



## Consolidated Earnings Report for the Second Quarter of Fiscal 2019 [Japanese GAAP]

October 26, 2018

Company Name:	<b>KOITO MANUFACTURING CO., LTD.</b>
Stock Listing:	First Section, Tokyo Stock Exchange
Code Number:	7276
URL:	<a href="http://www.koito.co.jp">http://www.koito.co.jp</a>
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Filing of Quarterly Securities Report:	November 1, 2018
Scheduled Payment of Dividends:	December 5, 2018
Supplementary explanatory materials prepared:	Yes
Explanatory meeting:	Yes

(¥ millions are rounded down)

### 1. Consolidated Results for the Second Quarter of Fiscal 2019 (April 1, 2018 to September 30, 2018)

(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 2019	392,601	△11.9%	46,503	△6.4%	48,858	△6.6%	33,155	13.7%
Fiscal 2018	445,671	16.1%	49,688	25.0%	52,312	31.9%	29,156	27.2%

Note: Comprehensive income or loss:

September 30, 2018: ¥40,012 million (△3.8%), September 30, 2017: ¥41,594 million (402.1%)

Second Quarter	Net income per share (¥)	Net income per share (diluted) (¥)
Fiscal 2019	206.28	206.21
Fiscal 2018	181.42	181.35

(2) Consolidated Financial Position

(¥ millions)

	Total assets	Net assets	Equity ratio (%)	Net assets per share (¥)
September 30, 2018	705,910	474,581	61.9	2,717.41
March 31, 2018	672,055	444,808	61.0	2,551.48

Note: Equity: September 30, 2018: ¥ 436,772 million, March 31, 2018: ¥ 410,102 million

### 2. Dividends

	Dividend per share (¥)				
	First Quarter	Second Quarter	Third Quarter	Year End	Full Year
Fiscal 2018	—	36.00	—	60.00	96.00
Fiscal 2019	—	40.00			
Fiscal 2019 (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, 2019 is currently undecided.

3. Breakdown of fiscal 2018 year-end dividend: Ordinary dividend: ¥40.00; Extraordinary dividend: ¥20.00

### 3. Forecast of Consolidated Results for Fiscal 2019 (April 1, 2018 to March 31, 2019)

(¥ 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	809,000 △4.7%	98,000 △5.6%	101,000 △6.4%	69,000 △17.3%	429.29

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): 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: 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 2019, 2Q	160,789,436	Fiscal 2018	160,789,436
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② Number of treasury stock:

Fiscal 2019, 2Q	58,220	Fiscal 2018	58,106
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③ Average number of stock during the second quarter:

Fiscal 2019, 2Q	160,731,292	Fiscal 2018, 2Q	160,712,556
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\*This quarterly financial report is not subject to the quarterly audit procedure to be conducted by certified public accountants or auditing firms.

\*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 an earnings release conference for securities analysts and institutional investors on November 7, 2018. Supplementary materials will be available on our website after the conference.

《 For Reference Only 》

**Forecast of Non-consolidated Result for Fiscal 2019 (April 1, 2018 to March 31, 2019)**

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

	Net sales		Operating income		Recurring profit		Net income		Net income per share (¥)
Full year	361,000	6.2%	38,000	1.1%	55,000	△1.4%	42,000	△32.5%	261.31

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

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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 2019, the period under review, the Japanese economy showed a trend of moderate recovery due to an increase in capital investment supported by strong corporate performances, and the continued recovery of personal consumption. In spite of intensifying trade war caused by protectionary trading policies by the U.S., strong U.S. Dollars and currency depreciation in emerging countries, increasing crude oil price, and geopolitical risks, the global economy continued to be robust as a whole. This was due primarily to firm economies in the U.S., Europe, China, and Asia.

In the Japanese auto industry, despite mini vehicles enjoyed brisk sale, the production volume decreased year on year due to the completion of current round of new vehicle stage effect. The global automobile production volume increased year on year due mainly to the increased demand in China, Asia and Europe.

In this climate, despite an increase in new orders in the mainstay automotive lighting equipment segment and a shift in automobile lamps to LED, the KOITO Group's net sales for the first half decreased 11.9% year on year to ¥392.6 billion. This is attributable to the status change of Shanghai Koito Automotive Lamp Co., Ltd. ("Shanghai Koito") from a consolidated company to a company accounted for by the equity-method in the end of September 2017, and non-consolidation of Shanghai Koito in the end of March 2018.

Results by geographical segment are outlined as follows.

#### **[Japan]**

While domestic automobile production volume decreased, sales in Japan increased 3.2% year on year to ¥175.9 billion due to an increase in new orders and a shift in automobile lamps to LED.

#### **[North America]**

While NAFTA negotiations remained uncertain, sales in North America increased 5.8% year on year to ¥95.6 billion. The increase was due primarily to a shift in automobile lamps to LED, although the automobile production volume remained flat.

#### **[China]**

Despite the increase in automobile production and expansion in new orders, sales in China decreased 58.9% year on year to ¥48.3 billion. This decrease was caused by the effect of non-consolidation of Shanghai Koito.

#### **[Asia]**

Sales in Asia increased 16.5% year on year to ¥53.1 billion. Sales growth was mainly driven by an increase in automobile production volume, an increase in new orders in Thailand and India, and a shift in motorcycle lamps to LED.

#### **[Europe]**

Although automobile production volume increased, sales in Europe decreased 11.5% year on year to ¥18.9 billion. This was mainly attributable to the completion of current round of new vehicle stage effects or the end of production of some of our ordered products portfolio in this region.

#### **[Other regions]**

KOITO's subsidiary, NAL Brasil commenced operations in May 2018. Sales in the region was ¥0.4 billion.

On the earnings front, although KOITO implemented rationalization in Japan and overseas, operating income decreased 6.4% year on year to ¥46.5 billion, and recurring profit decreased 6.6% year on year to ¥48.8 billion. This was attributable to the effect of non-consolidation of Shanghai Koito and increased R&D expenses. On the other hand, as KOITO recorded a loss related to the Act on Prohibition to Private Monopolization and Maintenance of Fair Trade in the previous fiscal year, profit attributable to owners of parent increased 13.7% year on year to ¥33.1 billion.

### (2) Explanation Regarding Consolidated Financial Position

#### -1. Analysis of assets, liabilities and net assets

Although trade notes and accounts receivable and other assets decreased, total assets as of September 30, 2018 increased ¥33.8 billion to ¥705.9 billion. This was mainly due to an increase in cash and time deposits, and assets on property, plant and equipment led by an increase in capital investment.

Total liabilities as of September 30, 2018 increased ¥4.0 billion to ¥231.3 billion due mainly to an increase in account payable for capital investment.

Net assets as of September 30, 2018 increased ¥29.7 billion to ¥474.5 billion. This increase was due mainly to an increase in retained earnings.

-2. Analysis of cash flows

Operating activities provided net cash of ¥49.3 billion after payment of taxes, mainly reflecting income before income taxes of ¥48.2 billion and depreciation of ¥14.6 billion.

Investing activities used net cash of ¥22.4 billion, mainly reflecting acquisition of property and equipment of ¥30.6 billion.

Financing activities used net cash of ¥9.2 billion, the result mainly of reflecting dividends paid of ¥11.4 billion.

As a result, cash and cash equivalents as of September 30, 2018 were ¥58.3 billion, ¥17.3 billion higher than on March 31, 2018.

**(3) Explanation Regarding Forecast of Consolidated Results for Fiscal 2019 and Other Future Projections**

As regards KOITO's business forecasts for fiscal 2019, the fiscal year ending March 31, 2019, despite the expansion of new orders and the market transition to LED automobile lamps in Japan and overseas, net sales are expected to decrease due to the effect of non-consolidation of Shanghai Koito.

On the earnings front, operating income, recurring profit, and profit attributable to owners of parent are all expected to decrease due to the effect of Shanghai Koito's non-consolidation, as well as an increase in R&D expenses.

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 ¥40 per share, which is ¥4 higher than the dividend amount for the same period of the previous fiscal year, and the same with the year-end ordinary dividend amount (excluding extraordinary dividend of ¥20) 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 2019 announced in the Consolidated Earnings Report for the First Quarter of Fiscal 2019 on July 26, 2018, has been revised in the following manner.

Forecast of Consolidated Results for Fiscal 2019 (April 1, 2018 to March 31, 2019)

(¥ millions)

	Net sales	Operating income	Recurring profit	Profit attributable to owners of parent	Net income per share (¥)
Previously Announced forecast (A)	805,000	100,000	103,000	70,000	435.51
Revised forecast (B)	809,000	98,000	101,000	69,000	429.29
Difference (B-A)	4,000	△2,000	△2,000	△1,000	—
Change (%)	0.5	△2.0	△1.9	△1.4	—
(Reference) Actual results for fiscal 2018	848,868	103,785	107,945	83,397	518.90

(Reference) Forecast of Non-consolidated Results for Fiscal 2019 (April 1, 2018 to March 31, 2019)

(¥ millions)

	Net sales	Operating income	Recurring profit	Net income	Net income per share (¥)
Previously Announced forecast (A)	362,000	38,500	55,000	40,000	248.86
Revised forecast (B)	361,000	38,000	55,000	42,000	261.31
Difference (B-A)	△1,000	△500	—	2,000	—
Change (%)	△0.3	△1.3	—	5.0	—
(Reference) Actual results for fiscal 2018	339,976	37,599	55,791	62,228	387.18

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

(¥ millions)

	Fiscal 2018 As of March 31, 2018	Second Quarter of Fiscal 2019 As of September 30, 2018
<b>Assets</b>		
<b>Current assets:</b>		
Cash and time deposits	260,644	270,293
Trade notes and accounts receivable	116,329	110,433
Electronically recorded monetary claims-operating	13,154	12,385
Inventories	62,293	65,712
Other current assets	23,905	29,950
Allowance for doubtful accounts	△503	△622
<b>Total current assets</b>	<b>475,825</b>	<b>488,153</b>
<b>Non-current assets:</b>		
<b>Property, plant and equipment:</b>		
Buildings and structures (net)	37,735	42,278
Machinery and transportation equipment (net)	51,000	58,432
Fixtures, equipment and tools (net)	13,592	16,136
Land	15,687	16,145
Construction in progress	15,918	17,051
<b>Total property, plant and equipment</b>	<b>133,935</b>	<b>150,043</b>
<b>Intangible fixed assets</b>	<b>2,419</b>	<b>2,554</b>
<b>Investments and other assets:</b>		
Investment securities	49,707	49,789
Claims provable in bankruptcy, claims provable in rehabilitation and other	60	60
Deferred income tax assets	8,400	11,340
Other investments	1,994	4,264
Allowance for doubtful accounts	△287	△294
<b>Total investments and other assets</b>	<b>59,875</b>	<b>65,159</b>
<b>Total non-current assets</b>	<b>196,230</b>	<b>217,757</b>
<b>Total assets</b>	<b>672,055</b>	<b>705,910</b>

(¥ millions)

	Fiscal 2018 As of March 31, 2018	Second Quarter of Fiscal 2019 As of September 30, 2018
<b>Liabilities</b>		
<b>Current liabilities:</b>		
Trade notes and accounts payable	92,217	89,101
Electronically recorded monetary obligations-operating	10,757	10,463
Short-term loans	15,845	18,953
Accrued expenses	20,959	24,727
Income taxes payable	18,286	9,699
Allowance for employees' bonuses	5,189	5,899
Reserve for product warranties	3,035	2,596
Provision for loss related to the Act on Prohibition to Private Monopolization and Maintenance of Fair Trade	80	85
Other current liabilities	10,721	16,912
<b>Total current liabilities</b>	<b>177,092</b>	<b>178,438</b>
<b>Non-current liabilities:</b>		
Long-term debt	13,083	10,722
Deferred income tax liabilities	4,499	6,782
Allowance for directors' and corporate auditors' retirement benefits	424	447
Reserve for product warranties	5,192	5,549
Allowance for environmental strategies	184	513
Net defined liability for retirement benefits	24,974	26,847
Other non-current liabilities	1,795	2,029
<b>Total non-current liabilities</b>	<b>50,154</b>	<b>52,891</b>
<b>Total liabilities</b>	<b>227,247</b>	<b>231,329</b>
<b>Net assets</b>		
<b>Shareholders' equity:</b>		
Common stock	14,270	14,270
Additional paid-in capital	16,716	16,760
Retained earnings	350,903	374,414
Treasury common stock, at cost	△54	△55
<b>Total shareholders' equity</b>	<b>381,836</b>	<b>405,390</b>
<b>Accumulated other comprehensive income:</b>		
Valuation adjustment on investment securities	23,969	24,817
Translation adjustments	3,902	6,278
Adjustments in defined benefit plans	394	286
<b>Total accumulated other comprehensive income</b>	<b>28,266</b>	<b>31,382</b>
<b>Subscription rights to shares</b>	<b>245</b>	<b>245</b>
<b>Non-controlling interests</b>	<b>34,460</b>	<b>37,563</b>
<b>Total net assets</b>	<b>444,808</b>	<b>474,581</b>
<b>Total liabilities and net assets</b>	<b>672,055</b>	<b>705,910</b>



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

(¥ millions)

	Second Quarter of Fiscal 2018 April 1, 2017 to September 30, 2017	Second Quarter of Fiscal 2019 April 1, 2018 to September 30, 2018
<b>Net sales</b>	445,671	392,601
Cost of sales	365,843	323,391
<b>Gross profit</b>	79,827	69,209
Selling, general and administrative expenses	30,138	22,706
<b>Operating income</b>	49,688	46,503
Non-operating income:		
Interest income	463	632
Dividends	688	657
Equity in earnings of affiliates	13	6
Foreign exchange gains	72	478
Other non-operating income	2,097	1,115
Total non-operating income	3,335	2,890
Non-operating expenses		
Interest expenses	516	428
Other non-operating expenses	195	107
Total non-operating expenses	711	535
<b>Recurring profit</b>	52,312	48,858
Extraordinary gains:		
Gain on sales of property and equipment	28	273
Total extraordinary gains	28	273
Extraordinary losses:		
Loss on sales and disposal of property and equipment	284	256
Loss on provision for environmental measures	—	332
Loss on valuation of inventories	—	268
Loss related to the Act on Prohibition to Private Monopolization and Maintenance of Fair Trade	1,575	—
Impairment loss	156	—
Total extraordinary losses	2,016	857
<b>Income before income taxes</b>	50,323	48,274
Income taxes	13,173	11,746
Income tax adjustment	3,538	49
Total income taxes	16,712	11,795
<b>Profit</b>	33,611	36,478
(Break down)		
Profit attributable to owners of parent	29,156	33,155
Profit attributable to non-controlling interests	4,455	3,323

(¥ millions)

	Second Quarter of Fiscal 2018 April 1, 2017 to September 30, 2017	Second Quarter of Fiscal 2019 April 1, 2018 to September 30, 2018
Other comprehensive income		
Valuation difference on available-for-sale securities	3,401	959
Translation adjustments	3,950	2,678
Adjustments in defined benefit plans	△105	△104
Share of other comprehensive income of entities accounted for using equity method	735	—
Total other comprehensive income	7,982	3,533
Comprehensive income	41,594	40,012
(Break down)		
Comprehensive income attributable to owners of parent	36,896	36,270
Comprehensive income attributable to non-controlling interests	4,698	3,741

**(3) Quarterly Consolidated Statements of Cash Flows**

(¥ millions)

	Second Quarter of Fiscal 2018 April 1, 2017 to September 30, 2017	Second Quarter of Fiscal 2019 April 1, 2018 to September 30, 2018
<b>Cash flows from operating activities</b>		
Income before income taxes	50,323	48,274
Depreciation	15,614	14,619
Impairment loss	156	—
Stock-based compensation	48	44
Equity in earnings of affiliated companies	△13	△6
Provision for allowance for doubtful accounts	△284	124
Net defined liability for retirement benefits	△375	△535
Provision for reserve for bonuses	511	693
Reserve for product warranties	△740	△82
Interest and dividends received	△1,151	△1,289
Interest payments	516	428
Loss on valuation of inventories	—	268
Gain or loss on sale of property and equipment	256	△16
Loss on provision for environmental measures	—	332
Loss related to the Act on Prohibition to Private Monopolization and Maintenance of Fair Trade	1,575	—
Increase in trade notes and accounts receivable	5,819	7,546
Increase in inventories	△2,104	△3,789
Increase or decrease in other current assets	4,937	△5,346
Decrease in trade notes and accounts payable	△5,689	△3,549
Increase in accrued expenses and other current liabilities	3,174	3,170
Others	1,342	7,948
Sub total	<u>73,915</u>	<u>68,834</u>
Interest and dividends received	1,151	1,289
Interest paid	△516	△428
Loss related to the Act on Prohibition to Private Monopolization and Maintenance of Fair Trade paid	△2,372	—
Income taxes paid	△15,203	△20,380
<b>Net cash provided by operating activities</b>	<u>56,975</u>	<u>49,315</u>
<b>Cash flows from investing activities</b>		
Payments into time deposits	△96,599	△84,300
Proceeds from time deposits	78,504	92,561
Payments for purchase of marketable and investment securities	△9	△10
Proceeds from sale of marketable and investment securities	0	0
Acquisition of property and equipment	△19,262	△30,627
Proceeds from sale and disposal of property and equipment	△26	708
Payments for new loans	△1	△2
Proceeds from loan repayments	7	4
Others	355	△821
<b>Net cash used in investing activities</b>	<u>△37,031</u>	<u>△22,487</u>

(¥ millions)

	Second Quarter of Fiscal 2018 April 1, 2017 to September 30, 2017	Second Quarter of Fiscal 2019 April 1, 2018 to September 30, 2018
<b>Cash flows from financing activities</b>		
Increase or decrease in short-term loans	△428	2,373
Increase in long-term debt	927	655
Repayment of long-term debt	△1,687	△1,973
Payments for repurchase of treasury stock	△0	△0
Proceeds from exercise of share options	0	—
Proceeds from share issuance to non-controlling shareholders	—	1,144
Dividends paid by parent company	△5,460	△9,638
Dividends paid to non-controlling interests	△4,424	△1,777
<b>Net cash used in financing activities</b>	<b>△11,072</b>	<b>△9,217</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>1,228</b>	<b>△309</b>
<b>Increase or decrease in cash and cash equivalents</b>	<b>10,100</b>	<b>17,301</b>
<b>Cash and cash equivalents at beginning of quarter</b>	<b>39,500</b>	<b>41,050</b>
<b>Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation</b>	<b>△9,624</b>	<b>—</b>
<b>Cash and cash equivalents at end of quarter</b>	<b>39,975</b>	<b>58,352</b>

#### (4) Notes on Quarterly Consolidated Financial Statements

(Going Concern Assumption)

None

(Note Regarding Significant Changes in Shareholders' Equity)

None

(Additional Information)

(Application of "Partial Amendments to Accounting Standard for Tax Effect Accounting," etc.)

KOITO has adopted the "Implementation Guidance on Tax Effect Accounting" (Accounting Standards Board of Japan (ASBJ) No. 28, issued on February 16, 2018) in the first quarter of fiscal year ending March 31, 2019, and have indicated deferred income tax assets under investments and other assets, and deferred income tax liabilities under non-current liabilities.

(Segment Information)

【Segment Information】

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

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	10,111	3	1,200	3,407	49	—	14,771	(14,771)	—
Total	180,642	90,405	118,894	49,062	21,437	—	460,442	(14,771)	445,671
Segment operating income or loss (△)	27,107	7,661	8,299	4,533	1,799	△140	49,261	427	49,688

Notes 1. The ¥427 million adjustment in segment (operating income) includes ¥3,290 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

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

II. Second Quarter of fiscal 2019 (April 1, 2018 to September 30, 2018)  
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	175,991	95,628	48,394	53,178	18,936	472	392,601	—	392,601
Inter-segment sales and transfers	14,421	22	2,365	3,130	82	4	20,026	(20,026)	—
Total	190,412	95,650	50,759	56,309	19,018	477	412,627	(20,026)	392,601
Segment operating income or loss ( $\Delta$ )	26,247	6,314	6,930	6,076	1,476	$\Delta$ 1,047	45,998	504	46,503

Notes 1. The ¥504 million adjustment in segment (operating income) includes ¥3,571 million in intersegment eliminations and ¥ $\Delta$ 3,067 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 is adjusted to operating income in the quarterly consolidated financial statements.