

KITZ CORPORATION

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News Release

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Announcement of Goodwill impairment loss and Revisions of FY2018 financial forecasts

KITZ Corporation (hereinafter “KITZ”) hereby announces that goodwill impairment loss (consolidated) and loss on valuation of stocks of subsidiaries and affiliates (non-consolidated) for the nine months ended December 31, 2018. Accordingly, it has revised FY2018 financial forecast (consolidated) as follows.

1. The details of goodwill impairment loss

(a) Background

KITZ acquired Cephas Pipelines Corp. (hereinafter “Cephas”), a valve manufacturer in Korea on 17th April, 2018. (Purchase price : 3,752 million yen (37,415 million won))

Cephas is a comprehensive manufacturer of butterfly valves that can be produced up to large diameters with an abundant product lineup. KITZ Group tried to build the structure for undertaking production in the most suitable locations for its operations and increase the sales of our butterfly valves through the KITZ global network.

In 2018, Korean economy rapidly slowed down and the sales of Cephas to its main customers Korean EPC (engineering companies) decreased. Thus, its profitability sharply decreased.

After reviewing the latest business situation and future cash flow projection of Cephas, KITZ decided to make goodwill impairment loss based on the Japanese accounting standard. The amount of loss is as follows.

Remaining Value of goodwill as of December 31, 2018	: 2,397 million yen
<u>Intangible Asset</u>	<u>: 88 million yen</u>
Total	: 2,485 million yen

On non-consolidated basis, the company recorded the loss on valuation of stocks of subsidiaries and affiliates (3,020 million yen) that is eliminated by consolidation.

(b) Future projection

Although Cephas is in a tough situation, KITZ group will increase the sales of butterfly valves through the KITZ global network and focus on sales of valves for ships to expand its business.

KITZ Group will maximize synergy effect between two companies in production. Cephas will be able to increase production efficiency by using “know-how” of KITZ group

2. The revision to Financial Forecast

(a) Revision to the full-year forecast for FY2018 (April 1, 2018 to March 31, 2019)

(million yen)

	Net Sales	Operating Income	Ordinary Income	Net Income Attributable to owners of the parent	Net Income Per share (Yen)
Previously announced forecast (A) (Announced on 8 th May, 2018)	132,000	11,200	10,900	7,100	73.84
Revised forecast (B)	136,000	11,700	11,600	5,300	55.12
Change (B-A)	4,000	500	700	(1,800)	
Rate of change	3.0%	4.5%	6.4%	(25.4%)	
(Reference) Result of FY2017	124,566	10,117	9,733	6,518	65.50

(b) Reason for the revision

In valve manufacturing business, net sales increased both in domestic and overseas market especially in Asia and Americas. The profitability of valve manufacturing business increased on the background of growing sales, the effect of price revision in domestic market and the cost reduction.

In FY2018, the company forecasts record-high net sales and operating profit in valve manufacturing business. On consolidated basis, it also forecast record-high operating profit and ordinary profit.

As the net income attributable to owners of the parent company decrease because of the goodwill impairment loss, the company decided to revise the full-year forecast.

Considering the above, the company decided to calculate dividend forecast based on the net income attributable to owners of the parent by excluding the effect of the goodwill impairment loss. Thus, the company change year-end dividend forecast from 11.00 yen to 12.00 yen. As a result, total dividend of FY2018 would be 20.00 yen including interim dividend. For your reference, the forecasted dividend per share 20.00 yen is record-high since going public. For the details, please find “Revision of Dividend Forecast for Fiscal Year 2018”.

(Note) The above figures are forecasts based on the information available to management as of the date here of. Actual results may differ from these forecasts due to various factors.