive Officers available for viewing by Directors as necessary.

3. Regulations and other structures regarding the management of the risk of loss in the KITZ Group

- (1) The Board of Directors will establish a risk management structure for the KITZ Group, establish a Basic Policy on Risk Management, and supervise its operation.
- (2) The Board of Directors will establish a Risk Committee chaired by an Outside Director as a voluntary organization whose purpose is to assist the Board of Directors in supervising the risk management of the KITZ Group and contribute to the sophistication of risk management as an integral part of the management strategy.
- (3) We will establish a supervisory division in charge of risk management and will work to enhance group risk management based on the Basic Policy on Risk Management.
- (4) The Board of Senior Executive Officers will, based on the Basic Policy on Risk Management, identify, analyze, and evaluate risks in the business execution of the KITZ Group, and consider and implement countermeasures.
- (5) We will establish committees for sustainability promotion, internal control, compliance, crisis management, risk management, investment and loans review, and the various other functions under the direction of the Representative Executive Officer & President to appropriately manage and evaluate the risks of the KITZ Group, and perform checks, improvements, and other necessary controls.
- (6) The Internal Audit Office will evaluate the KITZ Group's risk management process.

4. Structure for ensuring that the duties are efficiently executed by the Senior Executive Officers of the Company and Directors of its subsidiaries

- (1) The Board of Directors will decide on important matters stipulated in the Board of Directors Regulations in addition to those stipulated by laws and regulations or the Articles of Incorporation.
- (2) The Board of Directors will determine matters to be delegated to Senior Executive Officers among decisions related to business execution, aiming to speed up and improve the efficiency of decision-making.
- (3) The Board of Directors will determine the chain of command and division of duties for Senior Executive Officers.
- (4) The Board of Directors will receive reports from Senior Executive Officers regarding the status of business execution at least once every three months in principle and supervise them.
- (5) The Board of Directors will establish a Board of Senior Executive Officers that is composed of all Senior Executive Officers and presided over by the Representative Executive Officer & President appointed by the Board of Directors.
- (6) Of the matters delegated by Board of Directors to Senior Executive Officers, matters delegated to all Senior Executive Officers will be determined by the Board of Senior Executive Officers meetings, and matters delegated to the Representative Executive Officers will be determined by the Representative Executive Officers.
- (7) The Representative Executive Officer & President will establish a Management Conference to receive reports on business execution from Senior Executive Officers and Divisional Supervisors, as well as confirm and coordinate the progress of the Medium-term Management Plan and the Annual Management Plan.
- (8) In order to speed up and improve the efficiency of decision-making and clarify the decision-making process, we will establish and operate Authority Regulations and Approval Regulations that define the authority and responsibility of each Senior Executive Officer and employee.
- (9) We will establish the financial policy of the KITZ Group, strengthen financial governance, and supervise and manage funds, foreign exchange, and financial institution transactions in the KITZ Group.
- (10) In order to supervise the management of subsidiaries, we will appoint the manager in charge of each subsidiary (hereinafter referred to as the “Subsidiary Manager”).
- (11) In addition to serving as a Director of the applicable subsidiary, the Subsidiary Manager will

also approve important matters related to the execution of business of the applicable subsidiary.

5. Structure for reporting matters related to the execution of duties by Directors and employees of subsidiaries to the Company

- (1) The President & CEO of each subsidiary will report to the Representative Executive Officer & President of the Company regarding important matters related to the management status of the relevant subsidiary in accordance with the Group Company Management Regulations.
- (2) Directors and employees of each subsidiary will report important matters related to the execution of duties to the Subsidiary Manager.
- (3) Based on the Accounting Regulations and Consolidated Accounting Detailed Regulations, we will, by ensuring timely and appropriate reporting from our subsidiaries, accurately grasp the financial status and business results of the KITZ Group and appropriately maintain and manage consolidated accounting policies.

6. Matters related to employees who assist the Audit Committee in its duties and their independence from Senior Executive Officers and matters related to ensuring the effectiveness of the Audit Committee's instructions to employees

- (1) We will establish an Audit Committee Office under the direct control of the Audit Committee as an organization to assist the duties of the Audit Committee and Audit Committee Members.
- (2) We will assign full-time employees in the Audit Committee Office who are capable of assisting the duties of the Audit Committee and the Audit Committee Members (hereinafter referred to as "Standing Full-Time Office Members").
- (3) If deemed necessary by the Audit Committee, we will have all employees belonging to the Internal Audit Office concurrently serve as members of the Audit Committee Office on a temporary basis (hereinafter referred to as "Temporary Office Members," and Standing Full-Time Office Members and Temporary Office Members are hereinafter collectively referred to as "Audit Committee Office Members"), and under the direction of the Audit Committee, we will ensure a structure that allows them to directly and preferentially give instructions regarding additional investigations related to internal audit and investigations into serious legal violations.

- (4) We will ensure independence of Audit Committee Office Members from business execution when these members perform their duties.
- (5) Directors (excluding Audit Committee Members) and Senior Executive Officers will not issue directions or orders when Audit Committee Office Members assist the Audit Committee with its duties.
- (6) Standing Full-Time Office Members will perform their duties in accordance with the instructions of the Audit Committee and the Audit Committee Members, as well as perform secretarial duties of the Audit Committee. In addition, Standing Full-Time Office Members may concurrently serve as Auditors of subsidiaries.
- (7) We will determine matters on personnel affairs of Standing Full-Time Office Members after obtaining the consent of the Audit Committee in advance. Additionally, the Audit Committee will conduct personnel evaluations of Audit Committee Office Members.

7. Structure in which Directors (excluding Audit Committee Members), Senior Executive Officers, and employees of the Company, and directors, auditors, and employees of its subsidiaries, or persons receiving reports from these persons can make reports to the Audit Committee of the Company, and structure for ensuring that those who have made reports to the Audit Committee are not treated unfavorably due to the fact that they have made such reports

- (1) Directors (excluding Audit Committee Members), Senior Executive Officers, and employees of the Company and directors, auditors, and employees of its subsidiaries or persons receiving reports from these persons will promptly report to the Company's Audit Committee any facts that violate laws and regulations or the Articles of Incorporation, any fraudulent acts, or any other facts that may seriously impede or cause significant damage to the Company's management.
- (2) Directors (excluding Audit Committee Members), Senior Executive Officers, and employees of the Company and directors, auditors, and employees of its subsidiaries or persons receiving reports from these persons will, when requested by the Audit Committee to make reports, promptly make reports to the Audit Committee in accordance with laws and regulations and the Audit Committee Regulations.
- (3) We will not treat Directors (excluding Audit Committee Members), Senior Executive Officers, and employees of the Company and directors, auditors, and employees of its subsidiaries or

persons receiving reports from these persons disadvantageously due to the fact that they have made reports to the Audit Committee.

8. Procedures for advance payment or reimbursement of expenses arising from the execution of duties by Audit Committee Members and other matters related to policies on the disposal of such debts

- (1) If we receive requests for advance payment or reimbursement of expenses associated with the execution of duties by the Audit Committee and Audit Committee Members, we will promptly respond to such requests, unless the requests are deemed not to be related to the execution of duties by the Audit Committee or the relevant Audit Committee Members.
- (2) We will bear the remuneration for experts such as lawyers and other expenses associated with the execution of duties by the Audit Committee and Audit Committee Members, including those paid in advance.

9. Other structure for ensuring that the Audit Committee conducts audit effectively

- (1) We will ensure the effectiveness of audit by having Directors (excluding Audit Committee Members), Senior Executive Officers, and employees of the Company and directors, auditors, and employees of its subsidiaries respond to investigations and on-site audit by the Audit Committee.
- (2) We will ensure that the Audit Committee has opportunities to sufficiently exchange opinions with our Directors (excluding Audit Committee members), Senior Executive Officers, Financial Auditors, and other necessary persons.
- (3) The Representative Senior Executive Officer & President will regularly exchange opinions on management issues and other matters with the Audit Committee.
- (4) The General Manager of the Internal Audit Office will strive to work closely with Financial Auditors and Audit Committee Members at the three-way audit meeting presided over by the Audit Committee.
- (5) We will ensure that Audit Committee Members have opportunities to attend important meetings and express their opinions.
- (6) The Audit Committee will regularly exchange information and opinions with Auditors of subsidiaries in order to ensure the effectiveness of audit throughout the Group from the perspective of consolidated management. In addition, we will ensure opportunities to

collaborate with Auditors of subsidiaries and collect information from employees of subsidiaries at the request of the Audit Committee.

- (7) Audit Committee Members may utilize lawyers, certified public accountants, and other experts if deemed necessary for the performance of duties by the Audit Committee.

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

The summary of the Company's system development and status of operations based on the Basic Policy for Internal Control is as follows.

(1) Overall Internal control system

In order to ensure that the KITZ 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 the promotion of risk management and compliance management, 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 Committee, Financial Auditor, and Internal Audit Office work closely to assess the effectiveness of group-wide internal controls.

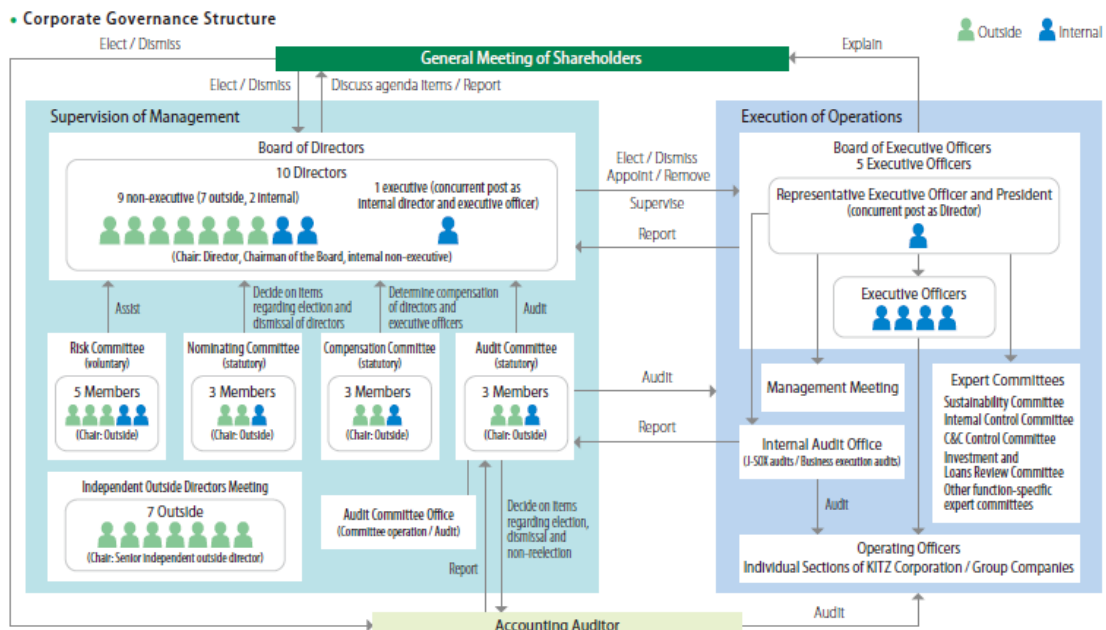
As for internal audits, the Internal Audit Office audits and confirms the functioning of internal controls through operational and internal control audits of the Company and its subsidiaries, and monitors the status of group-wide internal controls and appropriateness of business processes. Matters that require correction are notified to each group company, and follow-up audits are conducted on the corrective measures implemented by each company. Audit results, etc. are communicated to the President and Chief Executive Officer, Audit Committee, and related divisions, and are reported to the Board of Directors on a regular basis. Additionally, information is shared, and issues are confirmed at the Internal Control Committee.

In addition, the 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 subsidiaries are made in accordance with Rules

of the Board of Directors, Rules of the Board of Senior Executive Officers, and the Group Companies Regulations. In addition, we deliberate and evaluate important matters related to appropriate decision-making in group management by establishing and operating various committee organizations for crisis response, compliance, risk management, internal control, sustainability promotion, quality assurance, information security, personal information protection, environment, safety and health, investments and loans, security export control, AEO trade and CI, etc.

(2) Corporate governance structure

The Company has adopted a company with a Nominating Committee in its organizational design, aiming to strengthen its corporate governance and boost management speed. This structure enables us to clearly separate supervisory and execution functions, strengthen the overseeing functions of the Board of Directors, and delegate a great deal of business execution authority from the Board of Directors to Senior Executive Officers. This, in turn, enables swift and agile decision making.



(As of December 31, 2024)

(3) Board of Directors and Directors

In addition to making resolutions stipulated in the laws and the Articles of Incorporation, the Board of Directors concentrates on strategic discussions and decisions regarding the Long-term Management Vision, Medium-term Management Plan, Annual Management Plan and basic management policies, with the aim of achieving sustainable growth and

enhancing the KITZ Group's corporate value over the medium to long term. The Board also oversees the execution of business through regular status reports on business execution from Senior Executive Officers.

As of December 31, 2024, the Board of Directors consists of ten (10) Directors, seven (7) of whom are Independent Outside Directors appointed to strengthen the management oversight function. To ensure diversity of the Board of Directors, the Board is composed of Directors with diverse backgrounds in terms of career history, experience, and knowledge. Additionally, two (2) female Directors (Outside Directors) have been appointed.

(4) Committee

In addition to the Board of Directors, the statutory Nominating Committee, Audit Committee, and Compensation Committee; the Company established a voluntary Risk Committee as a supervisory function. Each Committee is made up of three (3) or more Directors selected by a resolution of the Board of Directors, with the majority of these being Outside Directors. The Chairperson is selected from among the Outside Directors by a resolution of the Board of Directors.

(5) Nominating Committee

In addition to deciding the details of proposals for the election and dismissal of Directors to be presented to the General Meeting of Shareholders, based on the "Directors and Senior Executive Officers' Election and Dismissal Policy" established by the Company, the Nominating Committee also deliberates on matters such as the nomination of candidates for the positions of the Chairman of the Board, Chair of the Board of Directors, members and chairpersons of statutory and voluntary committees, and Senior Executive Officers, as well as the planning of next generation managers, and reports the results of its deliberations to the Board of Directors.

(6) Audit Committee

The Audit Committee conducts planned investigations and site visits of the KITZ Group to ensure the effectiveness of audits.

The Audit Committee includes a full-time Audit Committee member who attends important internal meetings, such as the Board of Senior Executive Officers and

management meetings, to acquire timely and accurate information and promote information sharing with other members.

Additionally, the Audit Committee ensures sufficient opportunities for exchanging opinions with Directors, Senior Executive Officers, and Financial Auditors, as well as Directors, Auditors, and employees of subsidiaries, and maintains close coordination with Financial Auditors and the Internal Audit Office through the “Three-Way Audit Meetings.”

Furthermore, the Audit Committee has established a whistleblower hotline to accept reports or consultations regarding legal violations that could potentially involve the KITZ Group’s management executives, such as Directors, Senior Executive Officers, and Auditors, and could significantly impair the Company’s management. Corrective measures and recurrence prevention actions are taken, as necessary.

The Company has established an Audit Committee Office directly under the Audit Committee as an organization to support the duties of the Audit Committee and its members. Full-time office staff with sufficient capabilities to assist the Audit Committee and its members, ensuring their independence from business execution, are assigned to this office. If the Audit Committee deems it necessary, all employees belonging to the Internal Audit Office may temporarily serve concurrently as members of the Audit Committee Office to ensure that additional investigations related to internal audits and significant legal violations are conducted directly and preferentially under the direction of the Audit Committee.

(7) Compensation Committee

The Compensation Committee determines the “Policy for Determining the Individual Remuneration for Directors and Senior Executive Officers” and the details of the individual remuneration for Directors and Senior Executive Officers. Remuneration for Directors and Senior Executive Officers will be set at an amount commensurate with the business performance of the Company, taking into account the standards of other companies with a focus on increasing motivation to achieve the Long-term Management

Vision and Medium-term Management Plan and to improve the corporate value of the KITZ Group.

(8) Risk Committee

The Company established a voluntary Risk Committee to assist the Board of Directors in overseeing the KITZ Group's risk management and to contribute to the enhancement of risk management as an integral part of management strategy.

(9) Independent Outside Directors Meeting and Lead Independent Outside Directors

The Company established an Independent Outside Directors Meeting as a body independent from the Board of Directors. This meeting comprises all Independent Outside Directors and one (1) Lead Independent Outside Director is appointed from among them by a mutual vote. The main purpose of this meeting is to exchange information required to actively contribute to discussions in the Board of Directors meetings, promote common recognition of various matters, and freely discuss matters including the Company's business and corporate governance from an objective standpoint.

(10) Board of Senior Executive Officers and Senior Executive Officer

The Board of Directors elects five (5) Senior Executive Officers by resolution and appoints one of them to be the Representative Executive Officer (President). Senior Executive Officers, are delegated broad authority from the Board of Directors and engage in swift decision-making regarding management and the execution of operations.

The Board of Directors has established a Board of Senior Executive Officers made up of all Senior Executive Officers. Matters delegated by the Board of Directors to all Senior Executive Officers are determined by the Board of Senior Executive Officers by consensus. Additionally, in order to accelerate and streamline decision-making and to clarify the decision-making process, the division of duties (delegation of duties) of Senior Executive Officers, the chain of command among Senior Executive Officers, and their mutual relationships are clearly defined.

(11) Management Meeting

The Representative Executive Officer and President has established a Management Meeting to receive reports on business execution from Senior Executive Officers and

department heads as well as to review and manage the progress of the Medium-term Management Plan and the Annual Management Plan.

(12) Expert Committees

The Company, under the direction of the Representative Executive Officer and President, has established several Expert Committees, including the Sustainability Committee, Internal Control Committee, C&C Management Committee (a specialized committee responsible for compliance, crisis response, and risk management), Investment and Loans Review Committee, and other function-specific committees. These committees deliberate on important matters such as the promotion of sustainability management, ensuring the appropriateness of the KITZ Group's operations, addressing risks, and promoting compliance management, and report to the Representative Executive Officer and President. Furthermore, particularly noteworthy matters are deliberated by the Board of Senior Executive Officers and then reported to the Board of Directors.

(13) Management and supervision of the overall business operation and execution of the KITZ Group

The Company has established group company management policies to supervise the management and business execution of its subsidiaries and has appointed department heads responsible for overseeing each subsidiary.

The Representative Directors and President of each subsidiary report important matters related to management status to the Company's Representative Executive Officer and President in accordance with these policies. Additionally, the Directors and employees of each subsidiary report important matters related to the execution of their duties to the Company's department heads responsible for the respective subsidiaries.

Furthermore, the department heads responsible for the subsidiaries concurrently serve as Directors of the target subsidiaries and approve important matters related to the business execution of the supervised subsidiaries in accordance with these policies.

(14) Compliance Structure

The Company has established the KITZ Group's Corporate Mission structure and has placed "Do it True" (Integrity and the Truth) at the topmost element of its "Action Guide," positioning compliance as the most important management issue.

To implement and supervise compliance management for the KITZ Group, the Company and its Group companies have established the C&C Control Committee, chaired by the Representative Executive Officer and President or Representative Director and President.

Within the Company, a department to promote compliance management has been established, and various initiatives have been undertaken to enhance compliance, including the formulation of a compliance code of conduct that all officers and employees of the KITZ Group must adhere to, the implementation of education and training, the verification of effectiveness through compliance survey, and the operation of a compliance helpline (Whistleblowing System).

Additionally, for the compliance code of conduct and compliance helpline, the Compliance Guidebook has been prepared in the language of each country in which the KITZ Group operates. These guidebooks are disseminated to the KITZ Group's officers and employees through internal intranet and compliance education, ensuring awareness-raising and understanding.

(15) Whistleblowing System

The KITZ Group has established a Compliance Helpline for the Company and each Group company as a contact point for reporting and consultation concerning information about any acts in violation of laws, regulations, or compliance identified by management or employees of the Company and its subsidiaries. Additionally, a Compliance Helpline that can be used by the entire KITZ Group is set up both at the Company and the law firms, providing multiple reporting and consultation routes to ensure that officers and employees can use the system with peace of mind.

The Compliance Helpline is managed and operated by the C&C Control Committee of the Company and each Group company. Reports and consultations received are investigated swiftly while strictly protecting the confidentiality of the reporting party, and timely and appropriate corrective measures are implemented in response. Information received by the Compliance Helpline, along with the corresponding responses and results, is reported to the Audit Committee and the Board of Directors.

(16) Risk Management Structure

As a company with a Nominating Committee, the Company clearly separates the overseeing and executive functions of management, and the supervision of risk management stands as an important role to be fulfilled by the Board of Directors. The Risk Committee, a non-statutory body that has been established to support the Board of Directors' role in overseeing risk management, identifies specific themes related to significant risks and deliberates on the appropriateness of the executive side's issue

setting and countermeasures related to the target themes, reporting the results to the Board of Directors.

On the execution side, under the supervision of the Board of Directors and based on the “Basic Risk Management Policy” established by the Board of Directors, the department in charge of risk management of the Company and its Group companies promotes risk management under the direction of the C&C Control Committee chaired by the Representative Executive Officer and President.

Additionally, based on the evaluation criteria formulated by the C&C Control Committee, we quantitatively determine the importance of risks associated with business activities using two axes of “frequency of occurrence” and “impact on management,” and then identify significant risks and take necessary countermeasures.

Furthermore, to ensure the appropriateness of decision-making on important matters related to business execution of the KITZ Group, various specialized committees related to crisis response, compliance, risk management, internal control, sustainability promotion, quality assurance, information security, personal information protection, environment, safety and health, investment and loans, and security trade have been established under the direction of the Representative Executive Officer and President to manage risks and provide consultations.

(17) Internal Control

As a department responsible for conducting internal audits of the Company and its subsidiaries, an Internal Audit Office was established under the direction of the Representative Executive Officer and President. The Internal Audit Office closely collaborates with the Audit Committee and Financial Auditor to evaluate the “effectiveness and efficiency of operations,” “reliability of reporting (including financial reporting),” “compliance with laws and regulations related to business activities,” “preservation of assets,” as well as “evaluation of the effectiveness of corporate governance processes” and “evaluation of the effectiveness of risk management in business activities and contribution to the improvement of risk control systems” for the company and its consolidated subsidiaries.

[Consolidated Financial Statements]

Consolidated Statement of Changes in Equity (From January 1, 2024 to December 31, 2024)

(Units: Millions of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	21,207	5,739	65,258	(459)	91,745
Changes during period					
Dividends of surplus			(3,784)		(3,784)
Profit attributable to owners of parent			11,824		11,824
Purchase of treasury shares				(3,086)	(3,086)
Disposal of treasury shares		6		59	65
Cancellation of treasury shares		(43)	(2,906)	2,949	–
Restricted share awards		24		54	79
Net changes in items other than shareholders' equity					
Total changes during period	–	(12)	5,134	(23)	5,098
Balance at end of period	21,207	5,726	70,392	(482)	96,843

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of period	2,203	6,935	(9)	9,128	1,333	102,207
Changes during period						
Dividends of surplus						(3,784)
Profit attributable to owners of parent						11,824
Purchase of treasury shares						(3,086)
Disposal of treasury shares						65
Cancellation of treasury shares						–
Restricted share awards						79
Net changes in items other than shareholders' equity	(534)	2,917	31	2,413	90	2,503
Total changes during period	(534)	2,917	31	2,413	90	7,602
Balance at end of period	1,668	9,852	21	11,542	1,423	109,809

Notes to the Consolidated Financial Statements

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

(1) Scope of consolidation

Number of consolidated subsidiaries: 35

The consolidated subsidiaries are:

KITZ Corp. of America, Metalúrgica Golden Art's Ltda., KITZ Corp. of Europe, S.A., Perrin GmbH, KITZ (Thailand) Ltd., KITZ Corporation of Taiwan, KITZ Corporation of Kunshan, KITZ Corporation of Jiangsu Kunshan, KITZ Corporation of Lianyungang, KITZ SCT Corporation of Kunshan, KITZ Corporation of Shanghai, KITZ Corp. of Asia Pacific Pte. Ltd., KITZ Corp. of Korea, KITZ Corp. of Vietnam Co., Ltd., KITZ Valve & Actuation India Private Limited., Toyo Valve Co., Ltd., Shimizu Alloy Mfg. Co., Ltd., KITZ SCT Corporation, KITZ Micro Filter Corporation, KITZ Metal Works Corporation, Hotel Beniya Co., Ltd., and 14 other companies.

Notes:

1. Since KITZ Valve & Actuation India Private Limited. was newly established, we brought the company into the scope of consolidation.
2. As of January 1, 2025, the Company merged with Toyo Valve Co., Ltd., with the Company as the surviving company and Toyo Valve Co., Ltd., which is the Company's subsidiary, as the absorbed company. Toyo Valve Co., Ltd. was dissolved on the same day.

(2) Application of the equity method

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

(3) Fiscal year of consolidated subsidiaries

Among the consolidated subsidiaries, the balance sheet date of Micro Pneumatics Pvt. Ltd. and KITZ Valve & Actuation India Private Limited. is March 31. The Company prepared the consolidated financial statements based on a provisional closing of accounts as of the consolidated balance sheet date that were prepared in the same way as the settlement of full-year accounts.

(4) Accounting policies

(i) Standards and methods of evaluation of important assets

Securities:

Stock of affiliates

Stated at cost by the moving average cost method

Other securities

Securities other than shares without market price, etc.:

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

Securities without market price, etc.:

Stated at cost by the moving average cost method

Derivatives:

Stated at fair value

Inventories:

Finished goods and work in process:

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

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

Raw materials:

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

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

Supplies:

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

(ii) Depreciation and amortization method for important depreciable assets

Property, plant and equipment (excluding leased assets)

The Company and the consolidated subsidiaries in Japan primarily apply the declining-balance method (however, the straight-line method is used for buildings [excluding

annexed equipment] acquired on and after April 1, 1998, and for annexed equipment and structures acquired on and after April 1, 2016).

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

Intangible assets (excluding leased assets)

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

Leased assets

Lease claims in finance lease transactions without ownership transfer

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

(iii) Method for processing deferred assets

Corporate bond issuance expenses

Corporate bond issuance expenses are charged to expenses 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.

Provision for bonuses

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

Provision for bonuses for directors (and other officers)

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.

Provision for retirement benefits for directors (and other officers)

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.

Provision for share awards for directors (and other officers)

In order to prepare for the granting of stock benefit to Directors etc. of the Company, this has been posted based on the estimated value of stock benefit liabilities at the end of the current fiscal year.

(v) Standards for recording important revenues and expenses

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

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

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

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

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

(vi) Method for processing important hedge accounting

a. Hedge accounting method

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

b. Hedging instruments and hedged items

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

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

c. Hedging policy

The Company engages in forward exchange contracts for the purpose of offsetting the risk of foreign exchange fluctuations, and only insofar as to cover actual foreign

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

d. Method for appraising hedge effectiveness

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

(vii) Amortization of goodwill

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

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

a. Accounting of retirement benefits

- Method for estimating retirement benefits

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

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

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

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

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

- Application of simplified methods for small-sized companies

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

- b. Application of the group tax sharing system

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

2. Notes on Changes in Presentation Method

(Consolidated statement of income)

The amount of “Loss on retirement of intangible assets,” which had been included in “Other” under extraordinary losses up until the previous fiscal year, is presented separately from the current fiscal year as “Loss on retirement of intangible assets” has exceeded 10% of the total amount of extraordinary losses.

The amount of “Loss on retirement of intangible assets” was ¥8 million in the previous year.

3. Notes to Accounting Estimates

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

(Impairment of non-current assets)

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

Impairment loss	– million
Property, plant and equipment	¥54,427 million
Intangible assets	¥1,698 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 such as continuing operating losses, if the recoverable amount is less than the book value due to a decline in profitability or market value, the book value is reduced to the recoverable amount and the amount of reduction is recorded as an impairment loss.

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

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

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

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

(Units: Millions of yen)

Asset/Asset Group		At the End of Current Consolidated Fiscal Year	Impairment Loss
Shimizu Alloy Mfg. Co., Ltd.	Property, plant and equipment	3,187	—
Shimizu Alloy Mfg. Co., Ltd.	Intangible assets	82	—
KITZ Corp. of Korea	Property, plant and equipment	860	—
KITZ Corp. of Korea	Intangible assets	7	—

Based on the result of review, no impairment loss has been recorded for the current consolidated fiscal year. However, such estimates are affected by changes in uncertain future economic conditions, and if it becomes necessary to re-consider the assumptions used in the estimates, additional impairment losses may be recognized in the following consolidated fiscal year.

4. Additional Information

(Stock Remuneration System for the Directors and Senior Executive Officers)

The Company has introduced a stock remuneration system (the “System”) in order to further motivate the Company’s Directors and Senior 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”).

In addition, in accordance with the resolution of the 108th Ordinary General Meeting of Shareholders held on March 29, 2022, the Company has introduced a restricted share awards plan and post-hoc performance-based stock compensation plan, to replace the System, and will not make any additional contributions to the System in the future. The System will be terminated as soon as the delivery of the remaining Company shares is completed.

(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 shares under the net assets section based on the carrying amount in the trust (excluding associated expenses). The number of shares of treasury shares held at the end of current fiscal year is 297,046, the carrying amount of which is ¥177 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	¥122 million
Machinery	¥0 million
Land	¥545 million

- (ii) Secured liabilities
Not applicable.
- (3) Accumulated depreciation of property, plant and equipment ¥93,302 million
- (4) Contingent liabilities
Amount of discount in notes receivable - trade and electronically recorded monetary claims
- operating
¥197 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 ¥77 million in notes receivable - trade and ¥749 million in electronically recorded monetary claims - operating.

6. Notes on the Consolidated Statement of Changes in Equity

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

Common shares 87,565,611 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 27, 2024	Common shares	2,072	23	December 31, 2023	March 11, 2024
Board of Directors meeting held on August 2, 2024	Common shares	1,711	19	June 30, 2024	September 18, 2024
Total		3,784	42		

Notes:

- The total amount of dividends to be paid based on the resolution of the Board of Directors on February 27, 2024 includes ¥9 million of dividend payable for the Company's shares held through the BIP Trust.
- The total amount of dividends to be paid based on the resolution of the Board of Directors on August 2, 2024 includes ¥5 million of dividend payable for the Company's shares held through the BIP Trust.

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

The following items are expected to be resolved at a meeting of the Board of Directors to be held on February 27, 2025:

- Total amount of dividends ¥2,356 million
- Source of dividends Retained earnings
- Dividends per share ¥27
- Record date December 31, 2024
- Effective date March 12, 2025

Note: The total amount of dividends to be paid based on the resolution of the Board of Directors on February 27, 2025 includes ¥8 million of dividend payable for the Company's shares held through the BIP Trust.

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

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

7. Notes on Financial Instruments

(1) Overview of financial instruments

(i) Policy regarding financial instruments

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

(ii) Details of financial instruments and associated risks

Notes and accounts receivable - trade, and contract assets and electronically recorded monetary claims - operating, 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 borrowings are mainly for the purpose of financing for capital investment. Certain long-term borrowings are exposed to interest rate risk and risk of exchange rate fluctuations, but are hedged using derivatives.

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

(iii) Risk management system for financial instruments

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

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

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

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

Foreign currency-denominated trade receivables and payables and foreign currency-denominated long-term borrowings are hedged against the risk of exchange rate fluctuations by using forward exchange contracts and currency swaps in accordance with internal management regulations. In addition, the Group uses interest rate swaps to mitigate the risk of interest rate fluctuations paid on long-term borrowings.

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

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

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

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

In addition, the Company prepares for liquidity risks related to fund raising by concluding commitment line agreements for short-term borrowings with the banks

with which the Company does business, in order to prepare for the occurrence of short-term working capital needs.

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

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

(2) Notes on the fair value of financial instruments

The following table shows the amounts recorded, fair value, and any differences in the consolidated balance sheet as of December 31, 2024.

(Units: Millions of yen)

	Amount recorded on consolidated balance sheet (*3)	Fair value (*3)	Difference
(i) Investment securities			
Stocks of affiliates	1,724	1,984	259
Other securities	3,576	3,576	-
(ii) Corporate bonds	(30,270)	(29,853)	416
(iii) Long-term borrowings	(3,863)	(3,646)	217
(iv) Derivative transactions (*4)	1		-

*1: “Cash and deposits,” “Notes and accounts receivable - trade, and contract assets,” “Electronically recorded monetary claims - operating” and “Notes and accounts payable - trade” are omitted, because they are cash and their fair value is close to the book value as they are settled in a short period of time.

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

(Units: Millions of yen)

Category	Amount recorded on consolidated balance sheet
Unlisted shares	211

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

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

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

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

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

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

Level 3: Fair value derived from unobservable inputs

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

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

(Units: Millions of yen)

Category	Fair value			
	Level 1	Level 2	Level 3	Total
Investment securities				
Other securities				
Shares	3,576	–	–	3,576
Derivative transactions				
Currency-related	–	1	–	1
Assets Total	3,576	1	–	3,578

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

(Units: Millions of yen)

Category	Fair value			
	Level 1	Level 2	Level 3	Total
Investment securities				
Stocks of affiliates	1,984	–	–	1,984
Asset Total	1,984	–	–	1,984
Corporate bonds	–	29,853	–	29,853
Long-term borrowings	–	3,646	–	3,646
Liability Total	–	33,499	–	33,499

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

Investment securities

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

Derivative transactions

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

Corporate bonds

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

Long-term borrowings

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

8. Notes on Per-Share Information

(1) Net assets per share	¥1,246.16
(2) Basic earnings per share	¥132.64

Notes:

1. Basis for calculating basic earnings per share

Profit attributable to owners of parent	¥11,824 million
Amount not attributable to common shareholders	¥– million
Profit attributable to owners of parent pertaining to common shares	¥11,824 million
Average number of shares outstanding during the term	89,143,621 shares
2. The Company's stock held in the BIP Trust are included in the treasury shares deducted from the term-end total outstanding shares in the calculation of net assets per share. (current fiscal year: 297,046 shares)
They are also included in the treasury shares deducted in the calculation of the average number of shares for the period as part of the calculation of basic earnings per share. (current fiscal year: 332,513 shares)

9. Notes on Significant Subsequent Events

(Transaction under common control, etc.)

Absorption type merger of a wholly owned subsidiary

The Company resolved to carry out an absorption-type merger of its wholly owned subsidiary, Toyo Valve Co., Ltd. at the Board of Senior Executive Officers meeting held on August 20, 2024, through an absorption-type merger, effective January 1, 2025.

(1) Outline of the transaction

(i) Name and business of the merged company

Name of the merged company: Toyo Valve Co., Ltd.

Description of the business: Manufacturing and sales of valves and other fluid control devices, as well as related accessories

(ii) Date of merger

January 1, 2025

(iii) Legal form of business combination

Absorption-type merger with the Company as the surviving company and Toyo Valve Co., Ltd. as the absorbed company

(iv) Name of the combined company after merger

KITZ Corporation

(v) Other matters regarding the outline of the transaction

In order to respond to changes in the market environment surrounding the KITZ Group, we aim to enhance marketing through a restructured sales framework and to achieve greater efficiency in internal operations.

(2) Outline of the Accounting procedures

In accordance with the “Accounting Standard for Business Combinations” (ASBJ Statement No. 21, January 16, 2019) and the “Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10, January 16, 2019), the transactions are processed as transactions under common control.

(Borrowing of funds)

At the Board of Senior Executive Officers meeting held on January 14, 2025, the Company resolved to borrow funds for the purpose of redemption of bonds and entered into loan agreements with financial institutions as follows.

(1)	Name of Lender	Sumitomo Mitsui Banking Corporation
(2)	Loan amount	¥5,775 million
(3)	Borrowing rate	Fixed interest rate
(4)	Date of agreement	January 21, 2025 and February 6, 2025
(5)	Date of borrowing	February 28, 2025
(6)	Borrowing period	7 years
(7)	Repayment method	Initial repayment at the end of May 2025 and subsequent repayments in installments on the last day of every three months thereafter
(8)	Existence of collateral, etc.	Nil

(1)	Name of Lender	Mizuho Bank, Ltd.
(2)	Loan amount	¥4,225 million
(3)	Borrowing rate	Fixed interest rate
(4)	Date of agreement	January 22, 2025 and February 10, 2025
(5)	Date of borrowing	February 28, 2025
(6)	Borrowing period	7 years
(7)	Repayment method	Initial repayment at the end of May 2025 and subsequent repayments in installments on the last day of every three months thereafter
(8)	Existence of collateral, etc.	Nil

10. Notes on Revenue Recognition

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

(Units: Millions of yen)

	Reporting segment			Others (Note 1)	Total
	Valve Manufacturing	Brass Bar Manufacturing	Total		
Japan	80,448	28,887	109,336	2,625	111,961
the Americas	18,758	–	18,758	–	18,758
Europe	4,900	–	4,900	–	4,900
China	13,574	362	13,936	–	13,936
ASEAN	12,393	588	12,982	–	12,982
India	2,063	–	2,063	–	2,063
Other	7,416	0	7,416	–	7,416
Revenue arising from contracts with customers	139,556	29,838	169,395	2,625	172,020
Other revenue (Note 2)	–	–	–	22	22
Sales to external customers	139,556	29,838	169,395	2,647	172,042

Notes:

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

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

Information on the basis for understanding revenue arising from contracts with customers is described in “(4) Accounting policies, (v) Standards for recording important revenues and expenses” under the Notes on Important Items Underlying the Preparation of the Consolidated Financial Statements.

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

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

(Units: Millions of yen)

	Current fiscal year
Receivables arising from contracts with customers (balance at the beginning of the period)	33,719
Receivables arising from contracts with customers (balance at the end of the period)	34,918
Contract assets (balance at the beginning of the period)	560
Contract assets (balance at the end of the period)	367
Contract liabilities (balance at the beginning of the period)	1,351
Contract liabilities (balance at the end of the period)	1,299

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

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

Among the revenue recognized during the current consolidated fiscal year, the amount included in the balance of contract liabilities at the beginning of the period is ¥1,185 million.

(ii) Transaction prices allocated to remaining performance obligations

As of the end of the consolidated fiscal year under review, there are no important contracts with the initially expected contract period exceeding one year. For contracts with the initially expected contract period of one year or less, the practical expedient is applied and the

description is omitted. Also, the consideration, which arises from the contract with the customer, has no amount of money not included in the transaction price.

11. Other Notes

(1) Notes on retirement benefits

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

Funded retirement benefit obligations	¥5,314 million
Pension plan assets	¥(5,339) million
	¥(25) million
Unfunded retirement benefit obligations	¥617 million
Net liabilities and assets recorded on the consolidated balance sheet	¥592 million
Retirement benefit liabilities	¥845 million
Retirement benefit assets	¥(252) million
Net liabilities and assets recorded on the consolidated balance sheet	¥592 million

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

(2) Notes on asset retirement obligations

(i) Overview of asset retirement obligations

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

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

Asset retirement obligations are estimated on the assumption of the useful life of each applicable asset and the assumed discount rate is mainly between 1.159% and 3.470%.

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

Balance at beginning of current fiscal year	¥646 million
Increase associated with purchase of property and equipment	¥213 million
Reconciliation associated with the passage of time	¥10 million
Increase associated with the change in estimates	¥14 million
Decrease associated with the performance of asset retirement obligations	¥(41) million
Other changes (decrease indicated in brackets)	¥8 million
<hr/>	
Balance at end of fiscal year	¥852 million

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

[Non-Consolidated Financial Statements]

Non-Consolidated Statement of Changes in Equity (From January 1, 2024 to December 31, 2024)

(Units: Millions of yen)

	Shareholders' equity					
	Share capital	Capital surplus		Retained earnings	Treasury shares	Total shareholders' equity
		Legal capital surplus	Other capital surplus	Other retained earnings		
				Retained earnings brought forward		
Balance at beginning of period	21,207	5,715	12	30,990	(459)	57,466
Changes during period						
Dividends of surplus				(3,784)		(3,784)
Profit				7,628		7,628
Purchase of treasury shares					(3,086)	(3,086)
Disposal of treasury shares			6		59	65
Cancellation of treasury shares			(43)	(2,906)	2,949	–
Restricted share awards			24		54	79
Net changes in items other than shareholders' equity						
Total changes during period	–	–	(12)	937	(23)	901
Balance at end of period	21,207	5,715	–	31,927	(482)	58,367

	Valuation and translation adjustments		Total net assets
	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	
Balance at beginning of period	2,150	2,150	59,616
Changes during period			
Dividends of surplus			(3,784)
Profit			7,628
Purchase of treasury shares			(3,086)
Disposal of treasury shares			65
Cancellation of treasury shares			–
Restricted share awards			79
Net changes in items other than shareholders' equity	(521)	(521)	(521)
Total changes during period	(521)	(521)	379
Balance at end of period	1,628	1,628	59,996

Notes to the Non-Consolidated Financial Statements

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

(1) Standards and methods of evaluation of assets

(i) Securities

Stocks in subsidiaries and associates:

Stated at cost by the moving average cost method

Other securities

Securities other than shares without market price, etc.:

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

Securities without market price, etc.:

Stated at cost by the moving average cost method

(ii) Derivatives:

Stated at fair value

(iii) Inventories:

Finished goods and work in process:

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

Raw materials:

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

Supplies:

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

(2) Depreciation and amortization method for fixed assets

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

The declining-balance method is applied primarily.

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

(ii) Intangible assets (excluding leased assets)

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

(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) Provision for bonuses

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

(iii) Provision for bonuses for directors (and other officers)

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 for directors (and other officers)

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

- Method for estimating retirement benefits

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

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

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

occurrence in each fiscal year.

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

(v) Provision for share awards for directors (and other officers)

In order to prepare for the granting of stock benefit to Directors etc. of the Company, this has been posted based on the estimated value of stock benefit liabilities at the end of the current fiscal year.

(5) Standards for recording revenues and expenses

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

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

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

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

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

(6) Method for processing hedge accounting

(i) Hedge accounting method

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

(ii) Hedging instruments and hedged items

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

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

(iii) Hedging policy

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

(iv) Method for appraising hedge effectiveness

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

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

(i) Accounting of retirement benefits

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

(ii) Application of the group tax sharing system

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

2. Notes to Accounting Estimates

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

(Valuation of shares of subsidiaries and associates)

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

Loss on valuation of shares of subsidiaries and associates	¥ – million
Shares of subsidiaries and associates	¥40,303 million (KITZ Corp. of Korea ¥1,390 million)

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

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

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

3. Notes to the Balance Sheets

(1) Accumulated depreciation of property, plant and equipment ¥38,098 million

(2) Contingent liabilities

The liabilities for the borrowings of the following subsidiaries and affiliates

Hotel Beniya Co., Ltd.	¥1 million
KITZ SCT Corporation	¥100 million
KITZ Engineering Service Co., Ltd.	¥100 million
KITZ Corp. of Korea	¥570 million
KITZ Hong Kong Company Limited	¥61 million
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Total	¥832 million

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

Short-term monetary receivables ¥8,283 million

Long-term monetary receivables ¥2,562 million

Short-term monetary payables ¥12,758 million

Long-term monetary payables ¥5 million

(4) Notes maturing on balance sheet date

Accounting of notes maturing on the last day of the fiscal year is settled on the clearing date or closing date. Because financial institutions are closed on the last day of the current fiscal year, notes receivable, etc., due at the end of the current fiscal year include ¥37 million in notes receivable - trade and ¥287 million in electronically recorded monetary claims - operating.

4. Notes to the Statement of Income

Transactions with affiliates during the current fiscal year

Net sales ¥21,888 million

Purchases ¥23,454 million

Selling, general and administrative expenses ¥114 million

Non-business transactions ¥4,716 million

5. Notes to the Statement of Changes in Equity

Notes on amount of treasury shares

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 shares	681,641	2,901,058	2,993,079	589,620

Notes:

- The 2,901,058 increase in shares during the current fiscal year reflects the 2,900,500 increase in shares following the purchase of shares of treasury shares based on the resolution of the Board of Directors and the 558 increase in shares following the purchase of less-than-one-unit shares.
- The 2,993,079 decrease in shares during the current fiscal year reflects the 2,830,900 decrease in shares following the cancellation of shares of treasury shares, the 99,030 decrease in shares following the disposal of shares of treasury shares for the BIP Trust, and the 63,149 decrease in shares following the disposal of shares of treasury shares as restricted share awards.
- The number of shares of treasury shares at end of current fiscal year includes 297,046 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)

Provision for bonuses	¥453 million
Provision for retirement benefits	¥67 million
Loss on valuation of stocks of subsidiaries and affiliates	¥1,884 million
Loss on valuation of investment securities	¥72 million
Impairment loss	¥477 million
Loss on valuation of inventories	¥233 million
<u>Other</u>	<u>¥805 million</u>
Deferred tax assets (subtotal)	¥3,991 million
<u>Valuation allowance</u>	<u>¥(2,612) million</u>
Deferred tax assets (total)	¥1,379 million

(Deferred tax liabilities)

Net unrealized gains on other securities	¥(685) million
<u>Other</u>	<u>¥(76) million</u>
<u>Deferred tax liabilities (total)</u>	<u>¥(761) million</u>
<u>Deferred tax assets</u>	<u>¥617 million</u>

7. Notes on Transactions with Related Parties

(1) Subsidiaries

Type of related party	Company name	Share of voting rights in the company	Description of relationship		Description of transactions	Transaction amount (million yen)	Account item	Balance at end of fiscal year (million yen)
			Number of officers holding concurrent positions in the company	Business relationship				
Subsidiary	Toyo Valve Co., Ltd.	100% direct holding	–	Customer of the Company	The Company sells finished goods to the affiliate	8,290	Accounts receivable–trade	888
Subsidiary	KITZ Corporation of Taiwan	100% direct holding	–	Supplier to the Company	The Company procures finished goods from the affiliate	6,701	Accounts payable–trade	1,470
Subsidiary	KITZ (Thailand) Ltd.	92% direct holding	–	Supplier to the Company	The Company procures finished goods from the affiliate	9,528	Accounts payable–trade	1,867
					The receipt of dividends	1,060	–	–
Subsidiary	KITZ Metal Works Corporation	100% direct holding	2	Supplier to the Company	The Company lends the affiliate funds	22,591	Short-term loans receivable	3,249
					Long-term loans receivable		1,496	
Subsidiary	KITZ SCT Corporation	100% direct holding	4	Supplier to the Company	The Company lends the affiliate funds	–	Short-term loans receivable	340
					The receipt of dividends		1,015	–
Subsidiary	KITZ Corp. of America	100% direct holding	2	Customer of the Company	The Company sells finished goods to the affiliate	5,700	Accounts receivable–trade	1,429
					The Company borrows the affiliate funds		8,511	Short-term borrowings

Notes:

1. The amounts for transactions involving sales and supply of finished goods are determined such that they are similar to those of general transactions, taking into account the fair value and the subsidiary's income.
2. The receipt of dividends is reasonably determined considering the business performance.
3. The interest rates for lending funds and borrowing funds are determined such that they are reasonable in light of market interest rates.
4. The transaction amounts for lending funds and borrowing funds indicate the amount of loans and borrowings.
5. The liabilities for guarantees of external borrowings by affiliated companies are stated in "3. Notes to the Balance Sheets: (2) Contingent liabilities."

(2) Officers and major individual shareholders

Type of related party	Name	Share of voting rights held	Relationship with the related party	Description of transactions	Transaction amount (million yen)	Account item	Balance at end of fiscal year (million yen)
Officer	Yasuyuki Hotta	0.2% direct holding	Chairman of the Board	Disposal of treasury shares as a result of contribution in kind of monetary remuneration claims	17	—	—
Officer	Makoto Kohno	0.1% direct holding	Director, Representative Executive Officer and President	Disposal of treasury shares as a result of contribution in kind of monetary remuneration claims	16	—	—

Note: This is due to contribution in kind of monetary remuneration claims associated with the restricted share awards plan. The disposal price of treasury shares was determined based on the closing price of common shares of the Company on the Tokyo Stock Exchange on March 27, 2024 (the business day preceding the date of the resolution at the Board of Directors meeting for this disposal of treasury shares).

8. Notes on Per-Share Information

(1) Net assets per share	¥689.80
(2) Basic earnings per share	¥85.57

Notes:

1. Basis for calculating basic earnings per share

Profit	¥7,628 million
Amount not attributable to common shareholders	¥— million
Profit attributable to common shares	¥7,628 million
Average number of shares outstanding during the term	89,143,621 shares

2. The Company's stock held in the BIP Trust are included in the treasury shares deducted from the term-end total outstanding shares in the calculation of net assets per share. (current fiscal year: 297,046 shares)
They are also included in the treasury shares deducted in the calculation of the average number of shares for the period as part of the calculation of basic earnings per share.
(current fiscal year: 332,513 shares)

9. Notes on Significant Subsequent Events

(Transaction under common control, etc.)

The Company resolved to carry out an absorption-type merger of its wholly owned subsidiary,

Toyo Valve Co., Ltd. at the Board of Senior Executive Officers meeting held on August 20, 2024, through an absorption-type merger, effective January 1, 2025. The details are described in the Consolidated Financial Statements “Notes to the Consolidated Financial Statements, 9. Notes on Significant Subsequent Events.”

As a result, gain on extinguishment of tie-in shares of ¥1,453 million will be recorded as extraordinary income in the next fiscal year.

(Borrowing of Funds)

At the Board of Senior Executive Officers meeting held on January 14, 2025, the Company resolved to borrow funds for the purpose of redemption of bonds and entered into loan agreements with financial institutions as follows. The details are described in the Consolidated Financial Statements “Notes to the Consolidated Financial Statements, 9. Notes on Significant Subsequent Events.”

10. Notes on Revenue Recognition

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

Notes on information on the basis for understanding revenue arising from contracts with customers are omitted, because the same content is described in the Consolidated Financial Statements “Notes to the Consolidated Financial Statements, 10. Notes on Revenue Recognition.”

11. Other Notes

(1) Notes on retirement benefits

Retirement benefit obligations and the breakdown thereof

(i) Retirement benefit obligations	¥3,613 million
(ii) Pension plan assets	<u>¥(3,805) million</u>
(iii) Unfunded retirement benefit obligations (i) + (ii)	¥(192) million
(iv) Unrecognized actuarial gain and loss	<u>¥40 million</u>
(v) Prepaid pension cost (iii) + (iv)	¥(151) million

(2) Notes on asset retirement obligations

(i) Overview of asset retirement obligations

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

retirement obligations.

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

Asset retirement obligations are estimated on the assumption of the useful life of each applicable asset and the assumed discount rate is mainly between 1.159% and 2.305%.

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

Balance at beginning of current fiscal year	¥415 million
Reconciliation associated with the passage of time	¥5 million
Decrease associated with the performance of asset retirement obligations	¥(40) million
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Balance at end of fiscal year	¥379 million

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