



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

March 10, 2017

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 March 16, 2017
 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 Three-Month Period of the Fiscal Year Ending October 31, 2017

(November 1, 2016 – January 31, 2017)

(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, 2017: First quarter	38,937	11.0	4,490	10.3	4,848	19.3	3,128	23.5
Fiscal Year ended October 31, 2016: First quarter	35,079	-3.4	4,069	-35.5	4,063	-36.2	2,533	-37.6

(Note) Comprehensive income (millions of yen)

Fiscal Year Ending October 31, 2017, First Quarter 3,662 (60.2%)
 Fiscal Year Ended October 31, 2016, First Quarter 2,286 (-49.6%)

	Net Income per Share	Net Income per Share on a Fully Diluted Basis
	Yen	Yen
Fiscal Year ending October 31, 2017: First quarter	88.52	—
Fiscal Year ended October 31, 2016: First quarter	71.70	—

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio
	Millions of yen	Millions of yen	%
Fiscal Year ending October 31, 2017: First quarter	226,872	84,013	34.8
Fiscal Year ended October 31, 2016	220,836	81,434	34.7

(Reference) Equity (millions of yen)

Fiscal Year Ending October 31, 2017 First Quarter 78,994
 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
Fiscal year ended October 31, 2016	Yen —	Yen 15.00	Yen —	Yen 30.00	Yen 45.00
Fiscal year ending October 31, 2017	—				
Fiscal Year ending October 31, 2017 (Projected)		15.00	—	35.00	50.00

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

3. Projected Consolidated Operating Results for the Fiscal Year Ending October 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	%	%
Interim (cumulative)	77,000	12.2	8,410	-2.3	8,190	-0.7	4,950	-0.4	140.07
Full year	153,000	5.6	15,820	4.5	15,580	8.2	9,460	16.8	267.69

(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 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) 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, 2017 First 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 First Quarter: 753,179 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 First Quarter: 35,339,129 shares

Fiscal year ended October 31, 2016: 35,339,300 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) Qualitative Information Concerning 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, 2016 to January 31, 2017)

During the consolidated three-month period ended January 31, 2017, Japan's economy overall maintained its gradual recovery trend. Various government stimulus policies had the intended positive effect, despite weakness evident in some areas such as personal consumption, which remained flat. On the other hand, the effect on the domestic economy from various external events, including the change in political administration in the United States, the economic slowdown in China and newly developing countries, and Great Britain's pending withdrawal from the EU, remained a concern, and circumstances that demanded a prudent stance continued.

< First Quarter Operating Results > (From November 1, 2016 to January 31, 2017)

In the construction industry related to the Kanamoto Group, demand generally remained brisk, as private sector capital investment was driven by improved corporate earnings, and spending on public works projects continued at a steady pace as the result of the government's economic policy.

Given such circumstances, the Kanamoto Group resolutely executed the various measures in its Long-term Corporate Management Plan BULL55 (FY2014 - FY2018), its action plan aimed at achieving the Group's continuous growth. In conjunction with this effort, to ensure strong earnings Kanamoto also repositioned existing assets while working to create its new system for utilizing rental assets even more efficiently, which will further ensure the certainty of these measures.

As a result, net sales for the consolidated three-month period increased 11.0% compared with the same period one year earlier to ¥38,937 million. In terms of earnings, operating income increased 10.3% from the same period of the previous consolidated fiscal year to ¥4,490 million, ordinary income increased 19.3% year-on-year to ¥4,848 million, and first quarter profit attributable to owners of parent rose 23.5% year-on-year to ¥3,128 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 strong in the Tokyo metropolitan area, centered on infrastructure reconstruction and repairs for the Tokyo Olympics. The Kanamoto Group also worked to assist disaster recovery efforts following the earthquake in Kumamoto and heavy rainfall damage in Hokkaido, twin disasters that occurred last year. In the Kyushu Region, both net sales and operating income for the consolidated three-month period expanded substantially, boosted by the addition of Nishiken Co., Ltd. to consolidated operating results from the third quarter of the prior consolidated fiscal year.

To maintain an appropriate asset portfolio, Kanamoto systematically and continuously sells rental equipment after a set number of years has passed since the assets were placed in service. Because the Company has deferred asset sales until the second quarter or later in order to respond to disaster recovery efforts, net sales in conjunction with asset sales in the consolidated three-month period fell 56.2% from the same period of the prior consolidated fiscal year.

As a result of the above factors, first quarter net sales for Kanamoto's construction-related businesses improved 9.2% from the same period of the prior consolidated fiscal year to ¥35,538 million, and operating income increased 4.4% year-on-year to ¥4,070 million.

< Other businesses >

In the Company'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 net sales rose 33.8% from the same period of the previous consolidated fiscal year to ¥3,399 million and operating income jumped 372.3% year-on-year to ¥317 million, reflecting the new addition of the welfare-related business.

< Change in number of branches >

The Company opened one new branch during the first quarter consolidated accounting period. The Company did not close any branches.

Newly established: Kuji Branch (Kuji City, Iwate Prefecture)

(2) Qualitative Information Concerning Consolidated Financial Position

Assets, liabilities and net assets

Total assets at the end of the first quarter under review increased by ¥6,036 million compared with the end of the prior consolidated fiscal year to ¥226,872 million. This change mainly reflected an increase of ¥936 million in cash and deposits, an increase of ¥3,816 million in rental equipment, and an increase of ¥845 million in construction machine parts.

Total liabilities were ¥142,859 million, an increase of ¥3,457 million compared with the end of the prior consolidated fiscal year. The principal items contributing to this change were an increase of ¥2,238 million in long-term accounts payable-other, an increase of ¥955 million in accounts payable-other, and an increase of ¥940 million in notes and accounts payable-trade, respectively, and a decrease of ¥700 million in income taxes payable.

Total net assets were ¥84,013 million, ¥2,579 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 first quarter of ¥3,128 million, and a decrease of ¥1,060 million for dividends from surplus.

(3) Qualitative Information Concerning Projected Consolidated Operating Results

There are no revisions to the full-year projected operating results that the Company announced in the Financial Statements Bulletin for the Fiscal Year Ended October 31, 2016 (Japan GAAP) released on December 9, 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 the Quarterly Consolidated Financial Statements

The Company had no material items to report.

(3) Changes in Accounting Principles, Changes in Accounting Estimates, and Restatements

(Changes 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 of Kanamoto, 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 first quarter of the fiscal year ending October 2017 decreased by ¥33 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.

(4) 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).

3. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	As of October 31, 2016	As of January 31, 2017
Assets		
Current assets		
Cash and deposits	33,209	34,146
Notes and accounts receivable - trade	36,502	35,659
Electronically recorded monetary claims - operating	3,718	4,437
Securities	200	200
Merchandise and finished goods	693	751
Raw materials and supplies	379	356
Construction machine parts	10,265	11,111
Deferred tax assets	604	386
Other	1,059	1,164
Allowance for doubtful accounts	-689	-741
Total current assets	85,945	87,471
Non-current assets		
Property, plant and equipment		
Rental equipment	189,549	197,486
Accumulated depreciation	-114,596	-118,716
Rental equipment, net	74,953	78,769
Buildings and structures	31,029	31,463
Accumulated depreciation	-18,883	-19,129
Buildings and structures, net	12,145	12,333
Machinery, equipment and vehicles	6,999	7,053
Accumulated depreciation	-5,963	-6,021
Machinery, equipment and vehicles, net	1,036	1,031
Land	35,630	35,623
Other	2,343	2,623
Accumulated depreciation	-1,332	-1,352
Other, net	1,011	1,270
Total property, plant and equipment	124,776	129,029
Intangible assets		
Goodwill	628	592
Other	664	670
Total intangible assets	1,292	1,262
Investments and other assets		
Investment securities	6,911	7,386
Deferred tax assets	419	444
Other	2,216	1,829
Allowance for doubtful accounts	-406	-231
Allowance for investment loss	-320	-320
Total investments and other assets	8,821	9,108
Total non-current assets	134,891	139,400
Total assets	220,836	226,872

(Millions of yen)

	As of October 31, 2016	As of January 31, 2017
Liabilities		
Current liabilities		
Notes and accounts payable - trade	26,986	27,927
Short-term loans payable	1,194	1,111
Current portion of bonds	40	40
Current portion of long-term loans payable	13,951	13,734
Lease obligations	1,357	1,362
Income taxes payable	2,052	1,352
Provision for bonuses	1,091	489
Accounts payable-other	21,079	22,034
Other	2,399	2,708
Total current liabilities	70,152	70,760
Non-current liabilities		
Long-term loans payable	26,644	27,103
Lease obligations	2,700	2,701
Long-term accounts payable - other	38,870	41,108
Provision for directors' retirement benefits	94	97
Net defined benefit liability	234	238
Asset retirement obligations	384	422
Other	321	426
Total noncurrent liabilities	69,249	72,098
Total liabilities	139,402	142,859
Net assets		
Shareholders' equity		
Capital stock	13,652	13,652
Capital surplus	14,916	14,916
Retained earnings	48,017	50,085
Treasury shares	-2,129	-2,129
Total shareholders' equity	74,458	76,526
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,051	2,349
Deferred gains or losses on hedges	—	0
Foreign currency translation adjustment	164	110
Remeasurements of defined benefit plans	8	8
Total accumulated other comprehensive income	2,225	2,468
Non-controlling interests	4,750	5,018
Total net assets	81,434	84,013
Total liabilities and net assets	220,836	226,872

(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income
(Quarterly Consolidated Statements of Income)
(Consolidated Three-month Period ended January 31, 2017)

(Millions of yen)

	Three months ended January 31, 2016	Three months ended January 31, 2017
Net sales	35,079	38,937
Cost of sales	24,782	26,806
Gross profit	10,297	12,130
Selling, general and administrative expenses	6,228	7,640
Operating income	4,069	4,490
Non-operating income		
Interest income	1	0
Dividend income	52	54
Insurance income	12	10
Rent income	16	19
A receipt bonus	9	0
Foreign exchange gains	—	204
Reversal of allowance for doubtful accounts	18	29
Other	53	140
Total non-operating income	164	459
Non-operating expenses		
Interest expenses	93	59
Loss on sales of notes receivable - trade	3	2
Other	72	38
Total non-operating expenses	170	100
Ordinary income	4,063	4,848
Extraordinary income		
Gain on sales of non-current assets	3	3
Gain on donation of non-current assets	—	13
Subsidy income	2	—
Gain on sales of investment securities	—	0
Total extraordinary income	5	17
Extraordinary losses		
Loss on sales and retirement of non-current assets	15	29
Total extraordinary losses	15	29
Profit before income taxes	4,053	4,837
Income taxes-current	1,072	1,259
Income taxes-deferred	325	165
Total income taxes	1,397	1,425
Profit	2,655	3,412
Profit attributable to non-controlling interests	121	283
Profit attributable to owners of parent	2,533	3,128

(Quarterly Consolidated Statements of Comprehensive Income)
(Consolidated Three-month Period ended January 31, 2017)

(Millions of yen)

	Three months ended January 31, 2016	Three months ended January 31, 2017
Profit	2,655	3,412
Other comprehensive income		
Valuation difference on available-for-sale securities	-401	304
Deferred gains or losses on hedges	0	0
Foreign currency translation adjustment	32	-54
Remeasurements of defined benefit plans, net of tax	—	-0
Total other comprehensive income	-368	250
Comprehensive income	2,286	3,662
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,165	3,371
Comprehensive income attributable to non-controlling interests	121	290

(3) 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.

(Business Segment Information)

[Segment information]

I First quarter of the prior consolidated fiscal year (From November 1, 2015 to January 31, 2016)

1. Information on the amount of net sales and profit or loss by reporting segment

(Millions of yen)

	Reportable segments	Others	Total
	Business related to the Construction Equipment Rental Division		
Sales			
Revenues from external customers	32,540	2,539	35,079
Transactions with other segments	—	—	—
Net sales	32,540	2,539	35,079
Operating income (loss)	3,900	67	3,967

(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)

(Millions of yen)

Income	Amount
Reporting segment total	3,900
Income for "Other businesses" classification	67
Other adjustments	101
Operating income reported on the Consolidated Quarterly Statements of Income	4,069

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

The Company had no material items to report.

II First quarter of the current consolidated fiscal year (From November 1, 2016 to January 31, 2017)

1. Information on the amount of net sales and profit or loss by reporting segment

(Millions of yen)

	Reportable segments	Others	Total
	Business related to the Construction Equipment Rental Division		
Sales			
Revenues from external customers	35,538	3,399	38,937
Transactions with other segments	—	—	—
Net sales	35,538	3,399	38,937
Operating income (loss)	4,070	317	4,388

(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)

(Millions of yen)

Income	Amount
Reporting segment total	4,070
Income for "Other businesses" classification	317
Other adjustments	101
Operating income reported on the Consolidated Quarterly Statements of Income	4,490

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.

(Changes in useful lives)

As described in "Change in Accounting Estimates", the Company has changed 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 first three months of the current consolidated fiscal year decreased by ¥33 million compared with what it otherwise would have been had the useful lives applied in past periods been applied.