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: 33

   The consolidated subsidiaries are:

   KITZ CORP. OF AMERICA, Metalúrgica Golden Art's Ltda., KITZ CORP. OF EUROPE, S.A., KITZ Europe GmbH, Perrin GmbH, KITZ (THAILAND) LTD., KITZ Corporation of Taiwan, KITZ Corporation of Kunshan, KITZ Corporation of Jiangsu Kunshan, KITZ Corporation of Lianyungang, KITZ SCT Corporation of Kunshan, KITZ Corporation of Shanghai, KITZ CORP. OF ASIA PACIFIC PTE. LTD., Toyo Valve Co., Ltd., Shimizu Alloy Mfg. Co., Ltd., KITZ SCT Corporation, Miyoshi Valve Co., Ltd., KITZ Micro Filter Corporation, KITZ Metal Works Corporation, Hotel Beniya Co., Ltd., and 13 other companies.

   Notes:

   1. KITZ CORP. OF KOREA is included in the scope of consolidation because the corporation was newly established in August 2016.
   2. Filcore Co., Ltd. is included in the scope of consolidation because KITZ Micro Filter Corporation, a subsidiary of the Company, acquired a majority of shares in Filcore Co., Ltd. in November 2016.

   (2) Application of the equity method

   None

   (3) Fiscal year of consolidated subsidiaries

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

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

   KITZ CORP. OF AMERICA, Metalúrgica Golden Art's Ltda., KITZ CORP. OF EUROPE, S.A., KITZ Europe GmbH, Perrin GmbH, KITZ (THAILAND) LTD., KITZ Corporation of Taiwan, KITZ Corporation of Kunshan, KITZ Corporation of Jiangsu Kunshan, KITZ Corporation of Lianyungang, KITZ SCT Corporation of Kunshan, KITZ Corporation of Shanghai, KITZ CORP. OF ASIA PACIFIC PTE. LTD., and six other consolidated subsidiaries.

(4) Accounting policies

(i) Standards and methods of evaluation of important assets

Securities:

Other securities

Securities with fair market value:

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

Securities without fair market value:

Stated at cost by the moving average cost method

Derivatives:

Stated at fair value

Inventories:

Finished goods and work in process:

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

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

Raw materials:

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

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

Supplies:

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

(ii) Depreciation and amortization method for important depreciable assets

Fixed assets (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.

However, for such transactions originating on or before March 31, 2008, accounting methods suitable for ordinary rental transactions are applied.

(iii) Method for processing deferred assets

Corporate bond issuance expenses

Corporate bond issuance expenses are charged in their entirety to income as incurred.

(iv) Standards for recording important allowances

Allowance for doubtful accounts

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

Accrued bonuses to employees

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

Accrued bonuses to directors and corporate auditors

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

Accrued retirement benefits to directors, corporate auditors and operating officers

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

Allowance for stock benefit to directors and executive officers

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

(v) Method for processing important hedge accounting

a. Hedge accounting method

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

b. Hedging instruments and hedged items

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

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

c. Hedging policy

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

d. Method for appraising hedge effectiveness

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

(vi) Amortization of goodwill

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

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

a. Accounting of retirement benefits

- Method for estimating retirement benefits

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

- Method for amortization of actuarial differences and prior service cost

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

  Prior service cost will be recognized as expenses mainly by amortizing the amount by the straight-line method over a certain period of time (five years) which is shorter than the employees' average remaining service period.

  After adjustments for tax, unrecognized actuarial differences and unrecognized prior service costs are recorded as the net assets item "**accumulated adjustments for 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 net defined benefit liability and retirement benefit expenses. This method assumes the retirement benefit obligations to be equal to the benefits to be paid in cases where all eligible employees retired at the end of the fiscal year.

b. Accounting of consumption tax

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

c. Application of the consolidated tax payment system

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

2. Notes on Changes in Accounting Policies

(Application of Practical Solution on Changes in Depreciation Method associated with the 2016 Tax Reform)

Effective from the current fiscal year, the Company and its consolidated subsidiaries in Japan have applied the "Practical Solution on Changes in Depreciation Method associated with the 2016 Tax Reform" (Accounting Standards Board of Japan [ASBJ], Practical Issues Task Force No. 32, issued on June 17, 2016). Accordingly, the depreciation method for annexed equipment and structures acquired on or after April 1, 2016 has been changed from the declining-balance method to the straight-line method.

The above change has an immaterial impact on the consolidated statements of income for the current fiscal year.

3. Additional Information

(Application of Implementation Guidelines on the Recoverability of Deferred Tax Assets)

Effective from the current fiscal year, the Company has applied the "Application of Implementation Guidelines on the Recoverability of Deferred Tax Assets" (Corporate Accounting Standards Adoption Guide No. 26 issued on March 28, 2016).

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

Effective from August 1, 2016, based on the resolution at the 102nd Ordinary General Meeting of Shareholders held on June 29, 2016, the Company introduced a stock remuneration system (the "System"). The purpose of the System is to further motivate the Company's directors and executive officers (other than outside directors; hereunder, the "Directors, etc.") to contribute toward improving the Company's performance and enhancing its corporate value in the medium-to-long term.

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

(i) Overview of transactions

During the trust period, the Company will award certain points to Directors, etc. commensurate with their position and attainment of performance targets in the relevant fiscal year. Directors, etc. who have satisfied certain eligibility requirements will, upon their retirement as Director, etc., receive shares of the Company's stock corresponding to a certain percentage of the points awarded to them. They will also receive a cash sum equivalent to the monetary value of the number of shares corresponding to the remaining points after these shares are liquidized within the trust in accordance with the provisions of the trust agreement.

(ii) Shares of the Company's stock remaining in the trust

Following the introduction of the System in the current fiscal year, the Master Trust Bank of Japan, Ltd. (BIP Trust account: 75957) acquired 347,500 shares of the Company's stock.

Shares remaining in the trust are recorded as treasury stock under the net assets section based on the carrying amount in the trust (excluding associated expenses). The number of shares of treasury stock held at the end of current fiscal year is 344,557, the carrying amount of which is ¥193 million.

4. Notes to the Consolidated Balance Sheets

(1) Assets pledged as collateral and secured liabilities

(i) Assets pledged as collateral

Machinery	¥13 million
Land	¥102 million

(ii) Secured liabilities

Short-term borrowings	¥19 million
Long-term debt (including debt payable within one year)	¥100 million

(2) Accumulated depreciation of fixed assets ¥60,232 million

(3) Contingent liabilities

Liabilities for guarantees of employees' housing loans
¥1 million

Amount of transfer from fluidity of notes receivables
¥141 million

Amount of discount in notes receivables and electronically recorded monetary claims
¥247 million

5. Notes to the Consolidated Statements of Income

Income taxes for prior periods

This item states the amount of tax refund following the Japan-U.S. agreement concerning the transfer pricing taxation.

6. Notes on the Consolidated Statements of Changes in Net Assets

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

Common stock 110,396,511 shares

(2) Notes on dividends

(i) Amount of dividends paid

Meeting in which the relevant item was resolved	Type of shares	Total amount of dividend (million yen)	Dividend per share (yen)	Record date	Effective date
Board of Directors meeting held on May 30, 2016	Common stock	750	7	March 31, 2016	June 6, 2016
Board of Directors meeting held on October 31, 2016	Common stock	629	6	September 30, 2016	December 6, 2016
Total		1,380	13		

Note: The total amount of dividends to be paid based on the resolution of the Board of Directors on October 31, 2016 includes ¥2 million of dividend payable for the Company's shares held through the BIP Trust.

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

The following items are expected to be resolved at a meeting of the Board of Directors to be held on May 30, 2017:

a.	Total amount of dividend	¥712 million
b.	Source of dividend	Retained earnings
c.	Dividend per share	¥7
d.	Record date	March 31, 2017
e.	Effective date	June 5, 2017

Note: The total amount of dividends to be paid based on the resolution of the Board of Directors on May 30, 2017 includes ¥2 million of dividend payable for the Company's shares held through the BIP Trust.

(3) The type and number of shares underlying the subscription rights to shares at the end of the current fiscal year

There were no subscription rights to shares at the end of the current fiscal year.

7. Notes on Financial Instruments

(1) Overview of financial instruments

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

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

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

(2) Notes on the fair value of financial instruments

The following table shows the amounts recorded, fair value, and any differences in the consolidated balance sheet as of March 31, 2017. The table does not include financial instruments whose fair value is considered extremely difficult to determine or those that are not considered important.

(Units: Millions of yen)

	Amount recorded on consolidated balance sheet (*1)	Fair value (*1)	Difference
(i) Cash in hand and in banks	18,181	18,181	–
(ii) Notes receivable–trade	18,620	18,620	–
(iii) Electronically recorded monetary claims	7,272	7,272	–
(iv) Investments in securities other securities	5,893	5,893	–
(v) Accounts payable–trade	(6,138)	(6,138)	–
(vi) Corporate bonds	(14,427)	(14,580)	(152)
(vii) Long-term debt	(8,863)	(8,968)	(104)
(viii) Derivative transactions (*2)	(0)	(0)	–

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

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

Notes:

1. Method for calculating fair value of financial instruments

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

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

(2) (iv) Investments in securities

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

(3) (v) Accounts payable–trade

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

(4) (vi) Corporate bonds

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

(5) (vii) Long-term debt

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

(6) (viii) Derivative transactions

Of the items that fall under (viii) Derivative transactions, those that are forward exchange contracts are stated at the price presented by the financial institution, and those that are commodity forward contracts are stated at the price presented by the corresponding trader.

Interest rate swaps subject to exceptional accounting and currency swaps subject to allocation treatment are accounted for as an integral part of long-term debt that are treated as hedged items. Accordingly, the fair value of such items is included in the fair value of the related long-term debt.

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

(Units: Millions of yen)

Category	Amount recorded on consolidated Balance Sheet
Unlisted shares	214

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

8. Notes on Per-share Information

(1) Net assets per share ¥727.78

(2) Net income per share ¥51.43

Notes:

1. Basis for calculating net income per share

Net income attributable to owners of the parent ¥5,400 million

Amount not attributable to common shareholders –

Net Income attributable to owners of the parent pertaining to common stock ¥5,400 million

Average number of shares outstanding during the term 105,002,659 shares

2. The number of shares of the Company's stock held in the BIP Trust are included in the treasury stock deducted from the term-end total outstanding shares in the calculation of net assets per share (current fiscal year: 344,557 shares). They are also included in the treasury stock deducted in the calculation of the average number of shares for the period (current fiscal year: 217,065) as part of the calculation of net income per share.

9. Other Notes

(1) Notes on retirement benefits

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

Funded retirement benefit obligations	¥5,781 million
Pension plan assets	(¥5,923) million
	(¥142) million
Unfunded retirement benefit obligations	¥381 million
Net liabilities and assets recorded on the consolidated balance sheet	¥238 million
Liabilities associated with retirement benefits	¥413 million
Assets associated with retirement benefits	(¥174) million
Net liabilities and assets recorded on the consolidated balance sheet	¥238 million

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

(2) Notes on asset retirement obligations

(i) Overview of asset retirement obligations

The Company and the Group companies reasonably estimate expenses for removing asbestos during the dismantling of structures provided for primarily in legislation such as the Industrial Safety and Health Act, Ordinance on Prevention of Health Impairment due to Asbestos, and they record such expenses as asset retirement obligations.

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

Asset retirement obligations are estimated on the assumption of the useful life of each applicable asset and the assumed discount rates is mainly 2.520%.

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

Balance at beginning of current fiscal year	¥424 million
Reconciliation associated with the passage of time	¥7 million
Increase associated with changes in estimates	¥20 million
Decrease associated with the performance of asset retirement obligations	(¥5) million
Other changes (decrease indicated in brackets)	(¥5) million
Balance at end of fiscal year	¥441 million

(3) Notes on Impairment Loss

The Group recorded ¥3,756 million of impairment loss for the current fiscal year. The main impairment losses are shown below.

Location	Purpose	Category
Chiba City, Chiba Prefecture	Head office	Buildings and structures, land

(i) Circumstances

The Company resolved to establish and deliver trust beneficiary rights in relation to the head office's real estate. Accordingly, the Company lowered the carrying value of said real estate to the recoverable amount, and recorded the difference as impairment loss. As a result, the Company recorded ¥3,598 million in extraordinary loss.

(ii) Amounts of impairment loss

Buildings and structures	¥2,793 million
Land	¥805 million
Total	¥3,598 million

(iii) Method for calculating recoverable amount

Net realizable value is used for calculating recoverable amount for asset group.

(iv) Grouping method

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

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

Notes to the Non-consolidated Financial Statements

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

(1) Standards and methods of evaluation of assets

(i) Securities

Stocks in subsidiaries:

Stated at cost by the moving average cost method

Other securities

Securities with fair market value:

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

Securities without fair market value:

Stated at cost by the moving average cost method

(ii) Derivatives:

Stated at fair value

(iii) Inventories

Finished goods and work in process:

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

Raw materials:

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

Supplies:

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

(2) Depreciation and amortization method for depreciable assets

(i) Fixed assets (excluding leased assets)

The declining-balance method is applied primarily.

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

(ii) Intangible assets (excluding leased assets)

The straight-line method is applied.

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

(iii) Leased assets

Lease claims in finance lease transactions without ownership transfer

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

(3) Method for processing deferred assets

Corporate bond issuance expenses

Corporate bond issuance expenses are charged in their entirety to income as incurred.

(4) Standards for recognition of allowances

(i) Allowance for doubtful accounts

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

(ii) Accrued bonuses to employees

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

(iii) Accrued bonuses to directors and corporate auditors

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

(iv) Provision for retirement benefits

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

- Method for estimating retirement benefits
  With regard to the calculation of retirement benefit obligations, the Company uses the benefit formula method as its method for attributing expected retirement benefits to periods until the end of the current fiscal year.
- Method for expensing actuarial differences and prior service costs
  Actuarial difference adjustments are amortized on a straight-line basis over a

five-year period beginning in the fiscal year following the accrual of such, this period being less than the eligible employees' average remaining period of service at the time of occurrence in the current fiscal year.

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

(v) Allowance for stock benefit to directors and executive officers

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

(5) Method for processing hedge accounting

(i) Hedge accounting method

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

(ii) Hedging instruments and hedged items

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

(iii) Hedging policy

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

(iv) Method for appraising hedge effectiveness

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

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

(i) Accounting of retirement benefits

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

(ii) Accounting of consumption tax

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

(iii) Application of the consolidated tax payment system

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

2. Notes on Changes in Accounting Policies

(Application of Practical Solution on Changes in Depreciation Method associated with the 2016 Tax Reform)

Effective from the current fiscal year, the Company applied the "Practical Solution on Changes in Depreciation Method associated with the 2016 Tax Reform" (Accounting Standards Board of Japan [ASBJ], Practical Issues Task Force No. 32, issued on June 17, 2016). Accordingly, the depreciation method for annexed equipment and structures acquired on or after April 1, 2016 has been changed from the declining-balance method to the straight-line method.

The above change has an immaterial impact on the non-consolidated statements of income for the current fiscal year.

3. Notes on Changes in Presentation Method

(Non-consolidated statements of income)

Up to and including the previous fiscal year, "amortization of bond issuance expenses" of non-operating expenses was presented as a separate item. However, for the current fiscal year, it is included in the "other" item in consideration of its decreased quantitative materiality. Under the "other" item, "amortization of bond issuance expenses" amounted to ¥28 million.

4. Additional Information

(Application of Implementation Guidelines on the Recoverability of Deferred Tax Assets)

Effective from the current fiscal year, the Company has applied the "Application of Implementation Guidelines on the Recoverability of Deferred Tax Assets" (Corporate Accounting Standards Adoption Guide No. 26 issued on March 28, 2016).

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

The notes on the delivery of the Company's shares to Directors, etc. are exactly as stated in "3. Additional Information" in Notes to the Consolidated Financial Statements. Therefore, they are omitted here.

5. Notes to the Balance Sheets

(1) Accumulated depreciation of fixed assets ¥32,019 million

(2) Contingent liabilities

The liabilities for the borrowings of the following subsidiaries and guarantees of employees' housing loans

KITZ Metal Works Corporation	¥466 million
Hotel Beniya Co., Ltd.	¥190 million
KITZ SCT Corporation	¥120 million
Employees	¥1 million
Total	¥778 million

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

Short-term monetary receivables	¥7,852 million
Long-term monetary receivables	¥4,298 million
Short-term monetary payables	¥5,976 million
Long-term monetary payables	¥8 million

6. Notes to the Statement of Income

(1) Transactions with affiliates during the current fiscal year

Net sales	¥17,209 million
Purchases	¥19,122 million
Selling, general and administrative expenses	¥180 million
Non-business transactions	¥1,733 million

The item "non-business transactions" includes ¥766 million in tax transfer pricing adjustment with a U.S.-based consolidated subsidiary mentioned in Note (2).

(2) Tax transfer pricing adjustment

In October 2016, Japan and the United States reached an agreement on transfer pricing. Tax transfer pricing adjustment, which is recorded under extraordinary income, states the amount of past-year adjustment that U.S.-based consolidated subsidiary KITZ CORP. OF AMERICA paid to the Company pursuant to the provisions of the agreement.

(3) Past-year corporate taxes

This item states the amount of tax refund following the Japan-U.S. agreement concerning the transfer pricing taxation.

7. Notes to the Statements of Changes in Net Assets

Notes on amount of treasury stock

Type of share	Number of shares at beginning of current fiscal year	Amount of increase in shares during current fiscal year	Amount of decrease in shares during current fiscal year	Number of shares at end of current fiscal year
Common stock	3,181,222	5,828,154	2,955	9,006,421

Notes:

1. The 5,828,154 increase in shares during the current fiscal year reflects the 5,479,300 increase in shares following the purchase of treasury stock carried out pursuant to the resolution of the Board of Directors, the 347,500 increase in shares following the purchase of the Company's stock under the BIP Trust and the 1,354 increase in shares following the purchase of less-than-one-unit shares.
2. The 2,955 decrease in shares during the current fiscal year reflects the 2,943 decrease in shares following the disposal of the Company's stock under the BIP Trust, and the 12 decrease in shares following the sale of less-than-one-unit shares.
3. The number of shares of treasury stock at end of current fiscal year includes 344,557 shares held in the BIP Trust.

8. Notes on Tax Effect Accounting

Significant components of deferred tax assets and deferred tax liabilities

(Deferred tax assets)	
Accrued bonuses to employees	¥344 million
Accrued retirement benefits	¥269 million
Loss on valuation of stocks of subsidiaries and associates	¥764 million
Write-down of investments in securities	¥141 million
Impairment loss	¥698 million
Other	¥643 million
Deferred tax assets (subtotal)	¥2,859 million
Valuation allowance	(¥1,691) million
Deferred tax assets (total)	¥1,168 million
(Deferred tax liabilities)	
Net unrealized gains on other securities	(¥729) million
Other	(¥18) million
Deferred tax liabilities (total)	(¥747) million
Deferred tax assets (brackets indicates liabilities)	¥420 million

9. Notes on Fixed Assets under Lease Transactions

In addition to fixed assets recorded on the balance sheet, some fixed assets such as business machinery and vehicles are utilized under finance lease transactions that do not entail any transfer of ownership.

10. Notes on Transactions with Related Parties

Subsidiaries

Type of related party	Company name	Share of voting rights in the company	Description of relationship: Number of executive officers holding concurrent positions in the company	Description of relationship: Business relationship	Description of transactions	Transaction amount (million yen)	Account item	Balance at end of fiscal year (million yen)
Subsidiary	Toyo Valve Co., Ltd.	100% direct holding	1	Customer of the Company	The Company sells finished goods to the affiliate	6,332	Accounts receivable–trade	556
Subsidiary	KITZ Corporation of Taiwan	100% direct holding	1	Supplier to the Company	The Company procures finished goods from the affiliate	5,386	Accounts payable–trade	639
Subsidiary	KITZ (THAILAND) LTD.	92% direct holding	–	Supplier to the Company	The Company procures finished goods from the affiliate	7,188	Accounts payable–trade	1,271
Subsidiary	KITZ CORP. OF AMERICA	100% direct holding	1	Customer of the Company	The Company receives tax transfer price adjustment from the affiliate	766	–	–
Subsidiary	KITZ Metal Works Corporation	100% direct holding	1	Supplier to the Company	The Company lends the affiliate funds	1,478	Short-term loans receivable Long-term loans receivable	2,461 1,905
Subsidiary	Hotel Beniya Co., Ltd.	100% direct holding	2	Using facilities	The Company lends the affiliate funds	759	Short-term loans receivable Long-term loans receivable	1,060 2,212
Subsidiary	Shimizu Alloy Mfg. Co., Ltd.	93% direct holding	1	Customer of the Company	The Company borrows funds from the affiliate	2,494	Short-term borrowings	1,896

Notes:

1. The transaction amounts above do not include consumption taxes, but the amounts shown for balance at end of fiscal year do include consumption taxes in the case of domestic transactions.
2. The amounts for transactions involving sales and supply of finished goods are determined such that they are similar to those of general transactions, taking into account the fair value and the subsidiary's income.
3. The interest rates for lending and borrowing transactions are determined such that they are reasonable in light of market interest rates.
4. The amounts for lending and borrowing transactions indicate the amount of loan or the amount borrowed.
5. The liabilities for guarantees of external borrowings by affiliated companies are stated in 5. Notes on the Balance Sheets: (2) Contingent liabilities.

11. Notes on Per-share Information

(1) Net assets per share	¥542.23
(2) Net income per share	¥35.89

Notes:

1. Basis for calculating net income per share

Net income	¥3,768 million
Amount not attributable to common shareholders	–
Net income attributable to common stock	¥3,768 million
Average number of shares outstanding during the term	105,002,659 shares

2. The number of shares of the Company's stock held in the BIP Trust are included in the treasury stock deducted from the term-end total outstanding shares during the calculation of net assets per share (current fiscal year: 344,557 shares). They are also included in the treasury stock deducted in the calculation of the average number of shares for the period (current fiscal year: 217,065) as part of the calculation of net income per share.

12. Other Notes

(1) Notes on retirement benefits

Retirement benefit obligations and the breakdown thereof

(i) Retirement benefit obligations	(¥4,407) million
(ii) Pension plan assets	¥4,559 million
(iii) Unfunded retirement benefit obligations (i) + (ii)	¥151 million
(iv) Unrecognized actuarial differences	(¥264) million
(v) Allowance for retirement benefits (iii) + (iv)	(¥113) million

(2) Notes on asset retirement obligations

(i) Overview of asset retirement obligations

The Company reasonably estimates expenses for removing asbestos during the dismantling of structures provided for primarily in legislation such as the Industrial Safety and Health Act, Ordinance on Prevention of Health Impairment due to Asbestos, and records such expenses as asset retirement obligations.

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

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

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

Balance at beginning of current fiscal year	¥236 million
Reconciliation associated with the passage of time	¥4 million
Increase associated with changes in estimates	¥20 million
Decrease associated with the performance of asset retirement obligations	(¥5) million
Other changes (decrease indicated in brackets)	(¥4) million
Balance at end of year	¥251 million

(3) Notes on Impairment Loss

The Company recorded ¥3,710 million of impairment loss for the current fiscal year. The main impairment losses are shown blow.

Location	Purpose	Category
Chiba City, Chiba Prefecture	Head office	Building and land

(i) Circumstances

The Company resolved to establish and deliver trust beneficiary rights in relation to the head office's real estate. Accordingly, the Company lowered the carrying value of said real estate to the recoverable amount, and recorded the difference as impairment loss. As a result, the Company recorded ¥3,598 million in extraordinary loss.

(ii) Amounts of impairment loss

Buildings	¥2,793 million
Land	¥805 million
Total	¥3,598 million

(iii) Method for calculating recoverable amount

Net realizable value is used for calculating recoverable amount for asset group.

(iv) Grouping method

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

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