Six-month Consolidated Financial Report for the Fiscal Year ending October 31, 2017 [Japan GAAP]

June 9, 2017

Listed Company Name	**Kanamoto Co., Ltd.**	
Company Code Number	**9678**	
Listing Exchanges	**Tokyo Stock Exchange, Sapporo Stock Exchange**	
(URL	http://www.kanamoto.co.jp)	
Representative	**Tetsuo Kanamoto**	President & CEO
Inquiries	**Nobuhito Utatsu**	Director & Senior Executive Corporate Officer, Division Manager, Accounting Division
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Scheduled date for submission of Quarterly Report	June 13, 2017
Scheduled date for commencement of dividend payments	July 5, 2017
Preparation of Quarterly Settlement Supplementary Explanatory Materials	Yes
Quarterly Earnings Briefings	Yes (For institutional investors and analysts)

1. Consolidated Operating Results for the Six-Month Period of the Fiscal Year Ending October 31, 2017

(November 1, 2016 – April 30, 2017)

(1) Consolidated operating results (Cumulative)

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

(Percentages show the change from the prior year)

	Net Sales		Operating Income		Ordinary Income		Profit Attributable to Owners of Parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Fiscal Year ending October 31, 2017: Second quarter	79,210	15.4	9,993	16.1	10,242	24.2	6,468	30.2
Fiscal Year ended October 31, 2016: Second quarter	68,642	0.5	8,605	−19.2	8,246	−22.6	4,967	−23.9

(Note) Comprehensive income

Fiscal Year Ending October 31, 2017, Second Quarter 7,053 million (36.2%)

Fiscal Year Ended October 31, 2016, Second Quarter 5,178 million (−28.9%)

	Net Income per Share	Net Income per Share on a Fully Diluted Basis
	Yen	Yen
Fiscal Year ending October 31, 2017: Second quarter	183.03	—
Fiscal Year ended October 31, 2016: Second quarter	140.57	—

(2) Consolidated financial position

	Total Assets	Net Assets	Equity Ratio
	Millions of yen	Millions of yen	%
Fiscal Year ending October 31, 2017: Second quarter	230,167	87,404	35.7
Fiscal Year ended October 31, 2016	220,836	81,434	34.7

(Reference) Equity (millions of yen)

Fiscal Year Ending October 31, 2017 Second Quarter 82,135

Fiscal Year Ended October 31, 2016 76,683

2. Dividends

	Annual Dividends per Share				
	End of first quarter	End of second quarter	End of third quarter	Year-end	Full-year
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended October 31, 2016	—	15.00	—	30.00	45.00
Fiscal year ending October 31, 2017	—	15.00			
Fiscal year ending October 31, 2017 (Projected)			—	35.00	50.00

(Note) Has the Company revised its most recently released dividend projection? No

3. Projected Consolidated Operating Results for the Fiscal year ending October 2017 (November 1, 2016 – October 31, 2017)

(Percentages show the change from the prior year)

	Net Sales		Operating Income		Ordinary Income		Profit Attributable to Owners of Parent		Net Income per Share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	155,800	7.5	17,130	13.2	17,360	20.5	10,730	32.5	303.63

(Note) Has the Company revised its most recently released projected consolidated operating results during the quarter? No

4. Notes

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

Company newly included (Company name) —

Company newly excluded (Company name) —

(2) Application of special accounting method in the preparation of quarterly consolidated financial statements: No

(3) Changes in accounting principles, changes in accounting estimates and retrospective restatements

(a) Changes in accounting policy in conjunction with revision of accounting standards: No

(b) Changes other than the above: No

(c) Changes in accounting estimates: Yes

(d) Retrospective restatements: No

Note: Please refer to “2. Quarterly Consolidated Financial Statements and Notes (4) Notes Concerning Quarterly Consolidated Financial Statements (Change in Accounting Estimates)” on Page 10 of the Attachments for details.

(4) Number of shares issued (common shares)

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

Fiscal year ending October 31, 2017 Second Quarter: 36,092,241 shares

Fiscal year ended October 31, 2016: 36,092,241 shares

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

Fiscal year ending October 31, 2017 Second Quarter: 753,252 shares

Fiscal year ended October 31, 2016: 753,079 shares

(c) Average number of shares during the period (consolidated year-to-date)

Fiscal year ending October 31, 2017 Second Quarter: 35,339,060 shares

Fiscal year ended October 31, 2016 Second Quarter: 35,339,270 shares

Note: This quarterly earnings report is exempt from the quarterly review procedure

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

Note Concerning Forward-Looking Statements

The forward-looking statements, including business results forecasts, contained in these materials are based on information currently available to the Company and on certain assumptions deemed to be reasonable. The Company does not guarantee the achievement of the projections. Actual operating results may differ substantially due to a number of factors. Please refer to “1. Qualitative Information Concerning Quarterly Consolidated Operating Results (3) Explanation Concerning Future Forecasts Including Projected Consolidated Operating Results” on Page 3 of the Attachments for the conditions used as assumptions for the projected operating results and matters to note before using the projected operating results.

Procedure for obtaining the Quarterly Settlement Supplementary Explanatory Materials and Quarterly Earnings Briefing

The Company plans to hold a briefing for institutional investors and analysts on Tuesday, June 13, 2017.

Following the briefing, the Company will upload the briefing highlights and discussion (voice recording) on the Company’s website as quickly as possible, together with the Quarterly Earnings Briefing materials used that day.

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1. Qualitative Information Concerning Quarterly Consolidated Operating Results

(1) Qualitative Information Concerning Consolidated Operating Results

Management Environment (From November 1, 2016 to April 30, 2017)

During the first two quarters of Kanamoto's current consolidated fiscal year, Japan's economy maintained a gradual recovery trend, and the effects of various government policies as well as improvements in corporate operating performance and in the employment and income environment were evident. On the negative side of the balance, on the other hand, uncertainty remained strong and concerns that demanded a prudent stance, including apprehension over the economic slowdown in China and newly developing countries, the situation in Europe pertaining to Great Britain's exit from the EU, and policy management in the United States, were unabated.

< Second Quarter Operating Results > (From November 1, 2016 to April 30, 2017)

In the construction industry related to the Kanamoto Group, demand remained brisk. In addition to the brightening outlook noted in private sector capital investment, including redevelopment projects in metropolitan areas, spending on public works projects was buoyed by maintenance and renewal demand in the disaster prevention and disaster mitigation sector, and by expenditures to address Japan's rapidly ageing social infrastructure.

Given such circumstances, the Kanamoto Group resolutely pursued the various measures in its Long-term Corporate Management Plan BULL55 (FYE October 2015 – FYE October 2019), the action plan aimed at achieving the Group's continuous growth. To ensure strong earnings, Kanamoto continued to pursue efficiency improvements by repositioning existing assets and implementing thorough and comprehensive cost reductions, while also working to create its new system for efficiently utilizing rental assets, which will further ensure the certainty of these measures.

As a result, net sales for the consolidated interim period ended April 30, 2017 rose by 15.4% from the same period of the previous consolidated fiscal year to ¥79,210 million. With regard to earnings, operating income increased 16.1% from the same period of the previous consolidated fiscal year to ¥9,993 million, ordinary income increased 24.2% year-on-year to ¥10,242 million, and interim period profit attributable to owners of parent rose 30.2% year-on-year to ¥6,468 million.

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

< Business related to the Construction Equipment Rental Division >

In the construction-related business that is Kanamoto's primary business focus, construction equipment rental demand remained brisk, driven by strong demand centered on Hokkaido and Kyushu, works related to the Tokyo Olympics, and the gradual start of construction on large-scale redevelopment works in the Tokyo metropolitan area. The Company moved forward with the creation of its continuous support system in particular, including the centralization of management resources and establishment of new branches, to strengthen its support for recovery efforts following the Kumamoto earthquake, Kagoshima typhoon disaster, and Hokkaido typhoon disaster, all of which occurred last year. In the Kyushu Region, both net sales and operating income for the consolidated interim period expanded substantially as a result of having added the performance of Nishiken Co., Ltd. to consolidated operating results from the third quarter of the prior consolidated fiscal year.

Used construction equipment sales rose 2.5% year-on-year, as Kanamoto sold equipment based on its initial plan aimed at maintaining an appropriate asset portfolio.

As a result of the above factors, interim period net sales for Kanamoto's construction-related businesses increased 12.1% from the same period of the prior consolidated fiscal year to ¥72,099 million, and operating income improved 12.2% year-on-year to ¥9,259 million.

< Other businesses >

In Kanamoto's other businesses, both steel products-related sales and sales in the information and telecommunications-related division were roughly in line with the same period one year earlier, but because of

the addition of the Company's welfare-related business, net sales rose 64.2% from the same period of the prior consolidated fiscal year to ¥7,110 million, and operating income jumped 247.3% year-on-year to ¥534 million.

< Business developments deserving special mention and change in number of branches >

The Company opened one new branch, the Hidaka Equipment Center (Saru-gun, Hokkaido), and closed one branch, the Tsugaru Dam Branch (Nakatsugaru-gun, Aomori Prefecture), during the second quarter consolidated accounting period.

(2) Qualitative Information Concerning Consolidated Financial Position

Assets, liabilities and net assets

Total assets at the end of the interim period under review increased by ¥9,331 million compared with the end of the prior consolidated fiscal year to ¥230,167 million. This change mainly reflected an increase of ¥7,144 million in cash and deposits, an increase of ¥864 million in rental equipment, and an increase of ¥700 million in construction machine parts.

Total liabilities were ¥142,762 million, an increase of ¥3,360 million compared with the end of the prior consolidated fiscal year. The principal items contributing to this change were an increase of ¥3,058 million in notes and accounts payable-trade and an increase of ¥1,735 million in income taxes payable, and a total decrease of ¥2,208 million in current portion of long-term loans payable and long-term loans payable.

Total net assets came to ¥87,404 million, ¥5,970 million higher than at the end of the prior consolidated fiscal year. This was mainly because of profit attributable to owners of parent for the interim period of ¥6,468 million, and a decrease of ¥1,060 million for dividends from surplus.

(3) Explanation Concerning Future Forecasts Including Projected Consolidated Operating Results

For more details, please refer to the press release "Notification Concerning Revision of Projected Operating Results for the Business Period Ending October 2017" issued on June 2, 2017.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Balance Sheets

(Unit: Millions of yen)

	As of October 31, 2016	As of April 30, 2017
Assets		
Current assets		
Cash and deposits	33,209	40,354
Notes and accounts receivable-trade	36,502	35,860
Electronically recorded monetary claims-operating	3,718	4,409
Securities	200	200
Merchandise and finished goods	693	783
Raw materials and supplies	379	382
Construction machine parts	10,265	10,966
Deferred tax assets	604	754
Other	1,059	1,072
Allowance for doubtful accounts	−689	−718
Total current assets	85,945	94,064
Non-current assets		
Property, plant and equipment		
Rental equipment	189,549	195,075
Accumulated depreciation	−114,596	−119,258
Rental equipment, net	74,953	75,817
Buildings and structures	31,029	31,637
Accumulated depreciation	−18,883	−19,272
Buildings and structures, net	12,145	12,364
Machinery, equipment and vehicles	6,999	7,103
Accumulated depreciation	−5,963	−6,067
Machinery, equipment and vehicles, net	1,036	1,035
Land	35,630	35,623
Other	2,343	2,545
Accumulated depreciation	−1,332	−1,382
Other, net	1,011	1,162
Total property, plant and equipment	124,776	126,004
Intangible assets		
Goodwill	628	557
Other	664	912
Total intangible assets	1,292	1,469
Investments and other assets		
Investment securities	6,911	6,854
Deferred tax assets	419	428
Other	2,216	1,863
Allowance for doubtful accounts	−406	−258
Allowance for investment loss	−320	−260
Total investments and other assets	8,821	8,627
Total non-current assets	134,891	136,102
Total assets	220,836	230,167

(Unit: Millions of yen)

	As of October 31, 2016	As of April 30, 2017
Liabilities		
Current liabilities		
Notes and accounts payable-trade	26,986	30,045
Short-term loans payable	1,194	1,046
Current portion of bonds	40	10
Current portion of long-term loans payable	13,951	12,743
Lease obligations	1,357	1,086
Income taxes payable	2,052	3,787
Provision for bonuses	1,091	1,186
Accounts payable-other	21,079	21,732
Other	2,399	3,108
Total current liabilities	70,152	74,747
Non-current liabilities		
Long-term loans payable	26,644	25,643
Lease obligations	2,700	2,268
Long-term accounts payable-other	38,870	39,017
Provision for directors' retirement benefits	94	100
Net defined benefit liability	234	244
Asset retirement obligations	384	425
Other	321	316
Total non-current liabilities	69,249	68,015
Total liabilities	139,402	142,762
Net assets		
Shareholders' equity		
Capital stock	13,652	13,652
Capital surplus	14,916	14,916
Retained earnings	48,017	53,425
Treasury shares	−2,129	−2,129
Total shareholders' equity	74,458	79,865
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,051	2,138
Deferred gains or losses on hedges	−	0
Foreign currency translation adjustment	164	123
Remeasurements of defined benefit plans	8	8
Total accumulated other comprehensive income	2,225	2,269
Non-controlling interests	4,750	5,269
Total net assets	81,434	87,404
Total liabilities and net assets	220,836	230,167

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

(Quarterly Consolidated Statements of Income)

(Consolidated Interim Period Ended April 30,2017)

(Unit: Millions of yen)

	Six months ended 30-Apr-16	Six months ended 30-Apr-17
Net sales	68,642	79,210
Cost of sales	47,388	53,718
Gross profit	21,254	25,492
Selling, general and administrative expenses	12,649	15,499
Operating income	8,605	9,993
Non-operating income		
Interest income	4	1
Dividend income	68	55
Insurance income	15	35
Rent income	32	38
A receipt bonus	9	7
Foreign exchange gains	—	122
Other	103	220
Total non-operating income	234	481
Non-operating expenses		
Interest expenses	160	133
Loss on sales of notes receivable - trade	7	5
Foreign exchange losses	198	—
Provision of allowance for investment loss	109	—
Other	116	92
Total non-operating expenses	592	231
Ordinary income	8,246	10,242
Extraordinary income		
Gain on sales of non-current assets	8	8
Gain on donation of non-current assets	—	13
Subsidy income	3	3
Gain on sales of investment securities	—	174
Gain on step acquisitions	14	—
Total extraordinary income	26	200
Extraordinary losses		
Loss on sales and retirement of non-current assets	27	63
Loss on valuation of shares of subsidiaries and associates	49	28
Total extraordinary losses	77	91
Profit before income taxes	8,195	10,351
Income taxes-current	2,940	3,547
Income taxes-deferred	15	−197
Total income taxes	2,956	3,349
Profit	5,239	7,001
Profit attributable to non-controlling interests	271	533
Profit attributable to owners of parent	4,967	6,468

(Quarterly Consolidated Statements of Comprehensive Income)

(Consolidated Interim Period Ended April 30,2017)

(Unit: Millions of yen)

	Six months ended 30-Apr-16	Six months ended 30-Apr-17
Profit	5,239	7,001
Other comprehensive income		
Valuation difference on available-for-sale securities	−129	93
Deferred gains or losses on hedges	0	0
Foreign currency translation adjustment	68	−41
Remeasurements of defined benefit plans, net of tax	—	−0
Total other comprehensive income	−60	51
Comprehensive income	5,178	7,053
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	4,907	6,512
Comprehensive income attributable to non-controlling interests	271	540

(3) Quarterly Consolidated Statements of Cash Flows

(Unit: Millions of yen)

	Six months ended 30-Apr-16	Six months ended 30-Apr-17
Cash flows from operating activities		
Profit before income taxes	8,195	10,351
Depreciation	10,221	11,940
Amortization of goodwill	—	71
The amount of cost price transfer with asset sell-off for rentals	483	665
Expenditure by the construction equipment and supplies	−56	−460
Expenditure by the assets acquisition for rentals	−876	−1,381
Increase (decrease) in allowance for doubtful accounts	51	−168
Increase (decrease) in allowance for investment loss	109	—
Increase (decrease) in provision for bonuses	167	94
Increase (decrease) in net defined benefit liability	—	9
Assets buy on the installment plan purchase payment interest for rentals	181	176
Interest and dividend income	−73	−56
Interest expenses	160	133
Foreign exchange losses (gains)	108	−91
Loss (gain) on sales and retirement of non-current assets	18	55
Loss (gain) on sales of investment securities	—	−174
Loss (gain) on step acquisitions	−14	—
Loss on valuation of shares of subsidiaries and associates	49	28
Decrease (increase) in notes and accounts receivable-trade	934	10
Decrease (increase) in inventories	−295	−85
Increase (decrease) in notes and accounts payable-trade	1,216	3,485
Increase (decrease) in accounts payable-other	1,057	1,114
Other, net	−1,115	463
Subtotal	20,524	26,180
Interest and dividend income received	72	56
Interest expenses paid	−349	−309
Income taxes paid	−3,582	−1,812
Net cash provided by (used in) operating activities	16,666	24,114
Cash flows from investing activities		
Payments into time deposits	−0	−60
Purchase of property, plant and equipment	−1,235	−1,527
Proceeds from sales of property, plant and equipment	10	16
Purchase of intangible assets	−58	−259
Purchase of investment securities	−13	−4
Proceeds from sales of investment securities	—	316
Purchase of shares of subsidiaries resulting in change in scope of consolidation	−5,806	—
Payments of loans receivable	−37	−96
Collection of loans receivable	10	11
Other, net	−42	193
Net cash provided by (used in) investing activities	−7,173	−1,409

(Unit: Millions of yen)

	Six months ended 30-Apr-16	Six months ended 30-Apr-17
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	97	−158
Redemption of bonds	—	−30
Proceeds from long-term loans payable	10,110	6,440
Repayments of long-term loans payable	−7,162	−8,701
Repayments of installment payables	−10,520	−10,959
Repayments of lease obligations	−1,018	−1,137
Purchase of treasury shares	−0	−0
Purchase of treasury shares of subsidiaries	—	−0
Cash dividends paid	−706	−1,056
Dividends paid to non-controlling interests	−1	−22
Net cash provided by (used in) financing activities	−9,200	−15,627
Effect of exchange rate change on cash and cash equivalents	27	7
Net increase (decrease) in cash and cash equivalents	319	7,084
Cash and cash equivalents at beginning of period	36,150	33,069
Cash and cash equivalents at end of period	36,469	40,154

(4) Notes Concerning Quarterly Consolidated Financial Statements

(Notes Relating to the Going Concern Assumption)

The Company had no material items to report.

(Notes on Significant Changes in Shareholders' Equity)

The Company had no material items to report.

(Changes in Accounting Policy, Changes in Accounting Estimates, and Restatements)

(Change in Accounting Estimates)

Beginning from the first quarter of the current consolidated fiscal year, Nishiken Co., Ltd., a consolidated subsidiary, has modified the useful lives it applies to its rental equipment.

This change has been applied because Nishiken Co., Ltd. has become a consolidated subsidiary, and is based on comprehensive consideration of the economic useful lives and equipment repair and renewal cycles of similar types of rental equipment that are used under identical circumstances, and brings the useful lives into uniformity with the standard applied in the Kanamoto Group.

As a result of this change, operating income, ordinary income and profit before income taxes for the interim period of the fiscal year ending October 2017 decreased by ¥56 million, respectively, compared with what they otherwise would have been had the useful lives applied in past periods been applied.

The effect of this change on the Company's information by segment is described in the relevant section.

(Supplemental Information)

(Application of the *Implementation Guidance on Recoverability of Deferred Tax Assets*)

Beginning from the first quarter of the current consolidated fiscal year, the Company will apply the *Implementation Guidance on Recoverability of Deferred Tax Assets* (Accounting Standards Board of Japan *Financial Accounting Standards Implementation Guidance No. 26*, revised March 28, 2016).

(Business Segment Information)

[Segment information]

I Interim period of the prior consolidated fiscal year (From November 1, 2015 to April 30, 2016)

1. Information concerning net sales and profit or loss by reporting segment

(Unit: Millions of yen)

	Reporting segment		
	Business related to the Construction Equipment Rental Division	Other Businesses (See note)	Total
Net sales			
Net sales to outside customers	64,311	4,330	68,642
Net sales or transfers between related segments	—	—	—
Total	64,311	4,330	68,642
Segment income	8,249	153	8,403

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

2. Difference between total reporting segment profit or loss and the amount reported on the Quarterly Consolidated Statements of Income, and the main reasons for the difference (Matters Pertaining to Reconciliation of Difference)

(Unit: Millions of yen)

Income	Amount
Reporting segment total	8,249
Income for "Other businesses" classification	153
Other adjustments	201

Operating income reported on the Consolidated Quarterly Statements of Income	8,605

3. Information concerning fixed asset impairment loss and goodwill by reporting segment

In the second quarter consolidated period under review, Nishiken Co., Ltd. has been included in the scope of consolidation.

The amount of the increases in goodwill for the interim period of the current consolidated fiscal year as a result of this event are ¥380 million for business related to the Construction Equipment Rental Division and ¥331 million for other businesses.

II Interim period of the current consolidated fiscal year (From November 1, 2016 to April 30, 2017)

1. Information concerning net sales and profit or loss by reporting segment

(Unit: Millions of yen)

	Reporting segment	Other Businesses (See note)	Total
	Business related to the Construction Equipment Rental Division		
Net sales			
Net sales to outside customers	72,099	7,110	79,210
Net sales or transfers between related segments	—	—	—
Total	72,099	7,110	79,210
Segment income	9,259	534	9,793

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

2. Difference between total reporting segment profit or loss and the amount reported on the Quarterly Consolidated Statements of Income, and the main reasons for the difference (Matters Pertaining to Reconciliation of Difference)

(Unit: Millions of yen)

Income	Amount
Reporting segment total	9,259
Income for “Other businesses” classification	534
Other adjustments	199
Operating income reported on the Consolidated Quarterly Statements of Income	9,993

3. Information concerning fixed asset impairment loss and goodwill by reporting segment

The Company had no material items to report.

4. Information concerning changes in reporting segments etc.

(Change of useful lives)

As described in “Change in Accounting Estimates”, the Company modified the useful lives of rental equipment owned by Nishiken Co., Ltd., a consolidated subsidiary of Kanamoto. As a result, the income for the “Business related to the Construction Equipment Rental Division” for the interim period of the current consolidated fiscal year decreased by ¥56 million compared with what it otherwise would have been had the useful lives applied in past periods been applied.