

This is the English translation of the original Japanese-language Business Results of KITO CORPORATION (the Company) for the fiscal year ending March 31, 2017 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, 2017 [Japan GAAP] (Consolidated)

November 14, 2016

Company	KITO CORPORATION	Listed on the TSE 1 st Section
Stock Code	6409	URL: http://kito.com/
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Expected date of filing of annual securities report:	November 14, 2016	Scheduled date to begin dividend payments: December 5, 2016
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, 2016 to September 30, 2016) of fiscal 2016 (April 1, 2016 to March 31, 2017)

(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 FY2016	22,695	(12.1)	1,437	(4.5)	959	(19.6)	364	(35.9)
1H FY2015	25,809	40.3	1,505	76.0	1,194	33.7	568	12.7

(Note) Comprehensive income 1H FY2016: (1,737) million yen —%
1H FY2015: 563 million yen 10.7%

	Net income per share		Diluted net income per share	
	Yen	Yen	Yen	Yen
1H FY2016	14.14	14.12	14.12	14.12
1H FY2015	21.65	21.58	21.58	21.58

(2) Consolidated financial position

	Total assets		Net assets		Shareholders' equity ratio	
	Million yen	Million yen	Million yen	Million yen	%	%
As of September 30, 2016	56,474	18,426	18,426	31.1	31.1	31.1
As of March 31, 2016	60,639	26,040	26,040	41.2	41.2	41.2

(Reference) Shareholders' equity As of September 30, 2016: 17,571 million As of March 31, 2016: 25,011 million

2. Dividends

	Annual dividend				
	End of 1Q	End of 2Q	End of 3Q	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
FY2015	—	14.00	—	14.00	28.00
FY2016	—	14.00	—	—	—
FY2016 (forecast)	—	—	—	—	—

(Note) Revisions from recently announced dividend forecast: Yes

With respect to the annual dividend forecast for fiscal 2016, in light of the following forecast of consolidated business results, the Company will change the 14.00 yen announced on May 13, 2016 to "Undetermined". For details, please see P4 of "(3) Explanation of performance forecasts and other forward-looking statements, including consolidated business forecasts".

3. Forecast of consolidated business results for fiscal 2016 (April 1, 2016 to March 31, 2017)

(% change from the previous 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
FY2016	53,000	(5.1)	—	—	—	—	—	—	—	—

(Note) Revisions from recently announced forecast: Yes

Net sales forecast for fiscal 2016 remains unchanged due to continuing firm demand in the Japanese and North American markets. The forecasts for operating income, ordinary income, and net income are yet to be determined due to the difficulty of making reasonable assumptions at this time. For details, please see P4 of "(3) Explanation of performance forecasts and other forward-looking statements, including consolidated business forecasts".

※ **Notes:**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in a change in the scope of consolidation): Yes

New: 1 Kito Australia Pty. Ltd. Excluded: —

(Note) For further details, refer to Contents of Attached Materials, page 6, “2. Matters regarding Summary Information (Notes)

(1) Changes in significant subsidiaries during the period.”

(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, 2016: 27,048,200 shares

As of March 31, 2016: 27,048,200 shares

(b) Number of treasury stock at the end of period

As of September 30, 2016: 6,737,016 shares

As of March 31, 2016: 787,016 shares

(c) Average number of shares over the period

1H FY2016: 25,765,351 shares

1H FY2015: 26,248,684 shares

*** Indication of the status of execution of audit procedures**

This financial summary is not subject to audit procedures pursuant to the Financial Instruments and Exchange Act of Japan. However, audit procedures were completed as of the date of the report disclosure.

*** 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 Kito. 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. Qualitative Information on Quarterly Business Results

(1) Explanation of results of operations

During the first quarter ended September 30, 2016, uncertainty about future developments continued amid concerns about economic conditions in emerging countries, including China, and the resource-producing countries as well as the unstable conditions in Europe. On the other hand, although there was concern about the risk of a downturn in profitability in Japan because of the appreciation of the yen, the recovery trend in the economy continued, supported by the demand for capital investment to replace aging facilities in both the public and private sectors. In the United States also, signs of improvement in capital investment and residential investment began to emerge, supported by strong consumer confidence.

Amid this business environment, to attain the management objectives of the Kito Group's New Five-Year Mid-Term Plan, which commenced in April 2016, the Group implemented measures to return to high levels of profitability and maximize productivity and efficiency in existing businesses to generate profits and cash flow.

As a result, consolidated net sales through the second quarter amounted to ¥22,695 million (a 12.1% decrease year on year) due in part to the appreciation of the yen against other currencies. Measures were implemented to secure profitability, including reductions in costs, and consolidated operating income amounted to ¥1,437 million (a decline of 4.5% year on year). Consolidated ordinary income was ¥959 million (a decrease of 19.6% year on year) due in part to the reporting of foreign exchange losses. Net income attributable to owners of the parent company amounted to ¥364 million (a decline of 35.9% year on year).

Results by segment are shown below. The Company's segment classification is by geographical area.

Please note that because the Group purchased all outstanding shares of Scaw Metals Pty. Ltd. in the first quarter of the current fiscal year (and changed its company name to Kito Australia Pty. Ltd. in July 2016), that company and two of its subsidiaries were included within the scope of consolidation in the "Others" segment beginning in the first quarter of the current fiscal year.

Segment	Net Sales (YoY change in %)	Operating Income (Loss) (YoY change in %)
Japan	¥11,920 million (-3.8%)	¥2,414 million (-10.0%)
The Americas	¥10,920 million (-15.2%)	¥267 million (+82.3%)
China	¥2,810 million (-35.9%)	¥303 million (-45.1%)
Asia (excluding Japan and China)	¥1,859 million (-6.7%)	¥(86) million (Compared with an operating loss of ¥198 million in the same period of the previous year)
Europe	¥622 million (-17.5%)	¥(21) million (Compared with an operating income of ¥23 million in the same period of the previous year)
Others	¥412 million (—%)	¥(14) million (—%)

Japan

In Japan, the Group identified and captured demand for such infrastructure investments as repairing existing facilities, and, although domestic sales were firm, the impact of activities to reduce overseas inventories and foreign currency fluctuations were substantial. As a result, sales in this segment were ¥11,920 million (a decrease of 3.8% year on year). Operating income amounted to ¥2,414 million (a decline of 10.0% year on year).

The Americas

In the United States, investment demand in the energy industries remained stagnant, and companies postponed their investments. Sales in the Americas as a whole amounted to ¥10,920 million (a decrease of 15.2% year on year) because of the appreciation of the yen. Operating income was ¥267 million (an increase of 82.3% year on year), due to measures to increase efficiency and growth in business in Brazil.

China

Along with deceleration in the Chinese economy, demand weakened, and sales amounted to ¥2,810 million (a decline of 35.9% year on year). The Group continued its policy of working to secure income through cost reductions, and operating income was ¥303 million (a decrease of 45.1% year on year).

Asia (excluding Japan and China)

As a result of the deceleration in the Chinese economy, regional economies were adversely affected and experienced slower growth, leading to an ebbing of investment demand. Sales amounted to ¥1,859 million (a decline of 6.7% year on year). The Kito Group continued its measures to improve profitability, and, as a result, the operating loss in this region amounted to ¥86 million (compared with an operating loss of ¥198 million in the same period of the previous year).

Europe

Uncertainty increased in the region along with trends in crude oil prices and unstable conditions in the region. Sales were ¥622 million (a decrease of 17.5%), and the operating loss amounted to ¥21 million (compared with operating income of ¥23 million in the same period of the previous year).

Others

As a result of the inclusion of Kito Australia Pty. Ltd. and its subsidiaries (acquired previously) within the scope of consolidation beginning with the first quarter of the current fiscal year, sales of this segment amounted ¥412 million and the operating loss was ¥14 million.

(2) Explanation of financial position

1. Assets, liabilities, and net assets

Assets

Total assets were ¥56,474 million on September 30, 2016, the end of the second quarter, representing a decrease of ¥4,165 million from the end of the previous consolidated fiscal year ended on March 31, 2016. This decline was due to declines of ¥1,156 million in cash and deposits, ¥2,423 million in notes and accounts receivable–trade, ¥1,298 million in merchandise and finished products, and ¥1,470 million in other current assets.

Liabilities

Total liabilities amounted to ¥38,047 million at the end of the second quarter, representing an increase of ¥3,448 million from March 31, 2016. This increase was due to a rise of ¥5,209 million in short-term loans payable and a decrease of ¥1,643 million in long-term loans payable.

Net Assets

Net assets were ¥18,426 million, which was ¥7,614 million lower than that at March 31, 2016. This was because of an increase in treasury stock of ¥5,462 million and a decrease of ¥2,067 million in the foreign currency transaction adjustment account.

2. Cash Flows

Cash and cash equivalents at the end of the quarter under review amounted to ¥7,364 million, a decrease of ¥1,157 million compared with the end of the previous fiscal year.

Cash flows from operating activities

Through the second quarter, cash flows from operating activities amounted to an inflow of ¥972 million, which was ¥905 million less year on year. This mainly reflects income before income taxes of ¥1,449 million, depreciation and amortization of ¥839 million, a decline in trade receivables of ¥1,680 million, and an increase in inventories of ¥2,656 million.

Cash flows from investing activities

Cash flows used in investing activities amounted to an outflow of ¥791 million, which was a ¥47 million larger outflow than in the same period of the previous year. This was due to expenditures of ¥519 million for the acquisition of tangible noncurrent assets, ¥462 million in payments for the acquisition of intangible noncurrent assets, and other factors.

Cash flows from financing activities

Cash flows related to financing activities amounted to an outflow of ¥928 million, representing a decline of ¥542 million in cash outflow from the same period of the previous year. This was due to the net effects of an inflow of ¥6,728 million from an increase in short-term loans payable, a repayment of ¥1,459 million of long-term loans payable, treasury share purchases of ¥5,462 million, and other factors.

(3) Explanation of performance forecasts and other forward-looking statements, including consolidated business forecasts

Net sales forecast for fiscal 2016 remains unchanged due to continuing firm demand in the Japanese and North American markets. As announced on September 26, 2016, the Company has decided to participate in the process of bid for acquisition of STAHL CraneSystems GmbH, which is located in the Federal Republic of Germany. Due to the difficulty of making reasonable assumptions of M&A related cost, such as due diligence and asset valuation, the forecasts for operating income, ordinary income, and net income are yet to be determined at this time. The Company will disclose revised forecast in a timely manner as soon as it has been determined.

The foreign currency exchange rate assumed in those forecasts is US\$1=105.0, which is unchanged from the original assumption.

	Net sales	Operating income	Ordinary income	Net income attributable To owners of parent	Net income per share
Previously announced (A)	Million yen 53,000	4,300	4,000	2,400	yen 91.39
Revised forecast (B)	53,000	—	—	—	—
Increase/Decrease (B - A)	—	—	—	—	—
Percentage change (%)	—	—	—	—	—
(Ref) FY ended March 2016	55,821	5,221	4,576	2,497	95.13

With respect to the annual dividend forecast for fiscal 2016, in light of the following forecast of consolidated business results, the Company will change the 14.00 yen announced on May 13, 2016 to “Undetermined”.

2. Matters regarding Summary Information (Notes)

(1) Changes in significant subsidiaries during the period

Due to the acquisition of all the shares of Scaw Metals Pty. Ltd. (which was renamed Kito Australia Pty. Ltd. in August 2016), that company was included within the scope of the Company's consolidated accounts.

(2) Adoption of special accounting treatment measures in the preparation of quarterly consolidated financial statements

There are no relevant matters to be noted.

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

There are no relevant matters to be noted.

(4) Additional information

The Company has applied the “Application Guidelines for the Recoverability of Deferred Tax Assets” (Corporate Accounting Standard No. 26, issued March 28, 2016) beginning in the first quarter under review.

3. Quarterly Consolidated Financial Statements

(1) Quarterly consolidated balance sheets

(Millions of yen)

	As of March 31, 2016	As of September 30, 2016
Assets		
Current assets		
Cash and deposits	8,529	7,372
Notes and accounts receivable-trade	11,761	9,337
Merchandise and finished goods	10,735	12,034
Work in process	1,599	2,588
Raw materials and supplies	1,517	1,300
Other current assets	3,522	2,052
Allowance for doubtful receivables	(66)	(65)
Total current assets	37,599	34,620
Fixed assets		
Property and equipment		
Buildings and structures (net)	4,668	4,401
Machinery, equipment, and vehicles (net)	4,861	4,513
Others (net)	2,370	2,501
Total property and equipment	11,901	11,416
Intangible assets		
Goodwill	2,901	2,441
Other intangible assets	4,995	4,912
Total intangible assets	7,896	7,353
Investments and other assets		
Investment securities	1,337	1,337
Deferred tax assets	641	625
Other investments and other assets	1,263	1,119
Total investments and other assets	3,242	3,083
Total fixed assets	23,040	21,853
Total assets	60,639	56,474

(Millions of yen)

As of March 31, 2016

As of September 30, 2016

Liabilities		
Current liabilities		
Notes and accounts payable-trade	5,301	6,023
Short-term loans payable	4,595	9,804
Accrued expenses	2,757	2,081
Income taxes payable	644	254
Provisions	833	666
Other current liabilities	939	1,707
Total current liabilities	15,072	20,537
Long-term liabilities		
Long-term loans payable	14,687	13,044
Provision for directors' retirement benefits	177	186
Net defined benefit liability	2,664	2,545
Other long-term liabilities	1,997	1,733
Total long-term liabilities	19,527	17,509
Total liabilities	34,599	38,047
Net assets		
Shareholders' equity		
Capital stock	3,976	3,976
Capital surplus	5,226	5,226
Retained earnings	15,279	15,276
Treasury stock	(354)	(5,816)
Total shareholders' equity	24,128	18,663
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	0	0
Deferred gains or losses on hedges	(132)	(130)
Foreign currency translation adjustment	1,512	(554)
Remeasurements of defined benefit plans	(496)	(405)
Total accumulated other comprehensive income	883	(1,091)
Subscription rights to shares	36	42
Non-controlling interests	991	812
Total net assets	26,040	18,426
Total liabilities and net assets	60,639	56,474

(2) Quarterly consolidated statements of income/Quarterly consolidated statements of comprehensive income
Quarterly consolidated statements of income

(Millions of yen)

	1H FY2015 (April 1, 2015 to September 30, 2015)	1H FY2016 (April 1, 2016 to September 30, 2016)
Net sales	25,809	22,695
Cost of sales	16,796	14,157
Gross profit	9,013	8,537
Selling, general, and administrative expenses	7,508	7,100
Operating income	1,505	1,437
Non-operating income		
Debt statute of limitations gain	—	20
Other	96	66
Total non-operating income	96	87
Non-operating expenses		
Interest expense	249	192
Foreign exchange losses	92	282
Other	65	89
Total non-operating expenses	407	565
Ordinary income	1,194	959
Extraordinary income		
Gain on negative goodwill	—	489
Total extraordinary income	—	489
Income before income taxes	1,194	1,449
Income taxes	593	1,070
Net income for the period	600	378
Net income attributable to non-controlling interests	31	14
Net income attributable to owners of parent	568	364

Quarterly consolidated statements of comprehensive income

(Millions of yen)

	1H FY2015 (April 1, 2015 to September 30, 2015)	1H FY2016 (April 1, 2016 to September 30, 2016)
Net income for the period	600	378
Other comprehensive income		
Valuation difference on available-for-sale securities	1	0
Deferred gains or losses on hedges	(31)	1
Foreign currency translation adjustment	(22)	(2,210)
Remeasurements of defined benefit plans, net of tax	15	92
Total other comprehensive income	(37)	(2,116)
Quarterly comprehensive income	563	(1,737)
(Comprehensive income attributable to):		
Owners of the parent	517	(1,610)
Non-controlling interests	45	(127)

(3) Quarterly consolidated statements of cash flows

(Millions of yen)

	1H FY2015 (April 1, 2015 to September 30, 2015)	1H FY2016 (April 1, 2016 to September 30, 2016)
Cash flows from operating activities		
Income before income taxes	1,194	1,449
Depreciation and amortization	896	839
Depreciation of goodwill	195	168
Gain on negative goodwill	—	(489)
Changes in net defined benefit liability	(6)	71
Interest and dividend income	(15)	(8)
Interest expense	249	192
Foreign exchange (gains) losses	(2)	299
Changes in trade receivables	2,286	1,680
Changes in inventories	(1,608)	(2,656)
Changes in trade payables	497	793
Changes in accrued expenses	(525)	(613)
Others	(182)	102
Subtotal	2,980	1,829
Cash received from interest and dividends	4	8
Interest paid	(241)	(200)
Income taxes paid	(864)	(665)
Net cash provided by operating activities	1,878	972
Cash flows from investing activities		
Payments for the acquisition of property and equipment	(603)	(519)
Payments for the acquisition of intangible fixed assets	(158)	(462)
Purchase of investments in subsidiaries resulting in change in the scope of consolidation	—	33
Others	17	157
Net cash used in investing activities	(744)	(791)
Cash flows from financing activities		
Proceeds from short-term loans payable	1,782	6,728
Repayments of short-term loans payable	(1,445)	(1,181)
Proceeds from long-term loans payable	1,000	900
Repayments of long-term loans payable	(1,400)	(1,459)
Redemption of bonds	(1,000)	—
Cash dividends paid	(326)	(366)
Cash dividends paid for non-controlling interests	(69)	(50)
Proceeds from sales of treasury stocks	10	—
Purchase of treasury stock	—	(5,462)
Others	(21)	(35)
Net cash used in financing activities	(1,470)	(928)
Effect of exchange rate changes on cash and cash equivalents	(45)	(410)
Net decrease in cash and cash equivalents	(381)	(1,157)
Cash and cash equivalents at the beginning of the period	9,777	8,521
Cash and cash equivalents at the end of the period	9,395	7,364

(4) Notes to quarterly consolidated financial statements
(Notes regarding ongoing concern assumption)

There are no relevant matters to be noted.

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

The Kito Group, based on a decision of its Board of Directors on September 26, 2016, purchased treasury shares of 5,950,000, in the amount of ¥5,462 million, increased to ¥5,816 million at the end of the second quarter. This round of repurchases was concluded on September 27, 2016.

(Segment information)

I. First half of the fiscal year ended March 31, 2016 (April 1, 2015 to September 30, 2015)

1. 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			
Net sales								
Net sales to outside customers	6,048	12,853	4,159	1,993	754	25,809	—	25,809
Net internal sales or transfers among segments	6,343	17	226	—	—	6,586	(6,586)	—
Total	12,391	12,870	4,385	1,993	754	32,396	(6,586)	25,809
Segment income or segment loss	2,682	146	551	(198)	23	3,206	(1,701)	1,505

Notes: 1. The segment income or loss adjustment of ¥(1,701) million includes transactions offset among segments of ¥(594) million and Company-wide expenses that are not allocated to respective reportable segments of ¥(1,106) 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 or loss is reconciled with the operating income listed in the quarterly consolidated financial statements.

2. Information on the impairment loss or goodwill of fixed assets of reportable segments

Not applicable.

II. First half of the fiscal year ending March 31, 2017 (April 1, 2016 to September 30, 2016)

1. 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)	Consolidate d financial statement amount (Note 2)
	Japan	The Americas	China	Asia	Europe	Others			
Net sales									
Net sales to outside customers	6,354	10,885	2,561	1,859	621	412	22,695	—	22,695
Net internal sales or transfers among segments	5,566	34	248	—	0	—	5,849	(5,849)	—
Total	11,920	10,920	2,810	1,859	622	412	28,545	(5,849)	22,695
Segment income or segment loss	2,414	267	303	(86)	(21)	(14)	2,863	(1,425)	1,437

Notes: 1. The segment income or loss adjustment of ¥(1,425) million includes transactions offset among segments of ¥(65) million and Company-wide expenses that are not allocated to respective reportable segments of ¥(1,360) 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 or loss is reconciled with the operating income listed in the quarterly consolidated financial statements.

2. Information on the impairment loss or goodwill of fixed assets of reportable segments

As a result of the acquisition of all the shares of Scaw Metals Pty. Ltd. in the first quarter, the Company reported ¥489 million in negative goodwill. The gains from the emergence of negative goodwill were not apportioned to reporting segments.

3. Information on the change of reportable segments

As a result of the acquisition of all the shares of Scaw Metals Pty. Ltd. and its two subsidiaries in the first quarter, and the consolidation of all the three entities in the consolidated balance sheets as of June 30, 2016, the Company added “Others” to reporting segments.