



Six-month Consolidated Financial Report for the Fiscal Year ending October 31, 2020 [Japan GAAP]

June 5, 2020

Listed Company Name	Kanamoto Co., Ltd.	
Company Code Number	9678	
Listing Exchanges	Tokyo Stock Exchange, Sapporo Stock Exchange	
(URL	https://www.kanamoto.co.jp)	
Representative	Tetsuo Kanamoto	President and CEO
Inquiries	Hiroyuki Isono	Director and Corporate Officer, Division Manager, Accounting Division TEL 81-11-209-1600
Scheduled date for submission of Quarterly Report		June 11, 2020
Scheduled date for commencement of dividend payments		July 3, 2020
Preparation of Quarterly Settlement Supplementary Explanatory Materials		Yes
Quarterly Earnings Briefings		Yes (For institutional investors and analysts)

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

1. Consolidated Operating Results for the Six-Month Period of the Fiscal Year Ending October 31, 2020

(November 1, 2019 – April 30, 2020)

(1) Consolidated Operating Results (Cumulative)

(Percentages show the change from the prior year)

	Net Sales		Operating profit		Ordinary profit		Profit Attributable to Owners of Parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Fiscal Year ending October 31, 2020: Second quarter	91,414	-0.5	9,239	-18.0	9,046	-21.4	5,344	-26.3
Fiscal Year ended October 31, 2019: Second quarter	91,856	7.6	11,266	2.5	11,511	3.2	7,255	7.7

(Note) Comprehensive income (millions of yen)

Fiscal Year Ending October 31, 2020, Second Quarter 5,327 (-29.5%)

Fiscal Year Ended October 31, 2019, Second Quarter 7,560 (5.4%)

	Net Income per Share	Net Income per Share on a Fully Diluted Basis
	Yen	Yen
Fiscal Year ending October 31, 2020: Second quarter	138.33	—
Fiscal Year ended October 31, 2019: Second quarter	187.62	—

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio
	Millions of yen	Millions of yen	%
Fiscal Year ending October 31, 2020: Second quarter	277,035	124,549	42.5
Fiscal Year ended October 31, 2019	268,182	121,779	43.1

(Reference) Equity (millions of yen)

Fiscal Year Ending October 31, 2020, Second Quarter 117,735

Fiscal Year Ended October 31, 2019 115,507

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, 2019	Yen —	Yen 25.00	Yen —	Yen 40.00	Yen 65.00
Fiscal year ending October 31, 2020	—	25.00			
Fiscal Year ending October 31, 2020 (Projected)			—	40.00	65.00

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

3. Projected Consolidated Operating Results for the Fiscal Year Ending October 2020

(November 1, 2019 – October 31, 2020)

(Percentages show the change from the prior year)

	Net Sales		Operating profit		Ordinary profit		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	182,700	1.1	16,100	-9.8	16,400	-10.3	9,900	-13.4	256.26

(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: Yes
- (c) Changes in accounting estimates: Yes
- (d) Retrospective restatements: No
- (Note) These changes fall under Article 10-5 of the *Regulation on the Terminology, Forms, and Preparation Methods of Quarterly Consolidated Financial Statements*. For details please refer to “2. Quarterly Consolidated Financial Statements and Notes (4) Notes Concerning Quarterly Consolidated Financial Statements (Change in Accounting Policy)” on page 13 of the Attachments.
- (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, 2020 Second Quarter: | 38,742,241 shares |
| Fiscal year ended October 31, 2019: | 38,742,241 shares |
- (b) Number of shares of treasury stock at the end of the period
- | | |
|---|----------------|
| Fiscal year ending October 31, 2020 Second Quarter: | 489,542 shares |
| Fiscal year ended October 31, 2019: | 3,259 shares |
- (c) Average number of shares during the period (consolidated year-to-date)
- | | |
|---|-------------------|
| Fiscal year ending October 31, 2020 Second Quarter: | 38,633,054 shares |
| Fiscal year ended October 31, 2019 Second Quarter: | 38,672,755 shares |

Note: Quarterly earnings reports are not subject to quarterly review by certified public accountants or independent account auditors.

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 6 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 Monday, June 8, 2020.
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

During the first two quarters of Kanamoto's current consolidated fiscal year, Japan's economy followed a moderate recovery trend despite weak exports and production, as employment and income conditions continued to improve against the backdrop of strong corporate earnings. Conditions grew increasingly severe because of the global coronavirus pandemic, however, and some weakness in economic activity and turmoil in the stock market were evident as well.

In the construction industry related to the Kanamoto Group, public investment remained firm, focused on disaster prevention and mitigation-related works in response to recent devastating natural disasters and on maintenance and renewal of Japan's aging social infrastructure, and the business environment remained relatively strong, with private sector construction investment and redevelopment work in the Tokyo metropolitan area being notable bright spots. On the other hand, the spread of the COVID-19 coronavirus infection began to have a negative impact, with some construction being suspended or postponed.

Given such circumstances, to realize its new Medium-Term Management Plan (FY2020-FY2024) "Creative 60" the Kanamoto Group moved forward with its three priority policies of expanding its domestic base of operations, developing its overseas business, and optimizing internal operational processes. Kanamoto also strove to target and focus on certain markets in response to the business environment, while maintaining its growth trajectory, and strengthened its ability to respond to industry restructuring and frequent occurrence of natural disasters in the future.

For the interim period of the current consolidated fiscal year, the Company reported net sales of ¥91,414 million, down 0.5% compared with the same period of the previous consolidated fiscal year. In terms of earnings, operating profit decreased 18.0% from the same period of the prior consolidated fiscal year to ¥9,239 million, ordinary profit fell 21.4% year-on-year to ¥9,046 million, and interim period profit attributable to owners of parent declined 26.3% year-on-year to ¥5,344 million, reflecting investment in the human resources who will build the Company in the future and strict control over used construction equipment sales aimed at boosting profitability of the construction equipment rental business.

Operating 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, construction equipment rental demand was supported by activities such as infrastructure-related works, works related to disaster prevention and mitigation, energy-related works, and redevelopment works, and remained brisk as a whole. Coronavirus infections caused work suspensions or postponements at some construction sites, however, and Kanamoto's business was affected as a result.

In addition, along with strengthening its support organization for natural disaster restoration and reconstruction operations, the Kanamoto Group strengthened its response capabilities by further enhancing its product lineup and focusing on appropriate rental asset deployment, to enable a rapid response to future changes in demand in each region.

Used construction equipment sales fell 13.7% from the corresponding period of the prior consolidated fiscal year.

As a result of the above factors, interim period net sales for Kanamoto's construction-related businesses edged up 0.6% from the prior consolidated fiscal year to ¥83,062 million, and operating profit decreased 18.5% year-on-year to ¥8,594 million.

< Other businesses >

In the Company's other businesses, sales from welfare-related businesses expanded steadily, but both the steel products-related business and information and telecommunications-related business were also affected by the coronavirus pandemic. As a result, net sales slipped 9.8% from the same period of the prior consolidated fiscal year to ¥8,351 million, and operating profit contracted by 15.3% year-on-year to ¥428 million.

(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 ¥8,852 million compared with the end of the prior consolidated fiscal year to ¥277,035 million. This change mainly reflected an increase in rental equipment of ¥8,150 million.

Total liabilities were ¥152,485 million, an increase of ¥6,082 million compared with the end of the prior consolidated fiscal year. The principal items contributing to this change were an increase of ¥875 million in accounts payable-other and an increase of ¥4,940 million in long-term accounts payable-other, and a decrease of ¥1,060 million in income taxes payable.

Total net assets came to ¥124,549 million, ¥2,770 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 ¥5,344 million, a decrease of ¥986 million from the acquisition of obtain treasury stock, and a decrease of ¥1,549 million for dividends from surplus.

Consolidated cash flows

Cash and cash equivalents (“cash”) at the end of the consolidated interim period increased by ¥2,847 million compared with the end of the prior consolidated fiscal year to ¥46,358 million. Cash flows for the consolidated interim period under review are discussed below.

(Cash flows from operating activities)

Cash generated from operating activities decreased 17.3% from the same period of the prior consolidated fiscal year to ¥21,108 million.

This mainly reflected profit before income taxes of ¥8,754 million, depreciation and amortization of ¥14,312 million, an increase of ¥2,661 million in accounts receivable, trade, and decreases of ¥2,456 million in expenditure by the assets acquisition for rentals and ¥3,980 million in income taxes paid, respectively.

(Cash flows from investing activities)

Cash flow used in investing activities was ¥1,751 million, compared with ¥1,649 million in the same period of the prior consolidated fiscal year.

This mainly reflected the purchase of property, plant and equipment of ¥1,325 million.

(Cash flows from financing activities)

Cash flow used in investing activities was ¥16,522 million, compared with ¥10,038 million in the same period of the prior consolidated fiscal year.

This mainly reflected proceeds from long-term loans payable of ¥6,300 million, and repayments of installment payables of ¥13,779 million, repayments of long-term loans payable of ¥6,305 million, and cash dividends paid of ¥1,548 million, respectively.

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

Because it is difficult at this time to reasonably estimate the effect on Kanamoto’s businesses and operating results in the third quarter and beyond from the spread of the COVID-19 coronavirus, the Company has not made any revisions to the full-year projected operating results it announced in the Financial Statements Bulletin for the Fiscal Year Ended October 31, 2019 (Japan GAAP) released on December 6, 2019.

Going forward, Kanamoto will promptly disclose changes to its projected operating results if it has judged revisions are necessary.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Balance Sheets

(Unit: Millions of yen)

	As of October 31, 2019	As of April 30, 2020
Assets		
Current assets		
Cash and deposits	43,751	46,598
Notes and accounts receivable - trade	39,574	37,286
Electronically recorded monetary claims - operating	6,347	5,973
Merchandise and finished goods	1,017	1,244
Costs on uncompleted construction contracts	33	45
Raw materials and supplies	800	1,154
Construction machine parts	17,567	17,618
Other	2,527	2,879
Allowance for doubtful accounts	-225	-210
Total current assets	111,393	112,589
Non-current assets		
Property, plant and equipment		
Rental equipment	220,812	232,093
Accumulated depreciation	-134,957	-138,087
Rental equipment, net	85,855	94,005
Buildings and structures	37,453	38,424
Accumulated depreciation	-22,060	-22,550
Buildings and structures, net	15,393	15,874
Machinery, equipment and vehicles	7,828	7,918
Accumulated depreciation	-6,377	-6,414
Machinery, equipment and vehicles, net	1,451	1,504
Land	37,211	37,308
Other	2,857	2,536
Accumulated depreciation	-1,684	-1,727
Other, net	1,173	809
Total property, plant and equipment	141,084	149,502
Intangible assets		
Goodwill	201	130
Other	1,478	1,478
Total intangible assets	1,680	1,608
Investments and other assets		
Investment securities	9,319	8,607
Deferred tax assets	1,714	2,069
Other	3,344	3,285
Allowance for doubtful accounts	-353	-627
Total investments and other assets	14,024	13,334
Total non-current assets	156,789	164,445
Total assets	268,182	277,035

(Unit: Millions of yen)

	As of October 31, 2019	As of April 30, 2020
Liabilities		
Current liabilities		
Notes and accounts payable - trade	33,657	33,380
Short-term loans payable	1,120	1,660
Current portion of long-term loans payable	11,147	10,731
Lease obligations	885	1,060
Income taxes payable	4,245	3,184
Provision for bonuses	1,320	1,458
Accounts payable - other	23,370	24,246
Other	2,772	3,155
Total current liabilities	78,519	78,875
Non-current liabilities		
Long-term loans payable	17,206	17,616
Lease obligations	1,800	2,103
Long-term accounts payable - other	48,043	52,984
Net defined benefit liability	285	337
Asset retirement obligations	492	507
Other	55	61
Total non-current liabilities	67,883	73,609
Total liabilities	146,403	152,485
Net assets		
Shareholders' equity		
Capital stock	17,829	17,829
Capital surplus	19,324	19,324
Retained earnings	76,638	80,433
Treasury shares	-9	-996
Total shareholders' equity	113,783	116,591
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,918	1,334
Deferred gains or losses on hedges	0	-
Foreign currency translation adjustment	-192	-164
Remeasurements of defined benefit plans	-2	-25
Total accumulated other comprehensive income	1,723	1,144
Non-controlling interests	6,272	6,814
Total net assets	121,779	124,549
Total liabilities and net assets	268,182	277,035

(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income
(Quarterly Consolidated Statements of Income)
(Consolidated Interim Period ended April 30)

(Unit: Millions of yen)

	Six months ended April 30, 2019	Six months ended April 30, 2020
Net sales	91,856	91,414
Cost of sales	63,350	64,075
Gross profit	28,505	27,338
Selling, general and administrative expenses	17,239	18,098
Operating profit	11,266	9,239
Non-operating income		
Interest income	12	18
Dividend income	64	72
Rent income	40	44
Other	322	273
Total non-operating income	441	409
Non-operating expenses		
Interest expenses	46	40
Foreign exchange losses	0	115
Share issuance cost	46	—
Provision of allowance for doubtful accounts	2	328
Loss on cancellation of leases	23	37
Other	77	80
Total non-operating expenses	195	602
Ordinary profit	11,511	9,046
Extraordinary income		
Gain on sales of non-current assets	26	4
Subsidy income	19	12
Gain on sales of investment securities	14	—
Total extraordinary income	61	16
Extraordinary losses		
Loss on sales and retirement of non-current assets	67	114
Loss on valuation of shares of subsidiaries and associates	3	66
Loss on valuation of investment securities	—	127
Total extraordinary losses	70	308
Profit before income taxes	11,501	8,754
Income taxes – current	3,819	2,919
Income taxes – deferred	-162	-84
Total income taxes	3,657	2,835
Profit	7,844	5,918
Profit attributable to non-controlling interests	588	574
Profit attributable to owners of parent	7,255	5,344

(Quarterly Consolidated Statements of Comprehensive Income)
(Consolidated Interim Period Ended April 30)

(Unit: Millions of yen)

	Six months ended April 30, 2019	Six months ended April 30, 2020
Profit	7,844	5,918
Other comprehensive income		
Valuation difference on available-for-sale securities	-250	-589
Deferred gains or losses on hedges	-0	-0
Foreign currency translation adjustment	-33	27
Remeasurements of defined benefit plans, net of tax	-0	-29
Total other comprehensive income	-284	-590
Comprehensive income	7,560	5,327
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	6,972	4,764
Comprehensive income attributable to non-controlling interests	587	562

(3) Quarterly Consolidated Statements of Cash Flows

(Unit: Millions of yen)

	Six months ended April 30, 2019	Six months ended April 30, 2020
Cash flows from operating activities		
Profit before income taxes	11,501	8,754
Depreciation	13,462	14,312
Amortization of goodwill	71	71
Loss (gain) on sales and retirement of non-current assets	41	110
The amount of cost price transfer with asset sell-off for rentals	516	511
Expenditure by the construction equipment and supplies	-434	-781
Expenditure by the assets acquisition for rentals	-2,520	-2,456
Loss (gain) on valuation of investment securities	—	127
Loss (gain) on sales of investment securities	-14	—
Loss on valuation of shares of subsidiaries and associates	3	66
Increase (decrease) in allowance for doubtful accounts	36	258
Increase (decrease) in provision for bonuses	159	137
Increase (decrease) in net defined benefit liability	-1	8
Interest and dividend income	-77	-91
Assets buy on the installment plan purchase payment interest for rentals	169	224
Interest expenses	46	40
Foreign exchange losses (gains)	-32	110
Decrease (increase) in notes and accounts receivable – trade	-4,361	2,661
Decrease (increase) in inventories	-391	-593
Increase (decrease) in notes and accounts payable – trade	7,002	-541
Increase (decrease) in accounts payable – other	1,675	2,022
Other, net	490	311
Subtotal	27,344	25,266
Interest and dividend income received	69	80
Interest expenses paid	-212	-259
Income taxes paid	-1,673	-3,980
Net cash provided by (used in) operating activities	25,528	21,108
Cash flows from investing activities		
Payments into time deposits	-190	-190
Proceeds from withdrawal of time deposits	190	190
Purchase of property, plant and equipment	-1,433	-1,325
Proceeds from sales of property, plant and equipment	27	5
Purchase of intangible assets	-185	-189
Purchase of investment securities	-4	-3
Proceeds from sales of investment securities	23	—
Purchase of shares of subsidiaries	-161	-191
Purchase of shares of subsidiaries and associates	—	-133
Payments of loans receivable	—	-50
Collection of loans receivable	33	127
Collection of long-term accounts receivable-other	40	21
Other, net	10	-11
Net cash provided by (used in) investing activities	-1,649	-1,751

(Unit: Millions of yen)

	Six months ended April 30, 2019	Six months ended April 30, 2020
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	-95	540
Proceeds from long-term loans payable	1,060	6,300
Repayments of long-term loans payable	-6,684	-6,305
Repayments of installment payables	-12,295	-13,779
Repayments of lease obligations	-523	-721
Proceeds from issuance of common shares	8,353	—
Proceeds from sales of treasury shares	2,364	—
Purchase of treasury shares	-0	-986
Cash dividends paid	-1,411	-1,548
Dividends paid to non-controlling interests	-22	-20
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	-783	—
Other, net	—	-0
Net cash provided by (used in) financing activities	-10,038	-16,522
Effect of exchange rate change on cash and cash equivalents	-0	13
Net increase (decrease) in cash and cash equivalents	13,840	2,847
Cash and cash equivalents at beginning of period	36,733	43,511
Increase in cash and cash equivalents from newly consolidated subsidiary	390	—
Cash and cash equivalents at end of period	50,963	46,358

(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 to Shareholders' Equity)

The Company had no material items to report.

(Change in Accounting Policy)

(Changes in accounting policies that are difficult to separate from changes in accounting estimates)

Traditionally, certain of the Company's domestic consolidated subsidiaries depreciated rental assets by applying the declining balance method. Beginning from the first quarter consolidated accounting period, these subsidiaries changed their depreciation method to the straight-line depreciation method.

This change was based on the judgment the straight-line method is a reasonable method to appropriately reflect actual conditions of future use as the long-term, stable use of rental assets is achieved through actions to "enhance the environment to promote Group logistics" and other measures, and was the result of using formulation of the Kanamoto Group's new Medium-Term Corporate Management Plan "Creative 60", which positions "strengthening intra-Group cooperation and aligning vectors up to the strategic and tactical levels" as a key component, as an opportunity to review the depreciation method.

As a result, operating profit, ordinary profit and profit before income taxes for the interim period ended April 30 increased by ¥497 million, respectively, compared with what they otherwise would have been had the traditional depreciation method been applied. The effect of this change on the Company's information by segment is described in the relevant section.

(Business Segment Information)

I Interim period of the prior consolidated fiscal year (From November 1, 2018 to April 30, 2019)

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	82,602	9,253	91,856
Net sales or transfers between related segments	—	—	—
Total	82,602	9,253	91,856
Segment profit	10,550	505	11,056

(Note) The “Other businesses” classification encompasses business segments not included in the reporting segment, and includes business related to the Steel Sales Division and 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	10,550
Income for “Other businesses” classification	505
Other adjustments	209
Operating profit reported on the Consolidated Quarterly Statements of Income	11,266

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

The Company had no material items to report.

II Interim period of the current consolidated fiscal year (From November 1, 2019 to April 30, 2020)

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	83,062	8,351	91,414
Net sales or transfers between related segments	—	—	—
Total	83,062	8,351	91,414
Segment profit	8,594	428	9,023

(Note) The “Other businesses” classification encompasses business segments not included in the reporting segment, and includes business related to the Steel Sales Division and 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	8,594
Income for “Other businesses” classification	428
Other adjustments	216
Operating profit reported on the Consolidated Quarterly Statements of Income	9,239

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

The Company had no material items to report.

4. Matters concerning changes to reporting segments

(Change in the depreciation method of property, plant and equipment)

As described in Change in Accounting Policy, beginning from the first quarter consolidated accounting period certain domestic subsidiaries have changed their method for depreciation of rental equipment from the declining balance method to the straight-line depreciation method.

In conjunction with this change, the income of the Business related to the Construction Equipment Rental Division reporting segment for the interim consolidated accounting period under review increased by ¥497 million compared with what it otherwise would have been had the accounting standard used in past periods been applied.