



Consolidated Earnings Report for the Second Quarter of Fiscal 2018 [Japanese GAAP]

October 26, 2017

Company Name:	KOITO MANUFACTURING CO., LTD.
Stock Listing:	First Section, Tokyo Stock Exchange
Code Number:	7276
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Filing of Quarterly Securities Report:	November 2, 2017
Scheduled Payment of Dividends:	December 5, 2017
Supplementary explanatory materials prepared:	Yes
Explanatory meeting:	Yes

(¥ millions are rounded down)

1. Consolidated Results for the Second Quarter of Fiscal 2018 (April 1, 2017 to September 30, 2017)

(1) Consolidated Operating Results (¥millions; percentage figures represent year-on-year changes)

Second Quarter	Net sales		Operating income		Recurring profit		Profit attributable to owners of parent	
Fiscal 2018	445,671	16.1%	49,688	25.0%	52,312	31.9%	29,156	27.2%
Fiscal 2017	383,720	0.1%	39,748	22.7%	39,646	20.6%	22,929	61.8%

Note: Comprehensive income or loss: September 30, 2017: ¥41,594 million (402.1%),
September 30, 2016: ¥8,284 million (623.7%)

Second Quarter	Net income per share (¥)	Net income per share (diluted) (¥)
Fiscal 2018	181.42	181.35
Fiscal 2017	142.69	142.63

(2) Consolidated Financial Position

(¥millions)

	Total assets	Net assets	Equity ratio (%)	Net assets per share (¥)
September 30, 2017	626,464	400,137	58.7	2,287.24
March 31, 2017	658,341	381,000	51.0	2,090.87

Note: Equity: September 30, 2017: ¥367,630 million, March 31, 2017: ¥335,988 million

2. Dividends

	Dividend per share (¥)				
	First Quarter	Second Quarter	Third Quarter	Year End	Full Year
Fiscal 2017	—	20.00	—	34.00	54.00
Fiscal 2018	—	36.00			
Fiscal 2018 (forecast)			—	—	—

Notes: 1. Revisions to recent dividend forecasts: Yes

2. The dividend record date is March 31, as prescribed by KOITO's Articles of Incorporation; the dividend forecast for the March 31, 2018 is currently undecided.

3. Forecast of Consolidated Results for Fiscal 2018 (April 1, 2017 to March 31, 2018)

(¥million; percentage figures represent year-on-year changes)

	Net sales		Operating income		Recurring profit		Profit attributable to owners of parent		Net income per share (¥)
Full year	822,000	△2.3%	97,000	4.8%	100,000	4.9%	71,000	25.2%	441.73

Note: Revisions to recent consolidated business forecasts: Yes

***Notes**

(1) Changes to important subsidiaries during the second quarter (changes in specified subsidiaries resulting in revised scope of consolidation): Yes

Excluded: 1 company

(Company name) Shanghai Koito Automotive Lamp Co., Ltd.

(Note) For details, please refer to (4) Notes on Quarterly Consolidated Financial Statements (Changes to important subsidiaries during the second quarter) under 2. Quarterly Consolidated Financial Statements and Notes on page 10 of the supplementary materials.

(2) Application of special accounting methods in the preparation of quarterly consolidated financial statements: None

(3) Changes in accounting principles, accounting estimates and restatements

① Changes in accounting policies in conjunction with revisions to accounting standards: None

② Other changes: None

③ Changes in accounting estimates: None

④ Restatements: None

(4) Number of shares issued (common stock)

① Number of shares issued (including treasury stock):

Fiscal 2018, 2Q	160,789,436	Fiscal 2017	160,789,436
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② Number of treasury stock:

Fiscal 2018, 2Q	57,950	Fiscal 2017	95,791
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③ Average number of stock during the second quarter:

Fiscal 2018, 2Q	160,712,556	Fiscal 2017, 2Q	160,693,772
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*This financial report is not subject to the audit procedure.

《 For Reference Only 》

Forecast of Non-consolidated Result for Fiscal 2018 (April 1, 2017 to March 31, 2018)

(¥millions; percentage figures represent year-on-year changes)

	Net sales		Operating income		Recurring profit		Net income		Net income per share (¥)
Full year	335,000	12.5%	37,000	26.5%	55,000	20.3%	56,000	80.0%	348.41

Note: Revisions to recent non-consolidated business forecasts: Yes

*Explanations concerning proper use of business forecasts and other noteworthy matters

(Notes on future assumptions)

The above forecasts are based on information available, and certain assumptions that are judged to be reasonable, at the time of the release of this report. KOITO is not promising that the Company will achieve these forecasts. Actual results could differ from forecasts due to a variety of factors.

(Supplementary materials for financial results)

KOITO is scheduled to have a financial results briefing for securities analysts and institutional investors on November 10, 2017. Supplementary materials to be distributed at this briefing will be made available on our website immediately after the briefing.

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1. Qualitative Information Concerning Quarterly Financial Statements and Other Matters

(1) Explanation Regarding Consolidated Operating Results

During the first half of fiscal 2018, the period under review, the Japanese economy experienced a trend of moderate recovery due to pickup in personal consumption led by improvement in employment, and the increase in capital expenditure and exports. Meanwhile, the global economy continued to be robust as a whole. This was primarily due to comparatively firm economy in the U.S. and Europe, despite the effect of deceleration of growth in China, as well as concerns over protectionist policies, and risks in the Middle East.

In the Japanese auto industry, the production volume increased year on year due to the effect of introduction of new vehicles, recovery in sales of mini vehicles, and increase in exports. Overseas, despite the production volume decreased in the U.S., the global automobile production volume increased year on year. This was mainly due to the increased demand in China, Asia and Europe.

In this climate, the KOITO Group's net sales for the first half increased 16.1% year on year to ¥445.6 billion. The increase was due to sales growth in the mainstay automotive lighting equipment segment, which was driven by an increase in new orders and a shift in automobile lamps to LED.

Results by geographical segment are outlined as follows.

[Japan]

Sales in Japan increased 15.4% year on year to ¥170.5 billion. This was mainly attributable to an increase in new orders and a shift in automobile lamps to LED, amid increased trend in domestic automobile production volume.

[North America]

Despite automobile production number counts decreased, sales in North America increased 4.7% year on year to ¥90.4 billion. Factors contributing to the sales increase were the increase in new orders and a shift in automobile lamps to LED.

[China]

Sales in China increased 20.5% year on year to ¥117.6 billion. This increase was led by expansion in new orders and increased automobile production volume led by the effect of a tax reduction on compact cars.

[Asia]

Sales in Asia increased 23.9% year on year to ¥45.6 billion. Sales growth was mainly driven by an increase in new orders in India, Thailand and Indonesia, and a shift in motorcycle lamps to LED, amid increased trend in automobile production volume.

[Europe]

Sales in Europe increased 42.0% year on year to ¥21.3 billion. Amid a robust trend in automobile production volume, KOITO's sales in Europe were mainly driven by an increase in new orders and a shift in automobile lamps to LED.

[Other regions]

As KOITO established a manufacturing subsidiary in Brazil, 'Other regions' segment was newly included to geographical segment from the previous fiscal year. The subsidiary is scheduled to commence operations in May, 2018.

On the earnings front, operating income was ¥49.6 billion, up 25.0%, recurring profit was ¥52.3 billion, up 31.9%, and profit attributable to owners of parent was ¥29.1 billion, up 27.2% year on year. In addition to the effect of sales increase in the above, the increase was mainly attributable to rationalization effect in Japan and overseas.

(2) Explanation Regarding Consolidated Financial Position

-1. Analysis of assets, liabilities and net assets

Although cash and time deposits and investment securities increased, total assets as of September 30, 2017 decreased by ¥31.8 billion to ¥626.4 billion. This was due to a decrease in current assets such as trade notes and accounts receivable, which was caused by non-consolidation of Shanghai Koito Automotive Lamp Co., Ltd. ("Shanghai Koito").

Total liabilities as of September 30, 2017 decreased ¥51.0 billion to ¥226.3 billion mainly due to a decrease in trade notes and accounts payable caused by transfer of shares of Shanghai Koito.

Net assets as of September 30, 2017 increased ¥19.1 billion to ¥400.1 billion. This increase was mainly due to an increase in retained earnings.

-2. Analysis of cash flows

Operating activities provided net cash of ¥56.9 billion after payment of taxes, mainly reflecting income before income taxes of ¥50.3 billion and depreciation of ¥15.6 billion.

Investing activities used net cash of ¥37.0 billion, mainly reflecting acquisition of property and equipment of ¥19.2 billion and payments into time deposits.

Financing activities used net cash of ¥11.0 billion, the result mainly of reflecting repayment of debt of ¥1.1 billion and dividends paid of ¥9.8 billion.

With diminution caused by transfer of shares of Shanghai Koito, in total, cash and cash equivalents as of September 30, 2017 were ¥39.9 billion, ¥0.4 billion higher than on March 31, 2017.

(3) Explanation Regarding Forecast of Consolidated Results for Fiscal 2018 and Other Future Projections

As regards KOITO's business forecasts for fiscal 2018, the fiscal year ending March 31, 2018, despite the expansion of new orders and the market transition to LED automobile lamps in Japan and overseas, net sales are expected to decrease. This is attributable to the Shanghai Koito's status change from consolidated company to a company accounted for by the equity-method from September 28, 2017.

As well as on the net sales, Shanghai Koito's non-consolidation also has negative effect on the earnings front. However, operating income and recurring profit are expected to increase compared to the previous fiscal year due to the rationalization effect in Japan and overseas. Profit attributable to owners of parent is also expected to rise due to the extraordinary income from the transfer of shares in Shanghai Koito.

KOITO's policy is to continuously pay stable dividends to shareholders based on the comprehensive evaluation of our present business results, business climate, etc. Based on this policy, KOITO has decided to pay ¥36 per share, which is ¥16 higher than the dividend amount for the same period of the previous fiscal year, and ¥2 higher than the year-end dividend amount of the previous fiscal year. The full year dividend for fiscal 2018 is currently undecided because the future business climate remains unclear.

Looking ahead, KOITO will continue efforts to achieve even higher earnings to meet the expectations of all shareholders.

The previously announced full-year business forecasts (both consolidated and non-consolidated) for fiscal 2018 announced in the "Change in Ownership of Consolidated Subsidiary (Transfer of Shares), Appropriation of Extraordinary Income, and Revision on Business Forecasts" on September 28, 2017, have been revised this time in the following manner.

Forecast of Consolidated Results for Fiscal 2018 (April 1, 2017 to March 31, 2018)

(¥ millions)

	Net sales	Operating income	Recurring profit	Profit attributable to owners of parent	Net income per share (¥)
Previously Announced forecast (A)	804,000	92,000	94,000	67,000	416.94
Revised forecast (B)	822,000	97,000	100,000	71,000	441.73
Difference (B-A)	18,000	5,000	6,000	4,000	—
Change (%)	2.2	5.4	6.4	6.0	—
(Reference) Actual results for fiscal 2017	841,456	92,523	95,336	56,692	352.80

(Reference) Forecast of Non-consolidated Results for Fiscal 2018 (April 1, 2017 to March 31, 2018)

(¥ millions)

	Net sales	Operating income	Recurring profit	Net income	Net income per share (¥)
Previously Announced forecast (A)	330,000	35,000	52,000	52,000	323.60
Revised forecast (B)	335,000	37,000	55,000	56,000	348.41
Difference (B-A)	5,000	2,000	3,000	4,000	—
Change (%)	1.5	5.7	5.8	7.7	—
(Reference) Actual results for fiscal 2017	297,786	29,260	45,729	31,102	193.55

2. Quarterly Consolidated Financial Statements and Notes
(1) Quarterly Consolidated Balance Sheets

(¥ millions)

	Fiscal 2017 As of March 31, 2017	Second Quarter of Fiscal 2018 As of September 30, 2017
Assets		
Current assets:		
Cash and time deposits	206,956	226,352
Trade notes and accounts receivable	136,251	107,879
Electronically recorded monetary claims-operating	11,589	11,386
Inventories	66,332	57,825
Deferred income tax assets	4,558	1,553
Other current assets	36,035	19,695
Less: Allowance for doubtful accounts	△843	△558
Total current assets	460,880	424,133
Non-current assets:		
Property, plant and equipment:		
Buildings and structures (net)	42,829	38,678
Machinery and transportation equipment (net)	55,911	53,731
Fixtures, equipment and tools (net)	18,768	14,580
Land	14,718	14,952
Construction in progress	9,310	10,355
Total property, plant and equipment	141,538	132,298
Intangible fixed assets	1,985	2,090
Investments and other assets:		
Investment securities	46,889	62,259
Claims provable in bankruptcy, claims provable in rehabilitation and other	60	60
Deferred income tax assets	5,522	4,191
Other investments	1,768	1,725
Less: Allowance for doubtful accounts	△302	△293
Total investments and other assets	53,937	67,942
Total fixed assets	197,460	202,330
Total assets	658,341	626,464

(¥ millions)

	Fiscal 2017 As of March 31, 2017	Second Quarter of Fiscal 2018 As of September 30, 2017
Liabilities		
Current liabilities:		
Trade notes and accounts payable	127,126	83,106
Electronically recorded monetary obligations-operating	16,366	19,177
Short-term loans	21,885	14,751
Accrued expenses	18,269	22,260
Income taxes payable	15,122	11,701
Allowance for employees' bonuses	5,767	5,760
Reserve for product warranties	3,070	2,497
Provision for loss on litigation	3,393	—
Other current liabilities	11,987	12,949
Total current liabilities	222,989	172,203
Non-current liabilities:		
Long-term debt	13,172	12,537
Deferred income tax liabilities	6,516	7,328
Allowance for directors' and corporate auditors' retirement benefits	363	395
Reserve for product warranties	5,201	5,034
Allowance for environmental strategies	193	193
Net defined liability for retirement benefits	26,838	26,636
Other non-current liabilities	2,066	1,997
Total non-current liabilities	54,351	54,124
Total liabilities	277,340	226,327
Net assets		
Shareholders' equity:		
Common stock	14,270	14,270
Additional paid-in capital	17,107	17,282
Retained earnings	278,755	302,447
Treasury common stock, at cost	△87	△53
Total shareholders' equity	310,045	333,947
Accumulated other comprehensive income:		
Valuation adjustment on investment securities	21,562	24,819
Translation adjustments	4,572	9,172
Adjustments in defined benefit plans	△192	△308
Total accumulated other comprehensive income	25,942	33,683
Subscription rights to shares	291	245
Non-controlling interests	44,719	32,260
Total net assets	381,000	400,137
Total liabilities and net assets	658,341	626,464

(2) Quarterly Consolidated Statements of Income and Comprehensive Income
(Second quarter, for the six months ended September 30)

(¥ millions)

	Second Quarter of Fiscal 2017 April 1, 2016 to September 30, 2016	Second Quarter of Fiscal 2018 April 1, 2017 to September 30, 2017
Net sales	383,720	445,671
Cost of sales	317,801	365,843
Gross profit	65,919	79,827
Selling, general and administrative expenses	26,170	30,138
Operating income	39,748	49,688
Non-operating income:		
Interest income	365	463
Dividends	662	688
Equity in earnings of affiliates	7	13
Foreign exchange losses	—	72
Other non-operating income	852	2,097
Total non-operating income	1,888	3,335
Non-operating expenses		
Interest expenses	447	516
Foreign exchange losses	1,398	—
Other non-operating expenses	144	195
Total non-operating expenses	1,989	711
Recurring profit	39,646	52,312
Extraordinary gains:		
Gain on sales of property and equipment	12	28
Gain on sales of investment securities	41	—
Total extraordinary gains	54	28
Extraordinary losses:		
Loss on sales and disposal of property and equipment	225	284
Impairment loss	—	156
Loss on disasters	922	—
Loss on valuation of investment securities	32	—
Monopolization and maintenance of fair trade	—	1,575
Total extraordinary losses	1,181	2,016
Income before income taxes	38,520	50,323
Income taxes	11,103	13,173
Income tax adjustment	810	3,538
Total income taxes	11,913	16,712
Profit	26,606	33,611
(Break down)		
Profit attributable to owners of parent	22,929	29,156
Profit attributable to non-controlling interests	3,676	4,455

(¥ millions)

	Second Quarter of Fiscal 2017 April 1, 2016 to September 30, 2016	Second Quarter of Fiscal 2018 April 1, 2017 to September 30, 2017
Other comprehensive income		
Valuation difference on available-for-sale securities	△693	3,401
Translation adjustments	△17,531	3,950
Adjustments in defined benefit plans	△96	△105
Share of other comprehensive income of entities accounted for using equity method	—	735
Total other comprehensive income	△18,321	7,982
Comprehensive income	8,284	41,594
(Break down)		
Comprehensive income attributable to owners of parent	8,858	36,896
Comprehensive income attributable to non-controlling interests	△573	4,698

(3) Quarterly Consolidated Statements of Cash Flows

(¥ millions)

	Second Quarter of Fiscal 2017 April 1, 2016 to September 30, 2016	Second Quarter of Fiscal 2018 April 1, 2017 to September 30, 2017
Cash flows from operating activities		
Income before income taxes	38,520	50,323
Depreciation	14,455	15,614
Impairment loss	—	156
Stock-based compensation	—	48
Equity in earnings of affiliated companies	△7	△13
Provision for allowance for doubtful accounts	△13	△284
Net defined liability for retirement benefits	△513	△375
Provision for reserve for bonuses	54	511
Reserve for product warranties	△208	△740
Interest and dividends received	△1,027	△1,151
Interest payments	447	516
Gain on sale of marketable and investment securities	△41	—
Loss on valuation of marketable and investment securities	32	—
Gain or loss on sale of property and equipment	212	256
Monopolization and maintenance of fair trade	—	1,575
Loss on disasters	922	—
Increase or decrease in trade notes and accounts receivable	4,385	5,819
Increase in inventories	△4,589	△2,104
Increase or decrease in other current assets	△2,418	4,937
Decrease in trade notes and accounts payable	△14	△5,689
Increase in accrued expenses and other current liabilities	776	3,174
Others	1,301	1,342
Sub total	<u>52,274</u>	<u>73,915</u>
Interest and dividends received	1,027	1,151
Interest paid	△447	△516
Loss related to the Act on Prohibition to Private Monopolization and Maintenance of Fair Trade paid	—	△2,372
Income taxes paid	△10,539	△15,203
Net cash provided by operating activities	<u>42,315</u>	<u>56,975</u>
Cash flows from investing activities		
Payments into time deposits	△66,585	△96,599
Proceeds from time deposits	56,859	78,504
Payments for purchase of marketable and investment securities	△46	△9
Proceeds from sale of marketable and investment securities	460	0
Acquisition of property and equipment	△16,228	△19,262
Proceeds from sale and disposal of property and equipment	15	△26
Payments for new loans	△4	△1
Proceeds from loan repayments	6	7
Others	△458	355
Net cash used in investing activities	<u>△25,981</u>	<u>△37,031</u>

(¥ millions)

	Second Quarter of Fiscal 2017 April 1, 2016 to September 30, 2016	Second Quarter of Fiscal 2018 April 1, 2017 to September 30, 2017
Cash flows from financing activities		
Decrease in short-term loans	△5,908	△428
Increase in long-term debt	1,398	927
Repayment of long-term debt	△152	△1,687
Payments for repurchase of treasury stock	△0	△0
Proceeds from exercise of share options	—	0
Dividends paid by parent company	△3,212	△5,460
Dividends paid to non-controlling interests	△3,944	△4,424
Net cash used in financing activities	△11,818	△11,072
Effect of exchange rate changes on cash and cash equivalents	△2,419	1,228
Increase or decrease in cash and cash equivalents	2,097	10,100
Cash and cash equivalents at beginning of quarter	31,886	39,500
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	—	△9,624
Cash and cash equivalents at end of quarter	33,983	39,975

(4) Notes on Quarterly Consolidated Financial Statements

(Going Concern Assumption)

None

(Note Regarding Significant Changes in Shareholders' Equity)

None

(Changes to important subsidiaries during the second quarter)

KOITO has resolved at its Board of Directors held on September 28, 2017, to sell all portions of the shares of Shanghai Koito to HUAYU Automotive Systems Company Limited. Along with the transaction, KOITO has concluded a technical agreement with Shanghai Koito anew to provide continuous support for the current products, but its scope is more limited than ever.

As a result, KOITO no longer maintains substantial control over the company. From September 28, 2017, Shanghai Koito's profit and loss for KOITO's consolidated accounting is accounted for by the equity-method.

(Application of Special Accounting Methods in the Preparation of Quarterly Consolidated Financial Statements)

None

(Segment Information)

【Segment Information】

I. Second Quarter of fiscal 2017 (April 1, 2016 to September 30, 2016)

1. Information Concerning Net Sales and Operating Income for Each Segment

(¥ millions)

	Japan	North America	China	Asia	Europe	Total	Adjustment (Note 1)	Amount recorded on quarterly consolidated financial statements (Note 3)
Net sales								
Sales to outside customers	147,762	86,371	97,674	36,852	15,059	383,720	—	383,720
Inter-segment sales and transfers	79,040	3	2,478	3,611	783	85,917	(85,917)	—
Total	226,803	86,374	100,153	40,464	15,842	469,638	(85,917)	383,720
Segment operating income	18,469	7,441	7,154	4,303	1,900	39,270	478	39,748

Notes 1. The ¥478 million adjustment in segment (operating income) includes ¥3,198 million in intersegment eliminations and ¥△2,720 million in unallocated expenses. Unallocated expenses comprise expenses related to management divisions such as administrative and accounting divisions of the head office of the parent company.

2. The breakdown of countries and regions other than Japan and China is as follows:

- (1) North America: United States and Mexico
- (2) Asia: Thailand, Indonesia, Taiwan and India
- (3) Europe: United Kingdom and Czech Republic

3. Segment operating income is adjusted to operating income in the quarterly consolidated financial statements.

II. Second Quarter of fiscal 2018 (April 1, 2017 to September 30, 2017)

1. Information Concerning Net Sales and Operating Income for Each Segment

(¥ millions)

	Japan	North America	China	Asia	Europe	Other regions	Total	Adjustment (Note 1)	Amount recorded on quarterly consolidated financial statements (Note 3)
Net sales									
Sales to outside customers	170,530	90,402	117,693	45,655	21,388	—	445,671	—	445,671
Inter-segment sales and transfers	96,777	9	1,580	4,159	727	—	103,255	(103,255)	—
Total	267,308	90,411	119,274	49,815	22,116	—	548,926	(103,255)	445,671
Segment operating income or loss (△)	26,607	7,619	8,320	4,579	1,827	△140	48,815	873	49,688

Notes 1. The ¥873 million adjustment in segment (operating income) includes ¥3,736 million in intersegment eliminations and ¥△2,862 million in unallocated expenses. Unallocated expenses comprise expenses related to management divisions such as administrative and accounting divisions of the head office of the parent company.

2. The breakdown of countries and regions other than Japan and China is as follows:

- (1) North America: United States and Mexico
- (2) Asia: Thailand, Indonesia, Taiwan and India
- (3) Europe: United Kingdom and Czech Republic
- (4) Other regions: Brazil

As KOITO established a consolidated subsidiary in Brazil, 'Other regions' segment was newly included to reporting segment from the third quarter of fiscal 2017.

3. Segment operating income is adjusted to operating income in the quarterly consolidated financial statements.