

This is the English translation of the original Japanese-language Business Results of KITO CORPORATION (the Company) for the first quarter of 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 original document in Japanese, the original document shall prevail.

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

August 10, 2018

Company	KITO CORPORATION	Listed on the TSE 1 st Section
Code	6409	URL: http://kito.com/
Representative	Yoshio Kito, President & CEO	
Contact	Shigeki Osozawa, Senior Executive Officer, GM, Financial Management Div.	TEL: +81-3-5908-0161
Expected filing date of the quarterly securities report:	August 10, 2018	Scheduled date for starting payment of dividends : —
Preparation of supplementary material on financial results:	Yes	
Results briefing:	None	

(Rounded down to the nearest million yen)

1. Consolidated business results for the Q1 (April 1, 2018 to June 30, 2018)

(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	%
Q1 FY2018	13,441	12.8	992	84.4	814	131.5	519	33.6
Q1 FY2017	11,919	15.5	538	(4.1)	351	53.1	388	43.7

(Note) Comprehensive income Q1 FY2018: 589 million yen 71.5%
Q1 FY2017: 343 million yen —%

	Net income per share	Diluted net income per share
	Yen	Yen
Q1 FY2018	25.48	25.33
Q1 FY2017	19.14	19.07

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
	Million yen	Million yen	%
As of June 30, 2018	59,740	23,891	38.5
As of Mar. 31, 2018	61,854	23,697	36.7

(Reference) Shareholders' equity As of June 30, 2018: 22,990 million yen As of March 31, 2018: 22,714 million yen

2. Dividends

	Annual dividend				
	Q1	Q2	Q3	Year-end	Annual total
	Yen	Yen	Yen	Yen	Yen
FY2017	—	15.00	—	18.00	33.00
FY2018	—	—	—	—	—
FY2018 (forecast)	—	20.00	—	20.00	40.00

(Note) Revisions from recently announced dividend forecast: None

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

(% change from the previous corresponding period)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent		EPS
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
H1 FY2018	26,500	7.5	2,000	57.6	1,600	81.9	1,200	125.4	58.86
FY2018	58,000	5.1	5,500	17.1	5,100	34.5	3,500	23.4	171.66

(Note) Revisions from recently announced forecast: None

※ **Notes:**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries due to changes in the scope of consolidation): Yes Dissolution of “Har Ki, Inc.”

(2) The application of special accounting treatment to prepare the quarterly consolidated financial statements: None

(3) Changes in accounting policies, accounting estimates, and retrospective restatements

Changes in accounting policies due to revisions of accounting standards: None

Changes in accounting policies other than above: None

Changes of accounting estimates: None

Retrospective restatements: None

(4) Number of shares issued (common stock)

Total number of shares issued (including treasury stock)

As of June 30, 2018: 27,048,200 shares

As of Mar. 31, 2018: 27,048,200 shares

Number of treasury stock

As of June 30, 2018: 6,638,768 shares

As of Mar. 31, 2018: 6,659,133 shares

Average number of shares over the period

Q1 FY2018: 20,395,771 shares

Q1 FY2017: 20,311,974 shares

*** This Business Results Report for the First Quarter of the Fiscal Year Ending March 31, 2019 falls outside the scope of quarterly review procedures by certified public accountants or accounting auditors.**

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

Any 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 results may differ substantially from the forecasts depending on various factors. For preconditions of the assumptions and other instructions regarding the appropriate use of business forecasts, please refer to “(3) Performance Forecasts and Other Forward-looking Statements, including Consolidated Business Forecasts” on page 5 of the Appendix.

Contents of Appendix

1. Quarterly Business Results 4

 (1) Results of Operations 4

 (2) Financial Position 5

 (3) Performance Forecasts and Other Forward-looking Statements, including Consolidated Business
 Forecasts 5

2. Consolidated Financial Statements and Major Notes 6

 (1) Quarterly Consolidated Balance Sheets..... 6

 (2) Quarterly Consolidated Statements of Income/Quarterly Consolidated Statements of Comprehensive Income 8

 (3) Notes on Quarterly Consolidated Financial Statements..... 10

 (Notes regarding ongoing concern assumption) 10

 (Notes on the event of material changes in the amount of shareholders' equity)..... 10

 (Segment information) 10

1. Quarterly Business Results

(1) Results of Operations

During the first quarter cumulative period (April 1, 2018 to June 30, 2018) of fiscal 2018 (ending March 31, 2019), despite lingering concerns about the protectionist policies of the U.S. administration, the global economy was favorable overall. The business environment for the Company was marked by continued steady growth in infrastructure-related demand in Japan and the United States, and firm capital investment in the recovering Chinese market and other areas around the world.

Fiscal 2018 is the third year of the Company's five-year management plan, during which the Company will transition from a base solidification to a full-fledged growth phase. The Company achieved a positive start to the subject fiscal year, taking advantage of robust investment demand.

The Company continued to increase production capacity during the subject first quarter period in order to capture the robust demand that has continued from the previous fiscal year. As a result, consolidated net sales rose 12.8% from the same period of the previous fiscal year, to ¥13,441 million. Earnings rose sharply in all categories, supported by favorable sales that offset the depreciation costs and other expenses stemming from the implementation of the new IT system. Operating income amounted to ¥992 million (an increase of 84.4%), with ordinary income of ¥814 million (an increase of 131.5%) and net income attributable to owners of the parent of ¥519 million (an increase of 33.6%).

Results by segments are as follows:

Segments	Net sales (YoY change in %)	Operating income (loss) (YoY change in %)
Japan	¥7,110 million (up 19.9%)	¥1,361 million (up 13.2%)
The Americas	¥6,043 million (up 10.2%)	¥(6) million Ref. Q1 2017: ¥(78) million
China	¥1,607 million (up 14.5%)	¥190 million (up 21.5%)
Asia (excluding Japan and China)	¥1,425 million (up 75.4%)	¥219 million Ref. Q1 2017: ¥(16) million
Europe	¥611 million (up 25.0%)	¥(5) million Ref. Q1 2017: ¥(6) million
Others	¥500 million (up 4.2%)	¥ 5 million Ref. Q1 2017: ¥(11) million

Japan

Demand remained robust for both infrastructure-related investments and private-sector capital investment in both the domestic and export markets. As a result, net sales in Japan amounted to ¥7,110 million (an increase of 19.9% from the same period of the previous fiscal year), with operating income of ¥1,361 million (an increase of 13.2%).

The Americas

The U.S. economy, despite the lack of clarity in government policies, was marked by firm private-sector capital investment and natural resource-related investment demand. As a result, net sales in the Americas amounted to ¥6,043 million (an increase of 10.2% from the same period of the previous fiscal year), with an operating loss of ¥6 million (compared to an operating loss of ¥78 million in the same period of the previous fiscal year).

China

The Chinese economy was driven by capital investment demand in the automotive industry, with growth centered on electric vehicles, as well as semiconductors and robotics. Net sales in China amounted to ¥1,607 million (an increase of 14.5% from the same period of the previous fiscal year), with operating income of ¥190 million (an increase of 21.5%).

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 (excluding Japan and China) amounted to ¥1,425 million (an increase of 75.4% from the same period of the previous fiscal year), with operating income of ¥219 million (compared to

an operating loss of ¥16 million in the previous fiscal year).

Europe

Capital investment demand rose in the region overall, and the Company implemented proactive measures to promote sales. Net sales amounted to ¥611 million (an increase of 25.0% from the same period of the previous fiscal year). In terms of earnings, the segment posted an operating loss of ¥5 million (compared to an operating loss of ¥6 million in the previous fiscal year).

Others

This segment currently comprises the Australia business. Net sales amounted to ¥500 million (an increase of 4.2% from the same period of the previous fiscal year), with operating income of ¥5 million (compared to an operating loss of ¥11 million in the previous fiscal year).

(2) Financial Position

Total assets amounted to ¥59,740 million, a decrease of ¥2,114 million compared to the end of the previous fiscal year. The main factors were a ¥1,402 million decrease in cash and deposits and a ¥979 million decrease in notes and accounts receivable-trade.

Total liabilities amounted to ¥35,848 million, a decrease of ¥2,308 million compared to the end of the previous fiscal year. The main factors were an ¥821 million decrease in accrued expenses; a ¥443 million decrease in income taxes payable; and a ¥500 million decrease in provisions.

Net assets amounted to ¥23,891 million, an increase of ¥194 million compared to the end of the previous fiscal year. The main factors were a ¥200 million increase in retained earnings; a ¥66 million increase in foreign currency translation adjustment; and a ¥66 million decrease in non-controlling interests.

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

The results forecast for the 1st half of fiscal 2018 ending March 31, 2019 and for the full fiscal year remain unchanged from the forecasts released on May 15, 2018.

2. Consolidated Financial Statements and Major Notes

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2018	As of June 30, 2018
Assets		
Current assets:		
Cash and deposits	10,780	9,378
Notes and accounts receivable-trade	11,447	10,467
Merchandise and finished goods	10,673	11,651
Work in process	1,748	1,363
Raw materials and supplies	3,081	3,211
Other current assets	1,287	1,093
Allowance for doubtful receivables	(43)	(42)
Total current assets	38,975	37,122
Fixed assets:		
Property and equipment		
Buildings and structures (net)	4,473	4,403
Machinery, equipment, and vehicles (net)	4,823	4,671
Others (net)	2,252	2,135
Total property and equipment	11,549	11,210
Intangible assets		
Goodwill	1,926	1,919
Other intangible assets	4,914	4,976
Total intangible assets	6,841	6,896
Investments and other assets		
Investment securities	1,312	1,503
Deferred tax assets	1,727	1,441
Other investments and other assets	1,448	1,566
Total investments and other assets	4,488	4,511
Total fixed assets	22,879	22,618
Total assets	61,854	59,740

(Millions of yen)

As of March 31, 2018

As of June 30, 2018

Liabilities		
Current liabilities		
Notes and accounts payable-trade	6,143	6,563
Short-term loans payable	1,506	1,589
Current portion of long-term loans payable	4,212	4,339
Accrued expenses	2,949	2,128
Income taxes payable	795	352
Provisions	1,126	626
Other current liabilities	1,880	1,225
Total current liabilities	18,616	16,825
Long-term liabilities		
Long-term loans payable	15,731	15,391
Provision for directors' retirement benefits	211	205
Net defined benefit liability	2,407	2,463
Other long-term liabilities	1,190	962
Total long-term liabilities	19,541	19,023
Total liabilities	38,157	35,848
Net assets		
Shareholders' equity		
Capital stock	3,976	3,976
Capital surplus	5,210	5,213
Retained earnings	18,674	18,874
Treasury stock	(5,749)	(5,731)
Total shareholders' equity	22,111	22,331
Accumulated other comprehensive income:		
Valuation losses on other securities	0	0
Deferred gains or losses on hedges	106	130
Foreign currency translation adjustment	724	791
Remeasurements of defined benefit plans	(228)	(263)
Total accumulated other comprehensive income	602	658
Subscription rights to shares	48	33
Non-controlling interests	935	868
Total net assets	23,697	23,891
Total liabilities and net assets	61,854	59,740

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

(Millions of yen)

	Q1 FY2017 (April 1, 2017 to June 30, 2017)	Q1 FY2018 (April 1, 2018 to June 30, 2018)
Net sales	11,919	13,441
Cost of sales	7,823	8,613
Gross profit	4,096	4,827
Selling, general, and administrative expenses	3,558	3,835
Operating income	538	992
Non-operating income:		
Gain on sales of scraps	7	12
Other	31	46
Total non-operating income	39	58
Non-operating expenses:		
Interest expense	98	93
Foreign exchange loss	—	33
Equity in losses of affiliates	91	34
Other	35	74
Total non-operating expenses	225	236
Ordinary income	351	814
Income before income taxes	351	814
Income taxes	(55)	260
Net income for the period	407	554
Net income attributable to non-controlling interests	18	34
Net income attributable to owners of parent	388	519

Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	Q1 FY2017 (April 1, 2017 to June 30, 2017)	Q1 FY2018 (April 1, 2018 to June 30, 2018)
Net income for the period	407	554
Other comprehensive income:		
Valuation difference on available-for-sale securities	0	(0)
Deferred gains or losses on hedges	(24)	24
Foreign currency translation adjustment	(105)	60
Remeasurements of defined benefit plans, net of tax	14	(34)
Equity in losses of affiliates	52	(14)
Total other comprehensive income	(63)	35
Quarterly comprehensive income	343	589
(Comprehensive income attributable to):		
Owners of the parent	340	575
Minority interests	3	14

(3) 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 quarter of the fiscal year ended March 31, 2018 (April 1, 2017 to June 30, 2017)

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

(Millions of yen)

	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	3,347	5,466	1,323	812	489	480	11,919	—	11,919
Net internal sales or transfers among segments	2,581	20	81	—	—	—	2,683	(2,683)	—
Total	5,928	5,486	1,404	812	489	480	14,603	(2,683)	11,919
Segment income or segment loss	1,202	(78)	156	(16)	(6)	(11)	1,247	(708)	538

Notes: 1. The segment income/loss adjustment of ¥(708) million includes transactions offset among segments of ¥(151) million and company-wide expenses that are not allocated to respective segments of ¥(557) 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 quarter of the fiscal year ending March 31, 2019 (April 1, 2018 to June 30, 2018)

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

(Millions of yen)

	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	3,392	6,010	1,501	1,425	610	500	13,441	—	13,441
Net internal sales or transfers among segments	3,717	33	106	0	0	—	3,858	(3,858)	—
Total	7,110	6,043	1,607	1,425	611	500	17,299	(3,858)	13,441
Segment income or segment loss	1,361	(6)	190	219	(5)	5	1,764	(772)	992

Notes: 1. The segment income/loss adjustment of ¥(772) million includes transactions offset among segments of ¥(309) million and company-wide expenses that are not allocated to respective segments of ¥(462) 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.