

This is the English translation of the original Japanese-language Business Results of KITO CORPORATION (the Company) for the fiscal year ending March 31, 2019 and is provided for reference purposes only. Readers are advised that the Company does not guarantee the accuracy of the content contained in this report. In the event of any discrepancy between this translation and the Japanese original, the Japanese original shall prevail.

Business Results for the First Half of the Fiscal Year Ending March 31, 2019 [Japan GAAP] (Consolidated)

November 14, 2018

Company	KITO CORPORATION	Listed on the TSE 1 st Section
Stock Code	6409	URL: https://kito.com/
Representative	Yoshio Kito, President & CEO	
Contact	Shigeki Oozawa, Managing Director, GM, Corporate Financial Management Div.	TEL: +81-3-5908-0161

Expected date of filing of annual securities report:	November 14, 2018	Scheduled date to begin dividend payments: December 4, 2018
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Preparation of supplementary financial document: Yes

Results briefing: Yes (for securities analysts)

(Figures of less than ¥1 million have been omitted.)

1. Consolidated business results for the 1H (April 1, 2018 to September 30, 2018) of fiscal 2018 (April 1, 2018 to March 31, 2019)

(1) Consolidated results of operations (% change from the previous corresponding period)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
1H FY2018	28,190	14.3	2,564	102.0	2,314	163.2	1,835	244.7
1H FY2017	24,661	8.7	1,269	(11.7)	879	(8.3)	532	46.1

(Note) Comprehensive income (loss) 1H FY2018: 2,113 million yen 185.5%
1H FY2017: 740 million yen —%

	Net income per share		Diluted net income per share	
	Yen	Yen	Yen	Yen
1H FY2018	89.95	89.50	89.50	89.50
1H FY2017	26.21	26.10	26.10	26.10

(2) Consolidated financial position

	Total assets		Net assets		Shareholders' equity ratio	
	Million yen	Million yen	Million yen	Million yen	%	%
As of September 30, 2018	62,392	25,310	25,310	23,697	39.1	36.7
As of March 31, 2018	61,854	23,697	23,697	23,697	36.7	36.7

(Reference) Shareholders' equity As of September 30, 2018: 24,384 million As of March 31, 2018: 22,714 million

2. Dividends

	Annual dividend				
	End of 1Q	End of 2Q	End of 3Q	Year-end	Annual
FY2017	Yen —	Yen 15.00	Yen —	Yen 18.00	Yen 33.00
FY2018	—	20.00	—	—	—
FY2018 (forecast)	—	—	—	20.00	40.00

(Note) Revisions from recently announced dividend forecast: None

3. Forecast of consolidated business results for fiscal 2018 (April 1, 2018 to March 31, 2019)

(% change from the previous fiscal year)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent		Net income per share	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen	Yen
FY2018	60,000	8.8	6,000	27.7	5,700	50.3	4,000	41.0	195.95	195.95

(Note) Revisions from recently announced forecast: None

※ **Notes:**

- (1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in a change in the scope of consolidation): Yes
New: —
Excluded: Har Ki, Inc., KITO PHILIPPINES, INC.
- (2) The application of special accounting treatment for the preparation of the quarterly consolidated financial statements:
None
- (3) Changes in accounting policies, accounting estimates, and restatements
(a) Changes in accounting policies due to revisions of accounting standards: None
(b) Changes in accounting policies other than above: None
(c) Changes of accounting estimates: None
(d) Restatements: None
- (4) Number of shares issued (common stock)
(a) Number of shares issued at the end of period (treasury stock included)
As of September 30, 2018: 27,048,200 shares
As of March 31, 2018: 27,048,200 shares
(b) Number of treasury stock at the end of period
As of September 30, 2018: 6,634,768 shares
As of March 31, 2018: 6,659,133 shares
(c) Average number of shares over the period
1H FY2018: 20,403,602 shares
1H FY2017: 20,315,558 shares

*** This Business Results Report for the First Half of the Fiscal Year Ending March 31, 2019 falls outside the scope of quarterly review procedures.**

*** Explanation regarding the appropriate use of business forecasts and other special instructions**

The performance forecasts and other forward-looking statements presented in this report are based on information currently available and certain assumptions deemed to be reasonable, and are not to be read as guarantees of future performance by the Company. Actual performance, etc., may differ substantially due to various factors. For preconditions of the assumptions and special instructions regarding the appropriate use of business forecasts, please refer to “(3) Explanation of performance forecasts and other forward-looking statements, including consolidated business forecasts” on page 6 of the supplementary materials.

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1. Quarterly Business Results

(1) Results of operations

During the second quarter cumulative period (April 1, 2018 to September 30, 2018) of fiscal 2018 (ending March 31, 2019), the global economy was favorable overall, despite continued concerns about the outlook for the future, such as the impact from the trade policies of the U.S. and China. The business environment for the Company remained steady, with continued strong growth in private sector capital investment and infrastructure-related demand in both Japan and the U.S., and sustained firm demand in China, despite lingering concerns over a slowdown in capital investment.

Fiscal 2018 is the third year of the Company's five-year Mid Term Plan, during which the Company will transition from a platform enhancement to a full-fledged growth phase. During the period under review, while steadily capturing robust investment demand, the Company moves to the next phase by implementing various measures.

The Company continued to increase production capacity during the subject second quarter period, due to the robust demand that has continued from the previous fiscal year. As a result, consolidated net sales rose 14.3% from the same period of the previous fiscal year, to ¥28,190 million. Earnings rose sharply in all categories, supported by favorable sales. Operating income amounted to ¥2,564 million (an increase of 102.0%), with ordinary income of ¥2,314 million (an increase of 163.2%) and net income attributable to owners of the parent of ¥1,835 million (an increase of 244.7%).

Results by segments are as follows:

Segment	Net Sales (YoY change in %)	Operating Income (Loss) (YoY change in %)
Japan	¥14,416 million (up 35.4%)	¥3,177 million (up 85.8%)
The Americas	¥12,942 million (up 9.5%)	¥377 million (up 41.6%)
China	¥3,679 million (up 21.0%)	¥476 million (up 39.2%)
Asia (excluding Japan and China)	¥2,295 million (up 20.4%)	¥283 million (up 214.2%)
Europe	¥1,269 million (up 35.6%)	¥10 million Ref. Q2 2017: ¥(22) million
Others	¥1,019 million (up 3.0%)	¥17 million Ref. Q2 2017: ¥(46) million

Japan

Demand remained robust for infrastructure-related investments and private-sector capital expenditures in both the domestic and export markets. As a result, net sales in Japan amounted to ¥14,416 million (an increase of 35.4% from the same period of the previous fiscal year), with operating income of ¥3,177 million (an increase of 85.8%). The significant increase in revenue and earnings was due in part to full-scale renewal of its IT infrastructure in the same period of the previous fiscal year, and a subsequent temporary decline in production activities.

The Americas

The U.S. economy, despite concerns about the impact from trade friction with China, was marked by firm demand for natural resource-related and other investment from the private sector, and public facilities investment. As a result, net sales in the Americas amounted to ¥12,942 million (an increase of 9.5% from the same period of the previous fiscal year), with operating income of ¥377 million (an increase of 41.6%).

China

The Chinese market, despite a sense of uncertainty about the future due to trade friction with the U.S., was marked by firm domestic demand in growth industries, centered on EVs. As a result of the Company's capturing this demand, net sales in China amounted to ¥3,679 million (an increase of 21.0% from the same period of the previous fiscal year), with operating income of ¥476 million (an increase of 39.2%).

Asia (excluding Japan and China)

The Company captured robust demand in Asia overall, with performance boosted by large-scale projects that have continued from the previous fiscal year. Net sales in Asia amounted to ¥2,295 million (an increase of 20.4% from the same period of the previous fiscal year), with operating income of ¥283 million (an increase of 214.2%).

Europe

The Company continued its proactive measures from the beginning of the term to promote sales, in order to capture the rising capital investment demand in the region overall. As a result, net sales amounted to ¥1,269 million (an increase of 35.6% from the same period of the previous fiscal year), with operating income of ¥10 million (compared to an operating loss of ¥22 million in the previous fiscal year).

Others

This segment currently comprises the Australia business. Net sales amounted to ¥1,019 million (an increase of 3.0% from the same period of the previous fiscal year), with operating income of ¥17 million (compared to an operating loss of ¥46 million in the previous fiscal year).

(2) Financial Position

1. Assets, liabilities, and net assets

Assets

Total assets amounted to ¥62,392 million, an increase of ¥537 million compared to the end of the previous fiscal year. The main factors were a ¥1,902 million decrease in cash and deposits; a ¥1,857 million increase in merchandise and finished goods; and a ¥495 million increase in raw materials and supplies.

Liabilities

Total liabilities amounted to ¥37,081 million, a decrease of ¥1,076 million compared to the end of the previous fiscal year. The main factors were a ¥1,472 million increase in short-term loans payable; a ¥796 million decrease in accrued expenses; and a ¥1,149 million decrease in long-term loans payable.

Net Assets

Net assets amounted to ¥25,310 million, an increase of ¥1,613 million compared to the end of the previous fiscal year. The main factors were a ¥1,367 million increase in retained earnings; and a ¥270 million increase in foreign currency translation adjustment.

2. Cash Flows

Cash and cash equivalents amounted to ¥8,865 million, a decrease of ¥1,904 million compared with the end of the previous fiscal year.

Cash Flows from Operating Activities

Net cash provided by operating activities amounted to ¥53 million, a decrease of ¥2,899 million compared to the previous fiscal year. The main factors were ¥2,314 million in income before income taxes; ¥1,177 million in depreciation and amortization; ¥1,593 million in changes in inventories; and ¥928 million in income taxes paid.

Cash Flows from Investing Activities

Net cash used in investing activities amounted to ¥1,091 million, an increase of ¥222 million compared to the previous fiscal year. The main factors were ¥532 million in payments for the acquisition of property and equipment; and ¥90 million in payments for the acquisition of intangible fixed assets.

Cash Flows from Financing Activities

Net cash used in financing activities amounted to ¥798 million, a decrease of ¥959 million compared to the previous fiscal year. The main factors were ¥1,408 million in net increase in short-term loans payable; and ¥2,138 million in repayments of long-term loans payable.

(3) Performance Forecasts and Other Forward-looking Statements, including Consolidated Business Forecasts

The results forecast for the full fiscal year ending March 31, 2019 remain unchanged from the forecasts released on November 1, 2018.

2. Consolidated Financial Statements and Major Notes

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2018	As of September 30, 2018
Assets		
Current assets		
Cash and deposits	10,780	8,878
Notes and accounts receivable-trade	11,447	11,544
Merchandise and finished goods	10,673	12,530
Work in process	1,748	1,523
Raw materials and supplies	3,081	3,577
Other current assets	1,287	1,286
Allowance for doubtful receivables	(43)	(40)
Total current assets	38,975	39,300
Fixed assets		
Property and equipment		
Buildings and structures (net)	4,473	4,451
Machinery, equipment, and vehicles (net)	4,823	4,506
Others (net)	2,252	2,154
Total property and equipment	11,549	11,112
Intangible assets		
Goodwill	1,926	1,885
Other intangible assets	4,914	4,899
Total intangible assets	6,841	6,785
Investments and other assets		
Investment securities	1,312	1,675
Deferred tax assets	1,727	1,895
Other investments and other assets	1,448	1,623
Total investments and other assets	4,488	5,194
Total fixed assets	22,879	23,092
Total assets	61,854	62,392

(Millions of yen)

As of March 31, 2018

As of September 30, 2018

Liabilities		
Current liabilities		
Notes and accounts payable-trade	6,143	6,820
Short-term loans payable	1,506	2,979
Current portion of long-term loans payable	4,212	4,204
Accrued expenses	2,949	2,152
Income taxes payable	795	894
Provision for bonuses for employees	803	874
Other current liabilities	2,204	1,344
Total current liabilities	18,616	19,271
Long-term liabilities		
Long-term loans payable	15,731	14,581
Provision for directors' retirement benefits	211	209
Net defined benefit liabilities	2,407	1,919
Other long-term liabilities	1,190	1,099
Total long-term liabilities	19,541	17,809
Total liabilities	38,157	37,081
Net assets		
Shareholders' equity		
Capital stock	3,976	3,976
Capital surplus	5,210	5,212
Retained earnings	18,674	20,042
Treasury stock	(5,749)	(5,728)
Total shareholders' equity	22,111	23,502
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	0	0
Deferred gains or losses on hedges	106	145
Foreign currency translation adjustment	724	995
Remeasurements of defined benefit plans	(228)	(258)
Total accumulated other comprehensive income	602	881
Subscription rights to shares	48	35
Non-controlling interests	935	890
Total net assets	23,697	25,310
Total liabilities and net assets	61,854	62,392

(2) Quarterly Consolidated Statements of Income/Quarterly Consolidated Statements of Comprehensive Income
Quarterly Consolidated Statements of Income

(Millions of yen)

	1H FY2017 (April 1, 2017 to September 30, 2017)	1H FY2018 (April 1, 2018 to September 30, 2018)
Net sales	24,661	28,190
Cost of sales	16,274	17,946
Gross profit	8,386	10,243
Selling, general, and administrative expenses	7,117	7,679
Operating income	1,269	2,564
Non-operating income		
Gain on sales of scraps	22	24
Foreign exchange gains	9	44
Other	52	112
Total non-operating income	85	181
Non-operating expenses		
Interest expense	197	193
Equity in losses of affiliates	177	93
Other	100	144
Total non-operating expenses	474	430
Ordinary income	879	2,314
Income before income taxes	879	2,314
Income taxes	308	407
Net income for the period	571	1,907
Net income attributable to non-controlling interests	38	71
Net income attributable to owners of the parent	532	1,835

Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	1H FY2017 (April 1, 2017 to September 30, 2017)	1H FY2018 (April 1, 2018 to September 30, 2018)
Net income for the period	571	1,907
Other comprehensive income		
Valuation difference on available-for-sale securities	(0)	(0)
Deferred gains or losses on hedges	(16)	39
Foreign currency translation adjustment	73	149
Remeasurements of defined benefit plans	26	9
Share of other comprehensive income of entities accounted for using equity method	85	7
Total other comprehensive income	168	205
Quarterly comprehensive income	740	2,113
(Comprehensive income attributable to):		
Owners of the parent	708	2,076
Non-controlling interests	31	36

(3) Quarterly Consolidated Statements of Cash Flows

(Millions of yen)

	1H FY2017 (April 1, 2017 to September 30, 2017)	1H FY2018 (April 1, 2018 to September 30, 2018)
Cash flows from operating activities		
Income before income taxes	879	2,314
Depreciation and amortization	1,017	1,177
Depreciation of goodwill	163	162
Changes in net defined benefit liabilities	38	(478)
Interest and dividend income	(13)	(39)
Interest expense	197	193
Foreign exchange losses (gains)	(63)	(175)
Equity in losses (earnings) of affiliates	177	93
Changes in trade receivables	1,046	94
Changes in inventories	(805)	(1,593)
Changes in trade payables	597	643
Changes in accrued expenses	(390)	(832)
Changes in advances received	280	(462)
Others	101	56
Subtotal	3,227	1,154
Cash received from interest and dividends	13	18
Interest paid	(190)	(190)
Income taxes paid	(96)	(928)
Net cash provided by operating activities	2,953	53
Cash flows from investing activities		
Payments for the acquisition of property and equipment	(408)	(532)
Payments for the acquisition of intangible fixed assets	(298)	(90)
Others	(163)	(469)
Net cash used in investing activities	(869)	(1,091)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(5,337)	1,408
Proceeds from long-term loans payable	5,700	400
Repayments of long-term loans payable	(1,599)	(2,138)
Cash dividends paid	(283)	(366)
Cash dividends paid for non-controlling interests	(92)	(80)
Others	(144)	(21)
Net cash used in financing activities	(1,757)	(798)
Effect of exchange rate changes on cash and cash equivalents	3	(27)
Increase (decrease) in cash and cash equivalents	330	(1,863)
Cash and cash equivalents at the beginning of the period	9,059	10,769
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	—	(40)
Cash and cash equivalents at the end of the period	9,389	8,865

(4) Notes on Quarterly Consolidated Financial Statements

(Notes regarding ongoing concern assumption)

There are no relevant matters to be noted.

(Notes on the event of material changes in the amount of shareholders' equity)

There are no relevant matters to be noted.

(Segment information)

First half of the fiscal year ended March 31, 2018 (April 1, 2017 to September 30, 2017)

Information on the amounts of net sales and on the income or loss of reportable segments

(Millions of yen)

	Reportable segments						Total	Adjustment (Note 1)	Consolidated financial statement amount (Note 2)
	Japan	The Americas	China	Asia	Europe	Others			
Net sales									
Net sales to outside customers	6,210	11,781	2,857	1,906	914	989	24,661	—	24,661
Net internal sales or transfers among segments	4,435	36	183	—	21	—	4,677	(4,677)	—
Total	10,646	11,818	3,041	1,906	936	989	29,338	(4,677)	24,661
Segment income or segment loss	1,710	266	342	90	(22)	(46)	2,340	(1,071)	1,269

Notes: 1. The segment income or loss adjustment of ¥ (1,071) million includes transactions offset among segments of ¥(56) million and company-wide expenses that are not allocated to respective segment of ¥(1,127) million. Company-wide expenses are expenses mostly related to the general affairs, finance and accounting, and corporate planning departments of the parent company.

2. The segment income or loss is reconciled with the operating income listed in the quarterly consolidated financial statements.

First half of the fiscal year ending March 31, 2019 (April 1, 2018 to September 30, 2018)

Information on the amounts of net sales and on the income or loss of reportable segments

(Millions of yen)

	Reportable segments						Total	Adjustment (Note 1)	Consolidated financial statement amount (Note 2)
	Japan	The Americas	China	Asia	Europe	Others			
Net sales									
Net sales to outside customers	7,302	12,888	3,417	2,295	1,267	1,019	28,190	—	28,190
Net internal sales or transfers among segments	7,114	53	261	0	1	—	7,431	(7,431)	—
Total	14,416	12,942	3,679	2,295	1,269	1,019	35,622	(7,431)	28,190
Segment income	3,177	377	476	283	10	17	4,343	(1,779)	2,564

Notes: 1. The segment income adjustment of ¥ (1,779) million includes transactions offset among segments of ¥(611) million and company-wide expenses that are not allocated to respective segment of ¥(1,168) million. Company-wide expenses are expenses mostly related to the general affairs, finance & accounting, and corporate planning departments of the parent company.

2. The segment income is reconciled with the operating income listed in the quarterly consolidated financial statements.