



Nine-month Consolidated Financial Report for the Fiscal Year ending October 31, 2016 [Japan GAAP]

September 9, 2016

Listed Company Name **Kanamoto Co., Ltd.**
 Company Code Number **9678**
 Listing Exchanges **Tokyo Stock Exchange, Sapporo Stock Exchange**
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Scheduled date for submission of Quarterly Report September 13, 2016
 Scheduled date for commencement of dividend payments –
 Preparation of Quarterly Settlement Supplementary Explanatory Materials No
 Quarterly Earnings Briefings No

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

1. Consolidated Operating Results for the Nine-Month Period of the Fiscal Year Ending October 31, 2016

(November 1, 2015 – July 31, 2016)

(1) Consolidated Operating Results (Cumulative)

(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, 2016: Third quarter	103,422	4.5	10,576	-15.4	10,049	-19.9	5,889	-21.5
Fiscal Year ended October 31, 2015: Third quarter	98,956	6.8	12,498	-2.5	12,546	0.9	7,499	4.2

(Note) Comprehensive income (millions of yen)

Fiscal Year Ending October 31, 2016, Third Quarter	5,935	(-27.3%)
Fiscal Year Ended October 31, 2015, Third Quarter	8,162	(2.1%)

	Net Income per Share	Net Income per Share on a Fully Diluted Basis
	Yen	Yen
Fiscal Year ending October 31, 2016: Third quarter	166.65	—
Fiscal Year ended October 31, 2015: Third quarter	208.08	—

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio
	Millions of yen	Millions of yen	%
Fiscal Year ending October 31, 2016: Third quarter	218,270	78,548	33.9
Fiscal Year ended October 31, 2015	202,919	71,998	34.3

(Reference) Equity (millions of yen)

Fiscal Year Ending October 31, 2016 Third Quarter	73,985
Fiscal Year Ended October 31, 2015	69,588

2. Dividends

	Annual Dividends per Share				
	End of first quarter	End of second quarter	End of third quarter	Year-end	Full-year
Fiscal year ended October 31, 2015	Yen —	Yen 15.00	Yen —	Yen 20.00	Yen 35.00
Fiscal year ending October 31, 2016	—	15.00	—		
Fiscal Year ending October 31, 2016 (Projected)				30.00	45.00

(Note) 1. Has the Company revised its most recently released dividend projection: No

3. Projected Consolidated Operating Results for the Fiscal Year Ending October 2016

(November 1, 2015 – October 31, 2016)

(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	143,200	7.4	14,630	-10.1	14,100	-12.8	8,550	-10.5	241.94

(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: Yes

(b) Changes other than the above: No

(c) Changes in accounting estimates: No

(d) Retrospective restatements: No

(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, 2016 Third Quarter	36,092,241 shares
Fiscal year ended October 31, 2015	36,092,241 shares

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

Fiscal year ending October 31, 2016 Third Quarter	753,079 shares
Fiscal year ended October 31, 2015	752,941 shares

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

Fiscal year ending October 31, 2016 Third Quarter	35,339,234 shares
Fiscal year ended October 31, 2015 Third Quarter	36,039,308 shares

Note: Disclosure concerning status of implementation of quarterly review procedure

This quarterly earnings report is exempt from the quarterly review procedure based on the Financial Instruments and Exchange Act. At the time of disclosure of this quarterly earnings report, the Company has not completed the quarterly review procedure for quarterly financial statements.

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

Note Concerning Forward-Looking Statements

The above projections were prepared based upon information available to the Company at the time the projections were announced as well as various assumptions concerning the future economic and business environment. Actual operating results may differ from the projected figures depending upon various factors in the future. Please refer to "1. Qualitative Information Concerning Quarterly Consolidated Operating Results (3) Explanation Concerning Future Forecasts Including Projected Consolidated Operating Results" on Page 7 of the Attachments for the conditions used as assumptions for the projected operating results and matters to note before using the projected operating results.

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1. Qualitative Information Concerning Quarterly Consolidated Operating Results

(1) Qualitative Information Concerning Consolidated Operating Results

Management environment (From November 1, 2015 to July 31, 2016)

During the third quarter of Kanamoto's current consolidated fiscal year, the business environment maintained a modest recovery trend, supported by continuation of the government's current economic and monetary policy measures. Conditions continued to demand vigilance, however, including developments such as the drop in stock prices and appreciation of the yen that have accompanied the decelerating economic growth in newly developing countries and concerns of a slowdown of the global economy triggered by the effects of Great Britain's vote to withdraw from the EU.

< Third Quarter Operating Results > (From November 1, 2015 to July 31, 2016)

In the construction industry related to the Kanamoto Group, private sector construction investment remained brisk along with construction and equipment investment. Yet even as construction demand for disaster restoration and projects such as the Tokyo Olympics remains vigorous, construction demand in other regions is being affected overall by delays in construction starts, including infrastructure maintenance works, and continues to languish. While a recovery trend can be expected to appear gradually in the future, for now the management environment on the whole continues to be challenging.

Given such circumstances, the Kanamoto Group continued to push ahead with key initiatives based on the various measures in its Medium-term Management Plan (fiscal 2014 - fiscal 2016). Together with expanding its base in the Tokyo metropolitan area and other locations where public and private sector demand is concentrated, the Company took steps to broaden and strengthen its domestic base of operations. These including launching a new Specialized Equipment Engineering Division, comprised of a Tunnel Machinery Section and Water Treatment Machinery Section, as part of the Company's growth strategy.

As a result, net sales for the consolidated nine-month period ended July 31, 2015 rose by 4.5% from the same period of the prior consolidated fiscal year to ¥103,422 million. From an earnings perspective, income reflected the impact of the increased burden for depreciation and amortization resulting from investments in rental and other assets to strengthen Kanamoto's equipment portfolio. As a result, operating income decreased 15.4% from the same period of the prior consolidated fiscal year to ¥10,576 million, ordinary income decreased 19.9% year-on-year to ¥10,049 million, and profit attributable to owners of parent fell 21.5% from the same period one year earlier to ¥5,889 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 core business, construction demand was brisk, primarily for recovery and restoration in the Tohoku Region and infrastructure refurbishment ahead of the Tokyo Olympics. At the same time, net sales have been boosted substantially with the addition of Nishiken Co., Ltd. to the Group's consolidated operations in the Kyushu Region, an area where branch development previously was limited. To support disaster recovery activities following the earthquake that struck Kumamoto City and the surrounding area in Kumamoto Prefecture on April 16, 2016, the Kanamoto Group is responding to restoration in the region with its full capabilities, including strengthening cooperation with Group firms and effective allocation of the Group's management resources.

Used construction equipment sales eased down 4.0% from the corresponding period of the prior consolidated fiscal year, as Kanamoto restricted sales in line with its initial period plan in order to maintain the proper composition of rental assets in the Company's portfolio.

As a result of these actions, net sales for Kanamoto's construction-related businesses for the first nine months of the fiscal year increased 3.3% from the same period of the previous consolidated fiscal year to ¥94,830 million, and operating income declined 17.7% year-on-year to ¥9,872 million.

< Other businesses >

In the Company's other businesses, both steel products-related sales and sales in the information and telecommunications-related division were steady, and the welfare-related business of Nishiken Co., Ltd. has been newly included. Net sales were up 20.3% from the same period of the prior consolidated fiscal year to ¥8,591 million, and operating income increased 72.4% year-on-year to ¥392 million.

< Change in number of branches >

During the third quarter of the current consolidated fiscal year, Kanamoto opened five new branches: the Chusan Branch (Zentsuji City, Kagawa Prefecture), the Shinjo Branch (Shinjo City, Yamagata Prefecture), the Yamanashi Minami Branch (Minamikoma-gun, Yamanashi Prefecture), the Kashiwazaki Branch (Kashiwazaki City, Niigata Prefecture), and the Ishikari Branch (Ishikari City, Hokkaido). The Company did not close any branches.

(2) Qualitative Information Concerning Consolidated Financial Position

Assets, liabilities and net assets

Compared with the end of the prior consolidated fiscal year, total assets at the end of the third quarter under review increased by ¥15,350 million to ¥218,270 million. This change was tempered for the inclusion of Nishiken Co., Ltd. within the scope of consolidation, and mainly reflected increases of ¥8,425 million in rental equipment, ¥2,554 million in buildings and structures, and ¥2,794 million in land, respectively.

Total liabilities were ¥139,721 million, an increase of ¥8,800 million compared with the end of the prior consolidated fiscal year. Like the increase in total assets this was tempered for the new consolidation, with the principal items being increases of ¥4,100 million in long-term loans payable, ¥4,032 million in short-term loans payable and ¥2,313 million in accounts payable-other, respectively, and a decrease of ¥3,200 million in income taxes payable.

Total net assets were ¥78,548 million, ¥6,550 million higher than at the end of the prior consolidated fiscal year. This was mainly because of a third quarter profit of ¥5,889 million and an increase of ¥2,153 million in non-controlling interests, and a decrease of ¥1,236 million as a result of dividends from surplus.

(3) Qualitative Information Concerning Projected Consolidated Operating Results

At this time the Company has not made any changes to the press release “Notification Concerning Revision of Projected Full-Year Operating Results for the Business Period Ending October 2016” released on June 10, 2016.

2. Matters Concerning Summary Information (Notes)

(1) Changes to Material Subsidiaries during the Consolidated Period under Review

The Company had no material items to report.

(2) Application of Special Accounting Method in the Preparation of Quarterly Consolidated Financial Statements

The Company had no material items to report.

(3) Change in Accounting Policy, Change in Accounting Estimates, and Retrospective Restatements

Change in Accounting Policy

(Application of the *Accounting Standard for Business Combinations* and related standards)

Beginning from the first quarter of the current consolidated fiscal year, the Company will apply the *Accounting Standard for Business Combinations* (Accounting Standards Board of Japan Statement No. 21 dated September 13, 2013; “the Business Combinations Accounting Standard”), the *Accounting Standard for Consolidated Financial Statements* (Accounting Standards Board of Japan Statement No. 22 dated September 13, 2013; “the Consolidation Accounting Standard”), and the *Accounting Standard for Business Divestitures* (Accounting Standards Board of Japan Statement No. 7 dated September 13, 2013; “the Business Divestitures Accounting Standard”), and related standards, and together with reporting as capital surplus the difference that results from the change of Kanamoto’s equity interest in subsidiaries over which it will continue to exercise control, the Company will change to the method of reporting costs related to business combinations as an expense in the consolidated fiscal year in which they are incurred. Furthermore, for business combinations executed on or after the beginning of the first quarter of the current consolidated fiscal year, the Company has changed its reporting method to reflect adjustments to the allocated amounts of business combination costs resulting from the final determination of the provisional accounting treatment in the quarterly consolidated financial statements of the quarter in which the date of the business combination falls. In addition, the Company has revised its presentation of profit etc., and revised its presentation from minority interests to non-controlling interests. To reflect these changes in presentation, the quarterly consolidated financial statements for the third quarter of the fiscal year ended October 31, 2015 and the consolidated financial statements for the prior consolidated fiscal year have been restated to reflect a consistent presentation format.

Application of the accounting standards is subject to the transitional treatment set forth in Clause 58-2(4) of the Business Combinations Accounting Standard, Clause 44-5(4) of the Consolidation Accounting Standard, and Clause 57-4(4) of the Business Divestitures Accounting Standard, and the Company will apply these accounting standards in the future from the beginning of the first quarter of the current consolidated fiscal year.

The effect of this change on the quarterly consolidated financial statements for the nine-month period of the current consolidated fiscal year is not material.

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

In conjunction with amendment of the Corporation Tax Law, certain consolidated subsidiaries have applied the *Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016* (Accounting Standards Board of Japan Practical Issue Task Force Report No. 32, June 17, 2016) in the third quarter of the current consolidated fiscal year, and have changed their method of depreciation related to buildings and accompanying facilities and structures that were acquired on or after April 1, 2016 from the declining balance method to the straight-line depreciation.

The effect of this change on the quarterly consolidated financial statements for the nine-month period of the current consolidated fiscal year is not material.

(4) Supplemental Information

(Effect of the change in the corporation tax rate etc.)

Under the Act for Partial Revision of the Income Tax Act Etc. (Act No. 15 of 2016) and the Act for Partial Revision of the Local Tax Act (Act No. 13 of 2016), which were promulgated on March 31, 2016, Japan’s corporate tax rate and business tax rate will be reduced in the consolidated fiscal year beginning on or after April 1, 2016. In conjunction with this change, the statutory effective tax rate used to calculate deferred tax assets and

deferred tax liabilities will be revised from 32.0% applied in the past to 30.6% for temporary differences expected to be eliminated in the consolidated fiscal years that begin on November 1, 2016 and November 1, 2017, and from 32.0% to 30.4% for temporary differences expected to be eliminated in the consolidated fiscal year that begins on November 1, 2018.

As a result of applying this statutory effective tax rate, the amount for deferred tax assets, (amount after deducting deferred tax liabilities) will decrease by ¥10 million, and the amount for income taxes-deferred and the amount for valuation difference on available-for-sale securities will increase by ¥48 million and ¥37 million, respectively.

3. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Unit: Millions of yen)

	Prior Consolidated Fiscal Year (As of October 31, 2015)	Current Consolidated Fiscal Year Third Quarter (As of July 31, 2016)
Assets		
Current assets		
Cash and deposits	35,900	34,297
Notes and accounts receivable - trade	37,251	38,023
Securities	350	200
Merchandise and finished goods	672	813
Raw materials and supplies	272	351
Construction machine parts	8,214	9,800
Deferred tax assets	610	428
Other	623	851
Allowance for doubtful accounts	-701	-702
Total current assets	83,195	84,064
Non-current assets		
Property, plant and equipment		
Rental equipment	164,914	187,602
Accumulated depreciation	-97,573	-111,834
Rental equipment, net	67,341	75,767
Buildings and structures	25,840	30,752
Accumulated depreciation	-16,275	-18,633
Buildings and structures, net	9,564	12,118
Machinery, equipment and vehicles	5,714	6,954
Accumulated depreciation	-4,965	-5,899
Machinery, equipment and vehicles, net	749	1,055
Land	32,354	35,148
Other	2,539	1,939
Accumulated depreciation	-1,112	-1,311
Other, net	1,426	628
Total property, plant and equipment	111,436	124,718
Intangible assets		
Goodwill	—	675
Other	316	396
Total intangible assets	316	1,072
Investments and other assets		
Investment securities	6,317	6,473
Deferred tax assets	285	350
Other	2,008	2,336
Allowance for doubtful accounts	-528	-526
Allowance for investment loss	-110	-219
Total investments and other assets	7,972	8,414
Total non-current assets	119,724	134,205
Total assets	202,919	218,270

(Unit: Millions of yen)

	Prior Consolidated Fiscal Year (As of October 31, 2015)	Current Consolidated Fiscal Year Third Quarter (As of July 31, 2016)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	27,775	27,098
Short-term loans payable	727	4,760
Current portion of bonds	—	80
Current portion of long-term loans payable	12,550	13,747
Lease obligations	1,585	1,418
Income taxes payable	3,711	511
Provision for bonuses	856	790
Accounts payable - other	19,233	21,546
Other	3,093	2,605
Total current liabilities	69,534	72,557
Non-current liabilities		
Bonds payable	—	10
Long-term loans payable	19,614	23,714
Lease obligations	1,831	2,790
Long-term accounts payable - other	39,254	39,791
Provision for directors' retirement benefits	—	90
Net defined benefit liability	—	253
Asset retirement obligations	317	381
Other	368	130
Total non-current liabilities	61,387	67,163
Total liabilities	130,921	139,721
Net assets		
Shareholders' equity		
Capital stock	13,652	13,652
Capital surplus	14,916	14,916
Retained earnings	41,156	45,808
Treasury shares	-2,128	-2,129
Total shareholders' equity	67,597	72,249
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,948	1,598
Deferred gains or losses on hedges	-0	-0
Foreign currency translation adjustment	43	137
Total accumulated other comprehensive income	1,991	1,735
Non-controlling interests	2,409	4,563
Total net assets	71,998	78,548
Total liabilities and net Assets	202,919	218,270

(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income
(Quarterly Consolidated Statements of Income)
(Consolidated Nine-month Period ended July 31, 2016)

(Unit: Millions of yen)

	Prior Consolidated Fiscal Year Third Quarter (From November 1, 2014 to July 31, 2015)	Current Consolidated Fiscal Year Third Quarter (From November 1, 2015 to July 31, 2016)
Net sales	98,956	103,422
Cost of sales	68,116	72,706
Gross profit	30,840	30,716
Selling, general and administrative expenses	18,341	20,139
Operating income	12,498	10,576
Non-operating income		
Interest income	5	5
Dividend income	109	135
Insurance income	29	20
Rent income	50	52
A receipt bonus	24	10
Foreign exchange gains	190	—
Reversal of allowance for doubtful accounts	3	30
Other	145	147
Total non-operating income	558	400
Non-operating expenses		
Interest expenses	383	208
Loss on sales of notes payable	14	9
Foreign exchange losses	—	453
Provision of allowance for investment loss	—	109
Other	113	145
Total non-operating expenses	510	927
Ordinary income	12,546	10,049
Extraordinary income		
Gain on sales of non-current assets	8	17
Subsidy income	12	6
Compensation income for damage	118	—
Gain on step acquisitions	—	14
Total extraordinary income	138	39
Extraordinary losses		
Loss on sales and retirement of non-current assets	123	65
Impairment loss	42	—
Loss on valuation of investment securities	27	—
Loss on valuation of shares of subsidiaries and associates	—	49
Total extraordinary losses	193	115
Income before income taxes and minority interests	12,491	9,973
Income taxes - current	4,473	3,468
Income taxes - deferred	305	301
Total income taxes	4,779	3,769
Profit	7,712	6,204
Profit attributable to non-controlling interests	213	314
Profit attributable to owners of parent	7,499	5,889

(Quarterly Consolidated Statements of Comprehensive Income)
(Consolidated Nine-month Period ended July 31, 2016)

(Unit: Millions of yen)

	Prior Consolidated Fiscal Year Third Quarter (From November 1, 2014 to July 31, 2015)	Current Consolidated Fiscal Year Third Quarter (From November 1, 2015 to July 31, 2016)
Profit	7,712	6,204
Other comprehensive income		
Valuation difference on available-for-sale securities	436	-362
Deferred gains or losses on hedges	—	-0
Foreign currency translation adjustment	12	93
Total other comprehensive income	449	-268
Comprehensive income	8,162	5,935
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	7,952	5,625
Comprehensive income attributable to non-controlling interests	210	310

(3) Notes Concerning Quarterly Consolidated Financial Statements

(Notes Relating to the Going Concern Assumption)

The Company had no material items to report.

(Note on Significant Changes to Shareholders' Equity)

The Company had no material items to report.

(Business Segment Information)

[Segment information]

I Third quarter of the prior consolidated fiscal year (From November 1, 2014 to July 31, 2015)

1. Information concerning net sales and profit or loss of each 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	91,813	7,143	98,956
Net sales or transfers between related segments	—	—	—
Total	91,813	7,143	98,956
Segment profit	11,992	227	12,220

(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	11,992
Income for "Other businesses" classification	227
Other adjustments	278
Operating income reported on the Consolidated Quarterly Statements of Income	12,498

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

In the "Business related to the Construction Equipment Rental Division" segment, the Company recorded an impairment loss on goodwill of ¥42million

II Third quarter of the current consolidated fiscal year (From November 1, 2015 to July 31, 2016)

1. Information concerning net sales and profit or loss of each 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	94,830	8,591	103,422
Net sales or transfers between related segments	—	—	—
Total	94,830	8,591	103,422
Segment profit	9,872	392	10,264

(Note) The “Other businesses” classification encompasses business segments not included in the reporting segment, and includes business related to the Steel Sales Division, business related to the Information Products Division, welfare-related business 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	9,872
Income for “Other businesses” classification	392
Other adjustments	312
Operating income reported on the Consolidated Quarterly Statements of Income	10,576

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

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

The amount of the increases in goodwill for the third quarter 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.

4. Information concerning changes in reporting segments etc.

(Application of the *Accounting Standard for Business Combinations* and related standards)

As described in Change in Accounting Policy, beginning from the first quarter of the current consolidated accounting year the Company will apply the *Accounting Standard for Business Combinations* and related standards, and together with reporting as capital surplus the difference that results from the change of Kanamoto's equity interest in subsidiaries over which it will continue to exercise control, the Company has changed to the method of reporting costs related to business combinations as an expense in the consolidated fiscal year in which they are incurred. In addition, for business combinations executed on or after the beginning of the first quarter of the current consolidated fiscal year, the Company has changed its reporting method to reflect adjustments to the allocated amounts of business combination costs resulting from the final determination of the provisional accounting treatment in the quarterly consolidated financial statements of the quarter in which the date of the business combination falls.

The effect of this change in accounting policy on the Company's income by segment for the third quarter of the current consolidated fiscal year is not material.