

Consolidated Earnings Report for the Third Quarter of Fiscal 2015 [Japanese GAAP]

January 29, 2015

Company Name:	KOITO MANUFACTURING CO., LTD.
Stock Listing:	First Section, Tokyo Stock Exchange
Code Number:	7276
URL:	http://www.koito.co.jp
Representative Director:	Masahiro Otake, President
Inquiries:	Hideo Yamamoto, Director and Managing Corporate Officer
Tel:	+81-3-3443-7111
Filing of Quarterly Securities Report:	February 6, 2015
Scheduled Payment of Dividends:	—
Supplementary explanatory materials prepared:	None
Explanatory meeting:	None

(¥ millions are rounded down)

1. Consolidated Results for the Third Quarter of Fiscal 2015 (April 1, 2014 to December 31, 2014)

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

Third Quarter,	Net sales		Operating income		Recurring profit		Net income	
Fiscal 2015	501,965	18.7%	42,462	43.5%	45,150	43.8%	26,233	140.1%
Fiscal 2014	422,970	24.4%	29,599	18.5%	31,393	22.5%	10,924	△11.0%

Note: Comprehensive income: December 31, 2014: ¥55,040 million (78.1%), December 31, 2013: ¥30,908 million (44.3%)

Third Quarter,	Net income per share (¥)	Net income per share (diluted) (¥)
Fiscal 2015	163.25	—
Fiscal 2014	67.98	—

(2) Consolidated Financial Position

(¥ millions)

	Total assets	Net assets	Equity ratio (%)	Net assets per share (¥)
December 31, 2014	547,929	303,110	46.9	1,600.45
March 31, 2014	483,093	256,072	45.5	1,368.72

Note: Equity: December 31, 2014: ¥257,183 million; March 31, 2014: ¥219,945 million

2. Dividends

	Dividend per share (¥)				
	First Quarter	Second Quarter	Third Quarter	Year End	Full Year
Fiscal 2014	—	12.00	—	14.00	26.00
Fiscal 2015	—	14.00	—		
Fiscal 2015 (forecast)				—	—

Notes: 1. Revisions to recent dividend forecasts: None

2. The dividend record date is March 31, as prescribed by Koito's Articles of Incorporation; the dividend forecast for the year ending March 31, 2015 record date is currently undecided.

3. Forecast of Consolidated Results for Fiscal 2015 (April 1, 2014 to March 31, 2015)

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

	Net sales		Operating income		Recurring profit		Net income		Net income per share (¥)
Full year	695,000	16.3%	62,000	25.2%	65,000	25.3%	37,000	73.1%	230.25

Note: Revisions to recent consolidated business forecasts: Yes

***Notes**

- (1) Changes to important subsidiaries during the third quarter (changes in specified subsidiaries resulting in revised scope of consolidation): None
- (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: Yes
 - ② Other changes: None
 - ③ Changes in accounting estimates: None
 - ④ Restatements: None

(Note) For details, please refer to (3) Changes in Accounting Principles, Accounting Estimates and Restatements under 2. Summary Information (Notes) on page 4 of the supplementary materials.

- (4) Number of shares issued (common stock)

① Number of shares issued (including treasury stock):	Fiscal 2015, 3Q	160,789,436	Fiscal 2014	160,789,436
② Number of treasury shares:	Fiscal 2015, 3Q	95,403	Fiscal 2014	95,079
③ Average number of shares during the third quarter:	Fiscal 2015, 3Q	160,694,252	Fiscal 2014, 3Q	160,696,543

***Explanations concerning status of quarterly review procedures**

This quarterly earnings report is not subject to the review procedures for quarterly reporting based on the Financial Instruments and Exchange Act. At the time of issue of this report, the review procedures for quarterly reporting based on the Financial Instruments and Exchange Act were being carried out.

《 For Reference Only 》

Forecasts of Non-consolidated Results for Fiscal 2015 (April 1, 2014 to March 31, 2015)

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

	Net sales	Operating income	Recurring profit	Net income	Net income per share (¥)
Full year	250,000 1.9%	20,000 10.6%	33,000 10.5%	23,000 72.1%	143.13

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

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

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.

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1. Qualitative Information Concerning Quarterly Financial Statements and Other Matters

(1) Explanation Regarding Consolidated Operating Results

During the third quarter of fiscal 2015, the period under review, the Japanese economy stagnated mainly due to a drop in consumer spending caused by an increase in the consumption tax rate, and a rise in the cost of imports as a result of the yen's depreciation. Growth in the world economy remained strong, underscored mainly by recovery in the U.S. economy and economic restoration in Europe, despite the Chinese economy slowing down and the geopolitical risks posed by the problems in such regions as the Middle East and Ukraine.

In the Japanese auto industry, production volume decreased year on year mainly due to the trend of carmakers to transfer the production of exporting cars to overseas. However, production volume for the domestic market was largely unchanged as a result of increased production in Japan in the first half mainly due to back orders from last-minute demand prior to an increase in the consumption tax rate. This being offset by decreased production in the second half accompanying sluggish sales and other factors. Overseas, production worldwide increased year on year, as production expanded in regions such as North America and China outweighed the impact of production cuts in Thailand and in other countries.

In this climate, the Koito Group reported third-quarter consolidated net sales of ¥501.9 billion, up 18.7% year on year, due to sales growth in the mainstay automotive lighting equipment segment.

Results by geographical segment are outlined as follows.

[Japan]

Sales in Japan increased 1.2% year on year to ¥198.4 billion. Against the backdrop of decreased domestic automobile production, there was a trend to select LED lamps for automobile lamps, among other positive impacts.

[North America]

Sales in North America increased 45.4% year on year to ¥96.9 billion mainly due to increase in automobile production accompanying the recovery in automobile demand and in new orders. In addition, the trend to select LED lamps for automobile lamps, and the start of operations at the Mexico Plant contributed to the increased sales.

[China]

Sales in China rose 24.0% to ¥131.7 billion. This increase was mainly due to increased orders from Japanese, European and U.S. automobile manufacturers amid growing demand for automobiles.

[Asia]

Sales in Asia rose 22.7% year on year to ¥51.1 billion. Sales growth was driven mainly by increased orders in Thailand and an increase in orders from motorcycle and automobile production in Indonesia.

[Europe]

Sales in Europe increased 94.6% year on year to ¥23.6 billion due to an increase in new orders and because of the trend to select LED lamps for automobile lamps, amid strong automobile production in the region accompanying a restoration in the European economy.

On the earnings front, operating income was ¥42.4 billion, up 43.5% year on year. The increase was mainly attributable to revenues rising in Japan, as well as the other segments of North America, China, Asia and Europe, and contributions from the full-fledged operation of a new plant overseas. Recurring profit increased 43.8% to ¥45.1 billion. Net income amounted to ¥26.2 billion, up 140.1% year on year. This increase was mainly due to the posting in the previous fiscal year of an extraordinary loss in relation to the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade, in addition to the impact of increased sales.

(2) Explanation Regarding Consolidated Financial Position

-1. Analysis of assets, liabilities and net assets

Total assets increased ¥64.8 billion from March 31, 2014 to ¥547.9 billion. This was mainly due to capital investment in response to bolstering overseas production, in addition to increases in current assets such as cash and time deposits.

Total liabilities increased ¥17.7 billion from March 31, 2014 to ¥244.8 billion, mainly reflecting an increase in trade notes and accounts payable, and an increase in borrowings and accrued expenses.

Total net assets increased ¥47.0 billion from March 31, 2014 to ¥303.1 billion. This increase was mainly due to an increase in retained earnings from net income, and an increase in total accumulated other comprehensive income.

-2. Analysis of cash flows

Operating activities provided net cash of ¥46.6 billion after payment of taxes, mainly reflecting income before income taxes of ¥46.0 billion and depreciation of ¥18.1 billion.

Investing activities used net cash of ¥38.4 billion, mainly reflecting acquisition of property and equipment of ¥33.1 billion.

Financing activities used net cash of ¥8.9 billion, the result mainly of ¥7.7 billion in dividends paid.

As a result, cash and cash equivalents as of December 31, 2014 were ¥28.9 billion, ¥1.1 billion higher than on March 31, 2014.

(3) Explanation Regarding Forecast of Consolidated Results for Fiscal 2015 and Other Future Projections

As regards Koito's business forecast for fiscal 2015, the fiscal year ending March 31, 2015, net sales are projected to increase over the previous fiscal year because both higher overseas automobile production, mainly in the U.S. and China, and increased orders are expected, mainly due to the trend to select LED lamps for automobile lamps, despite of decrease in the number of automobiles produced in Japan.

On the earnings front, operating income, recurring profit and net income are expected to increase from the previous year mainly due to contributions from the commencement of full-scale operations at a new plant overseas and improvements in productivity, in addition to the impact of increased sales.

The previously announced business results forecast (both consolidated and non-consolidated) for the year ending March 31, 2015 announced in the Consolidated Earnings Report for the Second Quarter of Fiscal 2015 on October 28, 2014, has been revised in the following manner.

Forecast of Consolidated Results for Fiscal 2015 (April 1, 2014 to March 31, 2015)

(¥ millions)

	Net sales	Operating income	Recurring profit	Net income	Net income per share (¥)
Previously announced forecast (A)	684,000	59,000	61,500	35,000	217.81
Revised forecast (B)	695,000	62,000	65,000	37,000	230.25
Difference (B-A)	11,000	3,000	3,500	2,000	—
Change (%)	1.6	5.1	5.7	5.7	—
(Reference) Actual results for fiscal 2014	597,502	49,506	51,895	21,378	133.04

(Reference) Forecast of Non-Consolidated Results for Fiscal 2015 (April 1, 2014 to March 31, 2015)

(¥ millions)

	Net sales	Operating income	Recurring profit	Net income	Net income per share (¥)
Previously announced forecast (A)	249,000	18,500	31,500	22,000	136.91
Revised forecast (B)	250,000	20,000	33,000	23,000	143.13
Difference (B-A)	1,000	1,500	1,500	1,000	—
Change (%)	0.4	8.1	4.8	4.5	—
(Reference) Actual results for fiscal 2014	245,412	18,085	29,857	13,364	83.17

2. Summary Information (Notes)

(1) Changes to Important Subsidiaries during the Third Quarter:

None

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

None

(3) Changes in Accounting Principles, Accounting Estimates and Restatements:

Change in Accounting Principle

(Application of accounting standard for retirement benefits)

With regard to Accounting Standard for Retirement Benefits (Accounting Standards Board of Japan (ASBJ) Statement No. 26, May 17, 2012, hereinafter the "Retirement Benefits Accounting Standard") and Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, May 17, 2012, hereinafter the "Retirement Benefits Guidance") the Company has adopted the provisions of Article 35 of the Retirement Benefits Accounting Standard and Article 67 of the Retirement Benefits Guidance from the first quarter ended June 30, 2014. As a result, the Company revised its calculation method of retirement benefit obligations, and changed its method for attributing estimated retirement benefits to accounting periods from the straight-line method to the benefits formula method. At the same time, the method for determining the discount rate was changed.

As a result, the Company marked up the starting balance of net defined liability for retirement benefits by ¥1,203 million, and marked down retained earnings by ¥735 million. The effect of this change on earnings was negligible.

3. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(¥ millions)

	Fiscal 2014 As of March 31, 2014	Third Quarter of Fiscal 2015 As of December 31, 2014
Assets		
Current assets:		
Cash and time deposits	95,018	108,584
Trade notes and accounts receivable	105,236	101,272
Electronically recorded monetary claims-operating	6,236	7,108
Marketable securities	1,847	1,817
Inventories	52,046	65,256
Accrued income	16,255	15,578
Deferred income tax assets	3,565	4,247
Other current assets	26,774	37,108
Less: Allowance for doubtful accounts	△13,103	△14,447
Total current assets	293,878	326,527
Fixed assets:		
Property, plant and equipment:		
Buildings and structures (net)	34,262	41,748
Machinery and transportation equipment (net)	39,649	54,070
Fixtures, equipment and tools (net)	13,257	18,725
Land	13,821	14,261
Construction in progress	13,089	11,077
Total property, plant and equipment	114,080	139,883
Intangible fixed assets:		
Goodwill	—	1,080
Other intangible fixed assets	1,039	1,662
Total intangible fixed assets	1,039	2,742
Investments and other assets:		
Investment securities	71,695	77,395
Long-term loans	29	16
Deferred income tax assets	1,000	105
Other investments	1,520	1,412
Less: Allowance for doubtful accounts	△152	△152
Total investments and other assets	74,093	78,776
Total fixed assets	189,214	221,402
Total assets	483,093	547,929

(¥ millions)

	Fiscal 2014 As of March 31, 2014	Third Quarter of Fiscal 2015 As of December 31, 2014
Liabilities		
Current liabilities:		
Trade notes and accounts payable	105,326	115,846
Short-term loans	38,269	42,133
Accrued expenses	17,969	19,520
Income taxes payable	8,506	6,429
Allowance for employees' bonuses	4,546	4,214
Reserve for product warranties	2,151	2,101
Other current liabilities	8,558	12,274
Total current liabilities	185,328	202,519
Non-current liabilities:		
Long-term debt	5,241	4,603
Deferred income tax liabilities	582	2,795
Allowance for employees' retirement benefits	26,141	25,639
Allowance for directors' and corporate auditors' retirement benefits	353	359
Allowance for expenses for damages	2,589	1,596
Reserve for product warranties	4,841	4,880
Allowance for environmental strategies	246	232
Other non-current liabilities	1,694	2,192
Total non-current liabilities	41,692	42,299
Total liabilities	227,020	244,819
Net assets		
Shareholders' equity:		
Common stock	14,270	14,270
Additional paid-in capital	17,108	17,108
Retained earnings	158,109	179,108
Treasury common stock, at cost	△84	△85
Total shareholders' equity	189,404	210,402
Accumulated other comprehensive income:		
Valuation adjustment on investment securities	18,532	25,063
Translation adjustments	8,665	19,621
Adjustments in defined benefit plans	3,343	2,096
Total accumulated other comprehensive income	30,541	46,781
Non-controlling interests	36,127	45,926
Total net assets	256,072	303,110
Total liabilities and net assets	483,093	547,929

(2) Quarterly Consolidated Statements of Income and Comprehensive Income
(Third Quarter, for the nine months ended December 31)

(¥ millions)

	Third Quarter of Fiscal 2014 April 1, 2013 to December 31, 2013	Third Quarter of Fiscal 2015 April 1, 2014 to December 31, 2014
Net sales	422,970	501,965
Cost of sales	360,467	425,631
Gross profit	62,503	76,334
Selling, general and administrative expenses	32,903	33,871
Operating income	29,599	42,462
Non-operating income:		
Interest income	1,109	1,231
Dividends	753	984
Equity in earnings of affiliates	6	12
Foreign exchange gains	130	350
Other non-operating income	858	1,238
Total non-operating income	2,858	3,817
Non-operating expenses:		
Interest expenses	588	665
Aircraft business safety measure expenses	381	234
Other non-operating expenses	94	229
Total non-operating expenses	1,064	1,130
Recurring profit	31,393	45,150
Extraordinary gains:		
Gain on abolishment of retirement benefits plan	—	936
Gain on sales of investment securities	985	423
Gain on sales of property and equipment	10	18
Other extraordinary gains	5	1
Total extraordinary gains	1,001	1,380
Extraordinary losses:		
Loss on sales and disposal of property and equipment	260	503
Loss related to the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade	5,965	—
Loss on abandonment of inventories	11	—
Other extraordinary losses	7	6
Total extraordinary losses	6,244	509
Income before income taxes	26,150	46,020
Income taxes	10,428	13,205
Income tax adjustment	137	△704
Total income taxes	10,566	12,501
Income before non-controlling interests	15,583	33,519
Non-controlling interests in consolidated subsidiaries	4,659	7,285
Net income	10,924	26,233

(¥ millions)

	Third Quarter of Fiscal 2014 April 1, 2013 to December 31, 2013	Third Quarter of Fiscal 2015 April 1, 2014 to December 31, 2014
Non-controlling interests	4,659	7,285
Income before non-controlling interests	15,583	33,519
Other comprehensive income or loss		
Valuation adjustment on marketable securities	7,398	6,876
Translation adjustments	7,925	15,543
Adjustments in defined benefit plans	—	△899
Total other comprehensive income	15,324	21,521
Comprehensive income	30,908	55,040
(Breakdown)		
Attributable to shareholders of the parent company	23,905	42,473
Attributable to non-controlling interests	7,002	12,567

(3) Quarterly Consolidated Statements of Cash Flows

(¥ millions)

	Third Quarter of Fiscal 2014 April 1, 2013 to December 31, 2013	Third Quarter of Fiscal 2015 April 1, 2014 to December 31, 2014
Cash flows from operating activities		
Income before income taxes	26,150	46,020
Depreciation	15,789	18,157
Equity in earnings of affiliated companies	△6	△12
Provision for allowance for doubtful accounts	139	1,098
Provision for accrued retirement benefits	731	—
Net defined liability for retirement benefits	—	△2,168
Provision for reserve for bonuses	△250	△334
Reserve for product warranties	—	△12
Interest and dividends received	△1,863	△2,215
Interest payments	588	665
Gain on abolishment of retirement benefit plan	—	△936
Gain on sale of marketable and investment securities	△983	△429
Loss on sale of property and equipment	249	392
Loss related to the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade	5,965	—
Decrease in trade notes and accounts receivable	6,349	12,952
Increase in inventories	△10,931	△8,672
Increase or decrease in other current assets	△9,393	△6,639
Increase in trade notes and accounts payable	11,606	1,446
Increase or decrease in accrued expenses and other current liabilities	1,777	△126
Others	1,295	2,445
Sub total	47,212	61,632
Interest and dividends received	1,863	2,215
Interest paid	△588	△665
Damages paid	△3,861	△993
Administrative monetary penalty paid	△3,428	—
Income taxes paid	△13,867	△15,581
Net cash provided by operating activities	27,331	46,608
Cash flows from investing activities		
Payments into time deposits	△52,025	△50,872
Proceeds from time deposits	38,331	39,245
Payments for purchase of marketable and investment securities	△13	△14
Proceeds from sale of marketable and investment securities	9,211	5,815
Acquisition of property and equipment	△25,360	△33,155
Proceeds or payments from sale and disposal of property and equipment	58	298
Payments for new loans	△6	△7
Proceeds from loan repayments	35	23
Others	1,246	258
Net cash used in investing activities	△28,523	△38,409

(¥ millions)

	Third Quarter of Fiscal 2014 April 1, 2013 to December 31, 2013	Third Quarter of Fiscal 2015 April 1, 2014 to December 31, 2014
Cash flows from financing activities		
Increase or decrease in short-term loans	11,236	△239
Increase in long-term debt	1,396	212
Repayment of long-term debt	△740	△1,206
Payments for repurchase of treasury stock	△6	△0
Proceeds from stock issuance to non-controlling shareholders	888	—
Dividends paid by parent company	△3,716	△4,265
Dividends paid to non-controlling shareholders	△2,955	△3,462
Net cash provided by or used in financing activities	6,103	△8,960
Effect of exchange rate changes on cash and cash equivalents	1,243	1,950
Increase in cash and cash equivalents	6,154	1,189
Cash and cash equivalents at beginning of quarter	21,992	27,750
Cash and cash equivalents at end of quarter	28,146	28,939

(4) Notes on Quarterly Consolidated Financial Statements

(Going Concern Assumption)

None

(Note Regarding Significant Changes in Shareholders' Equity)

None

(Segment Information)

I. Third Quarter of fiscal 2014 (April 1, 2013 to December 31, 2013)

Information Concerning Net Sales and Operating Income or Loss 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	196,224	66,660	106,261	41,697	12,126	422,970	—	422,970
Inter-segment sales and transfers	87,876	—	3,263	3,486	13,023	107,649	(107,649)	—
Total	284,101	66,660	109,524	45,183	25,150	530,620	(107,649)	422,970
Segment operating income or loss	18,670	922	5,892	4,589	△175	29,900	(300)	29,599

Notes: 1. The ¥△300 million adjustment in segment operating income includes ¥2,770 million in intersegment eliminations and ¥△3,071 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: Belgium, United Kingdom and Czech Republic

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

II. Third Quarter of fiscal 2015 (April 1, 2014 to December 31, 2014)

1. Information Concerning Net Sales and Operating Income or Loss 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	198,486	96,930	131,770	51,176	23,600	501,965	—	501,965
Inter-segment sales and transfers	94,669	167	2,815	4,304	22,585	124,542	(124,542)	—
Total	293,155	97,097	134,586	55,481	46,186	626,508	(124,542)	501,965
Segment operating income	21,989	4,387	9,351	5,565	1,627	42,921	(459)	42,462

Notes: 1. The ¥△459 million adjustment in segment operating income includes ¥2,931 million in intersegment eliminations and ¥△3,390 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: Belgium, United Kingdom and Czech Republic

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

2. Information related to goodwill, etc. for each reporting segment

In December 2014, Koito increased its capital in consolidated subsidiary INDIA JAPAN LIGHTING PRIVATE LIMITED.

The ¥1,080 million increase in goodwill that resulted from this action has been included in the “Japan” segment.