Fiscal Year ended October 31, 2016
Financial Statements Bulletin (Japan GAAP)

December 9, 2016

Listed Company Name	**Kanamoto Co., Ltd.**	
Company Code Number	**9678**	
Listing Exchanges	**Tokyo Stock Exchange, Sapporo Stock Exchange**	
URL	http://www.kanamoto.co.jp	
Representative	**Tetsuo Kanamoto**	President and CEO
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Scheduled date for Regular General Meeting of the Shareholders	January 26, 2017
Scheduled date for commencement of dividend payments	January 27, 2017
Scheduled date for submission of Annual Securities Report	January 26, 2017
Preparation of Supplementary Explanatory Materials:	Yes
Earnings Briefings (For institutional investors and analysts):	Yes

(Numbers less than one million yen have been rounded down)

1. Consolidated Operating Results for the Fiscal Year ended October 31, 2016

(November 1, 2015 – October 31, 2016)

(1) Consolidated Operating Results

(Percentages show the change from the prior year)

	Net Sales		Operating Income		Ordinary Income		Profit Attributable to Owners of Parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Fiscal year ended October 31, 2016	144,870	8.7	15,134	-7.0	14,405	-10.9	8,098	-15.3
Fiscal year ended October 31, 2015	133,292	6.2	16,270	-1.1	16,164	0.5	9,557	2.8

(Note) Comprehensive income (millions of yen)
Fiscal year ended October 31, 2016 8,818 (-10.4%)
Fiscal year ended October 31, 2015 9,845 (-3.1%)

	Earnings per Share	Earnings per Share on a Fully Diluted Basis	ROE	Ordinary Income to Total Assets	Operating Margin
	Yen	Yen	%	%	%
Fiscal year ended October 31, 2016	229.16	–	11.1	6.8	10.4
Fiscal year ended October 31, 2015	266.27	–	14.4	8.3	12.2

(Reference) Investment profit or loss accounted for by the equity method (millions of yen)
Fiscal year ended October 31, 2016 –
Fiscal year ended October 31, 2015 –

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio	Net Assets per Share
	Millions of yen	Millions of yen	%	Yen
As of October 31, 2016	220,836	81,434	34.7	2,169.93
As of October 31, 2015	202,919	71,998	34.3	1,969.16

(Reference) Equity (millions of yen)
As of October 31, 2016 76,683
As of October 31, 2015 69,588

(3) Consolidated Cash Flows

	Net cash provided by (used in) operating activities	Net cash provided by (used in) investing activities	Net cash provided by (used in) financing activities	Cash and Cash Equivalents at End of Period
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Fiscal year ended October 31, 2016	26,618	-8,940	-20,726	33,069
Fiscal year ended October 31, 2017	33,509	-4,488	-24,857	36,150

2. Dividends

	Annual Dividends per Share					Dividends in Total (Full Year)	Dividend Payout Ratio (Consolidated)	Dividends on Net Assets (Consolidated)
	End of first quarter	End of second quarter	End of third quarter	Year-end	Full-year			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
Fiscal year ended October 31, 2015	–	15.00	–	20.00	35.00	1,247	13.1	1.9
Fiscal year ended October 31, 2016	–	15.00	–	30.00	45.00	1,590	19.6	2.2
Fiscal year ending October 31, 2017 (projected)	–	15.00	–	35.00	50.00		18.7	

3. Projected Consolidated Operating Results for the Fiscal Year Ending October 31, 2017

(November 1, 2016 - October 31, 2017)

(Percentages show the change from the prior year)

	Net Sales		Operating Income		Ordinary Income		Profit Attributable to Owners of Parent		Earnings per Share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Interim period	77,000	12.2	8,410	-2.3	8,190	-0.7	4,950	-0.4	140.07
Full year	153,000	5.6	15,820	4.5	15,580	8.2	9,460	16.8	267.69

Notes

(1) Changes in material subsidiaries during the period under review (changes in specific subsidiaries in conjunction with a change in the scope of consolidation): No

Company newly included	–
Company newly excluded	–

(2) Changes in accounting principles, changes in accounting estimates and retrospective restatements
- (a) Changes in accounting policy in conjunction with revision of accounting standards: Yes
- (b) Changes other than the above: No
- (c) Changes in accounting estimates: No
- (d) Retrospective restatements: No

(3) Number of shares issued (common shares)

(a) Number of shares outstanding at the end of the period (including treasury shares)

As of October 31, 2016	36,092,241 shares
As of October 31, 2015	36,092,241 shares

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

As of October 31, 2016	753,079 shares
As of October 31, 2015	752,941 shares

(c) Average number of shares outstanding during the period

Fiscal year ended October 31, 2016	35,339,216 shares
Fiscal year ended October 31, 2015	35,894,640 shares

(Reference) Summary of Non-Consolidated Operating Results

1. Non-Consolidated Operating Results for the Fiscal Year Ended October 31, 2016

(November 1, 2015 – October 31, 2016)

(1) Non-Consolidated Operating Results (Percentages show the change from the prior year)

	Net Sales		Operating Income		Ordinary Income		Profit	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Fiscal year ended October 31, 2016	103,777	1.7	11,864	-15.9	12,132	-13.0	6,840	-18.0
Fiscal year ended October 31, 2015	102,029	8.2	14,108	5.0	13,948	2.9	8,344	2.0

	Earnings per Share	Earnings per Share on a Fully Diluted Basis
	Yen	Yen
Fiscal year ended October 31, 2016	193.56	–
Fiscal year ended October 31, 2015	232.47	–

(2) Non-Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio	Net Assets per Share
	Millions of yen	Millions of yen	%	Yen
As of October 31, 2016	178,796	71,665	40.1	2,027.93
As of October 31, 2015	170,894	65,948	38.6	1,866.15

(Reference) Equity (millions of yen)
As of October 31, 2016 71,665
As of October 31, 2015 65,948

2. Projected Non-Consolidated Operating Results for the Fiscal Year Ending October 31, 2017

(November 1, 2016 - October 31, 2017)

(Percentages show the change from prior year)

	Net Sales		Ordinary Income		Profit		Earnings per Share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Interim period	52,100	-0.7	6,250	-18.4	3,990	-7.1	112.91
Full year	104,300	0.5	12,130	-0.0	7,740	13.2	219.02

Note: Disclosure concerning implementation of audit procedures

This financial report is exempt from audit procedures based on the Financial Instruments and Exchange Act. At the time of disclosure of this financial report, the Company is in the process of implementing the audit procedures for its consolidated financial statements.

Note: Explanation concerning appropriate use of the projected operating results and other items to note

(Note concerning forward-looking statements)

The forward-looking statements, including business results forecasts, contained in these materials are based on information currently available to the Company and on certain assumptions deemed to be reasonable. The Company does not guarantee the achievement of the projections. Actual operating results may differ substantially due to a number of factors. Please refer to "1. Analysis of Operating Results and Financial Position (1) Analysis of Operating Results" on Page 6 of the Attachments for the conditions used as assumptions for the projected operating results and matters to note before using the projected operating results.

(Methods of obtaining the supplementary materials and the content of the earnings briefings)

The Company plans to hold a meeting for institutional investors and analysts on December 12, 2016. Presentation materials will be available on the Company's website after the meeting.

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1. Analysis of Operating Results and Financial Position

(1) Analysis of Operating Results

a) Summary of consolidated fiscal year operating results (From November 1, 2015 to October 31, 2016)

In the fiscal year under review, Japan's economy maintained a modest recovery trend, supported by the continuation of the government's economic and monetary policy measures. However, we must remain wary about conditions, given the economic slowdown in emerging countries, as well as the softness in the stock market and yen appreciation spurred by fears of a global economic slowdown due to the UK's vote to leave the EU.

In the construction industry related to the Kanamoto Group, private sector construction investment was solid both for building and capital investment. Moreover, demand related to disaster recovery and the Tokyo Olympics and Paralympics was strong, but the management environment was challenging due to overall weakness in construction demand, as indicated by the decline in public sector investment in outlying areas.

Given such circumstances, the Kanamoto Group moved forward with key initiatives which were based on various measures in its Medium-term Management Plan (fiscal 2014 to fiscal 2016). In addition to expanding its base in the Tokyo metropolitan area and other locations in which public and private sector demand is concentrated, the Company took steps to augment and expand its domestic base of operations, including making NISHIKEN CO., LTD. (Kurume City, Fukuoka Prefecture), the largest construction equipment rental firm in the Kyushu region, a subsidiary in March 2016.

Consequently, in the fiscal year ended October 31, 2016 net sales rose 8.7% from the prior consolidated fiscal year level to ¥144,870 million. On the earnings front, operating income decreased 7.0% year on year to ¥15,134 million and ordinary income fell 10.9% to ¥14,405 million, reflecting the increased burden for depreciation and amortization resulting from increases in assets such as rental assets. Profit attributable to owners of parent decreased 15.3% over the prior consolidated fiscal year to ¥8,098 million.

[Operating Results for the Fiscal Year ended October 31, 2016]

(Percentages show the change from the prior year)

		Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
		Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Consolidated	Year under review	144,870	8.7	15,134	-7.0	14,405	-10.9	8,098	-15.3
	Prior year	133,292	6.2	16,270	-1.1	16,164	0.5	9,557	2.8
Non-consolidated	Year under review	103,777	1.7	11,864	-15.9	12,132	-13.0	6,840	-18.0
	Prior year	102,029	8.2	14,108	5.0	13,948	2.9	8,344	2.0

Results for each of the Company's business segments were as follows.

b) Summary of consolidated operating results by business segment

[Business related to the Construction Equipment Rental Division]

In the construction-related business that is Kanamoto's core business, construction demand was brisk primarily for recovery and restoration in the Tohoku Region and infrastructure refurbishment ahead of the Tokyo Olympics and Paralympics. In other regions, however, the operating environment grew more severe as demand for construction equipment rentals was uneven in some regions during the fiscal year under review as public works projects were put off.

In these conditions, the Group focused all of its resources on supporting reconstruction efforts by strengthening affiliations with Group companies and efficiently allocating management resources between companies to participate in disaster recovery efforts following the earthquake in the Kumamoto region and reconstruction after torrential rain storms in Hokkaido.

By region, sales in this business fluctuated as follows: down 0.5% in the Hokkaido Region, up 2.6% in the Tohoku Region, up 6.1% in the Kanto & Koushinetsu Region, down 1.1% in the Kansai & Chubu Region, and up 89.9% in the Kyushu & Okinawa Region. The inclusion of NISHIKEN CO., LTD. in the scope of consolidation led to a significant increase in net sales in the Kyushu Region, where there had been little previous expansion of bases.

Sales of used construction equipment slipped 4.1% versus the previous fiscal year, reflecting the systematic sale of equipment that had been in service for a certain number of years to maintain a proper composition of assets.

Reflecting these factors, the Kanamoto Group posted net sales in the construction-related businesses of ¥131,208 million, an increase of 6.2% year-on-year, and operating income of ¥14,057 million, a decrease of 9.8%.

[Other businesses]

In the Company’s other businesses, sales were steady at those related to both the Steel Sales Division and the Information Products Division. This, coupled with the addition of NISHIKEN’s businesses such as welfare-related business, resulted in a 40.6% increase in net sales from the same period of the prior consolidated fiscal year to ¥13,662 million and a 118.8% increase in operating income to ¥660 million.

< Change in number of branches >

The Company opened eight new branches and closed one branch.

New branches: Kumagaya Branch (Kumagaya City, Saitama Prefecture), Fukushima Machinery Maintenance Center (Koriyama City, Fukushima Prefecture), Okegawa-Kitamoto Branch (Kitamoto City, Saitama Prefecture), Chusan Branch (Zentsuji City, Kagawa Prefecture), Shinjo Branch (Shinjo City, Yamagata Prefecture), Yamanashi-Minami Branch (Minamikoma-gun, Yamanashi Prefecture), Ishikari Branch (Ishikari City, Hokkaido), Kashiwazaki Branch (Kashiwazaki City, Niigata Prefecture)

Closed branch: Yubari Machinery Maintenance Center (Yubari City, Hokkaido)

c) Outlook for the Next Fiscal Year (Fiscal year ending October 2017)

In the next fiscal year, we expect demand for construction equipment rentals to be solid due to the shinkansen extension project and reconstruction and recovery work following torrential rains in Hokkaido, earthquake disaster reconstruction work in the Tohoku region, infrastructure-related construction ahead of the Tokyo Olympics and Paralympics, other private-sector redevelopment projects in the Tokyo metropolitan area and reconstruction and recovery work following earthquakes in Kumamoto and other regions. However, we expect the overall management environment to remain harsh in light of delays in starting construction projects as a result of labor shortages and skyrocketing material and equipment costs.

Looking forward, while continuing to support the disaster restoration and revitalization projects in the specific regions, we aim to enhance and grow our domestic sales base with a focus on inter-regional cooperation by promoting further expansion of branches, particularly in areas where we are yet to open branches, including the Tokyo metropolitan area and the greater Kanto region, in accordance with key measures of the medium-term corporate management plan BULL 53.

Regarding overseas business expansion, the Group will continue actively expanding and strengthening its existing branches in cooperation with local partner companies in China (Shanghai and Hong Kong), Singapore, Thailand, Indonesia, Vietnam, and the Philippines.

In addition, to continuing to build corporate value, the Company plans to concentrate management resources in fields in which it can leverage the Group’s comprehensive capabilities.

The Company aims to build a structure to facilitate the fortification of its financial position and earnings strength.

In light of the aforementioned measures, the Kanamoto Group aims for net sales of ¥153,000 million, a growth of 5.6% year-on-year, operating income of ¥15,820 million, an increase of 4.5%, ordinary income of ¥15,580 million, a rise of 8.2%, and profit attributable to owners of parent of ¥9,460 million, an improvement of 16.8%.

(2) Analysis of Financial Position

a) Financial position

Total assets at the end of the consolidated fiscal year under review stood at ¥220,836 million, an increase of ¥17,916 million compared with the end of the prior consolidated fiscal year. This was primarily due to the inclusion of NISHIKEN CO., LTD. to the scope of consolidation, as well a ¥7,611 million increase in rental equipment in conjunction with operating activities, a ¥2,051 million increase in construction machine parts, a ¥3,276 million increase in land and a ¥2,581 million increase in buildings and structures.

Total liabilities were ¥139,402 million, an increase of ¥8,480 million compared with the end of the prior consolidated fiscal year. This was primarily due to the inclusion of NISHIKEN CO., LTD. to the scope of consolidation, as well as a ¥7,029 million increase in long-term loans payable and a ¥1,846 million increase in accounts payable - other, tempered by a ¥1,659 million decrease in income taxes payable.

Total net assets totaled ¥81,434 million, ¥9,435 million higher than at the end of the prior consolidated fiscal year. This chiefly reflects profit attributable to owners of parent of ¥8,098 million and non-controlling interests of ¥2,341 million. Meanwhile, the Company posted ¥1,236 million in cash dividends.

b) Consolidated cash flows

(Unit: Millions of yen)

	FY Ended October 2015 (Prior consolidated fiscal year)	FY Ended October 2016 (Consolidated fiscal year under review)	Change from prior year
Net cash provided by (used in) operating activities	33,509	26,618	-6,890
Net cash provided by (used in) investing activities	-4,488	-8,940	-4,452
Net cash provided by (used in) financing activities	-24,857	-20,726	4,131
Net increase (decrease) in cash and cash equivalents	4,169	-3,080	-7,250
Cash and cash equivalents at beginning of period	31,980	36,150	4,169
Cash and cash equivalents at end of period	36,150	33,069	-3,080

The balance of cash and cash equivalents ("cash") on a consolidated basis at the end of the consolidated fiscal year under review was ¥33,069 million, a decrease of ¥3,080 million compared with the end of the prior consolidated fiscal year. Cash flows for the consolidated fiscal year under review are discussed below.

(Net cash provided by (used in) operating activities)

Cash generated from operating activities stood at ¥26,618 million, a decrease of 20.6% from the prior consolidated fiscal year.

This was primarily attributable to the following: income before income taxes and minority interests of ¥13,844 million and depreciation of ¥22,097 million, as well as income taxes paid of ¥6,970 million, expenditure by the assets acquisition for rentals of ¥3,034 million and increase (decrease) in notes and accounts payable - trade of ¥1,654 million.

(Net cash provided by (used in) investing activities)

Cash flow utilized in investing activities was ¥8,940 million, compared with ¥4,488 million in the prior consolidated fiscal year.

This mainly reflected the purchase of shares of subsidiaries resulting in change in scope of consolidation of ¥5,806 million and the purchase of property, plant and equipment of ¥2,729 million.

(Net cash provided by (used in) financing activities)

Cash flow used for financing activities was ¥20,726 million, compared with cash flow used in financing activities in the prior consolidated fiscal year of ¥24,857 million.

This mainly reflected ¥21,304 million for repayments of installment payables, ¥14,637 million for repayments of long-term loans payable, ¥1,967 million for repayments of lease obligations, and ¥1,235 million in cash dividends paid.

The following are cash flow indicator trends for the Kanamoto Group.

	FY ended October 2013	FY ended October 2014	FY ended October 2015	FY ended October 2016
Equity ratio (%)	32.2	33.6	34.3	34.7
Equity ratio on a market capitalization basis (%)	56.4	76.3	42.7	40.4
Ratio of interest-bearing liabilities to operating cash flow (year)	3.9	3.5	2.7	3.8
Interest coverage ratio (times)	19.1	25.6	40.4	40.8

(Notes) Equity ratio: Equity / Total assets

Equity ratio on a market capitalization basis:
Shareholders' equity on a market capitalization basis / Total assets

Ratio of interest-bearing liabilities to operating cash flow:
Interest-bearing liabilities / Cash flows from operating activities

Interest coverage ratio: Cash flows from operating activities / Interest payments

* All indicators are calculated using financial values on a consolidated basis.
* Total market capitalization is calculated by multiplying the closing share price at the end of the fiscal year by the number of shares outstanding (after deducting treasury shares) at the end of the fiscal year.
* Cash flows from operating activities in the consolidated statements of cash flows are used for operating cash flow in the table above. Interest-bearing liabilities include all liabilities posted to the consolidated balance sheets that incur interest. Interest expenses in the consolidated statements of cash flows are used for interest payments in the table above.

(3) Basic Policy Concerning Distribution of Earnings and Dividends for the Consolidated Fiscal Year under Review and Next Consolidated Fiscal Year

Distribution of earnings to shareholders is a key management issue. The dividend policy of Kanamoto is to provide shareholders with a consistent and stable dividend regardless of the business environment. Furthermore, the Company aims to implement profit distribution in line with earnings performance. Moreover, it is the basic policy of Kanamoto to sufficiently build up its retained earnings, which is essential for strengthening financial position and to implement aggressive business expansion.

For the fiscal year ended October 2016, the Company plans a year-end dividend of ¥30 and an annual dividend of ¥45 per share (including an interim dividend of ¥15 per share). Meanwhile, the Company plans an annual dividend payout for the fiscal year ending October 2017 of ¥50 per share (which includes an interim dividend of ¥15).

Furthermore, the Company aims to allocate retained earnings to capital investments, including facilities investment for rental equipment and other assets. Note that the company is putting a share buyback program into place to facilitate the flexible implementation of capital policies.

(4) Business Risks and Other Risks

This section has been omitted as there were no significant changes from the Business Risks and Other Risks section of the annual securities report filed with the MOF on January 28, 2016.

The annual securities report can be viewed by visiting the following URL.
https://www.kanamoto.ne.jp/report/index.html

2. Current Conditions of the Company’s Group

The Kanamoto Group is comprised of a total of 20 companies—Kanamoto, 9 consolidated subsidiaries, 7 non-consolidated subsidiaries, and 3 affiliates.

Explanation of main business activities and positioning of each group company is as follows.

< Business related to the Construction Equipment Rental Division >

Kanamoto, Daiichi Kikaisangyo Co., Ltd., Kanki Corporation, and NISHIKEN CO., LTD. are engaged in the rental and sales of construction equipment. Assist Co., Ltd. and its affiliate Asahi Rentax Co., Ltd. deal in the rental and sales of furniture, fixtures and safety products. Kanatech Co., Ltd. engages in the design and sales of modular housing units for temporary use. Kyushu Kensan Co., Ltd. deals in rental and sales of construction equipment centered on foundation equipment. Toyo Industry Co., Ltd. handles the rental and sales of equipment related to shield tunneling. Unite Co., Ltd. handles the rental and sales of road construction equipment and the carries out road construction. KG Flowtechno Co., Ltd. engages in the rental, design, manufacturing, and sales of specialty equipment that is used mainly for ground improvement and the construction of underground structures.

Outside Japan, construction equipment rental and sales are carried out by Shanghai Jinheyuan Engineering Construction Co., Ltd. and Shanghai KG Machinery Co., Ltd., a subsidiary of KG Flowtechno Co., Ltd., in Shanghai, China, by KANAMOTO (HK) CO., LTD. in Hong Kong, China, by Kanamoto & JP Nelson Equipment (S) PTE. Ltd. in Singapore, by PT Kanamoto Indonesia in Indonesia, by SIAM KANAMOTO LTD. in Thailand, by KANAMOTO FECON HASSYU CONSTRUCTION EQUIPMENT RENTAL JSC in Vietnam and by KNK MACHINERY & EQUIPMENT CORPORATION in the Philippines.

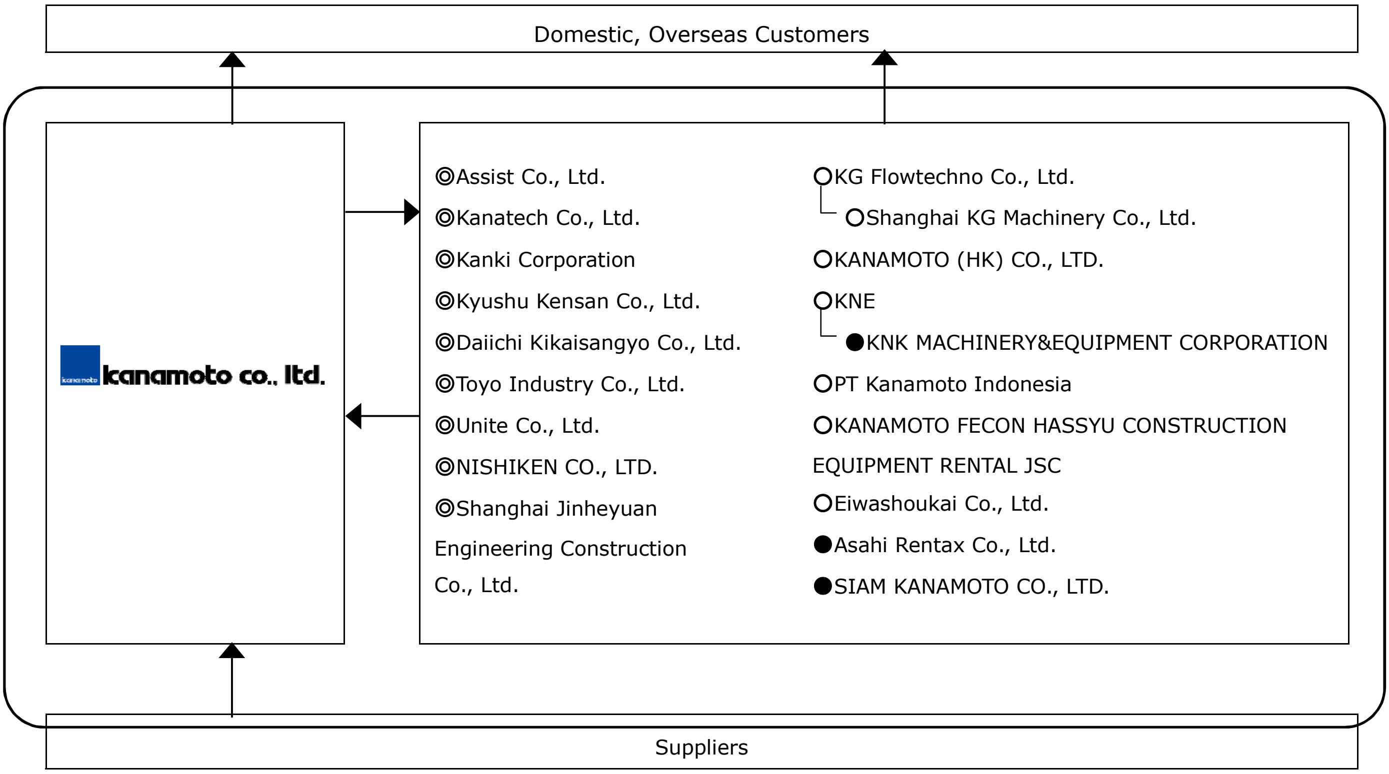
These group companies also lease rental equipment from Kanamoto when necessary. In the same fashion, Kanamoto leases rental equipment from these group companies, which it in turns leases to other companies. Kanamoto purchases modular housing units for temporary use from Kanatech Co., Ltd.

< Other businesses >

This segment mainly consists of the business related to the Steel Sales Division, the business related to the Information Products Division, the welfare-related business and Other businesses.

In the business related to the Steel Sales Division, Kanamoto sells construction materials, including steel products. In addition, in the business related to the Information Products Division and Other businesses, the Company handles the rental and sales of computers and peripherals, including workstations and servers. In the welfare-related business, NISHIKEN CO., LTD. rents and sells nursing care products.

The following diagram outlines our operating companies and relationships.



Notes:

(1) The equity method is not applied to non-consolidated subsidiaries and affiliates.

(2) → indicates the flow of rental services and products provided

(3) ◎ indicates consolidated subsidiaries, ○ indicates non-consolidated subsidiaries, ● indicates affiliates.
Please refer to the aforementioned text for details.

3. Management Policies

(1) Basic Management Policies

The Kanamoto Group believes that seeking innovation, maintaining a dynamic corporate culture and continually pushing businesses forward, by regarding "customers' interests as Kanamoto's interests," is the best way to meet the expectations of shareholders and group stakeholders and ensure earnings growth. Through this philosophy, Kanamoto practices group management with the objective of being a corporate group that can make a valuable and tangible contribution to society.

(2) Management Indicators Established as Objectives

To improve the value of its shares in the medium and long term, the Group targets an ROE (return on equity) of more than 10% by improving earnings in each business segment, and by enhancing its capital efficiency. Moreover, in the mainstay construction equipment rental business, given the high weighting of fixed assets, the Company aims to further improve its shareholders' equity ratio by setting its target at 45% and above.

The Company is also employing ROI (return on investment) and EBITDA+ (earnings before interest, taxes, depreciation and administration) which is a key indicator Kanamoto has been employing for some time to measure asset efficiency, as a key indicator to determine whether to make new capital investments, including those for rental equipment.

Meanwhile, heavy emphasis is being placed on consolidated net sales and operating income, which yardsticks for corporate size and earnings strength, as the smooth growth of net sales and operating income is an indicator of corporate growth potential.

(3) Medium- to Long-term Corporate Management Strategy

The Company's medium- to long-term corporate management strategy is included in BULL 55, the long-term vision, and BULL 53, the medium-term corporate management plan. In accordance with this plan, Kanamoto plans to aggressively expand its operations base in the Kanto & Koshinetsu region, the home to major projects such as the maglev bullet train and infrastructure development and redevelopment projects related to the Tokyo 2020 Summer Olympic/Paralympic Games, and also aims to build a structure that will enable the Company to bolster earnings in the Tokyo metropolitan area, in line with medium- to long-term demand forecasts. In addition, as a long-term growth engine, Kanamoto aims to strategically move forward with the development of an overseas base for operations, mainly in the ASEAN nations, where strong underlying demand is potential long-term growth engine. The Company will also proactively participate in innovation fields, such as METI's i-Construction project to raise productivity on construction sites.

Meanwhile, to enhance risk resilience to adapt to changes in the business environment, Kanamoto aims to build a management system that will facilitate sustainable growth in the long term by further improving its earnings management and strengthening its corporate governance system.

(4) Issues to be Addressed by the Company

The core business of the Kanamoto Group is construction equipment rental. Accordingly, the Company must build a strong earnings structure and a detailed operating structure by pursuing business domains, asset-ownership scale, and an asset portfolio structure, in which earnings are not substantially impacted by the size of domestic construction investments.

a) Strengthen human resources training, the group, and its alliances

In the construction equipment rental industry, during the next few years, intensified competition among companies in the industry is likely to reveal a clear distinction among companies and result in poor performers falling to the wayside. Kanamoto plans to train its employees so that they will possess the knowledge and skills suitable for people working at a leading company in the construction equipment rental industry. The Company also plans to train human resources that can immediately respond to business expansion in Japan and abroad. Moreover, to expand business domains and areas, it is essential that Kanamoto fortify Group company alliances and the relationships with alliance companies, based on which Kanamoto will fully exert its comprehensive corporate vitality.

b) Reinforce Kanamoto's financial strategy

Kanamoto is taking steps to ensure timely and optimal funds procurement, while giving consideration to equipment plans including purchases of rental equipment assets and corporate facilities. At the same time, the Company aims to focus on improving its financial position, and reducing interest-bearing debt and improving capital efficiency as much as possible, by incorporating measures, including the liquidation of assets.

c) Continuous cost reductions

When introducing assets the Company utilizes a full-fledged benchmark system, and further strives to maintain asset value by optimizing asset maintenance costs based on its rental assets operating policies.

d) Strengthen overseas branch management

In line with the promotion of its overseas development, Kanamoto aims to enhance its marketing and sales strategies and also plans to strengthen its management systems in areas such as asset management and operations management. The Company also plans to quickly prepare a system for the positioning and training of human resources.

4. Basic Policy Regarding Selection of Accounting Standards

The Kanamoto Group plans to prepare its consolidated financial statements in accordance with generally accepted accounting practices in Japan, taking into account comparability of consolidated financial statements between different accounting periods and against different companies.

Note that it is the policy of the Kanamoto Group to adopt IFRS standards depending on conditions and trends in Japan and aboard.

5. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Unit: Millions of yen)

		Prior consolidated fiscal year (As of October 31, 2015)		Current consolidated fiscal year (As of October 31, 2016)
Assets				
Current assets				
Cash and deposits		35,900		33,209
Notes and accounts receivable - trade	*4	34,961	*4	36,502
Electronically recorded monetary claims - operating		2,290		3,718
Securities		350		200
Merchandise and finished goods		672		693
Raw materials and supplies		272		379
Construction machine parts		8,214		10,265
Deferred tax assets		610		604
Other		623		1,059
Allowance for doubtful accounts		-701		-689
Total current assets		83,195		85,945
Non-current assets				
Property, plant and equipment				
Rental equipment		164,914		189,549
Accumulated depreciation		-97,573		-114,596
Rental equipment, net		67,341		74,953
Buildings and structures		25,840		31,029
Accumulated depreciation		-16,275		-18,883
Buildings and structures, net		9,564		12,145
Machinery, equipment and vehicles		5,714		6,999
Accumulated depreciation		-4,965		-5,963
Machinery, equipment and vehicles, net		749		1,036
Land		32,354		35,630
Other		2,539		2,343
Accumulated depreciation		-1,112		-1,332
Other, net		1,426		1,011
Total property, plant and equipment		111,436		124,776
Intangible assets				
Goodwill		–		628
Other		316		664
Total intangible assets		316		1,292
Investments and other assets				
Investment securities	*1	6,317	*1	6,911
Deferred tax assets		285		419
Other		2,008		2,216
Allowance for doubtful accounts		-528		-406
Allowance for investment loss		-110		-320
Total investments and other assets		7,972		8,821
Total non-current assets		119,724		134,891
Total assets		202,919		220,836

(Unit: Millions of yen)

	Prior consolidated fiscal year (As of October 31, 2015)	Current consolidated fiscal year (As of October 31, 2016)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	27,775	26,986
Short-term loans payable	727	1,194
Current portion of bonds	–	40
Current portion of long-term loans payable	12,550	13,951
Lease obligations	1,585	1,357
Income taxes payable	3,711	2,052
Provision for bonuses	856	1,091
Accounts payable - other	19,233	21,079
Other	3,093	2,399
Total current liabilities	69,534	70,152
Non-current liabilities		
Long-term loans payable	19,614	26,644
Lease obligations	1,831	2,700
Long-term accounts payable - other	39,254	38,870
Provision for directors' retirement benefits	–	94
Net defined benefit liability	–	234
Asset retirement obligations	317	384
Other	368	321
Total non-current liabilities	61,387	69,249
Total liabilities	130,921	139,402
Net assets		
Shareholders' equity		
Capital stock	13,652	13,652
Capital surplus	14,916	14,916
Retained earnings	41,156	48,017
Treasury shares	-2,128	-2,129
Total shareholders' equity	67,597	74,458
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,948	2,051
Deferred gains or losses on hedges	-0	–
Foreign currency translation adjustment	43	164
Remeasurements of defined benefit plans	–	8
Total accumulated other comprehensive income	1,991	2,225
Non-controlling interests	2,409	4,750
Total net assets	71,998	81,434
Total liabilities and net assets	202,919	220,836

(2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

(Consolidated Statements of Income)

(Unit: Millions of yen)

	Prior consolidated fiscal year (From November 1, 2014 to October 31, 2015)		Current consolidated fiscal year (From November 1, 2015 to October 31, 2016)	
Net sales		133,292		144,870
Cost of sales		91,886		101,313
Gross profit		41,405		43,556
Selling, general and administrative expenses	*1	25,134	*1	28,422
Operating income		16,270		15,134
Non-operating income				
Interest income		8		6
Dividend income		111		140
Insurance income		42		29
Rent income		65		71
Bonus income		26		10
Foreign exchange gains		96		–
Reversal of allowance for doubtful accounts		4		47
Other		225		222
Total non-operating income		581		528
Non-operating expenses				
Interest expenses		461		267
Loss on sales of notes receivable - trade		18		11
Foreign exchange losses		–		493
Provision of allowance for investment loss		–		278
Other		208		206
Total non-operating expenses		688		1,257
Ordinary income		16,164		14,405
Extraordinary income				
Gain on sales of non-current assets	*2	12	*2	35
Subsidy income		12		6
Gain on sales of investment securities		307		2
Gain on sales of shares of subsidiaries and associates		68		–
Compensation income for damage		118		–
Gain on step acquisitions		–		14
Total extraordinary income		519		59
Extraordinary losses				
Loss on sales and retirement of non-current assets	*3	157	*3	164
Impairment loss	*4	171	*4	254
Loss on valuation of investment securities		87		54
Loss on sales of investment securities		–		4
Loss on valuation of shares of subsidiaries and associates		–		141
Total extraordinary losses		416		620
Profit before income taxes		16,266		13,844
Income taxes - current		6,318		5,215
Income taxes - deferred		98		36
Total income taxes		6,416		5,252
Profit		9,850		8,591
Profit attributable to non-controlling interests		292		493
Profit attributable to owners of parent		9,557		8,098

(Consolidated Statements of Comprehensive Income)

(Unit: Millions of yen)

	Prior consolidated fiscal year (From November 1, 2014 to October 31, 2015)	Current consolidated fiscal year (From November 1, 2015 to October 31, 2016)
Profit	9,850	8,591
Other comprehensive income		
Valuation difference on available-for-sale securities	-29	93
Deferred gains or losses on hedges	-0	0
Foreign currency translation adjustment	25	121
Remeasurements of defined benefit plans, net of tax	–	11
Total other comprehensive income	-4	226
Comprehensive income	9,845	8,818
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	9,556	8,323
Comprehensive income attributable to non-controlling interests	289	495

(3) Consolidated Statements of Changes in Equity

Prior consolidated fiscal year (From November 1, 2014 to October 31, 2015)

(Unit: Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	13,652	14,916	32,860	-56	61,373
Changes of items during period					
Dividends of surplus			-1,261		-1,261
Profit attributable to owners of parent			9,557		9,557
Purchase of treasury shares				-2,072	-2,072
Net changes of items other than shareholders' equity					
Total changes of items during period	–	–	8,296	-2,072	6,223
Balance at end of current period	13,652	14,916	41,156	-2,128	67,597

	Accumulated other comprehensive income					Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasure-ments of defined benefit plans	Total accumulated other comprehen-sive income		
Balance at beginning of current period	1,977	–	14	–	1,992	2,147	65,513
Changes of items during period							
Dividends of surplus					–		-1,261
Profit attributable to owners of parent					–		9,557
Purchase of treasury shares					–		-2,072
Net changes of items other than shareholders' equity	-29	-0	28	–	-0	261	260
Total changes of items during period	-29	-0	28	–	-0	261	6,484
Balance at end of current period	1,948	-0	43	–	1,991	2,409	71,998

Current consolidated fiscal year (From November 1, 2015 to October 31, 2016)

(Unit: Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	13,652	14,916	41,156	-2,128	67,597
Changes of items during period					
Dividends of surplus			-1,236		-1,236
Profit attributable to owners of parent			8,098		8,098
Purchase of treasury shares				-0	-0
Net changes of items other than shareholders' equity					
Total changes of items during period	–	–	6,861	-0	6,861
Balance at end of current period	13,652	14,916	48,017	-2,129	74,458

	Accumulated other comprehensive income					Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasure-ments of defined benefit plans	Total accumulated other comprehen-sive income		
Balance at beginning of current period	1,948	-0	43	–	1,991	2,409	71,998
Changes of items during period							
Dividends of surplus					–		-1,236
Profit attributable to owners of parent					–		8,098
Purchase of treasury shares					–		-0
Net changes of items other than shareholders' equity	103	0	121	8	233	2,341	2,574
Total changes of items during period	103	0	121	8	233	2,341	9,435
Balance at end of current period	2,051	–	164	8	2,225	4,750	81,434

(4) Consolidated Statements of Cash Flows

(Unit: Millions of yen)

	Prior consolidated fiscal year (From November 1, 2014 to October 31, 2015)	Current consolidated fiscal year (From November 1, 2015 to October 31, 2016)
Cash flows from operating activities		
Profit before income taxes	16,266	13,844
Depreciation	20,273	22,097
Impairment loss	171	254
Amortization of goodwill	10	83
Loss (gain) on sales and retirement of non-current assets	145	128
The amount of cost price transfer with asset sell-off for rentals	944	840
Expenditure by the construction equipment and supplies	-132	-492
Expenditure by the assets acquisition for rentals	-1,198	-3,034
Loss (gain) on valuation of investment securities	87	54
Loss (gain) on sales of investment securities	-307	2
Loss on valuation of shares of subsidiaries and associates	–	141
Loss (gain) on sales of shares of subsidiaries and associates	-68	–
Increase (decrease) in allowance for doubtful accounts	498	-61
Increase (decrease) in allowance for investment loss	–	278
Increase (decrease) in provision for bonuses	17	141
Increase (decrease) in net defined benefit liability	6	-14
Interest and dividend income	-120	-146
Assets buy on the installment plan purchase payment interest for rentals	380	371
Interest expenses	461	267
Foreign exchange losses (gains)	-64	292
Compensation income for damage	-118	–
Decrease (increase) in notes and accounts receivable - trade	-3,613	390
Decrease (increase) in inventories	-109	-107
Increase (decrease) in notes and accounts payable - trade	4,486	-1,654
Increase (decrease) in accounts payable - other	2,101	1,298
Other, net	302	-877
Subtotal	40,420	34,096
Interest and dividend income received	120	146
Compensation for damage income received	118	–
Interest expenses paid	-828	-653
Income taxes paid	-6,320	-6,970
Net cash provided by (used in) operating activities	33,509	26,618

(Unit: Millions of yen)

	Prior consolidated fiscal year (From November 1, 2014 to October 31, 2015)	Current consolidated fiscal year (From November 1, 2015 to October 31, 2016)
Cash flows from investing activities		
Payments into time deposits	-80	-0
Purchase of property, plant and equipment	-4,113	-2,729
Proceeds from sales of property, plant and equipment	34	38
Purchase of intangible assets	-160	-366
Purchase of investment securities	-72	-22
Proceeds from sales of investment securities	330	48
Purchase of shares of subsidiaries	-213	–
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	51	–
Purchase of shares of subsidiaries resulting in change in scope of consolidation	–	*2 -5,806
Purchase of shares of subsidiaries and associates	-54	–
Payments of loans receivable	-98	-37
Collection of loans receivable	4	25
Other, net	-115	-90
Net cash provided by (used in) investing activities	-4,488	-8,940
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	102	-894
Redemption of bonds	–	-50
Proceeds from long-term loans payable	11,462	19,960
Repayments of long-term loans payable	-12,984	-14,637
Repayments of installment payables	-18,913	-21,304
Repayments of lease obligations	-1,188	-1,967
Purchase of treasury shares	-2,072	-0
Purchase of treasury shares of subsidiaries	-0	-0
Cash dividends paid	-1,259	-1,235
Dividends paid to non-controlling interests	-3	-1
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	–	-594
Net cash provided by (used in) financing activities	-24,857	-20,726
Effect of exchange rate change on cash and cash equivalents	5	-33
Net increase (decrease) in cash and cash equivalents	4,169	-3,080
Cash and cash equivalents at beginning of period	31,980	36,150
Cash and cash equivalents at end of period	*1 36,150	*1 33,069

(5) Notes to the Consolidated Financial Statements

(Notes Relating to the Going Concern Assumption)

The Company had no material items to report.

(Important Matters Used as Basis for Preparation of the Consolidated Financial Statements)

1. Companies included in the consolidation

(1) Number of consolidated subsidiaries: 9 companies

Name of consolidated subsidiaries

Assist Co., Ltd.
Kanatech Co., Ltd.
Kanki Corporation
Kyushu Kensan Co., Ltd.
Shanghai Jinheyuan Engineering Construction Co., Ltd.
Daiichi Kikaisangyo Co., Ltd.
Toyo Industry Co., Ltd.
Unite Co., Ltd.
NISHIKEN CO., LTD.

Note: Among the companies listed above, NISHIKEN CO., LTD. became a subsidiary in the current consolidated fiscal year and is therefore included in the scope of consolidation.

(2) Names of non-consolidated subsidiaries

KG Flowtechno Co., Ltd.
KANAMOTO (HK) CO., LTD.
Kanamoto & JP Nelson Equipment (S) PTE. Ltd.
Shanghai KG Machinery Co., Ltd.
PT Kanamoto Indonesia
KANAMOTO FECON HASSYU CONSTRUCTION EQUIPMENT RENTAL JSC
Eiwashoukai Co., Ltd.

(Reason for exclusion from consolidation)

The size of each of the non-consolidated subsidiaries is small, and each company’s total assets, net sales and profit or loss (amount corresponding to equity) and retained earnings (amount corresponding to equity) do not have a material effect on the consolidated financial statements.

2. Matters pertaining to application of equity method accounting

(1) Equity-method affiliates

There are no equity-method affiliates

(2) Non-consolidated subsidiaries and affiliates not accounted for under the equity method

Number of affiliates: 3 companies

Names of affiliates

Asahi Rentax Co., Ltd.
SIAM KANAMOTO CO., LTD.
KNK MACHINERY & EQUIPMENT CORPORATION

(Reasons for not accounting for the companies under the equity method)

Given the level of profit or loss (commensurate with equity) and retained earnings (commensurate with equity), the equity method was not applied to these 7 non-consolidated subsidiaries and 3 affiliates given the minimal degree of impact to consolidated financial statements. In addition, these companies were excluded from the scope of equity-method accounting given their lack of overall significance.

3. Matters pertaining to the fiscal years for consolidated subsidiaries

The closing date for Shanghai Jinheyuan Engineering Construction Co., Ltd. is December 31, and the closing date for all other consolidated subsidiaries matches the closing date for consolidated accounts settlement.

When preparing the consolidated financial statements, the Company uses financial statements for Shanghai Jinheyuan Engineering Construction Co., Ltd. that is based on a provisional accounts settlement as of September 30. The data is adjusted to reflect significant transactions that occurred between the subsidiary's fiscal year-end and the consolidated accounts settlement date that are believed to have a significant effect on consolidated financial results.

Furthermore, following the Company's purchase of shares of NISHIKEN CO., LTD. in the current consolidated fiscal year, the closing date for NISHIKEN CO., LTD. has changed from December 31 to October 31 so that it has the same closing date as the Company. In the current consolidated fiscal year, accounting period of NISHIKEN CO., LTD. is ten months and seven of those months are included in consolidation.

4. Accounting principles

(1) Appraisal standards and appraisal methods for principal assets

a. Securities

Other securities

Securities with a market price

The Company adopted the market value method (the full amount of the valuation difference is charged to net assets using the direct transfer to capital method, with the disposal cost determined by the moving average method) based on the market price on the consolidated fiscal year closing date or similar prices.

Securities without market prices

The Company adopted the cost method, cost being determined by the moving average method.

b. Construction machine parts

The Company calculates the amount after deduction of depreciation expense according to the straight-line method from the original prices starting from year of purchase.

c. Inventories

(i) Merchandise and finished goods

The Company adopted the cost method, cost being determined based on the periodic average method (amounts shown on the balance sheet are calculated by determining write-downs of book value based on the decline in profitability)

(ii) Costs on uncompleted construction contracts

The Company adopted the cost method, cost being determined by the specific identification method

(iii) Raw materials and supplies

The Last Purchase Cost method (amounts shown on the balance sheet are calculated by determining write-downs of book value based on the decline in profitability)

(2) Depreciation methods for principal depreciable assets

a. Property, plant and equipment (excluding leased assets)

The Company adopted the straight-line method for rental equipment (for certain consolidated subsidiaries, the declining-balance method) and the declining-balance method for other assets. Buildings on land that is leased under a fixed-term land lease agreement, however, are depreciated using the straight-line method using the remaining period of the fixed-term lease as the depreciable life and zero residual value. For certain consolidated subsidiaries the Company adopted the straight-line method for buildings and structures acquired on or after April 1, 1998, but excluding fixtures and equipment.

The depreciable lives mainly used by the Company are as follows.

Rental equipment:	2-15 years
Buildings and structures:	2-60 years

b. Intangible assets (excluding leased assets)

The Company adopted the straight-line method.

Software for use within the Company is depreciated using the straight-line method based on the assumed useful life for internal use (5 years).

c. Leased assets

The Company adopted straight-line depreciation using the lease term as the depreciable life and zero residual value.

The Company accounts for finance lease transactions except for leases that transfer ownership of the property for which the lease start date is before October 31, 2008 by applying accounting treatment based on the method applied for ordinary rental transactions.

(3) Accounting standards for principal allowances and reserves

a. Allowance for doubtful accounts

To provide for losses on doubtful accounts such as accounts receivable, the Company charges to income an amount based on actual loss experience for normal accounts, plus an amount for projected unrecoverable amounts based on separate assessments of the probability of collection from specific credits such as credits at risk of bankruptcy.

b. Provision for bonuses

To fully provide for expenditures of bonuses the Company will pay to employees, an amount is appropriated to the reserve during the fiscal year based upon a salary estimate amount.

c. Allowance for investment loss

The Company builds up provisions to cover losses from declines in real prices of assets such as the stock of subsidiary companies that are not subject to asset impairment accounting by applying internally established standards that take into consideration subsidiary operating results and asset quality.

d. Provision for directors' retirement benefits

At certain consolidated subsidiaries, to prepare for the payment of retirement benefits to directors, the amount to be paid at the end of the fiscal year, based on an internal rule, is provided.

(4) Method of accounting for retirement benefits

a. Method of attributing expected retirement benefit to periods

In calculating the retirement benefit obligations, the straight-line basis is used in determining the amount of the expected retirement benefit obligation attributed to service performed up to the end of the current fiscal year.

b. Method of recognizing actuarial differences

Actuarial differences are recognized in profit or loss in the year following the year in which a respective gain or loss arises, and are amortized proportionally on a straight-line basis over a period of 7.7 years, which is within the average remaining years of service of the eligible employees.

c. Method of accounting for unrecognized actuarial difference

Unrecognized actuarial difference is accounted for in remeasurements of defined benefit plans, after adjusting for tax effects, under accumulated other comprehensive income of net assets.

(5) Accounting standards for principal income and expenses

Accounting standards for amount of completed works and cost of completed construction works

a. Construction works for which the portion of the works completed by the end of the year can be reliably determined (cost-to-cost method is used to estimate the rate of progress for construction)

Percentage-of-completion method (progress in construction work is estimated using the cost-to-cost method)

b. Other construction works

Completed-contract method

(6) Standard for conversion of main foreign currency-denominated assets or liabilities into Japanese yen

The Company converts monetary claims and liabilities that are denominated in foreign currencies into Japanese yen based on the spot rate for the consolidated fiscal year settlement date, and posts the translation difference to income as a gain or loss. The assets and liabilities of controlled foreign corporations are converted into Japanese yen based on the spot rate for the foreign corporation's fiscal year closing date, and the earnings and costs are converted into Japanese yen using to the average market price during the period, and the translation adjustments are accounted for by including the amounts in the foreign currency translation adjustment and non-controlling interests in net assets.

(7) Hedge accounting for principal hedging methods

a. Hedge accounting method

The Company employs the deferral accounting method of hedges. Also, allocation treatment is applied when foreign exchange rate risk hedging meets necessary requirements. Also, special accounting treatment is employed for interest rate swap transactions that meet special rule accounting.

b. Hedge methods and hedged transactions

Hedge accounting is applied to the following hedge methods and hedged transactions.

(i) Hedge method: foreign exchange forward contracts
Hedged transactions: foreign currency denominated financial obligations and scheduled transactions owing to the import of raw materials

(ii) Hedge method: Interest rate swaps
Hedged transactions: Debt

c. Hedging policies

The Company's use of derivative transactions is limited to hedging risk within the scope of the Company's assets and liabilities subject to market fluctuation risk.

d. Method for evaluating the effectiveness of hedging

The effectiveness of hedging is measured from the time a transaction is first hedged to the point effectiveness can be determined. Effectiveness is determined based on a comparison of the cumulative market fluctuations for hedged transaction based on a single hedge method. In addition, the Company's interest swap transactions fulfill the requirements for special rule accounting. The results of this are used to evaluate the effectiveness of interest swap hedges.

(8) Amortization method and amortization period for goodwill

Goodwill amortization is done using the straight-line method over a five-year period. However, extremely small amounts are written off completely in the year in which they occur.

(9) Scope of capital in the consolidated statements of cash flows

Capital includes cash on hand, deposits that can be withdrawn on demand and highly liquidable short-term investments that mature within three months from the date of acquisition and have a low risk of a fluctuation in value.

(10) Other important matters for preparing consolidated financial statements

Accounting standards for consumption taxes

The tax-exclusion method is employed as the accounting standard for national and local consumption taxes. Non-deductible national and local consumption taxes are treated as an expense in the fiscal year under review.

(Change in Accounting Policy)

(Application of Accounting Standards for Business Combinations and related standards)

Beginning from the current consolidated fiscal year, the Company is applying the Accounting Standard for Business Combinations (ASBJ Statement No. 21, September 13, 2013; "the Business Combinations Accounting Standard"), Accounting Standard for Consolidated Financial Statements (ASBJ Statement No. 22, September 13, 2013; "the Consolidated Accounting Standard"), Accounting Standard for Business Divestitures (ASBJ Statement No. 7, September 13, 2013; "the Business Divestitures Accounting Standard"), and related statements. As a result, the method of recording the difference resulting from changes in the Company's ownership interests in subsidiaries that are under ongoing control of the Company was changed to one in which it is recorded as capital surplus, and the method of recording acquisition-related costs was changed to one in which they are recognized as expenses for the fiscal year in which they are incurred. Furthermore, for business combinations executed on or after the beginning of the current consolidated fiscal year, the accounting method was changed to one in which the reviewed acquisition cost allocation resulting from the finalization of the tentative accounting treatment is reflected in the consolidated financial statements for the fiscal year in which the business combination occurs. In addition, the Company has revised its presentation of net income etc., and revised its presentation from minority interests to non-controlling interests. To reflect these changes in presentation, the consolidated financial statements of the previous fiscal year have been restated to reflect a consistent presentation format.

Application of the Business Combinations Accounting Standard and related standards is in line with the transitional measures provided for in paragraph 58-2 (4) of the Business Combinations Accounting Standard, paragraph 44-5 (4) of the Consolidated Financial Statements Accounting Standard and paragraph 57-4 (4) of the Business Divestitures Accounting Standard. The Company is applying the said standards prospectively from the beginning of the current fiscal year.

As a result, the effect of this change on the consolidated financial statements and the per-share data for the current consolidated fiscal year is immaterial.

In the consolidated statements of cash flows for the current consolidated fiscal year, the cash flow for costs related to the purchase or sales of subsidiary shares not related to changes of scope of consolidation are reported in net cash provided by (used in) operating activities. Moreover, the cash flow for costs arising from the purchase of subsidiary shares related to changes in scope of consolidation and costs arising from the purchase or sales of subsidiary shares not related to changes in scope of consolidation are reported in net cash provided by (used in) operating activities.

(Application of Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016)

Following the revision to the Corporation Tax Act, certain consolidated subsidiaries have applied the Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016 (ASBJ PITF No. 32, June 17, 2016) from the fiscal year ended October 31, 2016, and changed the depreciation method for facilities attached to buildings and structures acquired on or after April 1, 2016 from the declining balance method to the straight line method.

The effects on the consolidated financial statements for the current fiscal year are minimal.

(New Accounting Standards Not Yet Applied)

Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Statement No. 26, December 28, 2015)

(1) Outline

When transferring authority on the Japanese Institute of Certified Public Accountants' practical guidelines on accounting related to tax-effect accounting and practical guidelines for auditing (sections related to accounting treatment) to the Accounting Standards Board of Japan, the Implementation Guidance on Recoverability of Deferred Tax Assets groups companies into five categories with respect to guidelines related to the recoverability of deferred tax assets, principally those provided in the Japanese Institute of Certified Public Accountants Auditing Committee Report No. 66, Audit Treatment for Judgment of Recoverability of Deferred Assets. The guidance basically applies the framework for handling estimates of the amount of deferred tax assets recorded according to these categories, making some necessary revisions to category conditions and the handling of the amount of deferred tax assets recorded, thereby providing guidelines for the application of the Accounting Standards for Tax-Effect Accounting (Business Accounting Council) for the recoverability of deferred tax assets.

(Revisions to category conditions and the handling of the amount of deferred tax assets recorded)

・Accounting treatments of entities not satisfying any of the category criteria from "Category 1" to "Category 5."

・Category criteria of "Category 2" and "Category 3."

・Accounting treatments of unscheduled deductible temporary differences for entities in "Category 2."

・Accounting treatments for reasonably estimable period for taxable income before temporary differences for entities in "Category 3."

・Accounting treatments for entities satisfying the category criteria of "Category 4" and also falling in "Category 2" or "Category 3."

(2) Scheduled date of application

The Company is applying the guidance beginning the fiscal year starting on or after November 1, 2016.

(3) Effects of application of accounting standards, etc.

The amount of the effect on the consolidated financial statements from the revisions of the Implementation Guidance on Recoverability of Deferred Tax Assets is currently under assessment.

(Changes in Presentation)

(Consolidated balance sheets)

"Electronically recorded monetary claims - operating," which was included in "Notes and accounts receivable - trade" under "Current assets" in the previous fiscal year, is presented as a separate line item from the current consolidated fiscal year because of an increase in the significance of the amount. The consolidated financial statements of the prior consolidated fiscal year were reclassified to reflect this change in presentation.

As a result of the change, in the consolidated balance sheets of the prior consolidated fiscal year, ¥37,251 million that was presented in "Notes and accounts receivable - trade" under "Current Assets" was reclassified into ¥34,961 million of "Notes and accounts receivable - trade" and ¥2,290 million of "Electronically recorded monetary claims - operating."

(Consolidated statements of cash flows)

"The amount of cost price transfer with the construction machine parts sale," which was presented separately under "Cash flows from operating activities" in the previous fiscal year, is included in "Other, net" under "Cash flows from operating activities" for the fiscal year under review because the amount became immaterial. The consolidated financial statements of the previous fiscal year have been reclassified to reflect this change in presentation.

As a result of the change, in the consolidated statement of cash flows for the prior fiscal year, ¥7 million that was presented in "Amount of cost price transfer with the construction machine parts sale" under "Cash flows from operating activities" was reclassified into ¥7 million of "Other, net".

(Supplemental Information)

(Impact from change to corporate tax rate)

The "Act for Partial Amendment of the Income Tax Act, etc." (Act No. 15 of 2016) and the "Act for Partial Revision of Local Tax Act, etc." (Act No. 13 of 2016) were enacted on March 31, 2016. Accordingly, the income tax rate was reduced for consolidated fiscal years in and after April 1, 2016. Henceforth the effective income tax rate applied to the calculation of deferred tax assets and liabilities will be lowered from 32.0% to 30.6%. Meanwhile, an income tax rate of 30.6% is to be applied to one-off items expected to be written off in the consolidated fiscal year beginning November 1, 2016 and November 1, 2017. Ultimately both income tax rates will be lowered from 32.0% to 30.4% for one-off and other items expected to be written off in the fiscal years in and after the consolidated fiscal year beginning November 1, 2018.

In light of this revision, deferred tax assets at the end of the fiscal year under review declined ¥19 million while income taxes - deferred rose ¥66 million and the valuation difference on available-for-sale securities increased ¥46 million.

(Notes to the Consolidated Balance Sheets)

*1 Matters related to non-consolidated subsidiaries and affiliated companies are as follows.

(Unit: Millions of yen)

	Prior consolidated fiscal year (As of October 31, 2015)	Current consolidated fiscal year (As of October 31, 2016)
Investment securities (shares)	617	1,002

2 Guarantees

(Unit: Millions of yen)

	Prior consolidated fiscal year (As of October 31, 2015)	Current consolidated fiscal year (As of October 31, 2016)
Joint and several guarantees of employee bank loans (North Pacific Bank, Ltd.)	29	23
Guarantee of borrowing liabilities of KG Flowtechno Co., Ltd., a non-consolidated subsidiary company	150	–
Guarantee of borrowing liabilities of KANAMOTO (HK) CO., LTD., a non-consolidated subsidiary company	HK$ 16,695 thousand (260)	HK$ 13,125 thousand (177)
Guarantee of borrowing liabilities of KANAMOTO (HK) CO., LTD., a non-consolidated subsidiary company	US$ 18 thousand (2)	– (–)
Guarantee of financing and leasing liabilities of KANAMOTO (HK) CO., LTD., a non-consolidated subsidiary company	HK$ 6,067 thousand (94)	HK$ 7,971 thousand (107)
Guarantee of installment payment liabilities of Kanamoto & JP Nelson, anon-consolidated subsidiary company	SG$ 1,887 thousand (163)	SG$ 1,339 thousand (100)
Guarantee of financing and leasing liabilities of Kanamoto & JP Nelson, a non-consolidated subsidiary company	SG$ 38 thousand (3)	SG$ 32 thousand (2)
Guarantee of borrowing liabilities of SIAM KANAMOTO CO., LTD., an affiliate	THB 70,000 thousand (238)	THB 65,625 thousand (196)
Guarantee of financing and leasing liabilities of SIAM KANAMOTO CO., LTD., an affiliate	– (–)	THB 108,715 thousand (325)
Guarantee of borrowing liabilities of PT KANAMOTO INDONESIA, a non-consolidated subsidiary company	IDR 7,000,000 thousand (62)	IDR 20,500,000 thousand (164)
Guarantee of borrowing liabilities of PT KANAMOTO INDONESIA, a non-consolidated subsidiary company	US$ 250 thousand (30)	US$ 250 thousand (26)
Guarantee of financing and leasing liabilities of PT KANAMOTO INDONESIA, a non-consolidated subsidiary company	– (–)	IDR 943,586 thousand (7)
Guarantee of borrowing liabilities of KANAMOTO FECON HASSYU JSC, a non-consolidated subsidiary company	US$ 1,650 thousand (199)	US$ 1,455 thousand (152)
Total	1,233	1,283

(HKD: Hong Kong dollars, USD: US dollars, SGD: Singapore dollars, THB: Thai baths, and IDR: Indonesia rupiah)

3 Discount on notes receivable – trade and notes receivable – trade transferred by endorsement

(Unit: Millions of yen)

	Prior consolidated fiscal year (As of October 31, 2015)	Current consolidated fiscal year (As of October 31, 2016)
Discount on notes receivable – trade	149	132

*4 Liquidation of receivables based on receivables transfer facility

(Unit: Millions of yen)

	Prior consolidated fiscal year (As of October 31, 2015)	Current consolidated fiscal year (As of October 31, 2016)
Notes receivable – trade	3,628	2,927

Liquidated claims bearing a right of recourse to the Company and included in the balance of notes receivable – trade transferred are as follows.

(Unit: Millions of yen)

	Prior consolidated fiscal year (As of October 31, 2015)	Current consolidated fiscal year (As of October 31, 2016)
Notes receivable – trade	927	597

(Notes to the Consolidated Statements of Income)

*1 The main expense items included in selling, general and administrative expenses and the amounts thereof are as follows.

(Unit: Millions of yen)

	Prior consolidated fiscal year (From November 1, 2014 to October 31, 2015)	Current consolidated fiscal year (From November 1, 2015 to October 31, 2016)
Employees' salaries and allowances	10,179	11,911
Depreciation	1,046	1,465
Rent expenses	2,744	3,105
Provision of allowance for doubtful accounts	537	90
Provision for bonuses	854	1,030
Provision for directors' retirement benefits	–	6
Retirement benefit expenses	393	443
Amortization of goodwill	10	83

*2 The breakdown of gain on sales of non–current assets is as follows.

(Unit: Millions of yen)

	Prior consolidated fiscal year (From November 1, 2014 to October 31, 2015)	Current consolidated fiscal year (From November 1, 2015 to October 31, 2016)
Buildings and structures	3	0
Machinery, equipment and vehicles	9	21
Land	0	–
Other	–	14
Total	12	35

*3 The breakdown of loss on sales and retirement of non–current assets is as follows.

(Unit: Millions of yen)

	Prior consolidated fiscal year (From November 1, 2014 to October 31, 2015)	Current consolidated fiscal year (From November 1, 2015 to October 31, 2016)
(Loss on sales of non–current assets)		
Machinery, equipment and vehicles	0	0
(Loss on retirement of non–current assets)		
Rental equipment	40	45
Buildings and structures	107	77
Machinery, equipment and vehicles	3	3
Land	0	0
Other (property, plant and equipment)	2	38
Other (software)	2	–
Other (intangible assets)	0	–
Total	157	164

*4 Impairment loss

During the consolidated fiscal year the Kanamoto Group recorded impairment losses on the following asset groups.

Prior consolidated fiscal year (From November 1, 2014 to October 31, 2015)

Location	Use	Asset
Shanghai, China	Business assets	Rental equipment
	–	Goodwill

Groupings used by the Kanamoto Group to apply asset impairment accounting are based on the block classified by the segment and operating area for which profitability can be determined regularly. Dormant assets are grouped as units that generate independent cash flow.

In the consolidated fiscal year under review, the asset value of assets pledged for business undershot their book value. In light of this, the book value was lowered to the recoverable amount of the assets and the decrease in value was posted as an impairment loss (¥129 million) under extraordinary losses. Rental equipment accounts for the total ¥129 million.

The recoverable value for rental equipment is measured according to net sales price, and calculated based on the estimated appraised value.

The Kanamoto Group judges whether to recognize impairment losses by grouping assets for each company or business. The goodwill, total book value of ¥42 million, incurred owing to the investment in the consolidated subsidiary Shanghai Jinheyuan Engineering Construction Co., Ltd. was recorded as an impairment loss, given that the Company does not expect to see the earnings it forecast at the time of investment.

Current consolidated fiscal year (From November 1, 2015 to October 31, 2016)

Location	Use	Asset
Shanghai, China	Business assets	Rental equipment

Groupings used by the Kanamoto Group to apply asset impairment accounting are based on the block classified by the segment and operating area for which profitability can be determined regularly. Dormant assets are grouped as units that generate independent cash flow.

In the consolidated fiscal year under review, the asset value of assets pledged for business undershot their book value. In light of this, the book value was lowered to the recoverable amount of the assets and the decrease in value was posted as an impairment loss (¥254 million) under extraordinary losses. Rental equipment accounts for the total ¥254 million.

The recoverable value for rental equipment is measured according to net sales price, and calculated based on the estimated appraised value.

(Notes to the Consolidated Statements of Comprehensive Income)

* Reclassification adjustments and the related tax effects concerning other comprehensive income

(Unit: Millions of yen)

	Prior consolidated fiscal year (From November 1, 2014 to October 31, 2015)	Current consolidated fiscal year (From November 1, 2015 to October 31, 2016)
Valuation difference on available–for–sale securities:		
Amount occurring during the current period	59	27
Reclassification adjustments	-248	39
Before adjustment for tax effects	-188	67
Tax effects	158	26
Valuation difference on available–for–sale securities	-29	93
Deferred gains/losses on hedges:		
Amount occurring during the current period	-0	0
Reclassification adjustments	–	–
Before adjustment for tax effects	-0	0
Tax effects	–	–
Deferred gains/losses on hedges	-0	0
Foreign currency translation adjustment:		
Amount occurring during the current period	25	121
Remeasurements of defined benefit plans:		
Amount occurring during the current period	–	16
Reclassification adjustments	–	–
Before adjustment for tax effects	–	16
Tax effects	–	-4
Remeasurements of defined benefit plans	–	11
Total other comprehensive income	-4	226

(Notes to the Consolidated Statements of Changes in Equity)

Prior consolidated fiscal year (From November 1, 2014 to October 31, 2015)

1. Class of shares issued and number of shares, treasury shares and number of shares

	Number of shares at beginning of consolidated fiscal year (thousands of shares)	Increase in number of shares during consolidated fiscal year (thousands of shares)	Decrease in number of shares during consolidated fiscal year (thousands of shares)	Number of shares at end of consolidated fiscal year (thousands of shares)
Outstanding shares				
Common shares	36,092	–	–	36,092
Total	36,092	–	–	36,092
Treasury shares				
Common shares (Note)	52	700	–	752
Total	52	700	–	752

(Note) The increase in treasury stock (common shares) of 700,000 reflects the buyback of shares in accordance with a resolution passed by the Board of Directors. Repurchase of shares less than the set trading unit is indicated an increase of 0 shares.

2. Matters pertaining to subscription rights to shares and treasury subscription rights to shares

The Company had no material items to report.

3. Dividends

(1) Dividends paid

Resolution	Class of shares	Total dividend (Millions of yen)	Dividend per share (yen)	Date of record	Payment date
December 26, 2014 Board of Directors (Note)	Common shares	720	20.00	October 31, 2014	January 30, 2015
June 5, 2015 Board of Directors	Common shares	540	15.00	April 30, 2015	July 7, 2015

(Note) The dividend per share includes a commemorative dividend of ¥10.00 to celebrate the 50th anniversary of the company's founding.

(2) Dividends for which the date of record falls in the current consolidated fiscal year and the dividend payment date is in the following consolidated fiscal year

Resolution	Class of shares	Total dividend (Millions of yen)	Source of funds for dividend	Dividend per share (yen)	Date of record	Payment date
December 25, 2015 Board of Directors	Common shares	706	Retained earnings	20.00	October 31, 2015	January 29, 2016

Current consolidated fiscal year (From November 1, 2015 to October 31, 2016)

1. Class of shares issued and number of shares, treasury shares and number of shares

	Number of shares at beginning of consolidated fiscal year (thousands of shares)	Increase in number of shares during consolidated fiscal year (thousands of shares)	Decrease in number of shares during consolidated fiscal year (thousands of shares)	Number of shares at end of consolidated fiscal year (thousands of shares)
Outstanding shares				
Common shares	36,092	–	–	36,092
Total	36,092	–	–	36,092
Treasury shares				
Common shares (Note)	752	0	–	753
Total	752	0	–	753

(Note) The increase in treasury stock (common shares) of 0 shares reflects repurchase of shares less than the set trading unit.

2. Matters pertaining to subscription rights to shares and treasury subscription rights to shares

The Company had no material items to report.

3. Dividends

(1) Dividends paid

Resolution	Class of shares	Total dividend (Millions of yen)	Dividend per share (yen)	Date of record	Payment date
December 25, 2015 Board of Directors	Common shares	706	20.00	October 31, 2015	January 29, 2016
June 10, 2016 Board of Directors	Common shares	530	15.00	April 30, 2016	July 5, 2016

(2) Dividends for which the date of record falls in the current consolidated fiscal year and the dividend payment date is in the following consolidated fiscal year

Resolution	Class of shares	Total dividend (Millions of yen)	Source of funds for dividend	Dividend per share (yen)	Date of record	Payment date
December 27, 2016 Board of Directors (Planned)	Common shares	1,060	Retained earnings	30.00	October 31, 2016	January 27, 2017

(Notes to the Consolidated Statements of Cash Flows)

*1. Relationship between cash and equivalents at end of period and amounts for items shown on the consolidated balance sheets

(Unit: Millions of yen)

	Prior consolidated fiscal year (From November 1, 2014 to October 31, 2015)	Current consolidated fiscal year (From November 1, 2015 to October 31, 2016)
Cash and deposits account	35,900	33,209
Time deposits with a maturity longer than 3 months	-100	-340
Securities	350	200
Cash and cash equivalents	36,150	33,069

*2. Breakdown of assets and liabilities belonging to a new consolidated subsidiary

The breakdown of assets and liabilities when the consolidation of NISHIKEN CO., LTD. through acquisition of shares started and the relationship between acquisition value of shares of NISHIKEN CO., LTD. and expenditure for the acquisition (net value) of NISHIKEN CO., LTD. are as follows.

(Unit: Millions of yen)

Current assets	5,897
Non–current assets	10,350
Goodwill	711
Current liabilities	-4,710
Non–current liabilities	-3,622
Non-controlling interests	-1,844
Acquisition price of NISHIKEN CO., LTD. shares	6,782
Gain on step acquisitions	-14
Acquisition price until control was obtained	-4
Expenditures to acquire NISHIKEN CO., LTD. shares	6,763
Cash and cash equivalents belonging to NISHIKEN CO., LTD.	-956
Deduction: purchase of shares of subsidiaries resulting in change in scope of consolidation	5,806

3. Details of major non–cash transactions

(1) Amount of assets and liabilities related to installment transactions and amount of assets and liabilities related to lease transactions that are newly accounted for

(Unit: Millions of yen)

	Prior consolidated fiscal year (From November 1, 2014 to October 31, 2015)	Current consolidated fiscal year (From November 1, 2015 to October 31, 2016)
Amount of assets and liabilities related to installment transactions	21,146	20,981
Amount of assets and liabilities related to lease transactions	1,408	1,248

(2) Amount related to asset retirement obligations that are newly accounted for

(Unit: Millions of yen)

	Prior consolidated fiscal year (From November 1, 2014 to October 31, 2015)	Current consolidated fiscal year (From November 1, 2015 to October 31, 2016)
Amount related to asset retirement obligations	86	54

(Notes to Leasing Transactions)

(Lessee)

1. Finance lease transactions

Finance lease transactions except for leases that transfer ownership of the property

(1) Leased assets

Property, plant and equipment

Mainly, construction-related and other businesses rental equipment and other property, plant and equipment.

(2) Method of depreciation for leased assets

Leased assets are depreciated according to the method described in "4. Accounting principles (2) Depreciation methods for principal depreciable assets" in important matters used as basis for preparation of the consolidated financial statements.

It should be noted for those finance lease transactions except for leases that transfer ownership of the property that have a start date prior to October 31, 2008 the Company uses accounting methods that conform to methods used for ordinary rental transactions.

The details are outlined below.

a) Amounts corresponding to lease property acquisition price, accumulated depreciation and outstanding balances at the end of the fiscal year

(Unit: Millions of yen)

	Prior consolidated fiscal year (As of October 31, 2015)		
	Acquisition price	Accumulated depreciation	Outstanding balance
Rental equipment	18	14	3
Total	18	14	3

(Unit: Millions of yen)

	Current consolidated fiscal year (As of October 31, 2016)		
	Acquisition price	Accumulated depreciation	Outstanding balance
Rental equipment	4	4	0
Total	4	4	0

b) Outstanding balance of future lease payments at the end of the consolidated fiscal year

(Unit: Millions of yen)

	Prior consolidated fiscal year (As of October 31, 2015)	Current consolidated fiscal year (As of October 31, 2016)
Outstanding balance of future lease payments at the end of the consolidated fiscal year		
Within one year	1	0
After one year	0	–
Total	1	0

c) Amount of lease payments, depreciation expense, interest expense and impairment loss

(Unit: Millions of yen)

	Prior consolidated fiscal year (From November 1, 2014 to October 31, 2015)	Current consolidated fiscal year (From November 1, 2015 to October 31, 2016)
Lease payments	144	1
Depreciation expense	38	1
Interest expense	1	0
Impairment loss	60	–

d) Accounting method for amount equivalent to depreciation expense

Straight-line depreciation using the lease term as the depreciable life and zero residual value.

e) Accounting method for amount equivalent to interest expense

Interest method using the difference between total lease payments and the acquisition price of the lease property, allocated to each year.

2. Operating lease transactions

Prepaid lease payments pertaining to non-cancellable operating lease transactions

(Unit: Millions of yen)

	Prior consolidated fiscal year (As of October 31, 2015)	Current consolidated fiscal year (As of October 31, 2016)
Within one year	2,686	3,048
After one year	6,895	6,574
Total	9,581	9,623

(Business Segment Information)

[Segment information]

1. Summary of reporting segments

The Company's reporting segments are those units of the Company's for which discrete financial information is available and for which the Board of Directors regularly conducts a review for the purpose of making decisions about resources to be allocated to the segments and assess the segments' performance.

The Company conducts business operations by product and service. The "business related to the Construction Equipment Rental Division" is the reporting segment.

The Company's "business related to the Construction Equipment Rental Division" rents and sells construction equipment and temporary materials for construction use.

2. Method of calculating the amount of net sales, income or loss, assets, liabilities and other items of each reporting segment

Except for the Standard for Measurement of Inventories, the accounting standards and methods for the reported business segment are generally identical to the description in "Important Matters Used as Basis for Preparation of the Consolidated Financial Statements."

The Company values inventory assets using prices before write-downs of book value based on decline in profitability.

Reporting segment earnings are the values on an operating income basis.

3. Information concerning the amount of net sales, income or loss, assets, liabilities and other items of each reporting segment

Prior consolidated fiscal year (From November 1, 2014 to October 31, 2015)

(Unit: Millions of yen)

	Reporting segment	Other businesses (Note)	Total
	Business related to the Construction Equipment Rental Division		
Net sales			
Net sales to outside customers	123,572	9,719	133,292
Net sales or transfers between related segments	–	–	–
Total	123,572	9,719	133,292
Segment income	15,592	301	15,894
Segment assets	153,908	3,034	156,943
Other items			
Depreciation	20,044	4	20,048
Amortization of goodwill	10	–	10
Amount of increase of property, plant and equipment and intangible assets	25,997	3	26,001

(Note) The "Other businesses" classification encompasses business segments not included in the reporting segment, and includes business related to the Steel Sales Division and business related to the Information Products Division and other businesses.

Current consolidated fiscal year (From November 1, 2015 to October 31, 2016)

(Unit: Millions of yen)

	Reporting segment	Other businesses (Note)	Total
	Business related to the Construction Equipment Rental Division		
Net sales			
Net sales to outside customers	131,208	13,662	144,870
Net sales or transfers between related segments	–	–	–
Total	131,208	13,662	144,870
Segment income	14,057	660	14,718
Segment assets	170,233	7,873	178,107
Other items			
Depreciation	21,440	494	21,935
Amortization of goodwill	44	38	83
Amount of increase of property, plant and equipment and intangible assets	25,307	994	26,302

(Note) The "Other businesses" classification encompasses business segments not included in the reporting segment, and includes business related to the Steel Sales Division and business related to the Information Products Division, welfare-related business and other businesses.

4. Difference between total reporting segment amount and the amount reported on the consolidated financial statements, and the main reasons for the difference (Matters Pertaining to Reconciliation of Difference)

(Unit: Millions of yen)

Net sales	Prior consolidated fiscal year	Current consolidated fiscal year
Reporting segment total	123,572	131,208
Net sales for "Other businesses" classification	9,719	13,662
Intersegment eliminations	–	–
Net sales reported in the consolidated financial statements	133,292	144,870

(Unit: Millions of yen)

Income	Prior consolidated fiscal year	Current consolidated fiscal year
Reporting segment total	15,592	14,057
Income for "Other businesses" classification	301	660
Other adjustments	375	415
Operating income reported in the consolidated financial statements	16,270	15,134

(Unit: Millions of yen)

Assets	Prior consolidated fiscal year	Current consolidated fiscal year
Reporting segment total	153,908	170,233
Assets of "Other businesses" classification	3,034	7,873
Company assets (Note)	45,976	42,728
Total assets reported in the consolidated financial statements	202,919	220,836

(Note) Company assets are mainly assets used in administrative divisions at the parent company that are not attributable to the reporting segment.

(Unit: Millions of yen)

Other items	Reporting segment total		Other businesses		Amount of adjustment		Amount reported in the consolidated financial statements	
	Prior consolidated fiscal year	Current consolidated fiscal year	Prior consolidated fiscal year	Current consolidated fiscal year	Prior consolidated fiscal year	Current consolidated fiscal year	Prior consolidated fiscal year	Current consolidated fiscal year
Depreciation	20,044	21,440	4	494	225	162	20,273	22,097
Amount of increase of property, plant and equipment and intangible assets	25,997	25,307	3	994	202	425	26,203	26,727

(Note) The adjustments to the increases in property, plant and equipment and intangible assets are capital investments related to administrative divisions.

[Related information]

Prior consolidated fiscal year (From November 1, 2014 to October 31, 2015)

1. Information by product and service

The Company has omitted a description of information by product and service because this same information is disclosed in segment information.

2. Information by region

(1) Net sales

The Company has omitted a description of information by region because net sales to outside customers in Japan account for more than 90% of total net sales reported in the consolidated statements of income.

(2) Property, plant and equipment

The Company has omitted a description of property, plant and equipment because the amount of property, plant and equipment located in Japan account for more than 90% of the total for property, plant and equipment reported in the consolidated balance sheet

3. Main customers

The Company has omitted a description of net sales to outside customers because there are no specific customers to which net sales account for more than 10% of the net sales reported in the consolidated statements of income.

Current consolidated fiscal year (From November 1, 2015 to October 31, 2016)

1. Information by product and service

The Company has omitted a description of information by product and service because this same information is disclosed in segment information.

2. Information by region

(1) Net sales

The Company has omitted a description of information by region because net sales to outside customers in Japan account for more than 90% of total net sales reported in the consolidated statements of income.

(2) Property, plant and equipment

The Company has omitted a description of property, plant and equipment because the amount of property, plant and equipment located in Japan account for more than 90% of the total for property, plant and equipment reported in the consolidated balance sheet

3. Main customers

The Company has omitted a description of net sales to outside customers because there are no specific customers to which net sales account for more than 10% of the net sales reported in the consolidated statements of income.

[Information concerning impairment loss on property, plant and equipment by reporting segment]

Prior consolidated fiscal year (From November 1, 2014 to October 31, 2015)

(Unit: Millions of yen)

	Business related to the Construction Equipment Rental Division	Other businesses	Corporate and eliminations	Total
Impairment loss	171	–	–	171

Current consolidated fiscal year (From November 1, 2015 to October 31, 2016)

(Unit: Millions of yen)

	Business related to the Construction Equipment Rental Division	Other businesses	Corporate and eliminations	Total
Impairment loss	254	–	–	254

[Information concerning amortization of goodwill and unamortized balances by reporting segment]

Prior consolidated fiscal year (From November 1, 2014 to October 31, 2015)

(Unit: Millions of yen)

	Business related to the Construction Equipment Rental Division	Other businesses	Corporate and eliminations	Total
Amortization in the current period (Goodwill)	10	–	–	10
Balance at the end of the period	–	–	–	–

(Note) In the fiscal year under review, the Company posted a loss on goodwill impairment of ¥42 million.

Current consolidated fiscal year (From November 1, 2015 to October 31, 2016)

(Unit: Millions of yen)

	Business related to the Construction Equipment Rental Division	Other businesses	Corporate and eliminations	Total
Amortization in the current period (Goodwill)	44	38	–	83
Balance at the end of the period	335	292	–	628

[Information regarding gain on negative goodwill by reporting segment]

Prior consolidated fiscal year (From November 1, 2014 to October 31, 2015)

In the other businesses segment, gain on bargain purchase of ¥0 million was posted (other under non–operating income). This reflects the additional purchase of shares in former consolidated subsidiary Kanamoto Engineering Co., Ltd. However, all shares in this consolidated subsidiary were sold during the fiscal year under review.

Current consolidated fiscal year (From November 1, 2015 to October 31, 2016)

The Company had no material items to report.

(Business Combinations)

Current fiscal year (From November 1, 2015 to October 31, 2016)

Business combination through acquisition

1. Outline of the business combination

(1) Name and business of the acquired company

Name of the acquired company: NISHIKEN CO., LTD.

Description of business: Construction machinery rental business, social-welfare-service and nursing-care equipment rental business

(2) Primary reasons for business combination

Intending to strengthen the business foundation in the Kyushu region and expand into the equipment rental business for social welfare services and nursing care, the Company acquired shares of NISHIKEN CO., LTD. following a resolution at the Board of Directors meeting held on January 21, 2016.

(3) Date of business combination

March 14, 2016

(4) Legal form of business combination

Acquisition of shares paid for in cash

(5) Name of resulting entity

There is no change in the company name.

(6) Ownership ratios after acquisition of voting rights

Voting right ratio possessed immediately before the business combination: 0.2%

Voting right ratio additionally acquired on the date of business combination: 76.5%

Voting right ratio after the acquisition: 76.7%

(7) Main grounds for determining the acquirer

As the Company has acquired a voting right ratio of 76.7% following an acquisition of shares paid for in cash, the Company is considered to be the acquirer.

2. Period of operating results of acquired entity included in consolidated financial statements

From April 1, 2016 to October 31, 2016

3. Acquisition price of the acquired company and acquisition cost breakdown

(Unit: Millions of yen)

Fair value, as of the date of business combination, of the shares of NISHIKEN CO., LTD. owned by the Company immediately before the business combination	19
Cash and deposits delivered on date of business combination	6,763
Acquisition cost	6,782

4. Difference between acquisition cost of the acquired entity and total acquisition cost of individual transactions leading to acquisition

Gain on step acquisitions ¥14 million

5. Details and amounts of main acquisition-related costs

Advisory fees and others ¥9 million

6. Amount of goodwill recognized, reason for recognition of goodwill, and method and period for amortization of goodwill
   (1) Amount of goodwill recognized
       ¥711 million
   (2) Basis for recognition
       As the net assets at fair value at the time of combination were below the acquisition price, the difference was recorded as goodwill.
   (3) Amortization method and period
       Goodwill is amortized by the straight-line method over five years.

7. Amount and main breakdown of assets acquired and liabilities assumed as of date of business combination

(Unit: Millions of yen)

Current assets	5,897
Non-current assets	10,350
Total assets	16,248
Current liabilities	4,710
Non-current liabilities	3,622
Total liabilities	8,332

8. Estimated amount of influence that would be exerted on consolidated statement of income for the current fiscal year if the business combination is assumed to have been completed on the day of commencement of the fiscal year, and calculation method thereof

(Unit: Millions of yen)

Net sales	7,037
Operating income	848
Ordinary income	1,025
Income before income taxes and minority interests	992
Profit attributable to owners of parent	522

(Calculation method of estimated amount)

The estimated amount of influence indicates the difference between net sales and the profit and loss information calculated by assuming that the business combination has been completed on the day of commencement of the fiscal year and net sales and the profit and loss information on the consolidated statement of income of the acquiring entity.

Audit attestation has not been received for this note.

(Per Share Information)

Prior consolidated fiscal year (From November 1, 2014 to October 31, 2015)		Current consolidated fiscal year (From November 1, 2015 to October 31, 2016)	
Net assets per share	¥1,969.16	Net assets per share	¥2,169.93
Earnings per share	¥266.27	Earnings per share	¥229.16
Earnings per share on a fully diluted basis	–	Earnings per share on a fully diluted basis	–
The Company has not reported earnings per share on a fully diluted basis because it does not have any potential shares that would have a dilution effect.		Same as at left	

(Note) The basis for calculating earnings per share is as follows.

(Unit: Millions of yen)

	Prior consolidated fiscal year (From November 1, 2014 to October 31, 2015)	Current consolidated fiscal year (From November 1, 2015 to October 31, 2016)
Profit attributable to owners of parent	9,557	8,098
Amount not attributed to common share shareholders	–	–
Profit attributable to owners of parent related to common shares	9,557	8,098
Average number of shares outstanding during the fiscal year	35,894,640	35,339,216

(Material Events after the Close of the Consolidated Fiscal Year)

The Company had no material items to report.

6. Non-Consolidated Financial Statements

(1) Balance Sheets

(Unit: Millions of yen)

	Prior fiscal year (As of October 31, 2015)	Current fiscal year (As of October 31, 2016)
Assets		
Current assets		
Cash and deposits	29,250	25,489
Notes receivable - trade	5,983	5,630
Electronically recorded monetary claims - operating	2,290	3,658
Accounts receivable - trade	19,522	18,238
Securities	350	200
Merchandise and finished goods	279	259
Costs on uncompleted construction contracts	39	61
Construction machine parts	8,214	9,058
Raw materials and supplies	139	267
Prepaid expenses	301	303
Deferred tax assets	472	334
Short-term loans receivable	242	50
Other	98	403
Allowance for doubtful accounts	-101	-69
Total current assets	67,084	63,885
Non-current assets		
Property, plant and equipment		
Rental equipment	51,165	53,451
Buildings	6,504	7,603
Structures	1,577	1,926
Machinery and equipment	666	736
Vehicles	10	12
Tools, furniture and fixtures	246	254
Land	31,423	31,925
Construction in progress	1,081	438
Total property, plant and equipment	92,676	96,348
Intangible assets		
Software	63	88
Telephone subscription right	52	52
Software in progress	108	302
Other	–	0
Total intangible assets	224	444
Investments and other assets		
Investment securities	5,507	5,557
Shares of subsidiaries and associates	4,221	11,309
Investments in capital	12	12
Long-term loans receivable from subsidiaries and associates	2,267	2,249
Claims provable in bankruptcy, claims provable in rehabilitation and other	44	20
Long-term prepaid expenses	26	29
Insurance funds	32	38
Guarantee deposits	865	908
Other	60	44
Allowance for doubtful accounts	-1,691	-1,491
Allowance for investment loss	-438	-560
Total investments and other assets	10,908	18,118
Total non-current assets	103,809	114,911
Total assets	170,894	178,796

(Unit: Millions of yen)

	Prior fiscal year (As of October 31, 2015)	Current fiscal year (As of October 31, 2016)
Liabilities		
Current liabilities		
Notes payable - trade	17,522	16,190
Accounts payable - trade	4,866	4,750
Short-term loans payable	10,814	11,079
Accounts payable - other	15,643	16,932
Accrued expenses	467	388
Income taxes payable	3,347	1,442
Accrued consumption taxes	1,026	137
Provision for bonuses	576	614
Notes payable - facilities	605	480
Other	344	303
Total current liabilities	55,213	52,320
Non-current liabilities		
Long-term loans payable	16,551	21,452
Long-term accounts payable - other	32,637	32,797
Deferred tax liabilities	341	296
Asset retirement obligations	202	259
Other	–	4
Total non-current liabilities	49,732	54,810
Total liabilities	104,946	107,130
Net assets		
Shareholders’ equity		
Capital stock	13,652	13,652
Capital surplus		
Legal capital surplus	14,773	14,773
Other capital surplus	143	143
Total capital surpluses	14,916	14,916
Retained earnings		
Legal retained earnings	1,375	1,375
Other retained earnings		
Reserve for advanced depreciation of non-current assets	22	22
General reserve	26,731	33,731
Retained earnings brought forward	9,479	8,082
Total retained earnings	37,609	43,212
Treasury shares	-2,128	-2,129
Total shareholders’ equity	64,050	69,653
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	1,897	2,012
Total valuation and translation adjustments	1,897	2,012
Total net assets	65,948	71,665
Total liabilities and net assets	170,894	178,796

(2) Statements of Income

(Unit: Millions of yen)

	Prior consolidated fiscal year (From November 1, 2014 to October 31, 2015)	Current consolidated fiscal year (From November 1, 2015 to October 31, 2016)
Net sales	102,029	103,777
Cost of sales	70,510	73,575
Gross profit	31,518	30,201
Selling, general and administrative expenses	17,410	18,337
Operating income	14,108	11,864
Non-operating income		
Interest and dividend income	139	148
Rent income	292	293
Temporary transfer charges income	170	202
Reversal of allowance for doubtful accounts	103	205
Other	214	137
Total non-operating income	919	986
Non-operating expenses		
Interest expenses	191	127
Loss on sales of notes receivable - trade	15	9
Provision of allowance for doubtful accounts	706	23
Provision of allowance for investment loss	–	278
Foreign exchange losses	–	139
Other	166	140
Total non-operating expenses	1,079	718
Ordinary income	13,948	12,132
Extraordinary income		
Gain on sales of non-current assets	8	10
Subsidy income	–	2
Gain on sales of investment securities	307	2
Gain on sales of shares of subsidiaries and associates	99	–
Compensation income for damage	118	–
Total extraordinary income	532	15
Extraordinary losses		
Loss on sales and retirement of non-current assets	144	64
Loss on valuation of investment securities	87	54
Loss on valuation of shares of subsidiaries and associates	228	1,014
Bad debts written off of subsidiaries and associates	104	–
Total extraordinary losses	565	1,133
Profit before income taxes	13,915	11,014
Income taxes - current	5,482	4,065
Income taxes - deferred	88	108
Total income taxes	5,571	4,174
Profit	8,344	6,840

[Cost of sales statement]

(Statement of cost of rental revenues)

Category	Notes	Prior consolidated fiscal year (From November 1, 2014 to October 31, 2015) Amount (Millions of yen)	Ratio (%)	Current consolidated fiscal year (From November 1, 2015 to October 31, 2016) Amount (Millions of yen)	Ratio (%)
Rent expenses		20,516	41.2	21,267	41.1
Repair expenses		4,693	9.4	4,813	9.3
Freightage expenses		7,378	14.8	7,784	15.0
Depreciation	*2	13,529	27.2	14,369	27.8
Supplies expenses		872	1.7	899	1.7
Other	*3	2,836	5.7	2,643	5.1
Total		49,827	100.0	51,777	100.0

(Notes) 1	Cost of rental revenues is the direct cost incurred to receive revenues from the rental of construction equipment and other goods.	Same as at left
*2	The Company posted rental equipment depreciation expense of ¥12,717 million and construction machine parts depreciation expense of ¥811 million.	The Company posted rental equipment depreciation expense of ¥13,380 million and construction machine parts depreciation expense of ¥989 million.
*3	"Other" consisted mainly of taxes and dues of ¥845 million, insurance expenses of ¥808 million, and interest of ¥263 million related to installment payment purchases of rental equipment.	"Other" consisted mainly of taxes and dues of ¥736 million, insurance expenses of ¥775 million, and interest of ¥239 million related to installment payment purchases of rental equipment.

(Statement of cost of goods sold)

Category	Notes	Prior consolidated fiscal year (From November 1, 2014 to October 31, 2015) Amount (Millions of yen)	Ratio (%)	Current consolidated fiscal year (From November 1, 2015 to October 31, 2016) Amount (Millions of yen)	Ratio (%)
Beginning goods		327		279	
Cost of purchased goods		19,954		21,280	
Transfer from other account	*	673		498	
Total		20,954	100.0	22,058	100.0
Ending goods		279		265	
Valuation loss on goods		7		6	
Cost of goods sold		20,682		21,798	

*	Transfer from other account is the cost amount for sales of rental equipment and construction machine parts that have been transferred. The breakdown is as follows.		Same as at left	
	Rental equipment	665	Rental equipment	481
	Construction machine parts	7	Construction machine parts	17

(3) Statements of Changes in Equity

Prior fiscal year (From November 1, 2014 to October 31, 2015)

(Unit: Millions of yen)

	Shareholders' equity								
	Capital stock	Capital surplus			Retained earnings				
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings			Total retained earnings
						Reserve for advanced depreciation of non-current assets	General reserve	Retained earnings brought forward	
Balance at beginning of current period	13,652	14,773	143	14,916	1,375	19	19,731	9,399	30,526
Changes of items during period									
Provision of general reserve				–			7,000	-7,000	–
Dividends of surplus				–				-1,261	-1,261
Profit				–				8,344	8,344
Purchase of treasury shares				–					–
Adjustment to reserve due to change in tax rate				–		2		-2	–
Net changes of items other than shareholders' equity									
Total changes of items during period	–	–	–	–	–	2	7,000	80	7,082
Balance at end of current period	13,652	14,773	143	14,916	1,375	22	26,731	9,479	37,609

	Shareholders' equity		Valuation and translation adjustments		Total net assets
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	
Balance at beginning of current period	-56	59,039	1,928	1,928	60,968
Changes of items during period					
Provision of general reserve		–		–	–
Dividends of surplus		-1,261		–	-1,261
Profit		8,344		–	8,344
Purchase of treasury shares	-2,072	-2,072		–	-2,072
Adjustment to reserve due to change in tax rate		–		–	–
Net changes of items other than shareholders' equity			-30	-30	-30
Total changes of items during period	-2,072	5,010	-30	-30	4,980
Balance at end of current period	-2,128	64,050	1,897	1,897	65,948

Current fiscal year (From November 1, 2015 to October 31, 2016)

(Unit: Millions of yen)

	Shareholders' equity								
		Capital surplus			Retained earnings				
						Other retained earnings			
	Capital stock	Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Reserve for advanced depreciation of non-current assets	General reserve	Retained earnings brought forward	Total retained earnings
Balance at beginning of current period	13,652	14,773	143	14,916	1,375	22	26,731	9,479	37,609
Changes of items during period									
Provision of general reserve				–			7,000	-7,000	–
Dividends of surplus				–				-1,236	-1,236
Profit				–				6,840	6,840
Purchase of treasury shares				–					–
Adjustment to reserve due to change in tax rate				–		0		-0	–
Net changes of items other than shareholders' equity									
Total changes of items during period	–	–	–	–	–	0	7,000	-1,397	5,603
Balance at end of current period	13,652	14,773	143	14,916	1,375	22	33,731	8,082	43,212

	Shareholders' equity		Valuation and translation adjustments		Total net assets
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	
Balance at beginning of current period	-2,128	64,050	1,897	1,897	65,948
Changes of items during period					
Provision of general reserve		–		–	–
Dividends of surplus		-1,236		–	-1,236
Profit		6,840		–	6,840
Purchase of treasury shares	-0	-0		–	-0
Adjustment to reserve due to change in tax rate		–		–	–
Net changes of items other than shareholders' equity			114	114	114
Total changes of items during period	-0	5,602	114	114	5,716
Balance at end of current period	-2,129	69,653	2,012	2,012	71,665