Report of Business Operations for the 52th Business Period (Business Period ended October 2016) (Attachment to the Notification and Invitation to the 52th Regular General Meeting of the Shareholders)

From November 1, 2015 to October 31, 2016

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.

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.

(Millions of yen)

Segment	51th Business Period Business Period ended October2015	52th Business Period Business Period ended October 2016	Change from prior year (%)
Business related to the Construction Equipment	123,572	131,208	6.2

Rental Division			
Other Businesses	9,719	13,662	40.6
Total	133,292	144,870	8.7

(2) Financing activities

(i) Funds procurement

To ensure the efficient procurement of working capital, the Company entered into a loan commitment agreement for ¥3,000 million with its main financial institutions.

(ii) Capital investment

Capital investment implemented by the Kanamoto Group during the current consolidated fiscal year totaled ¥29,441 million. This included purchases of rental equipment of ¥25,443 million, and investments in assets used by the group, including the establishment, relocation and expansion of branches, of ¥3,997 million.

< Change in number of branches >

During the consolidated fiscal year under review, Kanamoto newly opened 8 branches and closed 1 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 branches: Yubari Machinery Maintenance Center (Yubari City, Hokkaido)

(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

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 76.7% of the shares of NISHIKEN CO., LTD., on March 14, 2016, and this company became a consolidated subsidiary.

(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	49th Business Period (Business Period ended October 2013)	50th Business Period (Business Period ended October 2014)	51th Business Period (Business Period ended October 2015)	52th Business Period (current consolidated fiscal year) (Business Period ended October 2016)
Net sales	*110,831*	*125,555*	*133,292*	*144,870*
Ordinary income	*11,073*	*16,078*	*16,164*	*14,405*
Profit attributable to owners of parent	5,809	9,299	9,557	8,098
Net income per share	175.50	258.02	266.27	229.16
Total assets	169,250	188,491	202,919	220,836
Net assets	56,192	65,513	71,998	81,434
Net assets per share	1,513.49	1,758.24	1,969.16	2,169.93

Note: The Company has applied the Accounting Standard for Business Combinations (ASBJ Statement No. 21, issued on September 13, 2013), and has changed the presentation method for “net income” to “profit attributable to owners of parent” since the current consolidated fiscal year.

(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 targeting business domains, asset-ownership scale, and an asset portfolio structure, in which earnings are not substantially impacted by the level of domestic construction investment.

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

During the next several years, intensified competition among companies 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 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 is focusing on improving its financial position, and reducing interest-bearing debt and improving capital efficiency as much as possible, by incorporating measures such as the liquidation of assets.

c)Continuous cost reductions

When introducing assets the Company utilizes a thorough 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

The Company will enhance marketing and sales aspects, and strengthen management systems in areas such as asset management and operations management, to match its overseas development. It also will urgently prepare a system for the assignment of human resources and personnel training for this purpose.

(5) Main businesses (As of October 31, 2016)

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, 2016)

(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
Japan	Hokkaido	64	21	3	0
	Tohoku	55	11	0	0
	Kanto	33	24	1	0
	Chubu	18	9	0	0
	Kinki	5	14	0	9
	Chugoku	2	2	0	9
	Shikoku	2	1	0	0
	Kyushu	0	74	0	18
Overseas	China	0	7	0	0
Total		342		40	

(ii) Number of Kanamoto Group employees

	Number of employees
Business related to the Construction Equipment Rental Division	2,549
Other Businesses	226
All companies (shared)	169
Total	2,944

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

2. The number of employees increased by 479 compared to the end of the previous fiscal year. The main reason for this was that the inclusion of NISHIKEN CO., LTD., in the scope of consolidation in the current consolidated fiscal year, increased the number of employees by 357.

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
1,789	113	37.5	10.8 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
Shanghai Jinheyuan Engineering Construction Co., Ltd.	CNY193,271	85.3	Rental and sale of construction equipment, import and export of construction materials

(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, 2016)

Financial institution	Loan balance (millions of yen)
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	4,541
Mitsubishi UFJ Trust and Banking Corporation	4,478
Mizuho Bank, Ltd.	4,101
North Pacific Bank, Ltd.	2,655
Hokkaido Bank, Ltd.	2,440
77 Bank Corporation	2,172
JA - Hokkaido Shinren	1,770
The Daishi Bank, Ltd.	1,682
The Norinchukin Bank	1,647
Mizuho Trust & Banking Co., Ltd.	1,361

(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 2016, the Board of Directors has decided to pay a year-end dividend of ¥30 and an annual dividend of ¥45 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.

(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 31,2016)

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

(ii) Shares issued and outstanding 36,092,241 shares
(including 753,079 shares of treasury stock)

(iii) Number of shareholders 9,203

(iv) Principal shareholders (ten largest)

Shareholder name	Number of shares held ('000 shares)	Percentage of total (%)
ORIX Corporation	1,628	4.61
The Master Trust Bank of Japan, Ltd. (Trust Account)	1,173	3.32
Japan Trustee Services Bank, Ltd. (Trust Account 9)	1,150	3.25
Japan Trustee Services Bank, Ltd. (Trust Account)	1,100	3.11
Komatsu Construction Equipment Sales and Service Japan Ltd.	954	2.70
Kanamoto Capital Company	915	2.59
The Hokkaido Bank, Ltd	888	2.51
Tokio Marine & Nichido Fire Insurance Co., Ltd	802	2.27
North Pacific Bank, Ltd.	763	2.15
CBNY-GOVERNMENT OF NORWAY	689	1.95

(Note) Holding ratio is calculated excluding treasury shares (753,079 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, 2016)

(1) Summary of directors and auditors

Name	Position and duties	Main concurrent positions at other entities
Kanchu Kanamoto	President and CEO Corporate Officer	Chairman of the Board, Shanghai Jinheyuan Engineering Construction Co., Ltd.
Tetsuo Kanamoto	Director, Senior Vice President and Corporate Officer Manager, Business Coordination Headquarters; Division Manager, Construction Equipment Rental Division	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 & Information Systems Division; Manager, Bill Collection Center	
Hitoshi Narita	Director, Corporate Officer, Division Manager, Management Planning Division	President and Representative Director, Kanatech Co., Ltd.
Masakazu Hirata	Director Corporate Officer Deputy Division Manager, Construction Equipment Rental Division; Division Manager, Used Equipment Sales Division; Manager, Quality Assurance Office	
Keiichi Kitakata	Director Corporate Officer Division Manager, Construction Equipment Rental Division	President and Representative Director, Kanki Corporation
Hiroyuki Isono	Director Corporate Officer Division Manager, Administration Division, serving concurrently as General Manager, Office of the	

	President	
Tatsuo Kanamoto	Director Corporate Officer Division Manager, Construction Equipment Rental Division; Regional Manager of Construction Equipment Rental Division Hokkaido Region and Kanto & Koshinetsu Region; Manager in charge of Steel Sales Division	
Manabu Nagasaki	Director, Corporate Officer; Regional Manager, Construction Equipment Rental Division Kyushu Region	Representative Director and President, NISHIKEN CO., LTD.
Yuichi Asano	Director Corporate Officer Division Manager, Credit Management Division	
Naoki Mukunashi	Director, Corporate Officer; Assistant to General Manager, Business Coordination Headquarters; 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; Manager, New Products Office	
Tetsuro Masuko	Director (Outside Director)	
Yoshihiro Nogami	Director (Outside Director)	
Motoki Yonekawa	Director (Outside Director)	
Eichu Kanamoto	Standing Corporate Auditor	
Naoyuki Yokota	Standing Corporate Auditor	
Akio Hashimoto	Auditor (Outside Auditor)	Lawyer
Kiyohiro	Auditor (Outside Auditor)	Certified public tax accountant

Tsuji		
Akira Naoi	Auditor (Outside Auditor)	Certified Public Accountant
Kouji Soga	Auditor (Outside Auditor)	

(Note) 1. Directors Tetsuro Masuko, Yoshihiro Nogami 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 Tetsuro Masuko, Yoshihiro Nogami 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. As of November 1, 2016, Kanchu Kanamoto assumed the position of Chairman of the Board and Representative Director, and Tetsuo Kanamoto assumed the position of President and CEO.

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

Classification	Number of compensated individuals	Compensation amount (Millions of yen)
Director	13(1)	57(0)
Auditor (Outside Auditor)	6 (4)	26 (3)
Total	19 (5)	83 (4)

(Notes) 1. Three Directors (two of whom is an Outside Director) who received no remuneration are not included in the compensated individuals indicated above.

2. Total compensation paid to Directors does not include ¥159 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

The Company had no material items to report.

(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	Tetsuro Masuko	After inauguration Attended all of the four Board of Directors meetings held during the fiscal year and appropriately contributed the necessary advice and proposals concerning resolutions and discussions.
Director	Yoshihiro Nogami	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	After inauguration Attended all of the four 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 seven Audit Committee meetings held during the fiscal year and appropriately contributed the necessary advice and recommendations 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 Audit Committee meetings held during the fiscal year and appropriately contributed the necessary advice and recommendations 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 Audit Committee meetings held during the fiscal year and appropriately contributed the necessary advice and recommendations based mainly on his expert perspective as a certified public accountant.
Auditor	Kouji Soga	Attended all of the five Board of Directors meetings and seven of the eight Audit Committee meetings held during the fiscal year, and appropriately contributed the necessary advice and recommendations based on his many years of employment and experience at financial institutions and his experience as a standing auditor as other companies.

(Note) In addition to the above, written resolutions were made 21 times in accordance with provisions in Article 370 of the Companies Act to facilitate prompt decision-making.

(v) Matters concerning Contracts for Limitation of Liability

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.

5. Matters Concerning Independent Auditors

(1) Name

Ernst & Young ShinNihon LLC

(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	40
Total amount of cash and other financial interests Kanamoto and its subsidiary companies will pay to the Company's independent auditors	45

(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. NISHIKEN CO., LTD., the Company's subsidiary, is audited by accounting firms other than the Company's Accounting Auditor.

(3) Details of non-audit activities

The Company had no material items to report.

(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.

・(5) Matters pertaining to administrative dispositions in the event that the Accounting Auditor was subjected to a business suspension order during the past two years

Overview of the disciplinary measures announced by the Financial Services Agency on December 22, 2015

(i) Subject of disposition

Ernst & Young ShinNihon LLC

(ii) Contents of disposition

Business improvement administrative order (improvements to operation control system)

Partial business suspension order for three months (suspension of accepting new engagements) (from January 1, 2016 to March 31, 2016)

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

52th Business Period

From November 1, 2015

to October 31, 2016

kanamoto co.,ltd.

Consolidated Balance Sheet

(As of October 31, 2016)

(Unit: Millions of Yen)

Classification	Amount	Classification	Amount
(Assets)		**(Liabilities)**	
Current assets	**85,945**	**Current liabilities**	**70,152**
Cash and deposits	33,209	Notes and accounts payable-trade	26,986
Notes and accounts receivable-trade	36,502	Current portion of bonds	40
Electronically recorded monetary claims - operating	3,718	Short-term loans payable	15,145
Securities	200	Lease obligations	1,357
Merchandise and finished goods	693	Accounts payable-other	21,079
Costs on uncompleted construction contracts	61	Income taxes payable	2,052
Raw materials and supplies	379	Provision for bonuses	1,091
Construction machine parts	10,265	Other	2,399
Deferred tax assets	604	**Noncurrent liabilities**	**69,249**
Other	997	Long-term loans payable	26,644
Allowance for doubtful accounts	–689	Lease obligations	2,700
Noncurrent assets	**134,891**	Long-term accounts payable-other	38,870
Property, plant and equipment	**124,776**	Provision for directors' retirement benefits	94
Rental equipment	74,953	Net defined benefit liability	234
Buildings and structures	12,145	Asset retirement obligations	384
Machinery, equipment and vehicles	1,036	Other	321
Tools, furniture and fixtures	449	**Total Liabilities**	**139,402**
Land	35,630	**(Net Assets)**	
Construction in progress	561	**Shareholders' equity**	**74,458**
Intangible assets	**1,292**	Capital stock	13,652
Goodwill	628	Capital surplus	14,916
Software in progress	406	Retained earnings	48,017
Other	257	Treasury shares	–2,129
Investments and other assets	**8,821**	**Accumulated other comprehensive income**	**2,225**
Investment securities	6,911	Valuation difference on available-for-sale securities	2,051
Deferred tax assets	419	Foreign currency translation adjustment	164
Other	2,216	Remeasurements of defined benefit plans	8
Allowance for doubtful accounts	–406	**Non-controlling interests**	**4,750**
Allowance for investment loss	–320	**Total Net Assets**	**81,434**
Total Assets	**220,836**	**Liabilities and Total Net Assets**	**220,836**

Consolidated Statement of Income

(From November 1, 2015 to October 31, 2016)

(Unit: Millions of Yen)

Classification	Amount	
Net sales		**144,870**
Cost of sales		**101,313**
Gross profit		**43,556**
Selling, general and administrative expenses		**28,422**
Operating income		**15,134**
Non-operating income		**528**
Interest and dividend income	146	
Rent income	71	
Insurance income	29	
Reversal of allowance for doubtful accounts	47	
Other	233	
Non-operating expenses		**1,257**
Interest expenses	267	
Loss on sales of notes receivable - trade	11	
Foreign exchange losses	493	
Provision of allowance for investment loss	278	
Other	206	
Ordinary income		**14,405**
Extraordinary income		**59**
Gain on sales of noncurrent assets	35	
Subsidy income	6	
Gain on sales of investment securities	2	
Gain on step acquisitions	14	
Extraordinary losses		**620**
Impairment loss	254	
Loss on sales and retirement of non-current assets	164	
Loss on valuation of investment securities	54	
Loss on sales of investment securities	4	
Loss on valuation of shares of subsidiaries and associates	141	
Profit before income taxes		**13,844**
Income taxes-current	5,215	
Income taxes-deferred	36	**5,252**
Profit		**8,591**
Profit attributable to non-controlling interests		493
Profit attributable to owners of parent		**8,098**

Consolidated Statement of Changes in Net Assets

(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 comprehe-nsive		
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

Notes to the Consolidated Financial Statements

1. Notes Concerning Significant Matters that Serve as the Basis for Preparation of the Consolidated Financial Statements

(1) Companies included in the consolidation

(i) Number of consolidated subsidiaries and names of main consolidated subsidiaries

・Number of consolidated subsidiaries 9

・Names of consolidated subsidiaries Assist Co., Ltd.
Kanatech Co., Ltd.
Kanki Corporation
Kyushu Kensan Co., Ltd.
Shanghai Jinheyuan Engineering
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.

(ii) Major names of non-consolidated subsidiaries

・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

Names of non-consolidated subsidiaries and affiliated companies excluded from

(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
Eiwashoukai Co., Ltd.

(Affiliated company) 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

(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

(i) 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

・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)
・Costs on uncompleted construction contracts	The Company adopted the cost method, cost being determined by the specific identification method
・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)

(ii) 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. Lease 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.

(iii) 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.

(iv) 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.

(v) 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

(vi) 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 minority interests in net assets.

(vii) 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.

(viii) 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.

(ix) 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.

(5) 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.

(6) 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."

(7) 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.

2. Notes Pertaining to the Consolidated Balance Sheet

(1) Total accumulated depreciation for property, plant and equipment ¥140,775 million

(2) Guarantees

The Company provides joint and several guarantees of bank loans to employees.

North Pacific Bank, Ltd.	¥23 million

Guarantee of borrowing liabilities of non-consolidated companies.

KANAMOTO (HK) CO., LTD.	HK$13,125 thousand (¥177 million)
PT KANAMOTO INDONESIA	IDR20,500,000 thousand (¥164 million)
	US$250 thousand (¥26 million)
KANAMOTO FECON HASSYU JSC	US$1,455 thousand (¥152 million)

Guarantee of borrowing liabilities of affiliate

SIAM KANAMOTO CO., LTD.,	THB65,625 thousand (¥196 million)

Guarantee of installment payment liabilities of a non-consolidated subsidiary company

Kanamoto & JP Nelson Equipment (S) PTE. LTD.	SG$1,339 thousand (¥100 million)

Guarantee of financing and leasing liabilities of of non-consolidated subsidiary companies

Kanamoto & JP Nelson Equipment (S) PTE. LTD.	SG$32 thousand (¥2 million)
KANAMOTO (HK) CO., LTD.	HK$7,971 thousand (¥107 million)
PT KANAMOTO INDONESIA	IDR943,586 thousand (¥7 million)
SIAM KANAMOTO CO., LTD.,	THB108,715 thousand (¥325 million)

(HK$: Hong Kong dollars, US$: US dollars, SG$: Singapore dollars, THB: Thai baths, and IDR: Indonesia rupiah)

(3) Discount on notes receivable-trade ¥132 million

(4) Liquidation of receivables based on receivables transfer facility

The Company liquidates receivables based on a receivables transfer facility.

Notes receivable-trade	¥2,927 million

Liquidated claims bearing a right of recourse to the Company and included in the balance of notes receivable, trade transferred total ¥597 million.

3. Notes Pertaining to the Consolidated Statement of Changes in Net Assets

(1) Class and total number of outstanding shares at the end of the current consolidated fiscal year

Common stock 36,092,241 shares

(2) Matters pertaining to dividends

(i) Dividends paid

Resolution	Class of stock	Total dividend (million yen)	Dividend per share (yen)	Date of record	Payment date
December 25, 2015 Board of Directors meeting	Common stock	706	20.00	October 31, 2015	January 29, 2016
June 10, 2016 Board of Directors meeting	Common stock	530	15.00	April 30, 2016	July 5, 2016
Total		1,236			

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

Matters pertaining to dividends based on a resolution of the Board of Directors meeting convened on December 27, 2016

- Total dividend ¥1,060 million
- Dividend per share ¥30.00
- Date of record October 31, 2016
- Payment date January 27, 2017

The Company plans to use retained earnings as the source of funds for dividends.

4. Notes Pertaining to Financial Instruments

(1) Matters concerning status of financial instruments

The Kanamoto Group uses a variety of financing sources (mainly bank loans and bond issuance) to obtain the funds needed to achieve its capital investment plans. The Company temporarily invests idle funds in financial products with a high degree of safety, and uses loans from banks to procure short-term working capital. The Company's policy concerning derivatives is to use derivatives transactions to avoid risk, and to not engage in transactions for speculative purposes.

The Company works to minimize the customer credit risk related to notes, accounts receivable-trade and electronic recorded receivables with the credit management rules of the Kanamoto Group. Moreover, securities held are mainly certificates of deposit, and investment securities are primarily equities, and the Company is exposed to credit risk and the risk of market price fluctuations. Listed stocks are marked to market every quarter. In order to mitigate the risk of exchange rate fluctuations for receivables and payables denominated in foreign currencies, foreign exchange forward contracts were used as hedging instruments.

The Company uses loans for working capital and capital investments. Although its floating rate loans are exposed to the risk of changes in interest rates, to avoid the interest rate volatility risk on the long-term portion of its loans the Company uses a derivatives transaction (interest swap transaction) for each separate borrowing agreement as a hedging mechanism to achieve a fixed interest rate. For some capital investments, the Company uses long-term accounts payable-other based on an installment payment contract as a method of obtaining funds.

(2) Matters concerning mark-to-market pricing of financial instruments

The amounts reported on the consolidated balance sheet, market prices and the differences as of October 31, 2016 are shown below. Items for which a market price is recognized to be extremely difficult to determine are not included in the following table. (Please see (Note 2).)

(Unit: Millions of Yen)

	Amount on the consolidated balance sheet	Market price	Difference
(1) Cash and deposits	33,209	33,209	—
(2) Notes and accounts receivable-trade	36,502	36,502	—
(3) Electronically recorded monetary claims – operating	3,718	3,718	—
(4) Securities and investment securities			
Other securities	5,331	5,331	—
(5) Notes and accounts payable-trade	26,986	26,986	—
(6) Short-term loans payable	1,194	1,194	—
(7) Accounts payable-other (excluding long-term accounts payable-other due within one year)	2,285	2,285	—
(8) Long-term loans payable (including amounts due within one year)	40,595	40,628	−33
(9) Long-term accounts payable-other (including amounts due within one year)	57,663	57,749	−85
(10) Derivatives transactions	—	—	—

(Note 1) Matters concerning the method of calculating market prices of financial instruments and derivatives transactions

(1) Cash and deposits and (2) Notes and accounts receivable-trade(3) Electronically recorded monetary claims – operating

The Company calculates cash and deposits and notes and accounts receivable-trade using book value because these assets are settled in the short term and the market prices are nearly identical to book value.

(4) Securities and investment securities

The Company calculates certificates of deposit using book value because these assets are settled in the short term and the market prices are nearly identical to book value. The Company calculates equities using stock exchange prices, and calculates bonds and other securities using the prices provided by correspondent financial institutions.

(5) Notes and accounts payable-trade and (7) accounts payable-other (excluding long-term accounts payable-other due within one year)

The Company calculates cash and deposits and notes and accounts receivable-trade using book value because these assets are settled in the short term and the market prices are nearly identical to book value.

(6) Short-term loans payable

The Company calculates cash and deposits and notes and accounts receivable-trade using book value because these assets are settled in the short term and the market prices are nearly identical to book value.

(8) Long-term loans payable (including amounts due within one year) and (9) Long-term accounts payable-other (including amounts due within one year)

The Company calculates the market prices of long-term loans payable and long-term accounts payable-other using the present value of total principal and interest discounted at the interest rate assumed if the Company were to enter into identical new loans or installment payment agreements and lease transactions. For long-term loans payable with a floating interest rate, which are eligible for special rule accounting for interest rate swaps (refer to (10) below), the Company calculates market value by discounting the total amount of the principal and interest treated together for the interest rate swap at the reasonably estimated interest rate that would be applied if the Company were to borrow the identical amount.

(10) Derivatives transactions

Calculation of market values is based on the futures transactions, forward foreign exchange quotations and prices provided by the corresponding financial institutions. In addition, interest rate swaps contracts qualified for the specific hedging criteria are recognized together with hedged long-term loans, so the market value of interest rate swaps contracts is included in the market value of the relevant long-term loans (please refer to (8) above).

(Note 2) The financial instruments for which a market price is recognized to be extremely difficult to obtain that are not included in the mark-to-market information for financial instruments in “(4) Securities and investment securities Other securities” are the following.

・Unlisted equities totaling ¥1,780 million reported on the consolidated balance sheet that do not have market prices, and for which future cash flow cannot be estimated and determining the market price is recognized to be extremely difficult.

5. Notes Pertaining to Rental and Lease Real Estate

The Company has omitted this item because it has no material items to report.

6. Notes Pertaining to Per Share Information

(1) Net assets per share ¥2,169.93

(2) Net income per share ¥229.16

7. Notes Pertaining to Material Events after the Fiscal Year-end

The Company had no material items to report.

8. Other Notes

(Business Combinations)

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

Business combination through acquisition

(1) Outline of the business combination

(i) 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

(ii) 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.

(iii) Date of business combination

2016/3/14

(iv) Legal form of business combination

Acquisition of shares paid for in cash

(v) Name of resulting entity

There is no change in the company name.

(vi) 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%

(vii) 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

Audit attestation has not been received for this note.

(6) Amount of goodwill recognized, reason for recognition of goodwill, and method and period for amortization of goodwill

(i) Amount of goodwill recognized

¥711 million

(ii) 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.

(iii) 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.

Accounting Audit Report on Consolidated Financial Statements

Report of Independent Accounting Auditor

December 16, 2016

Kanamoto Co., Ltd.
To the Board of Directors,

Ernst & Young ShinNihon LLC

Designated limited liability partner
Managing Partner
Certified public accountant Yasushi Ishiwaka
Designated limited liability partner
Managing Partner
Certified public accountant Kiyohiro Saito

Pursuant to Article 444, Section 4 of the Companies Act, we have audited the accompanying consolidated financial statements, which comprise the consolidated balance sheet, the consolidated statement of income, the consolidated statement of changes in equity and the notes to the consolidated financial statements, of Kanamoto Co., Ltd. ("the Company") applicable to the fiscal year from November 1, 2015 to October 31, 2016.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on the consolidated financial statements based on our audit from an independent perspective. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.
An audit involves performing procedures to obtain audit evidence on the amounts and disclosures in the consolidated financial statements. The procedures selected and applied depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used, the method of their application, and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the Kanamoto Group, which consisted of the Company and its consolidated subsidiaries, in the fiscal year under review in accordance with accounting principles generally accepted in Japan.

Conflicts of Interest

We have no interest in the Company that should be disclosed in compliance with the Certified Public Accountants Act.

Financial Statements

52th Business Period

From November 1, 2015

to October 31, 2016

kanamoto co.,ltd.

Balance Sheet

(As of October 31, 2016)

(Unit: Millions of Yen)

Classification	Amount	Classification	Amount
(Assets)		**(Liabilities)**	
Current assets	**63,885**	**Current liabilities**	**52,320**
Cash and deposits	25,489	Notes payable-trade	16,190
Notes receivable-trade	5,630	Accounts payable-trade	4,750
Electronically recorded monetary claims - operating	3,658	Short-term loans payable	11,079
Accounts receivable - trade	18,238	Accounts payable-other	16,932
Securities	200	Accrued expenses	388
Merchandise and finished goods	259	Income taxes payable	1,442
Costs on uncompleted construction contracts	61	Accrued consumption taxes	137
Construction machine parts	9,058	Provision for bonuses	614
Raw materials and supplies	267	Notes payable-facilities	480
Prepaid expenses	303	Other	303
Deferred tax assets	334		
Short-term loans receivable	50		
Other	403		
Allowance for doubtful accounts	–69	**Noncurrent liabilities**	**54,810**
Noncurrent assets	**114,911**	Long-term loans payable	21,452
Property, plant and equipment	**96,348**	Long-term accounts payable-other	32,797
Rental equipment	53,451	Deferred tax liabilities	296
Buildings	7,603	Asset retirement obligations	259
Structures	1,926	Other	4
Machinery and equipment	736	**Total Liabilities**	**107,130**
Vehicles	12		
Tools, furniture and fixtures	254		
Land	31,925	**(Net Assets)**	
Construction in progress	438	**Shareholders' equity**	**69,653**
Intangible assets	**444**	**Capital stock**	**13,652**
Software	88	**Capital surplus**	**14,916**
Telephone subscription right	52	Legal capital surplus	14,773
Software in progress	302	Other capital surplus	143
Other	0	**Retained earnings**	**43,212**
Investments and other assets	**18,118**	Legal retained earnings	1,375
Investment securities	5,557	Other retained earnings	41,837
Stocks of subsidiaries and affiliates	11,309	Reserve for advanced depreciation of noncurrent	22
Investments in capital	12	General reserve	33,731
Long-term loans receivable from subsidiaries and associates	2,249	Retained earnings brought forward	8,082
Claims provable in bankruptcy, claims provable in rehabilitation	20		
Long-term prepaid expenses	29	**Treasury shares**	**–2,129**
Insurance funds	38		
Guarantee deposits	908	**Valuation and translation adjustments**	**2,012**
Other	44	Valuation difference on available-for-sale securities	2,012
Allowance for doubtful accounts	–1,491		
Allowance for investment loss	–560	**Total Net Assets**	**71,665**
Total Assets	**178,796**	**Liabilities and Total Net Assets**	**178,796**

Statement of Income

(From November 1, 2015 to October 31, 2016)

(Unit: Millions of Yen)

Classification	Amount	
Net sales		**103,777**
Cost of sales		**73,575**
Gross profit		**30,201**
Selling, general and administrative expenses		**18,337**
Operating income		**11,864**
Non-operating income		**986**
Interest and dividend income	148	
Rent income	293	
Temporary transfer charges income	202	
Reversal of allowance for doubtful accounts	205	
Other	137	
Non-operating expenses		**718**
Interest expenses	127	
Loss on sales of notes receivable - trade	9	
Provision of allowance for doubtful accounts	23	
Provision of allowance for investment loss	278	
Foreign exchange losses	139	
Other	140	
Ordinary income		**12,132**
Extraordinary income		**15**
Gain on sales of non-current assets	10	
Subsidy income	2	
Gain on sales of investment securities	2	
Extraordinary loss		**1,133**
Loss on sales and retirement of non-current assets	64	
Loss on valuation of investment securities	54	
Loss on valuation of shares of subsidiaries and associates	1,014	
Income before income taxes		**11,014**
Income taxes-current	4,065	
Income taxes-deferred	108	**4,174**
Net income		**6,840**

Statement of Changes in Net Assets

(From November 1, 2015 to October 31, 2016)

(Unit: Millions of Yen)

	Shareholders' equity								
	Capital stock	Capital surplus			Retained earnings				
					Legal retained earnings	Other retained earnings			Total retained earnings
		Legal capital surplus	Other capital surplus	Total capital surplus		Reserve for advanced depreciation of noncurrent assets	General reserve	Retained earnings brought forward	
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

Notes Pertaining to the Financial Statements

1. Notes Pertaining to Significant Accounting Policies

(1) Appraisal standards and appraisal methods for assets

(i)	Stocks of subsidiaries and affiliates	The Company has adopted the cost method, cost being determined by the moving average method
(ii)	Other securities	
	・Securities with a market price	The Company has 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 fiscal year closing date or similar prices
	・Securities without market prices	The Company has adopted the cost method, cost being determined by the moving average method
(iii)	Construction machine parts	Amount after deduction of depreciation expense according to the straight-line method from the original prices, by separate fiscal year of purchase
(iv)	Inventory	
	・Merchandise and finished goods	The Company has 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)
	・Costs on uncompleted construction contracts	The Company has adopted the cost method, cost being determined by the specific identification method
	・Raw materials and supplies	The Company has adopted the latest 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 noncurrent assets

(i)	Property, plant and equipment (Except lease assets)	The Company has adopted the straight-line method for rental assets 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 The depreciable lives mainly used by the Company are as follows. Rental equipment 2-15 years Buildings 2-50 years
(ii)	Intangible assets (Except lease assets)	Straight-line depreciation Software for use within the Company is depreciated using the straight-line method based on the assumed useful life for internal use (5 years)
(iii)	Lease assets	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.
(iv) Long-term prepaid expenses	Straight-line depreciation

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

The Company converts monetary claims and monetary liabilities denominated in foreign currencies into Japanese yen at the exchange market spot rate on the fiscal year settlement date, and charges the translation difference to income as a gain or loss.

(4) Accounting standards for reserves

(i) Allowance for doubtful accounts	To provide for losses on doubtful accounts such as accounts receivable-trade, 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 specified credits such as credits in danger of bankruptcy.
(ii) 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.
(iii) Allowance for investment loss	The Company provides for losses from the decline in real prices of assets such as investments in subsidiaries that are not subject to asset impairment accounting by applying internally established standards that take into consideration subsidiary company operating results and asset quality.

(5) Accounting standards for 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

The percentage-of-completion method (progress in construction works is estimated using the cost comparison method)

b. Other construction works

Completed-contract method

(6) Processing of hedging accounting

(i) Hedge accounting

a. Hedge accounting method	The Company's interest swap transactions fulfill the requirements for special rule accounting, and the Company has elected to use this to account for hedge transactions.
b. Hedge methods and hedged transactions	The Company uses interest swaps to avoid interest rate fluctuation risk related to interest on bank borrowing.
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 hedges	The Company's interest swap transactions fulfill the requirements for special rule accounting, and the Company has elected to use this in place of an evaluation of effectiveness.

(ii) Accounting standards for consumption tax

Consumption tax is taken out of all Statement of Income items and Balance Sheet items, except mainly for receivables and payables. Non-deductible consumption taxes and local consumption taxes are recorded as an expense in the fiscal year in which they are incurred.

2. Notes concerning change in display method

(Balance sheet)

Electronically recorded monetary claims - operating has been traditionally stated on the balance sheet as notes receivable (¥ 8,274 million in the previous fiscal year)

Since it has increased its importance, it has been included in Electronically recorded monetary claims - operating (the current year Degree is ¥3,658 million).

3. Notes Pertaining to the Balance Sheet

(1) Total accumulated depreciation for property, plant and equipment ¥89,157 million

(2) Guarantees

The Company provides joint and several guarantees of bank loans to employees.

North Pacific Bank, Ltd.	¥23 million

The Company provides a guarantee of borrowing liabilities of subsidiaries and affiliate.

Shanghai Jinheyuan Engineering Construction Co., Ltd.	RBM 43,916 thousand (¥678 million)
Toyo Industry Co., Ltd.	¥250 million
KANAMOTO (HK) CO., LTD.	HK$ 13,125 thousand (¥177 million)
SIAM KANAMOTO CO., LTD.,	THB 65,625 thousand (¥196 million)
PT KANAMOTO INDONESIA.	IDR20,500,000 thousand (¥164 million)
	US$250 thousand (¥26 million)
KANAMOTO FECON HASSYU JSC	US$1,455 thousand (¥152 million)

The Company provides a guarantee of installment payments of a subsidiary.

Kanamoto & JP Nelson Equipment (S) PTE. Ltd.	SG$1,339 thousand (¥100 million)

The Company provides a guarantee of finance lease liabilities of a subsidiary.

Shanghai Jinheyuan Engineering Construction Co., Ltd.	RMB 34,299 thousand (¥530 million)
KANAMOTO (HK) CO., LTD.	HK$7,971 thousand (¥107 million)
Kanamoto & JP Nelson Equipment (S) PTE. Ltd.	SG$32 thousand (¥2 million)
SIAM KANAMOTO CO., LTD.,	THB108,715 thousand (¥325 million)
PT KANAMOTO INDONESIA.	IDR 943,586 thousand (¥7 million)

(RMB: Chinese Yuan Renminbi,HK$: Hong Kong dollars, US$: US dollars, SG$: Singapore dollars, THB: Thai baths, and IDR: Indonesia rupiah)

(3) Amounts classified as cash claims against and liabilities owed to affiliates are as follows.

(i) Short-term cash claims	¥933 million
(ii) Long-term cash claims	¥2,249 million
(iii) Short-term cash liabilities	¥1,274 million
(iv) Long-term cash liabilities	¥52 million

(4) Liquidation of receivables based on receivables transfer facility

The Company liquidates receivables based on a receivables transfer facility.

Notes receivable-trade ¥2,927 million

Liquidated claims bearing a right of recourse to the Company and included in the balance of notes receivable-trade transferred total ¥597 million.

4. Notes Pertaining to the Statement of Income

Transactions with affiliated companies

(i) Business transactions	¥5,838 million
(ii) Transactions other than business transactions	¥454 million

5. Notes Pertaining to the Statement of Changes in Net Assets

Matters pertaining to number of treasury stock shares

Class of stock	Number of shares at end of the prior fiscal year	Increase in number of shares during the current fiscal year	Decrease in number of shares during the current fiscal year	Number of shares at end of the current fiscal year
Common stock	752 thousand shares	0 thousand shares	-	753 thousand shares

(Note) An increase of 0 thousand shares of treasury stock of common stock is an increase of 0 thousand due to purchase of odd lot shares.

6. Notes Pertaining to Tax Effect Accounting

(1) Major factors creating deferred tax assets and deferred tax liabilities

Deferred tax assets

Allowance for doubtful accounts	¥473 million
Provision for bonuses	¥188 million
Depreciation and amortization	¥457 million
Impairment loss	¥276 million
Allowance for investment loss	¥170 million
Loss on valuation of stocks of subsidiaries and affiliates	¥824 million
Loss on valuation of investment securities	¥124 million
Other	¥353 million
Deferred tax assets subtotal	¥2,868 million
Valuation reserve	−¥1,897 million
Deferred tax assets total	¥970 million

Deferred tax liabilities

Valuation difference on available-for-sale securities	¥878 million
Other	¥53 million
Deferred tax liabilities total	¥932 million
Net amount of deferred tax assets	¥37 million

(2) Modification of the amount of Deferred tax assets and liabilities from Change to corporate tax rate

(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 ¥0 million while income taxes - deferred rose ¥45 million and the valuation difference on available-for-sale securities increased ¥46 million.

7. Notes Pertaining to Noncurrent Assets used for Leases

Operating lease transactions

Future minimum lease payments related to non-cancelable operating lease transactions

Within one year	¥2,520 million
After one year	¥4,742 million
Total	¥7,263 million

8. Notes Pertaining to Transactions with Related Parties

The Company had no material items to report.

9. Notes Pertaining to Per Share Information

(1) Net assets per share	¥2,027.93
(2) Net income per share	¥193.56

10. Notes on Material Events after the Close of the Consolidated Fiscal Year

The Company had no material items to report.

11. Notes Pertaining to Companies Applying Consolidated Dividend Regulations

The Company had no material items to report.

12. Other Notes

(Business combination etc. relationship)

Since the same content is described in the consolidated comment note table, the description of the notes is.

Accounting Audit Report on Financial Statements

Report of Independent Accounting Auditor

December 16, 2016

Kanamoto Co., Ltd.
To the Board of Directors,

Ernst & Young ShinNihon LLC

Designated limited liability partner
Managing Partner
Certified public accountant Yasushi Ishiwaka
Designated limited liability partner
Managing Partner
Certified public accountant Kiyohiro Saito

Pursuant to Article 436, Section 2, Paragraph 1 of the Companies Act, we have audited the accompanying financial statements, which comprise the balance sheet, the statement of income, the statement of changes in equity, the notes to financial statements, and the supplementary schedules, of Kanamoto Co., Ltd. ("the Company") applicable to the 52nd Business Period from November 1, 2015 to October 31, 2016.

Management's Responsibility for the Financial Statements and the Supplementary Schedules
Management is responsible for the preparation and fair presentation of the financial statements and the supplementary schedules in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the financial statements and the supplementary schedules that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on the financial statements and the supplementary schedules based on our audit from an independent perspective. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements and the supplementary schedules are free from material misstatement.
An audit involves performing procedures to obtain audit evidence on the amounts and disclosures in the financial statements and the supplementary schedules. The procedures selected and applied depend on our judgment, including the assessment of the risks of material misstatement of the financial statements and the supplementary schedules, whether due to fraud or error. The purpose of an audit of the financial statements and the supplementary schedules is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial statements and the supplementary schedules in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness, the method of their application, and the reasonableness accounting policies used by management and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the supplementary schedules.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements and the supplementary schedules referred to above present fairly, in all material respects, the financial position and results of operations of Kanamoto Co., Ltd. in the fiscal year under review in accordance with accounting principles generally accepted in Japan.

Conflicts of Interest

We have no interest in the Company that should be disclosed in compliance with the Certified Public Accountants Act.

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 52st Business Period from November 1, 2015 through October 31, 2016. 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, 2016

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