Report of Business Operations for the54th Business Period (Business Period ended October 2018) (Attachment to the Notification and Invitation to the 53th Regular General Meeting of the Shareholders)

From November 1, 2017 to October 31, 2018

1. Analysis of Operating Results and Financial Position

(1) Analysis of Operating Results

a) Summary of consolidated fiscal year operating results (From November 1, 2017 to October 31, 2018)

In the fiscal year under review, Japan's economy maintained a moderate recovery trend, with continuous improvements in employment and income environments supported by strong corporate earnings. However, circumstances requiring attention, such as uncertainty with regards to foreign economies and fluctuations in financial capital markets accompanying international trade policies of the United States, have persisted.

In the construction industry where the Kanamoto Group belongs, public sector investments remained solid, and favorable private capital investments were seen in the redevelopment projects in major metropolitan areas, and the like.

In such circumstances, the Group has focused on expanding domestic bases for operations for achieving the "BULL55" long-term vision, while putting forth efforts to expand regional strategies in areas where we are yet to open branches, to the Kanto Region and westward, as well as in Kyushu Region and to possess optimal machines and enrich the machine line-up for rental equipment suitable to both construction demands and customer needs. The Group also has strived to strengthen its system, with the aims to increase work efficiency and improve productivity by utilizing IT through the full-scale operation of new systems.

Furthermore, we transferred all of the equity interests in Shanghai Jinheyuan Engineering Construction Co., Ltd., which was our consolidated subsidiary.

Consequently, in the fiscal year ended October 31, 2018 net sales rose 6.2% from the prior consolidated fiscal year level to ¥168,188 million. On the earnings front, operating profit increased 5.6% year on year to ¥17,599 million, ordinary profit rose 4.3% to ¥17,925 million, and profit attributable to owners of parent rose 10.4% to ¥11,857 million.

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, which is Kanamoto's core business, differences in construction demand were seen in some regions, but rental demand for construction equipment was solid as a whole, with transportation infrastructure refurbishment related to the Tokyo Olympics and Paralympics and large-scale redevelopment construction. Further, the Group has worked to develop our response capabilities by

reconfiguring our existing rental equipment and augmenting our assets in order to strengthen our support system for restoration and recovery from the natural disasters that have been occurring one after another over recent years, such as the 2018 Osaka earthquake, 2018 West Japan floods, and 2018 Hokkaido Eastern Iburi earthquake. As a result, sales by region in this business were up 8.9% in the Hokkaido Region, down 4.5% in the Tohoku Region, up 10.5% in the Kanto & Koushinetsu Region, up 11.0% in the Nishi-nihon Region, and up 6.7% in the Kyushu & Okinawa Region.

Used construction equipment sales were steady against the backdrop of an excellent market environment from the beginning of the period, as prices were pushed higher by growing demand in China and Southeast Asia.

Reflecting these factors, the Kanamoto Group posted net sales in the construction-related businesses of ¥150,542 million, an increase of 5.7% year-on-year, and operating profit of ¥16,358 million, an increase of 6.1%.

[Other Businesses]

In the Company's other businesses, net sales were up 10.2% from the same period of the previous consolidated fiscal year to ¥17,646 million because of steady demand in Kanamoto's steel products-related, information and telecommunications-related, and welfare-related businesses. Operating profit from these operations slipped 1.2% to ¥846 million, however, reflecting a decline in net sales from steel-related works and expenses in conjunction with the Company's push into the Kanto area in its welfare-related operations.

(Millions of yen)

Segment	53th Business Period Business Period ended October 2017	54th Business Period Business Period ended October 2018	Change from prior year (%)
Business related to the Construction Equipment Rental Division	142,414	150,542	5.7
Other Businesses	16,013	17,646	10.2
Total	158,428	168,188	6.2

(2) Financing activities

(i) Funds Procurement

Funds procurement through capital increase or the issuance of corporate bonds has not been performed during the current consolidated fiscal year.

(ii) Capital investment

Capital investment implemented by the Kanamoto Group during the current consolidated fiscal year totaled

¥35,136 million. This included purchases of rental equipment of ¥30,297 million, and investments in assets used by the group, including the establishment, relocation and expansion of branches, of ¥4,839 million.

< Change in number of branches >

During the consolidated fiscal year under review, Kanamoto newly opened 7 branches .

New branches: East Japan Works Keihin Premises Equipment Center (Kawasaki City, Kanagawa Prefecture),Musashimurayama Branch (Musashimurayama City, Tokyo),Matsuyama Branch (Matsuyama City, Ehime Prefecture),Saijo Branch (Matsuyama City, Ehime Prefecture),Kyushu General Equipment Center (Chikugo City, Fukuoka Prefecture),Fukuoka Branch (Fukuoka City, Fukuoka Prefecture),Yokkaichi Branch (Yokkaichi City, Mie Prefecture)

(iii) Transfer, absorption, division or new establishment of businesses

The Company had no material items to report.

(iv) Receipt of businesses from other companies

The Company had no material items to report.

(v) Succession to rights and obligations concerning the businesses of other corporations etc. by absorption and merger or absorption and division

The Company had no material items to report.

(vi) Acquisition or disposal of shares, other equity or subscription rights to shares of other companies

The Company transferred all of its equity interests in Shanghai Jinheyuan Engineering Construction Co., Ltd. to Shanghai Miyuan Group Co, Ltd. on September 20, 2018.

(3) Financial position and profit and loss in the current business period and three immediately prior business periods

(Millions of yen except per share data, which are in yen)

Category	51th Business Period (Business Period ended October 2015)	52th Business Period (Business Period ended October 2016)	53th Business Period (Business Period ended October 2017)	54th Business Period (current consolidated fiscal year) (Business Period ended October 2018)
Net sales	*133,292*	*144,870*	*158,428*	*168,188*
Ordinary income	*16,164*	*14,405*	*17,193*	*17,925*
Profit attributable to owners of parent	9,557	8,098	10,744	11,857
Net income per share	266.27	229.16	304.05	335.54
Total assets	202,919	220,836	227,545	241,578

Net assets	71,998	81,434	91,788	102,031
Net assets per share	1,969.16	2,169.93	2,440.41	2,707.49

(4) Issues to be Addressed by the Company

Currently, the core business of the Kanamoto Group is construction equipment rental. Accordingly, on the back of its asset portfolio structure and scale, the Company must establish a strong earnings structure supported by detailed operation. In addition, the Company needs to explore and target business domains in which earnings are not substantially impacted by the domestic construction investment trend.

a) Strengthen human resources training, and also Kanamoto Group alliances

Human resources are an important driver of corporate growth. During the next several years, intensified competition among companies, especially in the construction equipment rental 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 fitting for people working at a leading company in the construction equipment rental industry. The Company will also 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, leading to enhanced synergy effects for the Group.

b) Deepen asset strategies

Customers' needs and operational track records are certainly factors when selecting which assets to introduce. However, after considering how the particulars of domestic construction demand are changing, such as with respect to recent ICT techniques, for example, we ultimately determine the composition of the assets to be introduced by thoroughly examining the market and earnings characteristics of both the present and the future.

c) Continuous cost reductions

When introducing assets the Company utilizes a thorough benchmark system, and further aims to maintain and improve asset value by optimizing asset maintenance costs based on its rental assets operating policies.

d) Promotion of overseas business

Aiming to actively invest assets that match the onsite circumstances in the countries whose markets we have currently entered, we continue to promote sales activities that are carried out in coordination with asset management and earnings management.

e) Improve financial position

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 is focusing on further enhancing shareholders' equity, and reducing interest-bearing debt and

improving capital efficiency as much as possible, by incorporating measures such as the liquidation of assets.

(5) Main businesses (As of October 31, 2018)

Activities	Main products and services
Business related to the Construction Equipment Rental Division	Rental and sale of equipment and instruments for use in construction, temporary materials for construction use, safety products for the construction industry and modular housing units for temporary use
Other Businesses	Sale of steel products such as steel bar, steel plate and round bar, contract construction, rental and sale of computers and computer peripheral equipment、Rental and sales of social-welfare-service and nursing-care equipment

(6) Main offices of the Kanamoto Group (As of October 31, 2018)

(i) Main offices and facilities

Kanamoto's Head Office and Operations Control Headquarters are located in Chuo-ku in Sapporo, Hokkaido, and the Company's Business Coordination Headquarters is located in Minato-ku in Tokyo.

The number of branches in each of the Company's operating regions is shown below.

■Number of offices by region (excluding non-operating divisions)

Region	Business related to the Construction Equipment Rental Division		Other Businesses	
	Kanamoto	Consolidated subsidiaries	Kanamoto	Consolidated subsidiaries
Hokkaido	64	22	3	0
Tohoku	55	12	0	0
Kanto	35	24	1	2
Chubu	22	8	0	0
Kinki	7	15	0	9
Chugoku	2	2	0	10
Shikoku	4	1	0	0
Kyushu	2	74	0	21
Total	349		46	

(ii) Number of Kanamoto Group employees

	Number of employees
Business related to the Construction Equipment Rental Division	2,682
Other Businesses	275

All companies (shared)	178
Total	3,135

(Notes)1. Figures are the number of full-time employees and do not include directors, temporary or part-time employees.

2. The number of employees increased by 97 compared to the end of the previous fiscal year.

3. Employees designated as “All companies (shared)” are individuals affiliated with management departments who cannot be classified in a specific segment.

(iii) Number of Kanamoto employees

Number of employees	Change compared with end of prior fiscal year	Average age	Average length of service
1,865	63	37.9	10.7 years

(Note) Figures are the number of full-time employees and do not include temporary or part-time employees.

(7) Important parent company affiliates and subsidiary companies

(i) Parent company affiliates

The Company had no items to report.

(ii) Subsidiaries

(Unit: Millions of yen; Thousands of yuan)

Company name	Capital	Kanamoto’s ownership (%)	Main activities
Assist Co., Ltd.	136	100.0	Rental and sale of furniture, fixtures and safety products
Kanatech Co., Ltd.	100	100.0	Design and sale of modular housing units for temporary use
Kanki Corporation	99	92.7	Rental and sale of construction equipment
Kyushu Kensan Co., Ltd.	70	61.5	Rental and sale of construction equipment centered on foundation equipment
Daiichi Kikaisangyo Co., Ltd.	20	100.0	Rental and sale of construction equipment
Toyo Industry Co., Ltd.	31	100.0	Shield tunneling method-related peripheral equipment rentals and sales
NISHIKEN CO., LTD.	1,049	76.7	Rental and sales of construction machinery, temporary materials for construction use, social-welfare-service and nursing-care equipment
Unite Co., Ltd.	1,144	66.9	Rental and sale of road construction equipment, road construction works

(Note)1. There are no specified wholly-owned subsidiaries as of the end of this fiscal year.

2. The holding ratio in NISHIKEN CO., LTD. is calculated excluding 68,126 shares of treasury shares.

(8) Primary lenders and amount of borrowing (As of October 31, 2018)

Financial institution	Loan balance (Millions of yen)
MUFG Bank, Ltd.	6,911
Mizuho Bank, Ltd.	3,960
North Pacific Bank, Ltd.	2,930
The Hokkaido Bank, Ltd.	2,525
The 77 Bank, Ltd.	2,300
JA - Hokkaido Shinren	1,845
The Norinchukin Bank	1,795
The Aomori Bank, Ltd.	1,435
The Akita Bank, Ltd.	1,215
The Bank of Fukuoka, Ltd.	1,215

(9) 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 2018, the Board of Directors has decided to pay a year-end dividend of ¥40 and an annual dividend of ¥60 per share (which includes an interim dividend of ¥20).

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.

(10) Summary of other important matters concerning the corporate group

There are no material events that should be reported.

2. Matters Concerning the Company's Stock

Summary of Common Stock (As of October 31, 2018)

(i) Total number of shares authorized 130,000,000 shares

(ii) Shares issued and outstanding 36,092,241 shares
(including 753,183 shares of treasury stock)

(iii) Number of shareholders 5,670

(iv) Principal shareholders (ten largest)

Shareholder name	Number of shares held ('000 shares)	Percentage of total (%)
Japan Trustee Services Bank, Ltd. (Trust account)	3,705	10.49
The Master Trust Bank of Japan, Ltd. (Trust account)	1,514	4.28
ORIX Corporation	960	2.72
Kanamoto Capital Company	915	2.59
The Hokkaido Bank, Ltd.	888	2.52
Tokio Marine & Nichido Fire Insurance Co., Ltd.	802	2.27
North Pacific Bank, Ltd.	763	2.16
Mizuho Securities Co., Ltd.	707	2.00
GOLDMAN, SACHS & CO. REG	676	1.91
Denyo Co.,Ltd.	625	1.77

(Note) Percentage of total is calculated excluding treasury shares (753,183 shares).

3. Matters Concerning Stock Acquisition Rights etc.

The Company had no material items to report.

4. Matters Concerning Company Directors (As of October 31, 2018)

(1) Summary of directors and auditors

Name	Position and duties	Main concurrent positions at other entities
Kanchu Kanamoto	Chairman of the Board and Representative Director	Chairman of the Board, Kanamoto (China) Investment Co., Ltd.
Tetsuo Kanamoto	President and CEO, Corporate Officer; and General Manager, Business Coordination Headquarters	President and Representative Director, Toyo Industry Co., Ltd. Chairman of the Board and Representative Director, Unite Co., Ltd. Chairman of the Board and Representative Director, KG Flowtechno Co., Ltd.

		Chairman of the Board, KANAMOTO (HK) CO., LTD. Representative Director, Kanamoto & JP Nelson Equipment (S) PTE. Ltd.
Nobuhito Utatsu	Director, Senior Executive Corporate Officer; Division Manager, Accounting Division; Manager in charge of Credit Management Division; General Manager, Public Relations Office & Information Systems Division; Manager, Bill Collection Center	
Hitoshi Narita	Director, Corporate Officer; and Division Manager, Management Planning Division	President and Representative Director, Kanatech Co., Ltd.
Tatsuo Kanamoto	Director, Corporate Officer; Division Manager, Construction Equipment Rental Division; Regional Manager, Construction Equipment Rental Division Hokkaido Region; and Manager in charge of Steel Sales Division	
Masakazu Hirata	Director, Corporate Officer; Deputy Division Manager, Construction Equipment Rental Division; and Division Manager, Used Equipment Sales Division	
Hiroyuki Isono	Director, Corporate Officer; Division Manager, Administration Division; and General Manager, Secretary Office	
Manabu Nagasaki	Director, Corporate Officer	Representative Director and President, NISHIKEN CO., LTD.
Yuichi Asano	Director, Corporate Officer; and Division Manager, Credit Management Division	
Naoki Mukunashi	Director, Corporate Officer; Assistant to General Manager, Business Coordination Headquarters; and Division Manager, Overseas Business Office	
Kazunori Hashiguchi	Director, Corporate Officer; Assistant to General Manager, Business Coordination Headquarters; General Manager, Market Development Office; General Manager, Information Products Division; General	

	Manager, Event Marketing Division; and Manager, New Products Office	
Susumu Naito	Director (Outside Director)	
Masayuki Oikawa	Director (Outside Director)	
Motoki Yonekawa	Director (Outside Director)	Chairperson, Social Medical Corporation Hokuyukai
Eichu Kanamoto	Standing Corporate Auditor	
Naoyuki Yokota	Standing Corporate Auditor	
Akio Hashimoto	Auditor (Outside Auditor)	Lawyer
Kiyohiro Tsuji	Auditor (Outside Auditor)	Certified public tax accountant
Akira Naoi	Auditor (Outside Auditor)	Certified public accountant
Kouji Soga	Auditor (Outside Auditor)	

(Notes)1.Directors Susumu Naito, Masayuki Oikawa and Motoki Yonekawa are Outside Directors.

2.Corporate Auditors Akio Hashimoto, Kiyohiro Tsuji, Akira Naoi and Koji Soga are Outside Corporate Auditors.

3.Corporate Auditor Kiyohiro Tsuji is a certified public tax accountant with considerable knowledge of finance and accounting.

4.Corporate Auditor Akira Naoi is a certified public accountant with considerable knowledge of finance and accounting.

5.The Company has notified the Tokyo Stock Exchange and Sapporo Securities Exchange, the exchanges on which Kanamoto's shares are listed, of the positions of directors Susumu Naito, Masayuki Oikawa and Motoki Yonekawa as "independent officers" as provided by the rules, etc., of both exchanges.

6.The Company has notified the Tokyo Stock Exchange and Sapporo Securities Exchange, the exchanges on which Kanamoto's shares are listed, of the positions of Corporate Auditors Akio Hashimoto, Kiyohiro Tsuji and Akira Naoi as "independent officers" as provided by the rules, etc., of both exchanges.

7.Based on the provision of Article 427 paragraph 1 of the Companies Act, the Company has entered agreements with its outside directors and outside auditors that limits their liability for compensation for damages under Article 423 paragraph 1 of the same law. The amount of the limit on the liability for compensation for damages based on said agreement is the amount provided by the law.

(2) Total remuneration and other amounts paid to Directors and Auditors

Classification	Number of compensated individuals	Compensation amount (Millions of yen)
Director	12(1)	114(1)
Auditor (Outside Auditor)	6 (4)	28 (4)
Total	18(5)	142 (5)

(Notes) 1. Two Directors (Outside Directors) who received no remuneration are not included in the compensated individuals indicated above.

2. Total compensation paid to Directors does not include ¥117 million equivalent to the employee salary portion (including bonuses) paid to Directors serving concurrently as employees.

3. The maximum compensation for Directors was established at a maximum annual amount of ¥240 million (however, not including the employee salary portions) by a resolution of the 26th Regular General Meeting of the Shareholders convened on January 24, 1991.

4. The maximum compensation for Auditors was established at a maximum annual amount of ¥50 million by a resolution of the 42nd Regular General Meeting of the Shareholders convened on January 26, 2007.

(3) Matters concerning Outside Directors

(i) Concurrent posts held by Company executives including positions at other companies

Director Motoki Yonekawa is the Chairperson of Social Medical Corporation Hokuyukai. There is no special relationship between Social Medical Corporation Hokuyukai and the Company.

(ii) Concurrent service as an outside director at other companies

The Company had no material items to report.

(iii) Relationships with specified related parties including main customers

The Company had no material items to report.

(iv) Activities during the current fiscal year

Classification	Name	Activities
Director	Susumu Naito	Attended all of the five Board of Directors meetings held during the fiscal year and appropriately contributed the necessary advice and proposals concerning resolutions and discussions.
Director	Masayuki Oikawa	Attended all of the five Board of Directors meetings held during the fiscal year and appropriately contributed the necessary advice and proposals concerning resolutions and discussions.
Director	Motoki Yonekawa	Attended four of the five Board of Directors meetings held during the fiscal year and appropriately contributed the necessary advice and proposals concerning

		resolutions and discussions.
Auditor	Akio Hashimoto	Attended all of the five Board of Directors meetings and all of the eight Board of Corporate Auditors meetings held during the fiscal year and appropriately contributed the necessary advice and proposals based mainly on his expert perspective as an attorney-at-law.
Auditor	Kiyohiro Tsuji	Attended all of the five Board of Directors meetings and all of the eight Board of Corporate Auditors meetings held during the fiscal year and appropriately contributed the necessary advice and proposals based mainly on his expert perspective as a licensed tax accountant.
Auditor	Akira Naoi	Attended all of the five Board of Directors meetings and all of the eight Board of Corporate Auditors meetings held during the fiscal year and appropriately contributed the necessary advice and proposals based mainly on his expert perspective as a certified public accountant.
Auditor	Kouji Soga	Attended four of the five Board of Directors meetings and seven of the eight Board of Corporate Auditors meetings held during the fiscal year, and appropriately contributed the necessary advice and proposals based on his many years of employment and experience at financial institutions and his experience as a standing auditor at other companies.

(Note) In addition to the above, to achieve more rapid decision-making the Company implemented resolutions in writing 9 times based on the provision of Article 370 of the Companies Act.

5. Matters Concerning Independent Auditors

(1) Name

Ernst & Young ShinNihon LLC

(Note) On July 1, 2018, Ernst & Young ShinNihon LLC changed its Japanese corporate name from ShinNihon Yugen Sekinin Kansa Hojin to EY ShinNihon Yugen Sekinin Kansa Hojin but left its English name unchanged.

(2) Amount of compensation and other benefits

	Amount paid (Millions of yen)
Amount paid for compensation etc. as independent auditors pertaining to the current fiscal year	37
Total amount of cash and other financial interests Kanamoto and its subsidiary companies will pay to the Company's independent auditors	52

(Note) 1. The amount of compensation and other benefits pertaining to the current fiscal year is reported in these total amounts because the amounts of the audit fees etc. for audits based on the Companies Act and audits

based on the Financial Instruments and Exchange Act are not classified separately and cannot be substantively classified in the audit agreement between the Company and its independent auditors.

2. The Board of Corporate Auditors comprehensively examined the details of audit plans by the accounting auditor, the status of its execution of duties in accounting and others audit, as well as referring to past remuneration of the accounting auditor before agreeing on the remuneration amount, etc. for the accounting auditor.

(3) Details of Non-audit Duties

The Company, as business outside of the business set forth in Article 2 paragraph 1 of the Certified Public Accountants Act, has commissioned the agreed procedural business to the accounting auditor, and is paying a fee for this.

(4) Policy for deciding on dismissal or refusal of reappointment

If the Board of Corporate Auditors judges that the accounting auditor falls under any of the items in Article 340, paragraph (1) of the Companies Act, and that there is no prospect of improvement, the Audit Committee shall dismiss the accounting auditor by unanimous decision.

Furthermore, the Board of Corporate Auditors shall decide whether to dismiss or refuse to reappoint the accounting auditor in cases that the Board of Corporate Auditors judges that the above action is needed, such as when it is recognized that audits cannot be conducted appropriately due to the occurrence of events that harm the competence and independence of the accounting auditor.

6. System and Operating Status for Ensuring Appropriate Business Operations

(1) System for Ensuring Appropriate Business Operations

Pursuant to the Board of Directors meeting held on April 23, 2015, the Company has resolved to partially revise its "Basic Policy on Establishment of an Internal Control System." In conjunction with this, the Company has also revised its system to ensure that Company directors comply with laws and the Company's Articles of Incorporation in the execution of their duties and its systems to ensure that other Company operations are appropriate. A summary of the Company's decisions concerning the above revisions is provided below.

(i) System to ensure directors and employees comply with laws and the Articles of Incorporation in the execution of their duties

Kanamoto Company, Ltd. and its subsidiaries have prepared Ethics Guidelines as part of the corporate philosophy, and use these as the Company standard for compliance. Under the Compliance Committee chaired by Kanamoto's president, the Company has disseminated these Guidelines throughout the Company and established a system for compliance with laws and the Ethics Guidelines, and has prepared a handbook summarizing Kanamoto's corporate philosophy and employee conduct standards, which it distributes to all executives and regular employees to increase compliance awareness. As a consultation and reporting system, Kanamoto also has set up in-house and external compliance hotlines, and created a system to resolve problems quickly when consultations or reports are received directly from employees and other individuals, while strictly

observing confidentiality and ensuring that individuals who report problems do not suffer any disadvantages. Furthermore, the Company has established a Legal Section reporting directly to the president, to act as an advisory panel for important legal issues, and a system to enable the Company to give proper legal consideration to all decision making.

(ii) System for preserving and managing information concerning the execution of directors' duties

Kanamoto retains documents and various information in accordance with laws and ordinances and its internally established document administration regulations and document retention rules. Information is controlled in accordance with internal information management regulations and general data management rules, and personal data are administered in accordance with the Kanamoto Rules on Personal Data Protection and the Company's personal data protection manual.

(iii) Rules and other systems concerning management of loss risk

Kanamoto and its subsidiaries have established mechanisms to recognize and evaluate risks related to the business activities of each division, and prepared systems to avoid such risks. This has created a system capable of clarifying the authority and responsibilities of each division, supervising risk management conditions throughout the organization under the Board of Directors and discovering new risks. If unforeseen circumstances have occurred that will have a serious effect on the Company operations, or if there is concern such circumstances might occur, the Company and its subsidiaries will respond appropriately, and take measures to prevent a recurrence, based on its Emergency Response Manual (Contingency Plan).

(iv) System for ensuring efficient execution of directors' duties

In addition to its regular Board of Directors meetings, Kanamoto and its subsidiaries hold extraordinary Board of Directors meetings from time to time as necessary to decide important matters and to make flexible decisions concerning the execution and supervision of management strategies and the Company's business plans. The Company's Board of Directors receives reports on important matters including the financial condition and other matters of the Company's subsidiaries. For its management plan, the Company establishes budgets for the next business fiscal year and medium-term future, which gives the managers of each division the Company's overall objectives based on specific numerical targets. Each division sets division-wide objectives, and executes progress management and specific measures aimed at achieving its goals. Kanamoto has also introduced the corporate officer system to accelerate management decision-making and clarify supervisory authority and responsibility for plan execution, and each corporate officer is responsible for achieving the management plan approved by the Board of Directors. To respond quickly to the severe pace of change in its management environment, the Company has also shortened the directors' term of office to one year.

(v) System to ensure appropriate activities at Kanamoto and within the corporate group comprised of the parent company and subsidiaries

To apply Kanamoto's Ethics Guidelines correspondingly to each company in the Kanamoto Group, the Company has decided to enlarge the scope of the Compliance Committee and the consultation and reporting system to every group firm, to ensure the effectiveness of business activities is as extensive as possible.

In addition, in accordance with the provisions of the Financial Instruments and Exchange Act, the Company and its affiliates maintain an excellent management environment, and work to strengthen company-wide internal controls, internal controls pertaining to settlement of accounts financial reports and operating process control activities, create internal control systems that enable the Company to make proper and effective assessments and conduct appropriate operations. Furthermore, under Kanamoto's internal management system concerning financial reporting, each organization (individual) has affirmed the following roles.

[1] Managers have the final responsibility for all of the organization's activities, and prepare and implement internal controls based on this basic policy.

[2] The Board of Directors has supervisory responsibility for the preparation and operation of the managers' internal controls, and monitors and supervises managers to ensure the financial reporting and internal controls are executed properly.

[3] The auditors monitor and verify the financial reporting and preparation and operation of the internal controls from an independent standpoint.

[4] The Internal Control and Auditing Office objectively evaluates from an independent standpoint, the effectiveness of the internal controls related to financial reporting at Kanamoto and its affiliated companies on behalf of the Company's managers in accordance with the audit rules, and when necessary makes proposals concerning improvements and corrections and reports to the managers and Board of Directors.

(vi) Matters concerning individuals requested by the auditors to assist with auditors' activities

Kanamoto currently does not employ any individuals to assist the auditors in their activities, but should it become necessary, the Company will hire audit staff. During a period the auditors specify, the management authority for the nominated employees will be transferred to the auditors, and the employees will not receive instructions or orders from the Company's directors, thereby ensuring the effectiveness of instructions from auditors.

(vii) Matters related to the independence of employees in the preceding paragraph from directors

Personnel matters for employees assigned to audit activities (appointments, transfers and evaluations) will have the consent of the auditors.

(viii) System for directors and employees to report to the auditors, other systems concerning reports to auditors, and other systems to ensure audits are performed effectively

To perform audits of the directors, the Company's auditors attend the meetings of the Board of Directors, and also attend important meetings and committees, in order to understand other important decisions and the circumstances of execution of the Company's business activities. If the directors and employees of Kanamoto

and its subsidiaries discover facts that might cause the Company considerable harm, they are to report immediately to the auditors. The standing auditors will circulate a report and request for managerial decision, and if necessary can request explanations from the directors and employees. Those who reported to the auditors shall not be treated unfavorably on the grounds of giving such report.

The auditors also meet regularly with the president and representative director, to exchange opinions concerning issues the Company should address and important audit matters. After audits are completed, the Internal Control and Auditing Office promptly submits an Auditors' Report concerning the audit results to the president and representative director and the auditors.

The auditors and the Internal Control and Auditing Office also exchange information and cooperate in other ways with outside specialists, including the accounting auditors and the Company's attorneys.

(ix) Matters regarding policies related to processing of expenses or liabilities arising from the execution of auditors' duties

In regards to procedures for prepayment or reimbursement of expenses arising from execution of auditors' duties and processing of expenses or liabilities arising from execution of auditors' duties, such expenses or liabilities are accounted for upon requests made by the auditors, except where the requests cannot be considered necessary for the execution of auditors' duties.

(x) System for eliminating antisocial forces

In its Ethics Guidelines, Kanamoto has adopted a resolute stance and set forth provisions to block all transactions and relationships with antisocial forces, individuals and groups that threaten the order and safety of society and the stable operation of firms. In addition to gathering information from specialized external agencies and other sources at an internal division, the Company works to educate employees through programs such as internal training. Moreover, in an emergency the Company will cooperate with the police authorities having jurisdiction, its advising attorney and other institutions and individuals, to organizationally block and eliminate unwarranted demands from antisocial elements.

(2) Operating Effectiveness of Internal Controls

In accordance with the provisions of the Financial Instruments and Exchange Act, Kanamoto and its subsidiaries evaluate the design and operating effectiveness of internal controls for each period and have the accounting auditor conduct audits on the appropriateness.

In addition, for the purpose of maintaining and enhancing the level of control, the Internal Control and Auditing Office conducts audits of Kanamoto and its affiliated companies for each period, and when necessary, reports to the managers, Board of Directors, Board of Auditors and Internal Control Committee.

7. Kanamoto's Basic Policy Concerning Dividends

The Company had no applicable items to report.

Consolidated Financial Statements

54th Business Period

From November 1, 2017

to October 31, 2018

Kanamoto Co., Ltd.

Consolidated Balance Sheet

(As of October 31, 2018)

(Millions of Yen)

Classification	Amount	Classification	Amount
(Assets)		**(Liabilities)**	
Current assets	**97,112**	**Current liabilities**	**74,267**
Cash and deposits	36,793	Notes and accounts payable-trade	30,695
Notes and accounts receivable - trade	36,736	Short-term loans payable	13,971
Electronically recorded monetary claims - operating	5,091	Lease obligations	945
Securities	200	Income taxes payable	1,929
Merchandise and finished goods	765	Provision for bonuses	1,136
Uncompleted construction expenditure	55	Accounts payable-other	22,839
Raw materials and supplies	651	Other	2,749
construction machine parts	14,652		
Deferred tax assets	664	**Noncurrent liabilities**	**65,279**
Other	1,710	Long-term loans payable	23,087
Allowance for doubtful accounts	-208	Lease obligations	1,684
		Long-term accounts payable-other	39,591
Total non-current assets	**144,466**	Net defined benefit liability	261
		Asset retirement obligations	449
Property, plant and equipment	**129,508**	Deferred tax liability	204
Rental equipment	76,277		
Buildings and structures	14,671		
Machinery, equipment and vehicles	1,309	**Total Liabilities**	**139,547**
Tools, furniture and fixtures	509		
Land	36,566	**(Net Assets)**	
Construction in progress	173	**Shareholders' equity**	**93,526**
Intangible assets	**1,580**	Capital stock	13,652
Goodwill	343	Capital surplus	14,916
Other	1,236	Retained earnings	67,086
		Treasury stock	–2,129
Investments and other assets	**13,377**	**Accumulated other comprehensive income**	**2,153**
Investment securities	9,989	Valuation difference on available-for-sale securities	2,148
Deferred tax assets	396	Deferred gains or losses on hedges	0
Other	3,367	Foreign currency translation adjustment	5
Allowance for doubtful accounts	-375	**Minority interests**	**6,351**
		Total Net Assets	**102,031**
Total Assets	**241,578**	**Total liabilities and net assets**	**241,578**

Consolidated Statement of Income

(From November 1, 2017 to October 31, 2018)

(Millions of Yen)

Classification	Amount	
Net sales		168,188
Cost of sales		117,220
Gross profit		50,968
Selling, general and administrative expenses		33,368
Operating income		17,599
Non-operating income		**746**
Interest income and dividends	178	
Insurance income	74	
Rent income	81	
Temporary transfer charges income	105	
Reversal of allowance for doubtful accounts	20	
Other	284	
Non-operating expenses		**420**
Interest expenses	108	
Foreign exchange losses	78	
Other	232	
Ordinary income		**17,925**
Extraordinary income		**51**
Gain on sales of non-current assets	8	
Subsidy income	12	
Gain on sales of investment securities	1	
Compensation income for damage	29	
Extraordinary loss		**760**
Impairment loss	30	
Loss on sales and retirement of noncurrent assets	205	
Loss on sales of shares of subsidiaries and associates	322	
Loss on sales of investment securities	157	
Loss on valuation of investment securities	44	
Income before income taxes and minority interests		**17,216**
Income taxes-current	4,509	
Income taxes-deferred	16	
Income before minority interests		**12,691**
Minority interests in income		834
Profit attributable to owners of parent		**11,857**

Consolidated statements of income and consolidated statements of comprehensive income
Consolidated statements of income

Fiscal year ended October 31, 2018

(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	57,172	-2,129	83,612
Changes of items during period					
Dividends of surplus			-1,943		-1,943
Profit attributable to owners of parent			11,857		11,857
Change in ownership interest of parent due to transactions with non-controlling interests		-0			-0
Disposal of treasury shares		0		0	0
Net changes of items other than shareholders' equity					–
Total changes of items during period	–	-0	9,913	0	9,913
Balance at end of current period	13,652	14,916	67,086	-2,129	93,526

	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	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	2,538	0	85	5	2,629	5,547	91,788
Changes of items during period							
Dividends of surplus					–		-1,943
Profit attributable to owners of parent					–		11,857
Change in ownership interest of parent due to transactions with non-controlling interests					–		-0
Disposal of treasury shares					–		0
Net changes of items other than shareholders' equity	-389	-0	-85	0	-475	803	328
Total changes of items during period	-389	-0	-85	0	-475	803	10,242
Balance at end of current period	2,148	0	–	5	2,153	6,351	102,031

Financial Statements

54th Business Period

From November 1, 2017

to October 31, 2018

Kanamoto Co., Ltd.

Balance Sheet

(As of October 31, 2018) (Million of Yen)

Classification	Amount	Classification	Amount
(Assets)		**(Liabilities)**	
Current assets	**70,633**	**Current liabilities**	**55,679**
Cash and deposits	27,107	Notes payable-trade	17,872
Notes receivable-trade	5,702	Accounts payable-trade	5,804
Electronically recorded monetary claims – operating	4,337	Short-term loans payable	10,940
Accounts receivable, trade	18,856	Income taxes payable	982
Securities	200	Provision for bonuses	655
Merchandise and finished goods	284	Accounts payable-other	17,663
Costs on uncompleted construction contracts	35	Accrued expenses	487
Raw materials and supplies	545	Notes payable-facilities	869
Construction machine parts	11,924	Other	403
Prepaid expenses	329		
Deferred tax assets	325		
Short-term loans receivable	582		
Other	471		
Allowance for doubtful accounts	–69	**Noncurrent liabilities**	**51,670**
Noncurrent assets	**123,004**	Long-term loans payable	19,116
Property, plant and equipment	**100,049**	Long-term accounts payable-other	32,078
Rental equipment	54,116	Asset retirement obligations	297
Buildings	9,031	Deferred tax liabilities	178
Structures	2,423		
Machinery and equipment	1,003	**Total Liabilities**	**107,349**
Vehicles and delivery equipmen	15		
Tools, furniture and fixtures	332		
Land	32,952	**(Net Assets)**	
Construction in progress	172	**Shareholders' equity**	**84,202**
Intangible assets	**862**	**Capital stock**	**13,652**
Software	805		
Telephone subscription right	22		
Other	34	**Capital surplus**	**14,917**
		Legal capital surplus	14,773
Investments and other assets	**22,092**	Other capital surplus	143
Investment securities	5,793	**Retained earnings**	**57,761**
Stocks of subsidiaries and affiliates	14,040	Legal retained earnings	1,375
Investments in capital	10	Other retained earnings	56,386
Long-term loans receivable	1,428	Reserve for advanced depreciation of noncurrent assets	22
Other	1,731	General reserve	45,731
Allowance for doubtful accounts	–911	Retained earnings brought forward	10,631
		Treasury stock	**–2,129**
		Valuation and translation adjustments	**2,086**
		Valuation difference on available-for-sale securities	2,086
		Total Net Assets	**86,288**
Total Assets	**193,638**	**Liabilities and Total Net Assets**	**193,638**

Statement of Income

(From November 1, 2017 to October 31, 2018)

(Million of Yen)

Classification	Amount	
Net sales		**113,990**
Cost of sales		**81,233**
Gross profit		**32,756**
Selling, general and administrative expenses		**20,523**
Operating income		**12,233**
Non-operating income		**1,020**
Interest income and dividends	248	
Rent income	299	
Temporary transfer charges income	240	
Reversal of allowance for doubtful accounts	35	
Other	196	
Non-operating expenses		**282**
Interest expenses	59	
Provision of allowance for doubtful accounts	21	
Foreign exchange losses	29	
Other	172	
Ordinary income		**12,971**
Extraordinary income		**36**
Gain on sales of noncurrent assets	3	
Subsidy income	2	
Gain on sales of investment securities	1	
Compensation income for damage	29	
Extraordinary loss		**705**
Impairment loss	29	
Loss on sales and retirement of noncurrent assets	102	
Loss on sales of shares of subsidiaries and associates	370	
Loss on sales of investment securities	157	
Loss on valuation of investment securities	44	
Other	0	
Income before income taxes		**12,302**
Income taxes-current	2,824	
Income taxes-deferred	-51	
Net income		**9,529**

Statement of Changes in Net Assets

(From November 1, 2017 to October 31, 2018)

(Million 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 noncurrent 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	39,731	9,046	50,175
Changes of items during period									
Provision of general reserve				—			6,000	–6,000	–
Dividends of surplus				—				-1,943	-1,943
Profit				—				9,529	9,529
Purchase of treasury shares			0	0					—
Net changes of items other than shareholders' equity				—					—
Total changes of items during period	—	—	0	0	—	—	6,000	1,585	7,585
Balance at end of current period	13,652	14,773	143	14,917	1,375	22	45,731	10,631	57,761

	Shareholders' equity		Valuation and translation adjustments		Total net assets
	Treasury stock	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	
Balance at beginning of current period	–2,129	76,616	2,432	2,432	79,048
Changes of items during period					
Provision of general reserve		–		—	–
Dividends of surplus		-1,943		—	-1,943
Profit		9,529		—	9,529
Purchase of treasury shares	0	0		—	0
Net changes of items other than shareholders' equity			-346	-346	-346
Total changes of items during period	0	7,586	-346	-346	7,240
Balance at end of current period	–2,129	84,202	2,086	2,086	86,288

Audit Report

The Board of Corporate Auditors has received the audit reports prepared by each of the Corporate Auditors concerning the business performance of the Directors during the 53rd Business Period from November 1, 2017 through October 31, 2018. After discussing the audit results based on the reports, we have prepared this Audit Report and report as follows as the consensus of opinion of the Board of Corporate Auditors.

1. Procedures and details of the audits by the Corporate Auditors and the Board of Corporate Auditors

(1) The Board of Corporate Auditors establishes the audit policies, audit plans and other matters, and receives reports concerning the implementation of audits and the audit result from each of the Corporate Auditors as well as reports from the Directors and the Accounting Auditor concerning the execution of their duties, and requests explanations as necessary.

(2) In addition to communicating with the Directors, the internal audit division, employees and other individuals in accordance with the standards for Corporate Auditors and audits provided by the Board of Corporate Auditors and in compliance with the audit policy and audit plan, and gathering information and striving to improve the audit environment, each Corporate Auditor performed audits according to the following procedures:

(i) Each Corporate Auditor attended the Board of Directors meetings and other important meetings, received reports from Directors, employees and other individuals on their execution of duties and requested explanations from the Directors, other employees and other individuals when necessary as well as reviewed documents concerning matters such as important decisions and conducted inspections of the business and financial condition at the Company's Head Office and main branches. With respect to subsidiaries, each Corporate Auditor communicated and exchanged information with the Directors and Corporate Auditors of such subsidiaries and received business reports therefrom as necessary.

(ii) Each Corporate Auditor regularly received reports from the Company's Directors and employees, and requested explanations and clarified opinions when necessary, regarding the contents of Board of Director resolutions concerning the establishment of the organization provided in Article 100 paragraph (1) and paragraph (3) of the Ordinance for Enforcement of the

Companies Act, and the status of operation of the organization (internal controls system) that has been established based on said resolutions, as the organization necessary to ensure that the Directors comply with laws and the Company's Articles of Incorporation in the execution of their duties as described in the Report of Business Operations and to ensure the appropriateness of other operations of the corporate group, which consists of a stock company and the subsidiaries thereof.

(iii) Each Corporate Auditor monitored and verified whether or not the Accounting Auditor performed audits properly while maintaining an independent position as well as received reports from the Accounting Auditor on the execution of duties thereby and requested explanations when necessary. Each Corporate Auditor was also notified by the Accounting Auditor that the System for Securing the Proper Performance of Duties (matters listed in the items of Article 131 of the Ordinance on Company Accounting) was developed in accordance with the Standards for Quality Control of Audits (Business Accounting Council, October 28, 2005), and requested explanations as necessary.

Based on the above procedures, the Board of Corporate Auditors reviewed the Report of Business Operations and the supporting schedules, the Financial Statements (Balance Sheet, Statement of Income, Statement of Changes in Net Assets and Notes to the Financial Statements) and the supporting schedules and the Consolidated Financial Statements (Consolidated Balance Sheet, Consolidated Statement of Income, Consolidated Statement of Changes in Net Assets and Notes to the Consolidated Financial Statements) for the business period.

2. Result of audit

(1) Audit result of the Report of Business Operations, etc.

(i) The Report of Business Operations and its supporting schedules fairly represent the condition of the Company in accordance with the laws of Japan and the Articles of Incorporation of the Company.

(ii) We have determined that there was no serious occurrence of improper activity or violation of laws or the Company's Articles of Incorporation by any of the Directors in carrying out the duties and responsibilities of their office.

(iii) In our opinion, the details of the Board of Directors resolutions

concerning the internal controls system are appropriate. We also have determined that there are no matters that should be highlighted as a concern with regard to the information contained in the Report of Business Operations and the Directors in carrying out their duties concerning the internal controls system.

(2) Financial statement and audit result of the supporting schedules

In our opinion, the audit procedures and audit results received from the Accounting Auditor Ernst & Young ShinNihon LLC are appropriate.

(3) Audit result of consolidated financial statements

In our opinion, the audit procedures and audit results received from the Accounting Auditor Ernst & Young ShinNihon LLC are appropriate.

December 26, 2018

Kanamoto Co., Ltd.
The Board of Corporate Auditors

Standing Corporate Auditor	Eichu Kanamoto	Seal
Standing Corporate Auditor	Naoyuki Yokota	Seal
Outside Corporate Auditor	Akio Hashimoto	Seal
Outside Corporate Auditor	Kiyohiro Tsuji	Seal
Outside Corporate Auditor	Akira Naoi	Seal
Outside Corporate Auditor	Koji Soga	Seal