

Consolidated Financial Results for the First Half Fiscal Year March 2014 (Japanese Accounting Standards)

This document has been prepared as a guide for non-Japanese investors and contains forward-looking statements that are based on managements' estimates, assumptions and projections at the time of publication. A number of factors could cause actual results to differ materially from expectations. This document is a translation of excerpts taken from the Japanese language original. All numbers are rounded down to the nearest until in accordance with standard Japanese practice. Please be advised that the Company cannot accept responsibility for investment decisions made based on the information contained in this report.

October 31, 2013

Company Name: KITZ CORPORATION

Stock Listing: Tokyo Stock Exchange

Stock Code: 6498

URL <http://www.kitz.co.jp/english/index.html>

President and Chief Executive Officer: Yasuyuki Hotta

Inquiries: Tadaaki Kawaguchi, General Manager, Accounting Department

Telephone: +81-43-299-0114

Date of Financial Statement Filing (Planned): November 13, 2013

Date of Dividend Payment (Planned): December 5, 2013

Availability of Quarterly Financial Results Supplementary Presentation Materials: Yes

Quarterly Financial Results Presentation Meeting: Yes (For institutional investors and analysts)

(Figures of less than one million yen are rounded down to the nearest decimal)

1. Consolidated Financial Results (Apr. 1 - Sept. 30, 2013)

(1) Consolidated Operating Results

(% figures represent year-over-year change)

	Net Sales		Operating Income		Ordinary Income		Net Income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
1H FY March 2014	57,380	3.2	2,465	(31.3)	2,402	(29.4)	1,455	(27.2)
1H FY March 2013	55,605	(1.3)	3,587	53.0	3,403	60.6	1,999	86.2

(Note) Total Comprehensive Income: ¥3,803 million in 1H FY March 2014 (up 100.9%), ¥1,893 million in 1H FY March 2013 (up 176.1%)

	Net Income per Share		Net Income per Share (Diluted)	
	Yen	Yen	Yen	Yen
1H FY March 2014	13.32	—	—	—
1H FY March 2013	18.30	—	—	—

(2) Consolidated Financial Position

	Total Assets		Net Assets		Equity Ratio	
	Million Yen	Million Yen	Million Yen	Million Yen	%	%
End of 1H FY March 2014	103,325	63,464	63,464	60.4	60.4	60.4
End of FY March 2013	99,972	60,219	60,219	59.3	59.3	59.3

(Reference) Equity: ¥62,442 million in end of 1H FY March 2014, ¥59,242 million in end of FY March 2013

2. Dividends

	Annual Dividend				
	1Q	2Q	3Q	4Q	Total
	Yen	Yen	Yen	Yen	Yen
FY March 2013	—	4.50	—	5.00	9.50
FY March 2014	—	5.00	—	—	—
FY March 2014 (Planned)	—	—	—	5.00	10.00

(Note) Revisions to dividend forecasts recently announced: None

3. Consolidated Financial Forecasts for the Fiscal Year Ending March 2014 (Apr. 1, 2013 - Mar. 31, 2014)

(% figures represent year-over-year change)

	Net Sales		Operating Income		Ordinary Income		Net Income		Net Income per Share
	Million Yen	%	Million Yen	%	Million Yen	%	Million Yen	%	Yen
FY March 2014	117,000	5.1	5,400	(17.7)	5,300	(18.7)	3,200	(20.8)	29.29

(Note) Revisions to consolidated financial forecasts recently announced: Yes

※ Annotation

- (1) Important changes in our subsidiaries during the current quarter, including changes to the scope of our consolidation: None
- (2) Application of special accounting procedures in the preparation of our quarterly consolidated financial statements: Yes
- (3) Changes in the accounting methods, procedures, display methods used in the preparation of our consolidated financial statements:
- ① Changes accompanying revisions in accounting standards: None
 - ② Other changes: None
 - ③ Changes in accounting estimates: None
 - ④ Redisplay of revisions: None

(4) Shares issued (Common stock)

① Shares issued as of term end (including treasury stock):	IH FY March 2014	120,396,511 shares	FY March 2013	120,396,511 shares
② Treasury stock as of term end:	IH FY March 2014	11,176,567 shares	FY March 2013	11,175,323 shares
③ Average during the term:	IH FY March 2014	109,220,597 shares	IH FY March 2013	109,222,599 shares

※ Information Regarding Quarterly Review Practices:

The practices for review of quarterly consolidated earnings statements pursuant to the “Financial Instruments and Exchange Act” of Japan have not been completed for the disclosure of this document because these financial results are exempt from the review procedure prescribed in the above.

※ Explanations regarding the appropriate uses of our earnings projections and other information:

All projections provided within this document are based on the most accurate information available at the time of this writing. However our actual results may differ from our projections due to various unforeseen reasons.

Contents

1. Qualitative Information on Consolidated Business Results	2
(1) Explanation of Operating Performance	2
(2) Explanation of Financial Conditions	2
(3) Explanation of Consolidated Financial and Other Forecasts	3
2. Summary Information (Other)	3
(1) Important Changes in Consolidated Subsidiaries during the Term under Review	3
(2) Application of Special Accounting Treatment Used in the Creation of Consolidated Financial Statements	3
(3) Changes in Accounting Policy, Changes in Revisions of Accounting Estimates and Presentation Methods	3
3. Quarterly Consolidated Financial Statements	4
(1) Quarterly Consolidated Balance Sheets	4
(2) Quarterly Consolidated Statement of Income, Consolidated Comprehensive Statement of Income	6
Quarterly Consolidated Statement of Income, First Half of Fiscal Year March 2014	6
Quarterly Consolidated Comprehensive Statement of Income, First Half of Fiscal Year March 2014	7
(3) Quarterly Consolidated Statements of Cash Flows	8
(4) Notes to the Quarterly Consolidated Financial Statements	9
(Notes Regarding Going Concern Assumptions)	9
(Notes Regarding Significant Changes in Shareholders' Equity)	9
(Segment Information)	9

1. Qualitative Information on Consolidated Business Results

(1) Explanation of Operating Performance

During the first six months of the fiscal year ending March 31, 2014, the Japanese economy was characterized by yen depreciation and rising share prices on the back of government efforts to relax monetary policy and promote financial policies. Corporate performance showed signs of improving, particularly in export-driven sectors. These factors, plus a recovery in personal consumption and a rise in public-sector investment, promoted a gradual economic recovery. Overseas, the U.S. economy continued to stage a gradual recovery, and the European economic downturn showed signs of coming to an end, but the outlook remained opaque, owing to such factors as concerns about decelerating economic activity in China.

Operating amid these conditions, the Company recorded a 3.2% increase in net sales compared with the first six months of the preceding fiscal year, to ¥57,380 million, as sales in overseas markets pushed up performance in the valve manufacturing business and the brass bar manufacturing business enjoyed substantial sales growth. On the profit front, operating income dropped 31.3% year on year, to ¥2,465 million, as lackluster domestic demand in the valve manufacturing business led to increasingly stringent price competition, which drove down selling prices. Furthermore, yen depreciation caused prices to rise on products imported from overseas. Similarly, ordinary income fell 29.4%, to ¥2,402 million, and net income declined 27.2%, to ¥1,455 million.

Segment results are as follows.

1) Valve Manufacturing Business

In the valve manufacturing business, sales to external customers grew 0.9%, to ¥42,459 million. Sales in Japan were down as a result of lackluster real demand. Overseas, sales in Asia and Europe increased. Segment operating income fell 27.3%, to ¥3,331 million, as sluggish domestic demand brought down selling prices in Japan, while at the same time yen depreciation pushed up prices on imports of materials and products from overseas.

2) Brass Bar Manufacturing Business

Sales to external customers in the brass bar manufacturing business expanded 18.7%, to ¥10,464 million, as copper prices remained stable year on year and higher demand pushed up unit sales. Buoyed by ongoing efforts to ensure profitability, segment operating income surged 56.0%, to ¥260 million.

3) Other

External sales in other businesses decreased 5.8%, to ¥4,456 million. Revenues from the fitness club and hotel businesses declined, and segment sales were affected by the June 1, 2012, sale of the SUWA GARASUNOSATO business. Segment operating income was essentially unchanged from the preceding year, at ¥268 million. Income from hotel operations increased, but income from fitness club operations fell despite efforts to curtail costs.

(2) Explanation of Financial Conditions

As of September 30, 2013, total assets amounted to ¥103,325 million, up ¥3,352 million from March 31, 2013. This rise stemmed from such factors as an increase in notes and accounts receivable and higher inventories. Total liabilities were ¥39,860 million, up ¥107 million. Although the payment of income taxes reduced the level of income taxes payable, interest-bearing liabilities increased.

Net assets came to ¥63,464 million, up ¥3,244 million. This rise was a result of net income of ¥1,455 million for the first six months, as well as a smaller negative amount for translation adjustments, offsetting the decrease resulting from dividend payments.

(Cash Flow Status)

As of September 30, 2013, cash and cash equivalents amounted to ¥5,806 million, down ¥235 million from March 31, 2013. The reasons for cash flow changes during the period are outlined below.

1) Cash Flows from Operating Activities

Net cash provided by operating activities amounted to ¥179 million, compared with ¥2,244 million in the first half of the preceding fiscal year. Major sources of cash included income before income taxes and minority interests of ¥2,466 million and depreciation and amortization of ¥1,630 million, while principal uses of cash were income taxes paid of ¥1,876 million and a ¥496 million increase in notes and accounts receivable.

2) Cash Flows from Investing Activities

Net cash used in investing activities came to ¥1,784 million, compared with ¥2,252 million in the first half of the previous fiscal year. The main factor was capital investment of ¥1,729 million, chiefly for the valve manufacturing business.

3) Cash Flows from Financing Activities

Net cash provided by financing activities came to ¥1,035 million, compared with ¥63 million used in these activities in the previous first half. Major outflows included ¥2,070 million in repayment of long-term debt and ¥546 million in cash dividends paid. Principal sources of cash included ¥2,190 million in proceeds from long-term debt and a ¥1,505 million net increase in short-term borrowings.

Note: To be prepared to meet short-term demands for working capital, KITZ has established a ¥4.0 billion credit facility with the banks of account. As of September 30, 2013, KITZ had no loans through this credit facility.

(3) Explanation of Consolidated Financial and Other Forecasts

KITZ has revised the forecast announced on May 13, 2013, based on performance in the first half of the fiscal year.

The revised forecasts for the year ending March 31, 2014, are as follows.

	Net sales	Operating income	Ordinary income	Net income	Net income per share
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Yen
Previous forecast (A)	120,000	7,200	7,100	4,300	39.36
Revised estimates (B)	117,000	5,400	5,300	3,200	29.29
Changes in amount (B-A)	(3,000)	(1,800)	(1,800)	(1,100)	-
Percentage change (%)	(2.5)	(25.0)	(25.4)	(25.6)	-
Results for previous fiscal year (Fiscal year ended March 31, 2013)	111,275	6,558	6,521	4,039	36.98

In the valve manufacturing business, sales and income were down substantially in the first half, as sluggish domestic demand pushed down selling prices and unit sales decreased. Furthermore, lackluster overseas demand caused unit exports of products made in Japan to fall. Accordingly, the benefits of yen depreciation were limited.

Against this backdrop, at the time of our first-quarter earnings announcement on July 31, 2013, we indicated that we expected to make up by the end of the fiscal year any shortfall between our forecast and actual results in the first half. However, as we now expect a recovery in domestic demand to be delayed until the fourth quarter, we have revised our operating performance forecast for the year, as described above.

2. Summary Information (Other)**(1) Important Changes in Consolidated Subsidiaries during the Term under Review**

None

(2) Application of Special Accounting Treatment Used in the Creation of Consolidated Financial Statements

(Tax Expense Calculation Method)

With regard to tax expense, we make rational estimates of the effective tax rate after the implementation of tax effect accounting based on net income before tax for both the first half and full year, and calculate the net income based on this estimated effective tax rate.

(3) Changes in Accounting Policy, Changes in Revisions of Accounting Estimates and Presentation Methods

None

3. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	End of FY3/13 (March 31, 2013)	End of 1H FY3/14 (September 30, 2013)
Assets		
Current assets		
Cash in hand and in banks	6,662	6,666
Notes, accounts receivable–trade	22,857	21,309
Electronically recorded monetary claims	952	3,678
Merchandise and finished goods	7,095	8,038
Work in process	3,744	3,803
Raw materials and supplies	6,277	6,358
Other	2,397	2,624
Less: Allowance for doubtful accounts	(31)	(30)
Total current assets	49,956	52,449
Fixed assets		
Property, plant and equipment		
Buildings and structures, net	12,375	12,497
Land	10,981	10,788
Other, net	12,454	13,109
Total property, plant and equipment	35,811	36,395
Intangible assets		
Goodwill	1,385	1,289
Other	1,884	1,990
Total intangible assets	3,269	3,279
Investments and other assets	10,935	11,199
Total fixed assets	50,016	50,875
Total assets	99,972	103,325
Liabilities		
Current liabilities		
Accounts payable–trade	5,259	5,669
Current portion of corporate bonds	1,728	1,668
Short-term borrowings	2,403	4,004
Current portion of long-term debt	3,576	3,107
Income taxes payable	1,718	921
Accrued bonuses to employees	1,624	1,417
Accrued bonuses to directors and corporate auditors	163	47
Other	4,675	3,677
Total current liabilities	21,149	20,513
Long-term liabilities		
Corporate bonds	8,282	8,378
Long-term debt	6,330	6,936
Accrued retirement benefits to employees	514	532
Accrued retirement benefits to directors, corporate auditors and operating officers	301	263
Asset retirement obligations	425	427
Other	2,750	2,808
Total long-term liabilities	18,603	19,347
Total liabilities	39,752	39,860

	(Millions of yen)	
	End of FY3/13 (March 31, 2013)	End of 1H FY3/14 (September 30, 2013)
Net assets		
Shareholders' equity		
Common stock	21,207	21,207
Capital surplus	9,430	9,430
Retained earnings	33,675	34,584
Treasury stock	(3,918)	(3,918)
Total shareholders' equity	60,394	61,303
Accumulated other comprehensive income		
Net unrealized gains on other securities	1,697	1,920
Translation adjustments	(2,849)	(780)
Total accumulated other comprehensive income	(1,151)	1,139
Minority interests	977	1,021
Total net assets	60,219	63,464
Total liabilities and net assets	99,972	103,325

**(2) Quarterly Consolidated Statement of Income, Consolidated Comprehensive Statement of Income
(Quarterly Consolidated Statement of Income, First Half of Fiscal Year March 2014)**

(Millions of yen)

	1H of FY3/13 (April 1, 2012– September 30, 2012)	1H of FY3/14 (April 1, 2013– September 30, 2013)
Net sales	55,605	57,380
Cost of sales	42,415	44,875
Gross profit	13,190	12,505
Selling, general and administrative expenses	9,603	10,039
Operating income	3,587	2,465
Non-operating income		
Interest income	5	8
Dividend income	90	87
Exchange gains	-	65
Other	150	139
Total non-operating income	246	300
Non-operating expenses		
Interest expenses	144	132
Sales discount	148	148
Exchange losses	71	-
Other	66	82
Total non-operating expenses	431	364
Ordinary income	3,403	2,402
Extraordinary income		
Gains on sales of property, plant and equipment	4	6
Gains on sales of investment securities	0	109
Gains on sales of investment real estate	4	-
Other	0	0
Total extraordinary income	10	115
Extraordinary loss		
Losses on sales or disposal of property, plant and equipment	28	23
Impairment loss	105	25
Write-down of investments in securities	43	1
Other	12	0
Total extraordinary loss	188	50
Income before income taxes and minority interests	3,225	2,466
Income taxes	1,208	1,004
Income before minority interests	2,016	1,462
Minority interests	17	7
Net income	1,999	1,455

(Quarterly Consolidated Comprehensive Statement of Income, First Half of Fiscal Year March 2014)

(Millions of yen)

	1H of FY3/13 (April 1, 2012– September 30, 2012)	1H of FY3/14 (April 1, 2013– September 30, 2013)
Income before minority interests	2,016	1,462
Other comprehensive income		
Valuation difference on marketable securities	(296)	222
Foreign exchange adjustment provisional account	172	2,118
Total other comprehensive income	(123)	2,340
Comprehensive income	1,893	3,803
(Details)		
Comprehensive income attributable to owners of the parent	1,868	3,746
Comprehensive income attributable to minority interests	24	57

(3) Quarterly Consolidated Statements of Cash Flows

(Millions of yen)

	1H of FY3/13 (April 1, 2012– September 30, 2012)	1H of FY3/14 (April 1, 2013– September 30, 2013)
Cash flows from operating activities		
Income before income taxes and minority interests	3,225	2,466
Depreciation	1,386	1,630
Increase (decrease) in accrued bonuses to employees	124	(230)
Increase (decrease) in accrued retirement benefits to employees	57	19
Interest and dividend income	(96)	(96)
Interest expenses	144	132
(Increase) decrease in notes and accounts receivable	(2,686)	(496)
(Increase) decrease in inventories	1,196	(107)
(Increase) decrease in other current assets	(123)	(186)
Increase (decrease) in accounts payable	(274)	(94)
Increase (decrease) in other current liabilities	(374)	(744)
Other, net	60	(195)
Subtotal	2,642	2,096
Interest and dividend income received	96	97
Interest expense paid	(145)	(138)
Income taxes paid	(349)	(1,876)
Net cash provided by operating activities	2,244	179
Cash flows from investing activities		
Payments for purchase of property, plant and equipment	(1,781)	(1,729)
Proceeds from sales of property, plant and equipment	9	319
Payments for purchase of intangible fixed assets	(495)	(446)
Payments for purchase of investments in securities	(8)	(7)
Net decrease (increase) in time deposits	(177)	(164)
Other, net	200	243
Net cash used in investing activities	(2,252)	(1,784)
Cash flows from financing activities		
Increase (decrease) in short-term borrowings, net	(140)	1,505
Proceeds from long-term debt	2,280	2,190
Repayment of long-term debt	(2,081)	(2,070)
Proceeds from issuance of bonds	984	694
Payments for redemption of bonds	(614)	(664)
Cash dividends paid	(436)	(546)
Other	(54)	(72)
Net cash used in financing activities	(63)	1,035
Effect of exchange rate changes on cash and cash equivalents	29	333
Net increase (decrease) in cash and cash equivalents	(42)	(235)
Cash and cash equivalents at the beginning of the year	5,635	6,042
Cash and cash equivalents at the end of the period	5,593	5,806

(4) Notes to the Quarterly Consolidated Financial Statements**(Notes Regarding Going Concern Assumptions)**

None

(Notes Regarding Significant Changes in Shareholders' Equity)

None

(Segment Information)**I First Half of Fiscal Year March 2013 (April 1, 2012–September 30, 2012)****1. Sales and earnings or losses in reportable segments**

(Millions of yen)

	Valve Manufacturing Business	Brass Bar Manufacturing Business	Other (Note 1)	Adjustments (Note 2)	Consolidated Accounts (Note 3)
Net sales					
Sales—external customers	42,062	8,813	4,730	—	55,605
Intersegment sales/transfers	82	1,082	19	(1,184)	—
Total	42,144	9,895	4,750	(1,184)	55,605
Operating income	4,584	167	268	(1,432)	3,587

Notes: 1. The “other” category is a business segment that is not included in the reporting segments. This category includes the fitness club business, the hotel and restaurant business, and other activities.

2. The segment income adjustment totaling ¥1,432 million contains ¥1 million in eliminations for intersegment transactions and ¥1,433 million that is accounted for as companywide expenses and is not allocated to individual business segments. Companywide expenses mainly include expenses for head office general affairs and personnel, accounting, corporate planning and other departments, and also include expenses for management of the head office building.

3. Segment earnings are adjusted to match operating income in the quarterly consolidated statements of income.

2. Fixed asset impairment losses, goodwill amortization, and other items for reportable segments

Not applicable in the first half of this fiscal year.

II First Half of Fiscal Year March 2014 (April 1, 2013–September 30, 2013)**1. Sales and earnings or losses in reportable segments**

(Millions of yen)

	Valve Manufacturing Business	Brass Bar Manufacturing Business	Other (Note 1)	Adjustments (Note 2)	Consolidated Accounts (Note 3)
Net sales					
Sales—external customers	42,459	10,464	4,456	—	57,380
Intersegment sales/transfers	87	1,498	19	(1,605)	—
Total	42,546	11,963	4,476	(1,605)	57,380
Operating income	3,331	260	268	(1,395)	2,465

Notes: 1. The “other” category is a business segment that is not included in the reporting segments. This category includes the fitness club business, the hotel and restaurant business, and other activities.

2. The segment income adjustment totaling ¥1,395 million contains ¥0 million in eliminations for intersegment transactions and ¥1,395 million that is accounted for as companywide expenses and is not allocated to individual business segments. Companywide expenses mainly include expenses for head office general affairs and personnel, accounting, corporate planning and other departments, and also include expenses for management of the head office building.

3. Segment earnings are adjusted to match operating income in the quarterly consolidated statements of income.

2. Fixed asset impairment losses, goodwill amortization, and other items for reportable segments

Not applicable in the first half of the current fiscal year.