

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

January 26, 2018

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:	February 2, 2018
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 2018 (April 1, 2017 to December 31, 2017)

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

Third Quarter	Net sales		Operating income		Recurring profit		Profit attributable to owners of parent	
Fiscal 2018	640,701	6.2%	74,344	16.9%	78,879	19.5%	47,517	19.0%
Fiscal 2017	603,143	1.2%	63,581	14.3%	66,009	14.1%	39,938	34.3%

Note: Comprehensive income or loss: December 31, 2017: ¥ 65,502 million (32.6%),
December 31, 2016: ¥ 49,405 million (118.1%)

Third Quarter	Net income per share (¥)	Net income per share (diluted) (¥)
Fiscal 2018	295.65	295.55
Fiscal 2017	248.54	248.44

(2) Consolidated Financial Position (¥ millions)

	Total assets	Net assets	Equity ratio (%)	Net assets per share (¥)
December 31, 2017	643,737	418,233	59.5	2,383.34
March 31, 2017	658,341	381,000	51.0	2,090.87

Note: Equity: December 31, 2017: ¥ 383,078 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: None

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)

(¥ millions; 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	840,000	△0.2%	100,000	8.1%	104,000	9.1%	74,000	30.5%	460.40

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): Yes

Newly included: 1 company

(Company name) KOITO MALAYSIA SDN. BHD.

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 third 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, 3Q	160,789,436	Fiscal 2017	160,789,436
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② Number of treasury stock:

Fiscal 2018, 3Q	58,054	Fiscal 2017	95,791
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③ Average number of stock during the third quarter:

Fiscal 2018, 3Q	160,718,843	Fiscal 2017, 3Q	160,693,751
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*This financial report is not subject to the audit procedure.

《 For Reference Only 》

Forecasts of Non-consolidated Results 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	339,000	13.8%	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.

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1. Qualitative Information on Quarterly Financial Statements and Other Matters

(1) Explanation Regarding Consolidated Operating Results

During the third quarter 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 geopolitical risks.

In the Japanese auto industry, the production volume increased year on year due to the effect of introduction of new vehicles, and recovery in sales of mini vehicles. 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 third-quarter increased 6.2% year on year to ¥640.7 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 segments are outlined as follows.

[Japan]

Sales in Japan increased 14.3% year on year to ¥262.4 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 1.3% year on year to ¥137.4 billion. Factors contributing to the sales increase were the increase in new orders and a shift in automobile lamps to LED.

[China]

Despite the expansion in new orders and increase in automobile production led by the effect of a tax reduction on compact cars, sales in China decreased 10.6% year on year to ¥139.2 billion. This decrease was caused by the status change of Shanghai Koito Automotive Lamp Co., Ltd. ("Shanghai Koito"), from consolidated company to a company accounted for by the equity-method, from September 28, 2017.

[Asia]

Sales in Asia increased 16.3% year on year to ¥69.5 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 44.3% year on year to ¥32.0 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 ¥74.3 billion, up 16.9%, recurring profit was ¥78.8 billion, up 19.5%, and profit attributable to owners of parent was ¥47.5 billion, up 19.0% 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 December 31, 2017 decreased by ¥14.6 billion to ¥643.7 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.

Total liabilities as of December 31, 2017 decreased ¥51.8 billion to ¥225.5 billion mainly due to a decrease in trade notes and accounts payable caused by transfer of shares of Shanghai Koito.

Net assets as of December 31, 2017 increased ¥37.2 billion to ¥418.2 billion. This increase was mainly due to an increase in retained earnings.

-2. Analysis of cash flows

Operating activities provided net cash of ¥73.6 billion after payment of taxes, mainly reflecting income before income taxes of ¥76.8 billion and depreciation of ¥23.7 billion.

Investing activities used net cash of ¥44.5 billion, mainly reflecting acquisition of property and equipment of ¥30.9 billion and payments into time deposits.

Financing activities used net cash of ¥16.0 billion, the result mainly of reflecting repayment of debt of ¥0.8 billion and dividends paid of ¥15.2 billion.

With diminution caused by transfer of shares of Shanghai Koito, in total, cash and cash equivalents as of December 31, 2017 were ¥44.4 billion, ¥4.9 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.

The previously announced full-year business forecasts (both consolidated and non-consolidated) for fiscal 2018 announced in the Consolidated Earnings Report for the Second Quarter of Fiscal 2018 on October 26, 2017, have been revised 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)	822,000	97,000	100,000	71,000	441.73
Revised forecast (B)	840,000	100,000	104,000	74,000	460.40
Difference (B-A)	18,000	3,000	4,000	3,000	—
Change (%)	2.2	3.1	4.0	4.2	—
(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)	335,000	37,000	55,000	56,000	348.41
Revised forecast (B)	339,000	37,000	55,000	56,000	348.41
Difference (B-A)	4,000	—	—	—	—
Change (%)	1.2	—	—	—	—
(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	Third Quarter of Fiscal 2018 As of December 31, 2017
Assets		
Current assets:		
Cash and time deposits	206,956	226,821
Trade notes and accounts receivable	136,251	106,419
Electronically recorded monetary claims-operating	11,589	13,261
Inventories	66,332	62,674
Deferred income tax assets	4,558	659
Other current assets	36,035	24,347
Less: Allowance for doubtful accounts	△843	△490
Total current assets	460,880	433,693
Non-current assets:		
Property, plant and equipment:		
Buildings and structures (net)	42,829	38,556
Machinery and transportation equipment (net)	55,911	52,892
Fixtures, equipment and tools (net)	18,768	13,776
Land	14,718	15,018
Construction in progress	9,310	15,677
Total property, plant and equipment	141,538	135,922
Intangible assets	1,985	2,249
Investments and other assets:		
Investment securities	46,889	66,237
Claims provable in bankruptcy, claims provable in rehabilitation and other	60	60
Deferred income tax assets	5,522	4,064
Other investments	1,768	1,804
Less: Allowance for doubtful accounts	△302	△293
Total investments and other assets	53,937	71,872
Total non-current assets	197,460	210,043
Total assets	658,341	643,737

(¥ millions)

	Fiscal 2017 As of March 31, 2017	Third Quarter of Fiscal 2018 As of December 31, 2017
Liabilities		
Current liabilities:		
Trade notes and accounts payable	127,126	89,536
Electronically recorded monetary obligations-operating	16,366	15,237
Short-term loans	21,885	14,408
Accrued expenses	18,269	24,081
Income taxes payable	15,122	9,155
Allowance for employees' bonuses	5,767	2,304
Reserve for product warranties	3,070	2,497
Provision for loss on litigation	3,393	—
Other current liabilities	11,987	13,523
Total current liabilities	222,989	170,744
Non-current liabilities:		
Long-term debt	13,172	13,448
Deferred income tax liabilities	6,516	6,733
Allowance for directors' and corporate auditors' retirement benefits	363	407
Reserve for product warranties	5,201	5,034
Allowance for environmental strategies	193	193
Net defined liability for retirement benefits	26,838	26,612
Other non-current liabilities	2,066	2,328
Total non-current liabilities	54,351	54,759
Total liabilities	277,340	225,504
Net assets		
Shareholders' equity:		
Common stock	14,270	14,270
Additional paid-in capital	17,107	17,281
Retained earnings	278,755	315,022
Treasury common stock, at cost	△87	△54
Total shareholders' equity	310,045	346,520
Accumulated other comprehensive income:		
Valuation adjustment on investment securities	21,562	26,675
Translation adjustments	4,572	10,252
Adjustments in defined benefit plans	△192	△371
Total accumulated other comprehensive income	25,942	36,557
Subscription rights to shares	291	245
Non-controlling interests	44,719	34,910
Total net assets	381,000	418,233
Total liabilities and net assets	658,341	643,737

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

(¥ millions)

	Third Quarter of Fiscal 2017 April 1, 2016 to December 31, 2016	Third Quarter of Fiscal 2018 April 1, 2017 to December 31, 2017
Net sales	603,143	640,701
Cost of sales	497,864	523,701
Gross profit	105,278	116,999
Selling, general and administrative expenses	41,696	42,655
Operating income	63,581	74,344
Non-operating income:		
Interest income	554	765
Dividends	1,285	1,206
Equity in earnings of affiliates	20	794
Foreign exchange gains	190	179
Other non-operating income	1,351	2,615
Total non-operating income	3,401	5,561
Non-operating expenses		
Interest expenses	712	722
Other non-operating expenses	260	304
Total non-operating expenses	973	1,026
Recurring profit	66,009	78,879
Extraordinary gains:		
Gain on sales of property and equipment	31	31
Gain on sales of investment securities	41	0
Total extraordinary gains	73	31
Extraordinary losses:		
Loss on sales and disposal of property and equipment	268	361
Impairment loss	—	156
Loss on disasters	985	—
Loss on valuation of investment securities	32	—
Monopolization and maintenance of fair trade	—	1,575
Total extraordinary losses	1,287	2,093
Income before income taxes	64,796	76,817
Income taxes	17,772	18,439
Income tax adjustment	1,252	4,365
Total income taxes	19,024	22,805
Profit	45,771	54,012
(Break down)		
Profit attributable to owners of the parent	39,938	47,517
Profit attributable to non-controlling interests	5,833	6,495

(¥ millions)

	Third Quarter of Fiscal 2017 April 1, 2016 to December 31, 2016	Third Quarter of Fiscal 2018 April 1, 2017 to December 31, 2017
Other comprehensive income		
Valuation difference on available-for-sale securities	4,584	5,433
Translation adjustments	△822	5,318
Adjustments in defined benefit plans	△128	△165
Share of other comprehensive income of entities accounted for using equity method	—	904
Total other comprehensive income	3,633	11,490
Comprehensive income	49,405	65,502
(Break down)		
Comprehensive income attributable to owners of parent	44,061	58,131
Comprehensive income attributable to non-controlling interests	5,344	7,371

(3) Quarterly Consolidated Statements of Cash Flows

(¥ millions)

	Third Quarter of Fiscal 2017 April 1, 2016 to December 31, 2016	Third Quarter of Fiscal 2018 April 1, 2017 to December 31, 2017
Cash flows from operating activities		
Income before income taxes	64,796	76,817
Depreciation	22,732	23,761
Impairment loss	—	156
Stock-based compensation	—	96
Equity in earnings of affiliated companies	△20	△794
Provision for allowance for doubtful accounts	115	△356
Net defined liability for retirement benefits	△587	△499
Provision for reserve for bonuses	△2,060	△2,958
Reserve for product warranties	△208	△740
Interest and dividends received	△1,839	△1,971
Interest payments	712	722
Gain on sale of marketable and investment securities	△41	△0
Loss on valuation of marketable and investment securities	32	—
Loss on sale of property and equipment	236	330
Monopolization and maintenance of fair trade	—	1,575
Loss on disasters	985	—
Decrease in trade notes and accounts receivable	4,604	6,095
Increase in inventories	△10,235	△6,496
Increase or decrease in other current assets	△6,732	119
Increase or decrease in trade notes and accounts payable	14,244	△3,753
Increase in accrued expenses and other current liabilities	397	4,881
Others	919	2,389
Sub total	88,050	99,374
Interest and dividend received	1,839	1,971
Interest paid	△712	△722
Loss related to the Act on Prohibition to Private Monopolization and Maintenance of Fair Trade paid	—	△4,999
Payments for loss on disaster	△414	—
Income taxes paid	△17,130	△21,954
Net cash provided by operating activities	71,633	73,670
Cash flows from investing activities		
Payments into time deposits	△95,785	△129,506
Proceeds from time deposits	88,124	115,779
Payments for purchase of marketable and investment securities	△15	△54
Proceeds from sale of marketable and investment securities	460	38
Acquisition of property and equipment	△27,673	△30,994
Proceeds from sale and disposal of property and equipment	143	141
Payments for new loans	△5	△1
Proceeds from loan repayments	11	9
Others	453	67
Net cash used in investing activities	△34,287	△44,521

(¥ millions)

	Third Quarter of Fiscal 2017 April 1, 2016 to December 31, 2016	Third Quarter of Fiscal 2018 April 1, 2017 to December 31, 2017
Cash flows from financing activities		
Decrease in short-term loans	△6,267	△885
Increase in long-term debt	1,474	1,976
Repayment of long-term debt	△573	△1,917
Payments for repurchase of treasury stock	△0	△1
Proceeds from exercise of share options	—	0
Dividends paid by parent company	△6,167	△10,795
Dividends paid to non-controlling interests	△3,966	△4,445
Net cash used in financing activities	△15,499	△16,067
Effect of exchange rate changes on cash and cash equivalents	△884	1,468
Increase in cash and cash equivalents	20,963	14,550
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	52,849	44,425

(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 third quarter)

KOITO has resolved at its Board of Directors held on September 28, 2017, to transfer all portions of the shares in Shanghai Koito, and has concluded a technical agreement with Shanghai Koito anew to provide continuous support for the current products under limited scope than ever. As a result, KOITO no longer maintains substantial control over the company. From the end of the second quarter, KOITO has excluded Shanghai Koito from its consolidation target companies, and Shanghai Koito's financial figures are accounted for by the equity-method.

Also, since KOITO newly established KOITO MALAYSIA SDN. BHD., this subsidiary is included in the scope of consolidation from this third quarter.

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

None

(Segment Information)

【Segment Information】

I. Third Quarter of fiscal 2017 (April 1, 2016 to December 31, 2016)

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	229,723	135,718	155,773	59,742	22,184	—	603,143	—	603,143
Inter-segment sales and transfers	125,154	13	3,463	5,684	1,211	—	135,528	(135,528)	—
Total	354,878	135,732	159,237	65,427	23,395	—	738,671	(135,528)	603,143
Segment operating income	29,795	13,707	11,243	6,322	2,621	△11	63,680	(98)	63,581

Notes 1. The ¥△98 million adjustment in segment operating income includes ¥3,905 million in intersegment eliminations and ¥△4,004 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

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

II. Third Quarter of fiscal 2018 (April 1, 2017 to December 31, 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	262,477	137,417	139,286	69,502	32,015	3	640,701	—	640,701
Inter-segment sales and transfers	149,567	18	2,480	6,260	1,064	—	159,390	(159,390)	—
Total	412,044	137,435	141,766	75,762	33,079	3	800,092	(159,390)	640,701
Segment operating Income or loss	39,523	12,954	11,406	7,444	3,426	△300	74,455	(110)	74,344

Notes 1. The ¥△110 million adjustment in segment operating income includes ¥4,407 million in intersegment eliminations and ¥△4,518 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, India and Malaysia
- (3) Europe: United Kingdom and Czech Republic
- (4) Other regions: Brazil

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