

## **Independent Auditor's Report**

To the Board of Directors of Nagoya Railroad Co., Ltd.:

We have audited the accompanying consolidated financial statements of Nagoya Railroad Co., Ltd. (the "Company") and its consolidated subsidiaries, which comprise the consolidated balance sheets as at 31 March 2015 and 2016 and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### **Management's Responsibility for the Consolidated Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and its consolidated subsidiaries as at 31 March 2015 and 2016 and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

### **Convenience Translation**

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended 31 March 2016 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 of the Notes to Consolidated Financial Statements.

KPMG AZSA LLC  
9 August 2016  
Nagoya, Japan

**Nagoya Railroad Co., Ltd. and Consolidated Subsidiaries**

**Consolidated Balance Sheets**

31 March 2015 and 2016

|  | Millions of yen |             | Thousands of<br>U.S. dollars<br>(Note 1) |
|--|-----------------|-------------|--|
|  | 2015            | 2016        | 2016                                     |
| <b>ASSETS</b>  |                 |             |  |
| <b>Current assets:</b>   |                 |             |  |
| Cash and cash equivalents (Note 3)                                 | ¥ 15,776        | ¥ 16,922    | \$ 149,752                               |
| Short-term investments (Notes 3 and 4)                             | 731             | 794         | 7,027                                    |
| Trade notes and accounts receivable (Note 3)                       | 54,064          | 55,711      | 493,018                                  |
| Inventories (Note 5)   | 62,410          | 64,029      | 566,628                                  |
| Deferred tax assets (Note 14)                                      | 5,387           | 3,411       | 30,186                                   |
| Others   | 19,076          | 17,260      | 152,743                                  |
| Less allowance for doubtful accounts                               | (824)           | (203)       | (1,797)                                  |
| Total current assets   | 156,620         | 157,924     | 1,397,557                                |
| <br>   |                 |             |  |
| <b>Property and equipment: (Notes 6, 7 and 8)</b>                  |                 |             |  |
| Land   | 363,959         | 359,804     | 3,184,106                                |
| Buildings and structures   | 680,184         | 677,307     | 5,993,867                                |
| Machinery, equipment and vehicles                                  | 301,720         | 307,164     | 2,718,266                                |
| Other properties   | 63,846          | 65,146      | 576,513                                  |
| Construction in progress   | 22,750          | 27,785      | 245,885                                  |
|  | 1,432,459       | 1,437,206   | 12,718,637                               |
| Less accumulated depreciation                                      | (656,193)       | (663,008)   | (5,867,327)                              |
| Property and equipment, net  | 776,266         | 774,198     | 6,851,310                                |
| <br>   |                 |             |  |
| <b>Investments and other assets:</b>                               |                 |             |  |
| Investment securities (Notes 3 and 4)                              | 72,121          | 66,317      | 586,876                                  |
| Investments in unconsolidated subsidiaries and affiliates (Note 3) | 28,420          | 30,763      | 272,239                                  |
| Deferred tax assets (Note 14)                                      | 9,056           | 10,573      | 93,566                                   |
| Intangible assets  | 10,069          | 10,605      | 93,850                                   |
| Other assets   | 16,236          | 16,239      | 143,708                                  |
| Allowance for doubtful accounts                                    | (1,802)         | (2,012)     | (17,805)                                 |
| Total investments and other assets                                 | 134,100         | 132,485     | 1,172,434                                |
| <br>   |                 |             |  |
| <b>Total assets</b>  | ¥ 1,066,986     | ¥ 1,064,607 | \$ 9,421,301                             |

See Notes to Consolidated Financial Statements.

**Nagoya Railroad Co., Ltd. and Consolidated Subsidiaries**

**Consolidated Balance Sheets**

31 March 2015 and 2016

|   | Millions of yen    |                    | Thousands of<br>U.S. dollars<br>(Note 1) |
|---|--------------------|--------------------|--|
|   | 2015               | 2016               | 2016                                     |
| <b>LIABILITIES AND NET ASSETS</b>   |                    |                    |  |
| <b>Current liabilities:</b>   |                    |                    |  |
| Short-term borrowings (Notes 3 and 8)   | ¥ 33,646           | ¥ 26,287           | \$ 232,628                               |
| Current portion of long-term debt (Notes 3 and 8)   | 52,588             | 59,114             | 523,133                                  |
| Trade notes and accounts payable (Note 3)   | 74,234             | 69,403             | 614,186                                  |
| Accrued expenses  | 15,119             | 15,472             | 136,920                                  |
| Income taxes payable  | 4,822              | 6,246              | 55,274                                   |
| Provisions  | 2,012              | 2,142              | 18,956                                   |
| Other current liabilities   | 73,970             | 75,386             | 667,133                                  |
| Total current liabilities   | <u>256,391</u>     | <u>254,050</u>     | <u>2,248,230</u>                         |
| <b>Non-current liabilities:</b>   |                    |                    |  |
| Long-term debt (Notes 3 and 8)  | 389,114            | 372,968            | 3,300,602                                |
| Accrued retirement benefits for directors and corporate auditors  | 1,630              | 1,738              | 15,381                                   |
| Deferred tax liabilities (Note 14)  | 6,443              | 3,638              | 32,195                                   |
| Deferred tax liabilities for land revaluation   | 57,515             | 54,245             | 480,044                                  |
| Provisions  | 8,391              | 8,564              | 75,788                                   |
| Employee retirement benefit liability (Note 9)  | 36,408             | 37,340             | 330,442                                  |
| Other non-current liabilities   | 19,609             | 18,516             | 163,858                                  |
| Total non-current liabilities   | <u>519,110</u>     | <u>497,009</u>     | <u>4,398,310</u>                         |
| Total liabilities   | <u>775,501</u>     | <u>751,059</u>     | <u>6,646,540</u>                         |
| <b>Contingent liabilities (Notes 10 and 11)</b>   |                    |                    |  |
| <b>Net assets:</b>  |                    |                    |  |
| <b>Shareholders' equity: (Notes 13 and 17)</b>  |                    |                    |  |
| Common stock: authorised - 1,800,000 thousand shares<br>issued - 919,773 thousand shares in 2015 and 2016 | 88,864             | 88,864             | 786,407                                  |
| Capital surplus   | 23,107             | 23,042             | 203,911                                  |
| Retained earnings   | 63,237             | 80,615             | 713,407                                  |
| Treasury stock - at cost: 202 thousand shares in 2015<br>and 449 thousand shares in 2016                  | (51)               | (170)              | (1,504)                                  |
| Total shareholders' equity  | <u>175,157</u>     | <u>192,351</u>     | <u>1,702,221</u>                         |
| <b>Accumulated other comprehensive income (loss):</b>   |                    |                    |  |
| Net unrealised gains on available-for-sale securities   | 23,910             | 20,355             | 180,133                                  |
| Deferred gains and losses on hedges   | (189)              | (615)              | (5,443)                                  |
| Land revaluation increment  | 75,748             | 82,538             | 730,425                                  |
| Foreign currency translation adjustments  | (9)                | (9)                | (80)                                     |
| Retirement benefit adjustments  | (2,285)            | (3,628)            | (32,106)                                 |
| Total accumulated other comprehensive income (loss)   | <u>97,175</u>      | <u>98,641</u>      | <u>872,929</u>                           |
| <b>Non-controlling interests</b>  | <u>19,153</u>      | <u>22,556</u>      | <u>199,611</u>                           |
| Total net assets  | <u>291,485</u>     | <u>313,548</u>     | <u>2,774,761</u>                         |
| <b>Total liabilities and net assets</b>   | <u>¥ 1,066,986</u> | <u>¥ 1,064,607</u> | <u>\$ 9,421,301</u>                      |

**Nagoya Railroad Co., Ltd. and Consolidated Subsidiaries**

**Consolidated Statements of Income**

For the Years Ended 31 March 2015 and 2016

|  | Millions of yen |           | Thousands of<br>U.S. dollars<br>(Note 1) |
|--|-----------------|-----------|--|
|  | 2015            | 2016      | 2016                                     |
| <b>Operating revenues (Note 15)</b>                        | ¥ 609,380       | ¥ 610,154 | \$ 5,399,593                             |
| <b>Operating expenses</b>                                  |                 |           |  |
| Transportation, other services and cost of sales           | 521,593         | 514,051   | 4,549,124                                |
| Selling, general and administrative expenses               | 49,714          | 51,238    | 453,434                                  |
| Total operating expenses                                   | 571,307         | 565,289   | 5,002,558                                |
| <b>Operating income</b>                                    | 38,073          | 44,865    | 397,035                                  |
| <b>Other income (expenses):</b>                            |                 |           |  |
| Interest and dividend income                               | 1,200           | 1,367     | 12,097                                   |
| Interest expense   | (5,580)         | (4,855)   | (42,964)                                 |
| Equity in net earnings of affiliates                       | 2,526           | 3,054     | 27,027                                   |
| Impairment loss on fixed assets (Note 6)                   | (2,274)         | (5,970)   | (52,832)                                 |
| Loss on sale or disposition of property and equipment, net | (2,259)         | (706)     | (6,248)                                  |
| Gain on contributions for construction (Note 2(k))         | 2,305           | 1,771     | 15,673                                   |
| Loss on reduction of property and equipment (Note 2(k))    | (2,206)         | (1,584)   | (14,018)                                 |
| Provision for loss on liquidation                          | (514)           | (554)     | (4,903)                                  |
| Others, net  | (1,488)         | 1,985     | 17,567                                   |
| Other income (expenses), net                               | (8,290)         | (5,492)   | (48,601)                                 |
| <b>Profit before income taxes</b>                          | 29,783          | 39,373    | 348,434                                  |
| <b>Income taxes:</b>                                       |                 |           |  |
| Current  | 7,869           | 9,878     | 87,416                                   |
| Deferred   | 2,175           | 1,526     | 13,505                                   |
| Total income taxes   | 10,044          | 11,404    | 100,921                                  |
| <b>Profit</b>  | 19,739          | 27,969    | 247,513                                  |
| <b>Profit attributable to:</b>                             |                 |           |  |
| Owners of the parent                                       | 17,789          | 24,533    | 217,106                                  |
| Non-controlling interests                                  | 1,950           | 3,436     | 30,407                                   |
| Total profit   | ¥ 19,739        | ¥ 27,969  | \$ 247,513                               |
| <b>Per share:</b>  |                 |           |  |
| Net income:  |                 |           |  |
| - Basic  | ¥ 19.67         | ¥ 26.68   | \$ 0.24                                  |
| - Diluted  | 17.70           | 23.30     | 0.21                                     |
| Cash dividends   | 4.50            | 5.00      | 0.04                                     |

See Notes to Consolidated Financial Statements.

**Nagoya Railroad Co., Ltd. and Consolidated Subsidiaries**

**Consolidated Statements of Comprehensive Income**

For the Years Ended 31 March 2015 and 2016

|  | Millions of yen |                 | Thousands of<br>U.S. dollars<br>(Note 1) |
|--|-----------------|-----------------|--|
|  | 2015            | 2016            | 2016                                     |
| <b>Profit</b>  | ¥ 19,739        | ¥ 27,969        | \$ 247,513                               |
| <b>Other comprehensive income (Note 16):</b>   |                 |                 |  |
| Net unrealised gains and losses on available-for-sale securities                           | 10,544          | (3,447)         | (30,504)                                 |
| Deferred gains and losses on hedges  | (213)           | (432)           | (3,823)                                  |
| Land revaluation increment   | 6,951           | 3,883           | 34,363                                   |
| Foreign currency translation adjustments   | 19              | —               | —  |
| Retirement benefit adjustments   | 1,512           | (947)           | (8,381)                                  |
| Share of other comprehensive income of affiliates accounted<br>for using the equity method | 788             | (399)           | (3,531)                                  |
| Total other comprehensive income   | <u>19,601</u>   | <u>(1,342)</u>  | <u>(11,876)</u>                          |
| <b>Comprehensive income</b>  | <u>¥ 39,340</u> | <u>¥ 26,627</u> | <u>\$ 235,637</u>                        |
| <b>Comprehensive income attributable to:</b>   |                 |                 |  |
| Owners of the parent   | ¥ 36,879        | ¥ 22,984        | \$ 203,398                               |
| Non-controlling interests  | 2,461           | 3,643           | 32,239                                   |
| Total comprehensive income   | <u>¥ 39,340</u> | <u>¥ 26,627</u> | <u>\$ 235,637</u>                        |

See Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Net Assets

For the Years Ended 31 March 2015 and 2016

|  | Shareholders' equity                                 |              |                 |                   |                | Accumulated other comprehensive income |   |  |                            |  | Total net assets               |  |                           |                  |
|--|--|--------------|-----------------|-------------------|----------------|--|---|--|----------------------------|--|--------------------------------|--|---------------------------|------------------|
|  | Number of shares of common stock issued<br>Thousands | Common stock | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity             | Net unrealised gains on available-for-sale securities | Deferred gains and losses on hedges<br>Millions of yen | Land revaluation increment | Foreign currency translation adjustments | Retirement benefit adjustments | Total accumulated other comprehensive income | Non-controlling interests | Total net assets |
|  |  |              |                 |                   |                |  |   |  |                            |  |                                |  |                           |                  |
| <b>Balance as of 1 April 2014</b>  | 889,340  | ¥ 85,136     | ¥ 19,379        | ¥ 53,096          | ¥ (108)        | ¥ 157,503                              | ¥ 12,844  | ¥ 3  | ¥ 67,160                   | ¥ (28)                                   | ¥ (3,740)                      | ¥ 76,239                                     | ¥ 17,810                  | ¥ 251,552        |
| Cumulative effects of changes in accounting policies   | —  | —            | —               | (2,203)           | —              | (2,203)                                | —   | —  | —                          | —  | —                              | —  | —                         | (2,490)          |
| Balance as of the beginning of the period reflecting changes in accounting policies                          | 889,340  | 85,136       | 19,379          | 50,893            | (108)          | 155,300                                | 12,844  | 3  | 67,160                     | (28)                                     | (3,740)                        | 76,239                                       | 17,523                    | 249,062          |
| Profit attributable to owners of the parent  | —  | —            | —               | 17,789            | —              | 17,789                                 | —   | —  | —                          | —  | —                              | —  | —                         | 17,789           |
| Issuance of new shares   | 30,433   | 3,728        | —               | (3,556)           | —              | 7,456                                  | —   | —  | —                          | —  | —                              | —  | —                         | 7,456            |
| Cash dividends   | —  | —            | —               | (1,846)           | —              | (1,846)                                | —   | —  | —                          | —  | —                              | —  | —                         | (3,556)          |
| Reversal for land revaluation increment  | —  | —            | 43              | (43)              | —              | —                                      | —   | —  | —                          | —  | —                              | —  | —                         | (1,846)          |
| Transfer from retained earnings to capital surplus   | —  | —            | —               | —                 | 57             | 57                                     | —   | —  | —                          | —  | —                              | —  | —                         | —                |
| Issuance of treasury stock upon conversion of convertible bonds and other, net of fractional shares acquired | —  | —            | (43)            | —                 | —              | —                                      | —   | —  | —                          | —  | —                              | —  | —                         | —                |
| Net changes in items other than shareholders' equity for the year  | —  | —            | —               | —                 | —              | 11,066                                 | —   | (192)  | 8,588                      | 19                                       | 1,455                          | 20,936                                       | 1,630                     | 14               |
| <b>Balance as of 31 March 2015</b>   | 919,773  | 88,864       | 23,107          | 63,237            | (51)           | 175,157                                | 23,910  | (189)  | 75,748                     | (9)                                      | (2,285)                        | 97,175                                       | 19,153                    | 291,485          |
| Cumulative effects of changes in accounting policies   | —  | —            | —               | —                 | —              | —                                      | —   | —  | —                          | —  | —                              | —  | —                         | —                |
| Balance as of the beginning of the period reflecting changes in accounting policies                          | 919,773  | 88,864       | 23,107          | 63,237            | (51)           | 175,157                                | 23,910  | (189)  | 75,748                     | (9)                                      | (2,285)                        | 97,175                                       | 19,153                    | 291,485          |
| Profit attributable to owners of the parent  | —  | —            | —               | 24,533            | —              | 24,533                                 | —   | —  | —                          | —  | —                              | —  | —                         | 24,533           |
| Issuance of new shares   | —  | —            | —               | (4,139)           | —              | (4,139)                                | —   | —  | —                          | —  | —                              | —  | —                         | (4,139)          |
| Cash dividends   | —  | —            | —               | (3,016)           | —              | (3,016)                                | —   | —  | —                          | —  | —                              | —  | —                         | (3,016)          |
| Reversal for land revaluation increment  | —  | —            | —               | —                 | —              | —                                      | —   | —  | —                          | —  | —                              | —  | —                         | —                |
| Transfer from retained earnings to capital surplus   | —  | —            | —               | —                 | (119)          | (119)                                  | —   | —  | —                          | —  | —                              | —  | —                         | (119)            |
| Issuance of treasury stock upon conversion of convertible bonds and other, net of fractional shares acquired | —  | —            | (65)            | —                 | —              | (65)                                   | —   | —  | —                          | —  | —                              | —  | —                         | (65)             |
| Change in ownership interest of parent related to transactions with non-controlling interests                | —  | —            | —               | —                 | —              | —                                      | (3,555)   | (426)  | 6,790                      | —  | (1,343)                        | 1,466  | 3,403                     | 4,869            |
| Net changes in items other than shareholders' equity for the year  | —  | —            | (65)            | —                 | —              | (65)                                   | —   | —  | —                          | —  | —                              | —  | —                         | —                |
| <b>Balance as of 31 March 2016</b>   | 919,773  | 88,864       | 23,042          | 80,615            | (170)          | 192,251                                | 20,355  | (615)  | 82,538                     | (9)                                      | (3,628)                        | 98,641                                       | 22,556                    | 313,548          |

|  | Shareholders' equity |                 |                   |                |                            | Accumulated other comprehensive income                |                                     |                            |  |                                | Total net assets                             |                           |                  |
|--|----------------------|-----------------|-------------------|----------------|----------------------------|---|-------------------------------------|----------------------------|--|--------------------------------|--|---------------------------|------------------|
|  | Common stock         | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity | Net unrealised gains on available-for-sale securities | Deferred gains and losses on hedges | Land revaluation increment | Foreign currency translation adjustments | Retirement benefit adjustments | Total accumulated other comprehensive income | Non-controlling interests | Total net assets |
|  |                      |                 |                   |                |                            |   |                                     |                            |  |                                |  |                           |                  |
| <b>Balance as of 1 April 2015</b>  | \$ 786,407           | \$ 204,487      | \$ 559,619        | \$ (451)       | \$ 1,550,062               | \$ 211,593  | \$ (1,673)                          | \$ 670,337                 | \$ (80)                                  | \$ (20,221)                    | \$ 859,956                                   | \$ 169,496                | \$ 2,579,514     |
| Cumulative effects of changes in accounting policies   | —                    | —               | —                 | —              | —                          | —   | —                                   | —                          | —  | —                              | —  | —                         | —                |
| Balance as of the beginning of the period reflecting changes in accounting policies                          | 786,407              | 204,487         | 559,619           | (451)          | 1,550,062                  | 211,593   | (1,673)                             | 670,337                    | (80)                                     | (20,221)                       | 859,956                                      | 169,496                   | 2,579,514        |
| Profit attributable to owners of the parent  | —                    | —               | 217,106           | —              | 217,106                    | —   | —                                   | —                          | —  | —                              | —  | —                         | 217,106          |
| Issuance of new shares   | —                    | —               | —                 | —              | —                          | —   | —                                   | —                          | —  | —                              | —  | —                         | —                |
| Cash dividends   | —                    | —               | (36,628)          | —              | (36,628)                   | —   | —                                   | —                          | —  | —                              | —  | —                         | (36,628)         |
| Reversal for land revaluation increment  | —                    | —               | (26,690)          | —              | (26,690)                   | —   | —                                   | —                          | —  | —                              | —  | —                         | (26,690)         |
| Transfer from retained earnings to capital surplus   | —                    | —               | —                 | —              | —                          | —   | —                                   | —                          | —  | —                              | —  | —                         | —                |
| Issuance of treasury stock upon conversion of convertible bonds and other, net of fractional shares acquired | —                    | —               | —                 | (1,053)        | (1,053)                    | —   | —                                   | —                          | —  | —                              | —  | —                         | —                |
| Change in ownership interest of parent related to transactions with non-controlling interests                | —                    | (576)           | —                 | —              | (576)                      | —   | —                                   | —                          | —  | —                              | —  | —                         | (576)            |
| Net changes in items other than shareholders' equity for the year  | —                    | —               | —                 | —              | —                          | (31,460)  | (3,770)                             | 60,088                     | —  | (11,885)                       | 12,973                                       | 30,115                    | 43,088           |
| <b>Balance as of 31 March 2016</b>   | \$ 786,407           | \$ 203,911      | \$ 713,407        | \$ (1,504)     | \$ 1,702,221               | \$ 180,133  | \$ (5,443)                          | \$ 730,425                 | \$ (80)                                  | \$ (32,106)                    | \$ 872,929                                   | \$ 199,611                | \$ 2,774,761     |

See Notes to Consolidated Financial Statements.

**Nagoya Railroad Co., Ltd. and Consolidated Subsidiaries**

**Consolidated Statements of Cash Flows**

For the Years Ended 31 March 2015 and 2016

|  | Millions of yen |          | Thousands of<br>U.S. dollars<br>(Note 1) |
|--|-----------------|----------|--|
|  | 2015            | 2016     | 2016                                     |
| <b>Cash flows from operating activities:</b>                 |                 |          |  |
| Profit before income taxes                                   | ¥ 29,783        | ¥ 39,373 | \$ 348,434                               |
| Adjustments for:   |                 |          |  |
| Depreciation and amortisation                                | 38,708          | 38,914   | 344,372                                  |
| Impairment loss on fixed assets                              | 2,274           | 5,970    | 52,832                                   |
| Loss on sale or disposition of property and equipment, net   | 2,643           | 1,215    | 10,752                                   |
| Gain on contributions for construction                       | (2,305)         | (1,771)  | (15,673)                                 |
| Increase (decrease) in employee retirement benefit liability | 4,120           | (774)    | (6,850)                                  |
| Decrease (increase) in trade notes and accounts receivable   | 2,657           | (2,440)  | (21,593)                                 |
| Decrease (increase) in inventories                           | 2,878           | (3,827)  | (33,867)                                 |
| Decrease in trade notes and accounts payable                 | (537)           | (3,729)  | (33,000)                                 |
| Others, net  | 3,096           | 5,055    | 44,735                                   |
| Subtotal   | 83,317          | 77,986   | 690,142                                  |
| Interest and dividends received                              | 1,538           | 1,851    | 16,381                                   |
| Interest paid  | (5,770)         | (4,880)  | (43,186)                                 |
| Extra retirement benefits paid                               | (20)            | (1)      | (9)                                      |
| Income taxes paid  | (8,685)         | (7,427)  | (65,726)                                 |
| Net cash provided by operating activities                    | 70,380          | 67,529   | 597,602                                  |
| <b>Cash flows from investing activities:</b>                 |                 |          |  |
| Purchases of property and equipment                          | (47,876)        | (51,954) | (459,770)                                |
| Proceeds from sales of property and equipment                | 3,994           | 6,038    | 53,434                                   |
| Proceeds for contributions for construction                  | 9,443           | 6,731    | 59,566                                   |
| Purchases of investments securities                          | (822)           | (898)    | (7,947)                                  |
| Proceeds from sales or redemptions of investment securities  | 1,138           | 1,168    | 10,336                                   |
| Collections of loans receivable                              | 851             | 741      | 6,558                                    |
| Others, net  | 342             | (1,952)  | (17,274)                                 |
| Net cash used in investing activities                        | (32,930)        | (40,126) | (355,097)                                |
| <b>Cash flows from financing activities:</b>                 |                 |          |  |
| Increase in long-term debt                                   | 99,137          | 57,373   | 507,726                                  |
| Repayment of long-term debt                                  | (102,868)       | (71,778) | (635,204)                                |
| Net decrease in short-term borrowings                        | (27,222)        | (7,310)  | (64,690)                                 |
| Dividends paid to shareholders                               | (3,544)         | (4,133)  | (36,575)                                 |
| Dividends paid to non-controlling shareholders               | (518)           | (171)    | (1,513)                                  |
| Others, net  | (79)            | (238)    | (2,107)                                  |
| Net cash used in financing activities                        | (35,094)        | (26,257) | (232,363)                                |
| Effect of exchange rate changes on cash and cash equivalents | 15              | —        | —  |
| Net increase in cash and cash equivalents                    | 2,371           | 1,146    | 10,142                                   |
| Cash and cash equivalents at beginning of year               | 13,405          | 15,776   | 139,610                                  |
| Cash and cash equivalents at end of year                     | ¥ 15,776        | ¥ 16,922 | \$ 149,752                               |

See Notes to Consolidated Financial Statements.

## **1. Basis of consolidated financial statements**

The accompanying consolidated financial statements of Nagoya Railroad Co., Ltd. (the “Company”) and its consolidated subsidiaries (together with the Company, the “Group”) have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in accordance with accounting principles generally accepted in Japan (“Japanese GAAP”), which are different in certain respects as to the application and disclosure requirements from International Financial Reporting Standards.

The accompanying consolidated financial statements have been restructured and translated into English from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Japanese Financial Instruments and Exchange Act. In preparing these consolidated financial statements, certain reclassifications have been made to the consolidated financial statements issued domestically in order to present them in a form that is more familiar to readers outside Japan. Certain supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements. In addition, certain comparative figures have been reclassified to conform to the current year’s presentation.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan, using the approximate rate prevailing at 31 March 2016, which was ¥113 to U.S. \$1.00. Such translations should not be construed as a representation that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

## **2. Summary of significant accounting policies**

### **(a) Basis of consolidation**

The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries. Investments in significant unconsolidated subsidiaries and affiliated companies are accounted for using the equity method. Investments in unconsolidated subsidiaries and affiliated companies not accounted for using the equity method are stated at cost. If the equity method of accounting had been applied to investments in these companies, the effect on the accompanying consolidated financial statements would have been immaterial.

The difference between the acquisition cost of investments in subsidiaries and the underlying equity in the net assets, adjusted based on the fair value at the time of acquisition, is principally deferred as goodwill and amortised on a straight-line basis principally over ten years. At 31 March 2015 and 2016, goodwill of ¥1,295 million and ¥1,093 million (\$9,673 thousand), respectively, were included in intangible assets in the accompanying consolidated balance sheets.

All significant intercompany accounts and transactions have been eliminated on consolidation. All material unrealised profits included in assets resulting from transactions within the Group have also been eliminated.



The number of consolidated subsidiaries, unconsolidated subsidiaries and affiliated companies for the years ended 31 March 2015 and 2016 were as follows.

|   | <u>2015</u> | <u>2016</u> |
|---|-------------|-------------|
| Consolidated subsidiaries   | 123         | 125         |
| Unconsolidated subsidiaries accounted for using the equity method | —           | —           |
| Affiliated companies accounted for using the equity method        | 15          | 15          |
| Unconsolidated subsidiaries stated at cost                        | 7           | 8           |
| Affiliated companies stated at cost                               | 12          | 12          |

At both 31 March 2015 and 2016, the fiscal year-end dates of eight consolidated subsidiaries differed from the consolidated fiscal year-end date of the Company, which is 31 March. Because the difference in year-end dates was not more than three months, the Company has consolidated the subsidiaries' accounts as of each of their year-end dates. Significant transactions for the period between each of such subsidiaries fiscal year-end dates and the Company's year-end date have been adjusted on consolidation.

**(b) Cash equivalents**

The Group considers highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents.

**(c) Investments and marketable securities**

The Group classifies certain investments in debt and equity securities as "held-to-maturity," "trading" or "available-for-sale" securities. The classification determines the respective accounting method to be applied under the accounting standard for financial instruments. Debt securities for which the Group has both the intention and the ability to hold to maturity are classified as held-to-maturity securities and are stated at amortised cost. Marketable available-for-sale securities with market quotations are stated at fair value, and net unrealised gains and losses on such securities, net of applicable income taxes, are reported as accumulated other comprehensive income. Gains and losses on the disposition of investment securities are computed using the moving average method. Nonmarketable available-for-sale securities without available market quotations are carried at cost, determined using the moving average method. Adjustments made to the carrying values of individual investment securities are charged to income through write-downs when a decline in value is deemed to be other than temporary.

**(d) Accounting for derivatives**

Derivative instruments are valued at fair value if hedge accounting is not appropriate or when there is no hedging designation, and gains and losses on such derivatives are recognised in current earnings. For certain derivative instruments classified as hedging transactions, gains and losses are principally deferred until the maturity of the hedged transactions using the deferral method and recognised as accumulated other comprehensive income. According to the special treatment permitted under the accounting standard for financial instruments, hedging interest rate swap contracts are accounted for on an accrual basis and recorded net of interest expenses generated from borrowings if certain conditions are met. In addition, foreign currency swaps that meet certain hedging criteria may be used to translate foreign currency denominated assets and liabilities at the applicable contract rates. The commodity swap applies a general treatment.

**(e) Inventories**

Land and buildings for sale are stated at the lower of cost, determined using the specific identification method, or net selling value.

Other inventories are measured at the lower of cost or net selling value. The following types of inventories are measured using the following methods:

- (1) Merchandise and finished goods: principally by the retail inventory method or the specific identification method;
- (2) Work in process: principally by the specific identification method; and,

(3) Raw materials and supplies: principally by the gross average method.

**(f) Property and equipment, excluding leased assets**

Property and equipment, including significant renewals and additions are stated at cost and depreciated following over their useful lives. The Company depreciates railroad vehicles by the declining balance method and other property and equipment by the straight-line method. For replacement assets in the railroad business, which are included in “structures,” the Company applies the replacement method. The consolidated subsidiaries depreciate property and equipment principally by the declining balance method. For buildings and structures, useful lives are from 2-60 years. For machinery, equipment and vehicles useful lives range from 2-20 years.

**(g) Intangible assets**

Intangible assets are amortised using the straight-line method. Software for internal use is amortised using the straight-line method over the estimated useful life.

**(h) Leases**

In March 2007, the Accounting Standards Board of Japan (“ASBJ”) issued ASBJ Statement No. 13, entitled “Accounting Standard for Lease Transactions,” which revised the previous accounting standard for lease transactions. The revised accounting standard for lease transactions became effective from the fiscal year beginning on or after 1 April 2008.

Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were capitalised. However, other finance leases were permitted to be accounted for as operating lease transactions if certain “as if capitalised” information was disclosed in the notes to the lessee’s financial statements. The revised accounting standard requires the capitalisation of all finance lease transactions, as lessee, so that lease assets and lease obligations are recognised in the balance sheets. However, the revised accounting standard permits finance leases which commenced prior to 1 April 2008 to continue to be accounted for using the accounting treatment similar to that used for operating leases if certain “as if capitalised” information is disclosed. Under the revised accounting standard, all other leases are accounted for as operating leases.

As lessee, finance leases which transfer ownership to the lessee are depreciated using the same method applied to fixed assets owned by the Group. Finance leases which do not transfer ownership to the lessee are depreciated using the straight-line method with the useful life equal to the lease period and the residual value zero.

Certain consolidated subsidiaries engaged in the leasing business as lessor recognise leasing income from lease payments received from customers and related costs, net of imputed interest, at the due date for the payments on such leases as permitted under the current accounting standard.

**(i) Impairment of fixed assets**

The Company and its domestic consolidated subsidiaries have adopted the “Accounting Standard for Impairment of Fixed Assets” and related practical guidance. The standard requires that a fixed asset be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such asset may not be recoverable. An impairment loss is recognised in the income statement by reducing the carrying amount of the impaired asset or a group of assets to the recoverable amount, which is measured as the higher of the asset’s net selling price or value in use. Fixed assets include intangible assets as well as land, buildings and other forms of property and are to be grouped at the lowest level for which there are identifiable cash flows independent of cash flows of other groups of assets. For the purpose of recognition and measurement of impairment loss, fixed assets of the Group, other than idle or unused property, are grouped into cash generating units based on managerial accounting classifications.

**(j) Land revaluation**

In accordance with the Act on Revaluation of Land in Japan, the Company, nine consolidated subsidiaries and one affiliated company accounted for using the equity method elected the one-time revaluation option to restate the cost of land used for business at a reassessed value, effective as of the respective fiscal year-end date between 31 March 2000 and 31 March 2002, based on adjustments for land shape and other factors and appraised values issued by the Japanese National Tax Agency or by municipal property tax bases. According to the law, an amount equivalent to the tax effect on the difference between the original carrying value and the reassessed value has been recorded as deferred tax liabilities for land revaluation account. The remaining difference, net of the tax effect and non-controlling interests portion, has been recorded in land revaluation increment as a component of accumulated other comprehensive income in the accompanying consolidated balance sheets.

The difference between the carrying value of land used for business after reassessment over the market value at the respective fiscal year-end of the Company and nine consolidated subsidiaries (Toyohashi Railroad Co., Ltd., Gifu Bus Co., Ltd., Meitetsu Transport Co., Ltd., Meitetsu Real Estate Development Co., Ltd., Meitetsu Building Administration Co., Ltd., MEITETSU DEPARTMENT STORE CO., LTD., Ishikawa Hire & Taxi Co., Ltd., Kanazawa Meitetsu Marukoshi Department Store Co., Ltd. and Meitetsu Kyosho Co., Ltd.) amounted to ¥25,632 million and ¥9,646 million (\$85,363 thousand) at 31 March 2015 and 2016, respectively. The differences in the Company at 31 March 2016 and Meitetsu Real Estate Development Co., Ltd. at 31 March 2015 and 2016 were not included in the amount at the respective fiscal year-end because the market value was higher than the carrying value of the revaluated lands. The difference between the carrying value of land used for business after reassessment over the market value at the respective fiscal year-end date for the affiliated company accounted for using the equity method amounted to ¥1,477 million and ¥1,111 million (\$9,832 thousand) at 31 March 2015 and 2016, respectively.

**(k) Contributions for construction work**

In connection with construction related to railroad facilities, such as construction involving grade separations and the widening of railroad crossings, the Company and a certain consolidated subsidiary may receive contributions from the Japanese national government, local governments and/or other corporations to pay for part of the cost of construction. Such contributions are recognised as other income in the accompanying consolidated statements of income. An amount corresponding to such contributions is directly deducted from the acquisition costs of the related assets upon completion of construction, and the deducted amount is recognised as other expenses in the consolidated statements of income. At 31 March 2015 and 2016, cumulative contributions amounting to ¥174,801 million and ¥175,849 million (\$1,556,186 thousand), respectively, were deducted from the acquisition costs of property and equipment for the railroad business.

**(l) Allowance for doubtful accounts**

An allowance for doubtful accounts is provided at the aggregate amount of estimated credit loss based on individual reviews of certain doubtful receivables. A general reserve for other receivables is also provided based on historical loss experience for a certain past period.

**(m) Employee retirement benefit liability**

Employees who terminate their service with the Group are entitled to retirement benefits generally determined by basic rates of pay at the time of retirement, length of service and conditions under which the termination occurs. The Group has principally recognised retirement benefits based on the actuarial present value of the projected benefit obligation using the actuarial appraisal approach and the fair value of pension plan assets available for benefits at the respective fiscal year-end.

**(Changes in Accounting Policies)**

The Company and its consolidated domestic subsidiaries have adopted Article 35 of the “Accounting Standard for Retirement Benefits” (ASBJ Statement No. 26, 17 May 2012 (hereinafter, “Statement No. 26”)) and Article 67 of the “Guidance on Accounting Standard for Retirement Benefits” (ASBJ Guidance No. 25, 26 March 2015 (hereinafter, “Guidance No. 25”)) from the current fiscal year and have changed the methods used to determine retirement benefit obligations and current service cost. In addition, the Company and its consolidated domestic subsidiaries have changed the method used to attribute expected benefit to periods of service from the point per year basis and straight-line basis to a benefit formula basis. The Group has changed the method used to determine discount rates from the method using the discount rate determined based on the period approximate to the expected average remaining service period of the employees to the method using the single weighted average discount rate reflecting the estimated timing and amount of benefit payment.

In accordance with Article 37 of Statement No. 26, the effect of changing the methods used to determine retirement benefit obligations and current service cost has been recognised in retained earnings at the beginning of the current fiscal year. As a result of the application, employee retirement benefit liability increased by ¥3,233 million and retained earnings decreased by ¥2,203 million at the beginning of the current fiscal year. The effects on the income statements and the earnings per share for the year ended 31 March 2015 were not material.

Actuarial differences arising from changes in the projected benefit obligation or the value of pension plan assets from the amounts assumed and from changes in the assumptions themselves are amortised principally on a straight-line basis over one to ten years, a specific period not exceeding the average remaining service period of employees, from the year following the year in which they arise. Past service cost is amortised principally on a straight-line basis over four to ten years, a specific period not exceeding the average remaining service period of the employees, from the year in which it occurs. The excess of the projected benefit obligation over the total of the fair value of pension assets as of 1 April 2000 and retirement benefit liabilities recorded as of 1 April 2000 (the “transitional obligation”) incurred at the time of initial adoption of the accounting standard for retirement benefits by some of the consolidated subsidiaries in the year ended 31 March 2001 is principally being charged to income over fifteen years from the year ended 31 March 2001 on straight-line method as permitted under the accounting standard for retirement benefits. In calculating retirement benefits obligations, the benefit formula basis is used to attribute the expected benefit attributable to the respective fiscal year.

Some consolidated subsidiaries use the simplified method to calculate retirement benefit liability and related costs so that the total lump sum benefits payment at the end of the fiscal year is regarded as a substitute for the project benefit obligation.

**(n) Accrued retirement benefits for directors and corporate auditors**

A provision for retirement benefits for directors and corporate auditors is recognised based on internal rules at the amount that would be payable if the directors and corporate auditors retired at the end of the fiscal year.

**(o) Provisions**

“Provisions” in the accompanying consolidated balance sheets principally consists of provision for loss on liquidation and allowance for loss on collection of gift certificates outstanding.

**(i) Provision for loss on liquidation**

A provision for loss on liquidation is provided at the estimated amount of losses at the balance sheet date. At 31 March 2015 and 2016, the following amounts were included in “Provisions” in the accompanying consolidated balance sheets.

|                         | Millions of yen |        | Thousands of<br>U.S. dollars |
|-------------------------|-----------------|--------|------------------------------|
|                         | 2015            | 2016   | 2016                         |
| Provision in:           |                 |        |                              |
| Current liabilities     | ¥127            | ¥312   | \$2,761                      |
| Non-current liabilities | 7,084           | 6,750  | 59,735                       |
| Total                   | ¥7,211          | ¥7,062 | \$62,496                     |

**(ii) Allowance for loss on collection of gift certificates outstanding**

An allowance for loss on collection of gift certificates outstanding issued by certain consolidated subsidiaries is provided to cover for losses due to future use of shopping coupons, travel gift coupons and similar coupons by customers. Such allowance is provided for the non-accrual of liabilities based on past experience plus estimated loss amounts. At 31 March 2015 and 2016, the following amounts were included in “Provisions” in the accompanying consolidated balance sheets.

|                         | Millions of yen |        | Thousands of<br>U.S. dollars |
|-------------------------|-----------------|--------|------------------------------|
|                         | 2015            | 2016   | 2016                         |
| Provision in:           |                 |        |                              |
| Current liabilities     | ¥1,839          | ¥1,778 | \$15,735                     |
| Non-current liabilities | 460             | 429    | 3,796                        |
| Total                   | ¥2,299          | ¥2,207 | \$19,531                     |

**(p) Translation of foreign currency accounts**

Receivables, payables and securities, other than stocks of subsidiaries, are translated into Japanese yen at exchange rates at the fiscal year-end. For financial statement items of the overseas consolidated subsidiaries, all asset and liability accounts and all income and expense accounts are translated at the exchange rate in effect at the respective fiscal year-end. Translation differences, after allocating portions attributable to non-controlling interests, have been reported in foreign currency translation adjustments as a component of accumulated other comprehensive income in the accompanying consolidated balance sheets.

**(q) Revenue recognition for the construction business**

The Group applies the percentage-of-completion method to construction contracts when the outcome of individual contracts can be estimated reliably. Otherwise, the Group applies the completed-contract method. The percentage of completion at the end of the reporting period is measured mainly by the proportion of the cost incurred to the estimated total cost.

**(r) Bond issue costs**

Bond issue costs are charged to income as incurred.

**(s) Income taxes**

Income taxes are accounted for using the asset-liability method. Deferred tax assets and liabilities are recognised as future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carryforwards. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognised in the period that includes the promulgation date.

**(t) Enterprise taxes**

The Group records enterprise taxes calculated based on the “added value” and “capital” amounts when levied as size-based corporate taxes for local government enterprise taxes, and such taxes are included in selling, general and administrative expenses.

**(u) Consumption taxes**

For the years ended 31 March 2015 and 2016, consumption taxes were levied in Japan on the domestic sale of goods and services at a rate of 8%. Consumption taxes are excluded from revenue and expense amounts.

**(v) Per share information**

Basic net income per share is based on the weighted average number of shares of common stock outstanding during the respective year, retroactively adjusted for stock splits. Unless there is an anti-dilutive effect, diluted net income per share is calculated to reflect the potential dilution assuming that all convertible bonds are converted at the time of issue.

Cash dividends per share shown in the accompanying consolidated statements of income represent dividends declared by the Company applicable to the respective years indicated therein, including dividends to be paid after the end of each such year.

**(w) Changes in accounting policies for business combination**

The Company and its domestic subsidiaries adopted “Revised Accounting Standard for Business Combinations” (ASBJ Statement No. 21, 13 September 2013 (hereinafter, “Statement No. 21”)), “Revised Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22, 13 September 2013 (hereinafter, “Statement No. 22”)) and “Revised Accounting Standard for Business Divestitures” (ASBJ Statement No. 7, 13 September 2013 (hereinafter, “Statement No. 7”)) (together, the “Business Combination Accounting Standards”) from the current fiscal year. As a result, the Company changed its accounting policies to recognise in capital surplus the differences arising from the changes in the Company’s ownership interest of subsidiaries over which the Company continues to maintain control and to record acquisition related costs as expenses in the fiscal year in which the costs are incurred. In addition, the Company changed its accounting policy for the reallocation of acquisition costs due to the completion following provisional accounting to reflect such reallocation in the consolidated financial statements for the fiscal year in which the business combination took place. The Company also changed the presentation of net income and the term “non-controlling interests” is used instead of “minority interests.” Certain amounts in the prior year comparative information were reclassified to conform to such changes in the current year presentation.

In the consolidated statement of cash flows, cash flows from acquisition or disposal of shares of subsidiaries with no changes in the scope of consolidation are included in “Cash flows from financing activities,” and cash flows from acquisition related costs for shares of subsidiaries with changes in the scope of consolidation or costs related to acquisition or disposal of shares of subsidiaries with no changes in the scope of consolidation are included in “Cash flows from operating activities”.

With regard to the application of the Business Combination Accounting Standards, the Company followed the provisional treatments in Article 58-2 (4) of Statement No. 21, Article 44-5 (4) of Statement No. 22 and Article 57-4 (4) of Statement No. 7 with application from the beginning of the current fiscal year prospectively.

The effects on the consolidated financial statements and the earnings per share for the year ended 31 March 2016 were not material.

**(x) Accounting standards issued but not yet adopted**

The following guidance has been issued but not yet adopted in the accompanying consolidated financial statements.

**(Revised Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26, revised on 28 March 2016)**

**(1) Outline:**

Following the framework in Auditing Committee Report No. 66, “Audit Treatment Regarding the Judgment of Recoverability of Deferred Tax Assets,” which prescribes estimation of deferred tax assets according to the classification of the entity by one of five types, the following treatments were changed as necessary:

1. Treatment for an entity that does not meet any of the criteria in types 1 to 5;
2. Criteria for types 2 and 3;
3. Treatment for deductible temporary differences which an entity classified as type 2 is unable to schedule;
4. Treatment for the period which an entity classified as type 3 is able to reasonably estimate with respect to future taxable income before consideration of taxable or deductible temporary differences that exist at the end of the current fiscal year; and
5. Treatment when an entity classified as type 4 also meets the criteria for types 2 or 3.

**(2) Date of application:**

The revised guidance will become effective from the beginning of the fiscal year ending on 31 March 2017.

**(3) Effects of adoption of the implementation guidance:**

The Company and its consolidated subsidiaries are currently in the process of determining the effects of the revised guidance on the consolidated financial statements.



### 3. Financial instruments

Information on financial instruments for the years ended 31 March 2015 and 2016 are set forth below.

#### (1) Qualitative information on financial instruments

##### (a) Policy for financial instruments

The Group has a policy of raising funds primarily through bond issuances, borrowings from banks and other financial institutions and investments of its cash surplus, if any, in low-risk, highly liquid financial instruments. Derivative transactions are used for the purpose of hedging against the risk of future fluctuations in trade accounts payable denominated in foreign currencies, fluctuations in interest rates on borrowings and fluctuations in fuel prices. The Group does not enter into any derivative transactions for speculative purposes.

##### (b) Financial instruments and risk management

The Group is exposed to credit risk principally with respect to receivables. In order to reduce the credit risk associated with these receivables, the Group assesses the prospective debtor's creditworthiness and performs credit management based on internal rules.

The Group holds securities of certain entities with which it conducts business and, consequently, is exposed to the risk of market price fluctuation. The Group regularly monitors the financial status of the issuers and the fair values of such securities in order to mitigate such risk.

Trade payables are generally due within one year. A portion of the trade accounts is denominated in foreign currencies and exposed to the risk of fluctuations in such foreign currency exchange rates. To reduce such risk, the Group enters into foreign exchange forward contracts.

Bank borrowings and bonds payable are used for capital investment. Borrowings with floating interest rates expose the Group to risks associated with fluctuation in interest rates. Borrowings denominated in foreign currencies expose the Group to risks associated with fluctuation in exchange rates. In connection with some such borrowings, the Group enters into interest rate swap or currency swap contracts with the intent to manage the risks of interest rate and exchange rate fluctuations.

The Group is a party to derivative financial instruments in the normal course of business. These instruments include foreign currency exchange forward contracts, currency swap, interest rate swap and commodity swap contracts, in the normal course of business. The Group enters into these instruments for hedging purposes so that it can reduce its own exposure to fluctuations in exchange rates, interest rates and fuel prices. Pursuant to the Group's internal rules for risk management policies, contract balances for derivatives are limited to certain anticipated transactions and reported regularly. In connection with these instruments, the Group is exposed to the risk of credit loss in the event of non-performance by a counterparty. However, the Group does not expect non-performance by its counterparties to the derivative transactions because the Group's counterparties are limited to major banks with relatively high credit ratings.

The Group manages liquidity risk by diversifying its means of raising funds and through timely updates of funding plans based on information obtained from its operating divisions.

##### (c) Supplemental information on fair value

The fair values of financial instruments include values based on market prices and estimates when market prices are not available. Since certain assumptions are used in making estimates, results may vary depending on the assumptions used. The outstanding contract amounts of derivative transactions do not necessarily represent market risk.

(2) Fair values of financial instruments

The fair values and carrying values of financial instruments included in the consolidated balance sheets at 31 March 2015 and 2016, other than those for which the fair values was extremely difficult to determine, are set forth in the table below.

|   | Carrying<br>value | Fair<br>value | Differences |
|---|-------------------|---------------|-------------|
|   | Millions of yen   |               |             |
| At 31 March 2015:                               |                   |               |             |
| Financial assets:                               |                   |               |             |
| Cash and cash equivalents                       | ¥15,776           | ¥15,776       | ¥—          |
| Short-term investments                          | 731               | 731           | —           |
| Trade notes and accounts receivable             | 54,064            | 54,064        | —           |
| Investment securities:                          |                   |               |             |
| Equity securities of affiliates                 | 5,889             | 6,636         | 747         |
| Available-for-sale securities                   | 62,176            | 62,176        | —           |
| Total   | ¥138,636          | ¥139,383      | ¥747        |
| Financial liabilities:                          |                   |               |             |
| Short-term borrowings                           | ¥33,646           | ¥33,646       | ¥—          |
| Trade notes and accounts payable                | 74,234            | 74,234        | —           |
| Bonds payable, including current portion        | 165,000           | 179,600       | 14,600      |
| Long-term bank loans, including current portion | 267,283           | 272,834       | 5,551       |
| Total   | ¥540,163          | ¥560,314      | ¥20,151     |
| Derivative instruments:*                        |                   |               |             |
| Hedge accounting has not been applied           | ¥26               | ¥26           | ¥—          |
| Hedge accounting has been applied               | (316)             | (316)         | —           |
| Total   | ¥(290)            | ¥(290)        | ¥—          |
|   | Carrying<br>value | Fair<br>value | Differences |
|   | Millions of yen   |               |             |
| At 31 March 2016:                               |                   |               |             |
| Financial assets:                               |                   |               |             |
| Cash and cash equivalents                       | ¥16,922           | ¥16,922       | ¥—          |
| Short-term investments                          | 794               | 794           | —           |
| Trade notes and accounts receivable             | 55,711            | 55,711        | —           |
| Investment securities:                          |                   |               |             |
| Equity securities of affiliates                 | 6,419             | 6,613         | 194         |
| Available-for-sale securities                   | 55,724            | 55,724        | —           |
| Total   | ¥135,570          | ¥135,764      | ¥194        |
| Financial liabilities:                          |                   |               |             |
| Short-term borrowings                           | ¥26,287           | ¥26,287       | ¥—          |
| Trade notes and accounts payable                | 69,403            | 69,403        | —           |
| Bonds payable, including current portion        | 190,000           | 208,151       | 18,151      |
| Long-term bank loans, including current portion | 231,795           | 238,569       | 6,774       |
| Total   | ¥517,485          | ¥542,410      | ¥24,925     |
| Derivative instruments:*                        |                   |               |             |
| Hedge accounting has not been applied           | ¥1                | ¥1            | ¥—          |
| Hedge accounting has been applied               | (930)             | (930)         | —           |
| Total   | ¥(929)            | ¥(929)        | ¥—          |

|   | Carrying<br>value  | Fair<br>value             | Differences      |
|---|--------------------|---------------------------|------------------|
|   |                    | Thousands of U.S. dollars |                  |
| At 31 March 2016:                               |                    |                           |                  |
| Financial assets:                               |                    |                           |                  |
| Cash and cash equivalents                       | \$149,752          | \$149,752                 | \$—              |
| Short-term investments                          | 7,027              | 7,027                     | —                |
| Trade notes and accounts receivable             | 493,018            | 493,018                   | —                |
| Investment securities:                          |                    |                           |                  |
| Equity securities of affiliates                 | 56,805             | 58,522                    | 1,717            |
| Available-for-sale securities                   | 493,133            | 493,133                   | —                |
| Total   | <u>\$1,199,735</u> | <u>\$1,201,452</u>        | <u>\$1,717</u>   |
| Financial liabilities:                          |                    |                           |                  |
| Short-term borrowings                           | \$232,628          | \$232,628                 | \$—              |
| Trade notes and accounts payable                | 614,186            | 614,186                   | —                |
| Bonds payable, including current portion        | 1,681,416          | 1,842,044                 | 160,628          |
| Long-term bank loans, including current portion | 2,051,283          | 2,111,230                 | 59,947           |
| Total   | <u>\$4,579,513</u> | <u>\$4,800,088</u>        | <u>\$220,575</u> |
| Derivative instruments:*                        |                    |                           |                  |
| Hedge accounting has not been applied           | \$9                | \$9                       | \$—              |
| Hedge accounting has been applied               | (8,230)            | (8,230)                   | —                |
| Total   | <u>\$(8,221)</u>   | <u>\$(8,221)</u>          | <u>\$—</u>       |

\*The value of derivative instruments is shown as a net amount, and the amount in parenthesis reflects liabilities.

Notes:

- (1) Details of the methods and assumptions used to estimate the fair values of financial instruments are summarised below.

The fair values of cash and cash equivalents, short-term investments, trade receivables, short-term borrowings and trade payables approximate the carrying values due to their short-term maturities. The fair values of investment equity securities are based on quoted market prices. The fair values of bonds and other securities included in investment securities, bonds payable and derivative instruments are based on the prices provided by the corresponding financial institutions. The fair values of long-term, fixed-rate interest bearing bank loans are estimated based on discounted cash flow analysis using current interest rates. The fair values of long-term floating-rate interest bearing bank loans are calculated by discounting the total amount of principal and interest reflected in the cash flows under the applicable currency swap and interest rate swap contracts by the interest rate considered to be applicable to similar loans.

- (2) The following securities were not included in the table above because their fair values were extremely difficult to determine.

|  | Millions of yen |                | Thousands of<br>U.S. dollars |
|--|-----------------|----------------|------------------------------|
|  | 2015            | 2016           | 2016                         |
| Carrying value:  |                 |                |                              |
| Investments (equity securities) in<br>unconsolidated subsidiaries and affiliates | ¥22,444         | ¥24,257        | \$214,664                    |
| Unlisted equity securities   | 9,945           | 10,593         | 93,743                       |
| Total  | <u>¥32,389</u>  | <u>¥34,850</u> | <u>\$308,407</u>             |

(3) Expected maturities of financial assets at 31 March 2016 were as follows:

|  | Due in 1<br>year or less | Due after 1 year<br>through 5 years | Due after 5 years<br>through 10 years | Due after 10<br>years |
|--|--------------------------|-------------------------------------|---------------------------------------|-----------------------|
| Millions of yen                        |                          |                                     |                                       |                       |
| At 31 March 2016:                      |                          |                                     |                                       |                       |
| Cash and cash equivalents              | ¥16,922                  | ¥—                                  | ¥—                                    | ¥—                    |
| Short-term investments                 | 794                      | —                                   | —                                     | —                     |
| Trade notes and accounts<br>Receivable | 55,711                   | —                                   | —                                     | —                     |
| Total                                  | <u>¥73,427</u>           | <u>¥—</u>                           | <u>¥—</u>                             | <u>¥—</u>             |

|  | Due in 1<br>year or less | Due after 1 year<br>through 5 years | Due after 5 years<br>through 10 years | Due after 10<br>years |
|--|--------------------------|-------------------------------------|---------------------------------------|-----------------------|
| Thousands of U.S. dollars              |                          |                                     |                                       |                       |
| At 31 March 2016:                      |                          |                                     |                                       |                       |
| Cash and cash equivalents              | \$149,752                | \$—                                 | \$—                                   | \$—                   |
| Short-term investments                 | 7,026                    | —                                   | —                                     | —                     |
| Trade notes and accounts<br>Receivable | 493,018                  | —                                   | —                                     | —                     |
| Total                                  | <u>\$649,796</u>         | <u>\$—</u>                          | <u>\$—</u>                            | <u>\$—</u>            |

The repayment schedules for borrowings and other debts with contractual maturities at 31 March 2016 were as follows:

|                           | Due in 1<br>year or less | Due after<br>1 year<br>through<br>2 years | Due after<br>2 years<br>through<br>3 years | Due after<br>3 years<br>through<br>4 years | Due after<br>4 years<br>through<br>5 years | Due after<br>5 years |
|---------------------------|--------------------------|---|--|--|--|----------------------|
| Millions of yen           |                          |   |  |  |  |                      |
| Short-term borrowings     | ¥26,287                  | ¥—  | ¥—   | ¥—   | ¥—   | ¥—                   |
| Bonds payable             | 10,000                   | 35,000                                    | 20,000                                     | 10,000                                     | 10,000                                     | 105,000              |
| Long-term bank loans      | 46,150                   | 44,917                                    | 32,694                                     | 25,347                                     | 14,706                                     | 67,981               |
| Total                     | <u>¥82,437</u>           | <u>¥79,917</u>                            | <u>¥52,694</u>                             | <u>¥35,347</u>                             | <u>¥24,706</u>                             | <u>¥172,981</u>      |
| Thousands of U.S. dollars |                          |   |  |  |  |                      |
| Short-term borrowings     | \$232,628                | \$—                                       | \$—  | \$—  | \$—  | \$—                  |
| Bonds payable             | 88,496                   | 309,734                                   | 176,991                                    | 88,496                                     | 88,496                                     | 929,203              |
| Long-term bank loans      | 408,407                  | 397,496                                   | 289,328                                    | 224,309                                    | 130,141                                    | 601,602              |
| Total                     | <u>\$729,531</u>         | <u>\$707,230</u>                          | <u>\$466,319</u>                           | <u>\$312,805</u>                           | <u>\$218,637</u>                           | <u>\$1,530,805</u>   |

#### 4. Investments securities

At 31 March 2015 and 2016, short-term investments consisted of time deposits with original maturities of more than three months.

At 31 March 2015 and 2016, investment securities consisted of the following:

|                                     | Millions of yen |         | Thousands of<br>U.S. dollars |
|-------------------------------------|-----------------|---------|------------------------------|
|                                     | 2015            | 2016    | 2016                         |
| Marketable securities               |                 |         |                              |
| Equity securities                   | ¥62,176         | ¥55,724 | \$493,133                    |
| Japanese and local government bonds | —               | —       | —                            |
| Others                              | —               | —       | —                            |
| Total marketable securities         | 62,176          | 55,724  | 493,133                      |
| Nonmarketable securities            | 9,945           | 10,593  | 93,743                       |
| Total                               | ¥72,121         | ¥66,317 | \$586,876                    |

At 31 March 2015 and 2016, the fair values and gross unrealised gains and losses of available-for-sale securities were as follows:

|                   | Cost                      | Gross<br>unrealised<br>gains | Gross<br>unrealised<br>losses | Fair value and<br>carrying value |
|-------------------|---------------------------|------------------------------|-------------------------------|----------------------------------|
|                   | Millions of yen           |                              |                               |                                  |
| At 31 March 2015: |                           |                              |                               |                                  |
| Equity securities | ¥28,489                   | ¥33,945                      | ¥(258)                        | ¥62,176                          |
| At 31 March 2016: |                           |                              |                               |                                  |
| Equity securities | 27,689                    | 28,697                       | (662)                         | 55,724                           |
|                   | Thousands of U.S. dollars |                              |                               |                                  |
| At 31 March 2016: |                           |                              |                               |                                  |
| Equity securities | \$245,035                 | \$253,956                    | \$(5,858)                     | \$493,133                        |

Sales amounts and gains and losses from the sales of available-for-sale securities were as follows:

|                                  | Sales amounts             | Gains   | Losses |
|----------------------------------|---------------------------|---------|--------|
|                                  | Millions of yen           |         |        |
| Equity securities and others:    |                           |         |        |
| For the year ended 31 March 2015 | ¥1,197                    | ¥524    | ¥6     |
| For the year ended 31 March 2016 | 1,047                     | 238     | 2      |
|                                  | Thousands of U.S. dollars |         |        |
| Equity securities and others:    |                           |         |        |
| For the year ended 31 March 2016 | \$9,265                   | \$2,106 | \$18   |

## 5. Inventories

Inventories at 31 March 2015 and 2016 consisted of the following:

|                                | Millions of yen |         | Thousands of<br>U.S. dollars |
|--------------------------------|-----------------|---------|------------------------------|
|                                | 2015            | 2016    | 2016                         |
| Land and buildings for sale    | ¥49,950         | ¥52,438 | \$464,053                    |
| Merchandise and finished goods | 7,893           | 7,114   | 62,956                       |
| Work in process                | 522             | 655     | 5,796                        |
| Raw materials and supplies     | 4,045           | 3,822   | 33,823                       |
| Total                          | ¥62,410         | ¥64,029 | \$566,628                    |

Transfers from land and building for sale to property and equipment due to a change in the purpose for holding were as follows:

|  | Millions of yen |        | Thousands of<br>U.S. dollars |
|--|-----------------|--------|------------------------------|
|  | 2015            | 2016   | 2016                         |
|  | —               | ¥2,242 | \$19,841                     |

## 6. Impairment loss on fixed assets

The Group categorises its assets in accordance with the classifications under management accounting. Specifically, in the traffic business and transport business, the Group categorises its assets by route network, branch, sales office and the like, with each category separately recognised as a functioning unit. The Group categorises its assets in the real estate business by rental asset. In the leisure and services business, distribution business and other businesses, the Group categorises its assets by facility, branch or overall branch, store, factory or location as applicable.

The Group has recognised impairment loss on fixed assets because of the weak prospects for improved short-term performance due to worsening operating profitability and a significant decline in the fair value against the carrying amount of the assets such as land.

|                                 | Millions of yen  |  | Thousands of<br>U.S. dollars |
|---------------------------------|--|--|------------------------------|
|                                 | 2015   | 2016   | 2016                         |
| Property subject to impairment: | Department stores<br>and commercial<br>facilities, taxi<br>facilities and others | Leisure facilities,<br>rental properties and<br>others |                              |
| Impairment loss recorded:       |  |  |                              |
| Buildings and structures        | ¥1,240   | ¥932   | \$8,248                      |
| Land                            | 676  | 4,813  | 42,593                       |
| Others                          | 358  | 225  | 1,991                        |
| Total                           | ¥2,274   | ¥5,970   | \$52,832                     |

The Group applied either the net selling price or value in use to determine the recoverable amounts of the asset groups described in the above table. The net selling price was based on the appraised value obtained from a professional real estate appraiser, estate tax valuations determined through land assessments or property tax bases with adjustments as applicable. The value in use was based on the present value of expected cash flows discounted at 2.3% and 2.4% for the years ended 31 March 2015 and 2016, respectively.

## 7. Real estate for rent

The Company and some of the consolidated subsidiaries own real estate such as office buildings, parking lots and other facilities for rent. The carrying values of such real estate in the consolidated balance sheets, changes during the years ended 31 March 2015 and 2016 and the fair values of real estate were as follows:

|                                     | Millions of yen |          | Thousands of<br>U.S. dollars |
|-------------------------------------|-----------------|----------|------------------------------|
|                                     | 2015            | 2016     | 2016                         |
| Carrying value at beginning of year | ¥112,264        | ¥118,385 | \$1,047,655                  |
| Net changes during the year         | 6,121           | 3,250    | 28,761                       |
| Carrying value at end of year       | 118,385         | 121,635  | 1,076,416                    |
| Fair value at end of year*          | ¥144,143        | ¥151,364 | \$1,339,504                  |

*\*The fair value was measured at the estimated value principally based on the real estate appraisals, real estate valuation standards or property tax bases.*

Profits or losses recorded for rental properties for the fiscal years ended 31 March 2015 and 2016 were as follows:

|                                      | Millions of yen |        | Thousands of<br>U.S. dollars |
|--------------------------------------|-----------------|--------|------------------------------|
|                                      | 2015            | 2016   | 2016                         |
| Income from rental operations        | ¥5,467          | ¥5,336 | \$47,221                     |
| Impairment loss on rental properties | 52              | 551    | 4,876                        |

## 8. Short-term borrowings and long-term debt

Short-term borrowings at 31 March 2015 and 2016 consisted of the following:

|   | Millions of yen |                | Thousands of<br>U.S. dollars |
|---|-----------------|----------------|------------------------------|
|   | 2015            | 2016           | 2016                         |
| Bank loans with average interest rates of 0.2458% at 31 March 2016: |                 |                |                              |
| Secured   | ¥9,087          | ¥4,222         | \$37,363                     |
| Unsecured   | 24,559          | 22,065         | 195,265                      |
| Total   | <u>¥33,646</u>  | <u>¥26,287</u> | <u>\$232,628</u>             |

Long-term debt at 31 March 2015 and 2016 consisted of the following:

|  | Millions of yen |                 | Thousands of<br>U.S. dollars |
|--|-----------------|-----------------|------------------------------|
|  | 2015            | 2016            | 2016                         |
| 2.11% unsecured bonds, due February 2017   | ¥10,000         | ¥10,000         | \$88,495                     |
| 2.1% unsecured bonds, due June 2017*   | —               | —               | —                            |
| 0.3% unsecured bonds, due June 2017  | 10,000          | 10,000          | 88,495                       |
| 2.01% unsecured bonds, due September 2017  | 10,000          | 10,000          | 88,496                       |
| 1.88% unsecured bonds, due February 2018   | 15,000          | 15,000          | 132,743                      |
| 1.94% unsecured bonds, due September 2018  | 10,000          | 10,000          | 88,496                       |
| 0.24% unsecured bonds, due December 2018   | —               | 10,000          | 88,496                       |
| 2.05% unsecured bonds, due August 2019   | 10,000          | 10,000          | 88,496                       |
| 1.26% unsecured bonds, due October 2020  | 10,000          | 10,000          | 88,496                       |
| 0.557% unsecured bonds, due April 2021   | 15,000          | 15,000          | 132,743                      |
| 1.35% unsecured bonds, due July 2021   | 10,000          | 10,000          | 88,496                       |
| 0.857% unsecured bonds, due April 2027   | —               | 15,000          | 132,743                      |
| Zero coupon unsecured convertible bonds, due October 2023                            | 25,000          | 25,000          | 221,239                      |
| Zero coupon unsecured convertible bonds, due December 2024                           | 40,000          | 40,000          | 353,982                      |
| Bank loans with average interest rate of 0.9649% at 31 March 2016, due through 2030: |                 |                 |                              |
| Secured  | 54,895          | 50,538          | 447,239                      |
| Unsecured  | 212,387         | 181,257         | 1,604,044                    |
| Capitalised lease obligations  | 9,420           | 10,287          | 91,036                       |
| Subtotal   | <u>441,702</u>  | <u>432,082</u>  | <u>3,823,735</u>             |
| Less current portion   | <u>(52,588)</u> | <u>(59,114)</u> | <u>(523,133)</u>             |
| Total  | <u>¥389,114</u> | <u>¥372,968</u> | <u>\$3,300,602</u>           |

\*During the year ended 31 March 2015, the Company transferred 2.1% unsecured bonds due June 2017 under debt assumption agreements. The Company retains contingent liabilities (See Note 10).

At 31 March 2016, zero coupon convertible bonds due October 2023 and zero coupon convertible bonds due December 2024 were ¥386 and ¥583 per share, respectively, and subject to adjustment in certain circumstances, including in the event of a stock split. The Company may, at its call option, redeem all, but not some only, of the zero coupon convertible bonds due October 2023 for the period from 5 October 2020 at 100% of the principal amount, subject to certain conditions. And the Company may, at its call option, redeem all, but not some only, of the zero coupon convertible bonds due December 2024 for the period from 11 December 2022 at 100% of the principal amount, subject to certain conditions.

At 31 March 2016, the number of shares of common stock necessary for conversion of all convertible bonds outstanding was approximately 133 million.



The annual maturities of long-term debt at 31 March 2016 were as follows:

| Year ending 31 March | Millions of<br>yen | Thousands of<br>U.S. dollars |
|----------------------|--------------------|------------------------------|
| 2017                 | ¥59,114            | \$523,133                    |
| 2018                 | 81,978             | 725,469                      |
| 2019                 | 54,381             | 481,248                      |
| 2020                 | 37,129             | 328,575                      |
| 2021                 | 25,323             | 224,097                      |
| 2022 and thereafter  | 174,157            | 1,541,213                    |
| Total                | ¥432,082           | \$3,823,735                  |

At 31 March 2015 and 2016, the following assets were pledged for short-term and long-term bank loans.

|                                   | Millions of yen |          | Thousands of<br>U.S. dollars |
|-----------------------------------|-----------------|----------|------------------------------|
|                                   | 2015            | 2016     | 2016                         |
| Land                              | ¥99,015         | ¥97,332  | \$861,345                    |
| Buildings and structures          | 138,294         | 136,998  | 1,212,372                    |
| Machinery, equipment and vehicles | 9,405           | 11,274   | 99,770                       |
| Others                            | 3,851           | 1,176    | 10,407                       |
| Total                             | ¥250,565        | ¥246,780 | \$2,183,894                  |

## 9. Employee retirement benefit liability

The Company and its domestic consolidated subsidiaries have lump-sum retirement benefit plans and defined benefit pension plans. In some cases, extra retirement benefits may be paid to retired employees. The Company and one consolidated subsidiary also have trusts set up for their pension plan assets. In addition, some of the domestic consolidated subsidiaries participate in certain corporate pension plans under multi-employer pension programs established by the subsidiaries together with other employers. The projected benefit obligations of certain consolidated subsidiaries with less than 300 employees were calculated using the simplified calculation method permitted under the accounting standard for employee retirement benefits.

As of and for the years ended 31 March 2015 and 2016, the details of the defined benefit plans were as follows:

### (a) Movement in retirement benefit obligations, except plans applying the simplified method

|   | Millions of yen |         | Thousands of<br>U.S. dollars |
|---|-----------------|---------|------------------------------|
|   | 2015            | 2016    | 2016                         |
| Balance as of the beginning of the period:  | ¥36,847         | ¥40,602 | \$359,310                    |
| Cumulative effect of changes in accounting policies                                 | 3,233           | —       | —                            |
| Balance as of the beginning of the period reflecting changes in accounting policies | 40,080          | 40,602  | 359,310                      |
| Service cost  | 1,870           | 1,919   | 16,982                       |
| Interest cost   | 305             | 221     | 1,956                        |
| Actuarial differences incurred  | 1,132           | 1,270   | 11,239                       |
| Benefits paid   | (2,785)         | (2,061) | (18,239)                     |
| Transfers due to a change from the principle method to the simplified method        | —               | (677)   | (5,991)                      |
| Decrease due to partial termination of retirement benefit plans                     | —               | (1,896) | (16,779)                     |
| Others  | —               | 4       | 35                           |
| Balance as of the end of the period:  | ¥40,602         | ¥39,382 | \$348,513                    |

### (b) Movements in plan assets, except plans applying the simplified method

|  | Millions of yen |         | Thousands of<br>U.S. dollars |
|--|-----------------|---------|------------------------------|
|  | 2015            | 2016    | 2016                         |
| Balance as of the beginning of the period: | ¥10,592         | ¥12,272 | \$108,602                    |
| Expected return on plan assets             | 45              | 46      | 407                          |
| Actuarial differences incurred             | 1,781           | (2,051) | (18,150)                     |
| Contributions paid by the employer         | 240             | 276     | 2,442                        |
| Benefits paid                              | (386)           | (152)   | (1,345)                      |
| Balance as of the end of the period:       | ¥12,272         | ¥10,391 | \$91,956                     |

(c) Movement in employee retirement benefit liability for plans applying the simplified method

|   | Millions of yen |         | Thousands of<br>U.S. dollars |
|---|-----------------|---------|------------------------------|
|   | 2015            | 2016    | 2016                         |
| Balance as of the beginning of the period:                                      | ¥8,177          | ¥8,077  | \$71,478                     |
| Retirement benefit costs  | 830             | 767     | 6,788                        |
| Benefits paid   | (925)           | (1,125) | (9,956)                      |
| Contributions paid by the employer  | (18)            | (53)    | (469)                        |
| Transfers due to changing from<br>the principle method to the simplified method | —               | 677     | 5,991                        |
| Others  | 13              | 7       | 62                           |
| Balance as of the end of the period:  | ¥8,077          | ¥8,350  | \$73,894                     |

(d) Reconciliation from retirement benefit obligations and plan assets to employee retirement benefit liability, including the plans applying the simplified method

|  | Millions of yen |          | Thousands of<br>U.S. dollars |
|--|-----------------|----------|------------------------------|
|  | 2015            | 2016     | 2016                         |
| Funded retirement benefit obligations  | ¥28,171         | ¥28,913  | \$255,867                    |
| Plan assets  | (12,432)        | (10,549) | (93,354)                     |
|  | 15,739          | 18,364   | 162,513                      |
| Unfunded retirement benefit obligations  | 20,669          | 18,976   | 167,929                      |
| Employee retirement benefit liability recorded<br>as of the end of the period: | ¥36,408         | ¥37,340  | \$330,442                    |

(e) Net periodic retirement benefit expenses

|  | Millions of yen |        | Thousands of<br>U.S. dollars |
|--|-----------------|--------|------------------------------|
|  | 2015            | 2016   | 2016                         |
| Service cost   | ¥1,870          | ¥1,920 | \$16,991                     |
| Interest cost  | 305             | 221    | 1,956                        |
| Expected return on plan assets                             | (45)            | (47)   | (416)                        |
| Transitional obligation amortisation                       | 673             | 153    | 1,354                        |
| Net actuarial loss amortisation                            | 835             | 1,111  | 9,832                        |
| Prior service cost amortisation                            | (9)             | (16)   | (142)                        |
| Retirement benefit costs based on the simplified<br>method | 841             | 771    | 6,823                        |
| Others   | (73)            | (68)   | (602)                        |
| Total net periodic retirement benefit expenses             | ¥4,397          | ¥4,045 | \$35,796                     |

(f) Retirement benefit adjustments in other comprehensive income before tax effects

|  | Millions of yen |          | Thousands of<br>U.S. dollars |
|--|-----------------|----------|------------------------------|
|  | 2015            | 2016     | 2016                         |
| Transitional obligation  | ¥684            | ¥157     | \$1,389                      |
| Actuarial differences  | 1,484           | (1,963)  | (17,372)                     |
| Past service cost  | (9)             | (16)     | (141)                        |
| Total balance, before tax effects, as of the end of the<br>period: | ¥2,159          | ¥(1,822) | \$(16,124)                   |

(g) Retirement benefit adjustments in accumulated other comprehensive income before tax effects

|   | Millions of yen |        | Thousands of<br>U.S. dollars |
|---|-----------------|--------|------------------------------|
|   | 2015            | 2016   | 2016                         |
| Transitional obligation yet to be recognised                    | ¥157            | ¥—     | \$—                          |
| Actuarial differences yet to be recognised                      | 4,051           | 6,014  | 53,221                       |
| Past service costs yet to be recognised                         | (138)           | (122)  | (1,079)                      |
| Total balance, before tax effects, as of the end of the period: | ¥4,070          | ¥5,892 | \$52,142                     |

(h) Plan assets

1) Plan assets comprise:

|                           |        |
|---------------------------|--------|
| Equity securities         | 73.7%  |
| Bonds                     | 4.9%   |
| Cash and cash equivalents | 3.8%   |
| General accounts          | 12.4%  |
| Others                    | 5.2%   |
| Total                     | 100.0% |

2) Long-term expected rate of return

Current and target asset allocations, historical and expected returns on various categories of plan assets have been considered in determining the long-term expected rate of return.

(i) Actuarial assumptions

The principal actuarial assumptions at 31 March 2016 (expressed as weighted averages) are as follows:

|                                   |              |
|-----------------------------------|--------------|
| Discount rate                     | 0.1% to 0.4% |
| Long-term expected rate of return | 0.0% to 2.0% |

For the year ended 31 March 2016, the contributions required for defined contribution plans were ¥3,752 million (\$33,204 thousand) in the Group.

In addition, some of the Company's consolidated subsidiaries participate in certain corporate pension plans under multi-employer pension programs established by the subsidiaries together with other employers. As information that would allow a determination of whether the value of the pension plan assets has been accurately calculated in proportion to the contributions made by the subsidiaries is not available, the subsidiaries record the required contributions as net periodic retirement benefit expense for the period in accordance with the accounting standard for employee retirement benefits. The above table excludes the portion of the plan assets under the multi-employer pension programs. For the year ended 31 March 2016, contributions required amounted to ¥3 million (\$27 thousand) and were accounted for using accounting treatment similar to that used for defined contribution plan.

Information regarding the funded status of the entire Group's corporate pension plans available as of the latest calculation period-ends was as follows:

|  | Millions of yen |               | Thousands of<br>U.S. dollars |
|--|-----------------|---------------|------------------------------|
|  | 2015            | 2016          | 2016                         |
| Latest calculation period-end  | 31 March 2014   | 31 March 2015 | 31 March 2015                |
| Pension plan assets  | ¥29,892         | ¥18,095       | \$160,133                    |
| Total of actuarial obligation and minimum liability reserve under pension programs | 34,634          | 20,476        | 181,204                      |
| Difference   | ¥(4,742)        | ¥(2,381)      | \$(21,071)                   |
| Ratio of subsidiaries' contributions to total contributions to entire plans        | 3.3%            | 2.7%          |                              |

## 10. Contingent liabilities

At 31 March 2015 and 2016, contingent liabilities were as follows:

|   | Millions of yen |         | Thousands of<br>U.S. dollars |
|---|-----------------|---------|------------------------------|
|   | 2015            | 2016    | 2016                         |
| Contingently liable for:                    |                 |         |                              |
| Guarantees of loans of others               | ¥426            | ¥490    | \$4,336                      |
| Guarantees under debt assumption agreements | 10,000          | 10,000  | 88,496                       |
| Total                                       | ¥10,426         | ¥10,490 | \$92,832                     |

## 11. Lease transactions

(As lessee)

### (a) Finance leases

The Group leases, as lessee, mainly machinery, equipment and vehicles such as buses under its traffic business, aircraft under its other business and software. As described in Note 2(h), pro forma information regarding leased property whose lease inception was prior to 1 April 2008 and which were accounted for with accounting treatment similar to that used for operating leases is as follows:

|                             | Machinery, equipment<br>and vehicles | Others   | Total     |
|-----------------------------|--------------------------------------|----------|-----------|
|                             | Millions of yen                      |          |           |
| At 31 March 2015            |                                      |          |           |
| Acquisition cost            | ¥17,786                              | ¥3,225   | ¥21,011   |
| Accumulated depreciation    | 12,864                               | 1,978    | 14,842    |
| Accumulated impairment loss | 233                                  | 1        | 234       |
| Net leased property         | ¥4,689                               | ¥1,246   | ¥5,935    |
| At 31 March 2016:           |                                      |          |           |
| Acquisition cost            | ¥16,797                              | ¥3,225   | ¥20,022   |
| Accumulated depreciation    | 13,251                               | 2,135    | 15,386    |
| Accumulated impairment loss | 233                                  | 1        | 234       |
| Net leased property         | ¥3,313                               | ¥1,089   | ¥4,402    |
| Thousands of U.S. dollars   |                                      |          |           |
| At 31 March 2016:           |                                      |          |           |
| Acquisition cost            | \$148,646                            | \$28,540 | \$177,186 |
| Accumulated depreciation    | 117,265                              | 18,894   | 136,159   |
| Accumulated impairment loss | 2,062                                | 9        | 2,071     |
| Net leased property         | \$29,319                             | \$9,637  | \$38,956  |

Future minimum lease payments to be paid under finance leases above were as follows:

|                   | Millions of yen |        | Thousands of<br>U.S. dollars |
|-------------------|-----------------|--------|------------------------------|
|                   | 2015            | 2016   | 2016                         |
| Due within 1 year | ¥1,648          | ¥1,602 | \$14,177                     |
| Due after 1 year  | 5,364           | 3,768  | 33,345                       |
| Total             | ¥7,012          | ¥5,370 | \$47,522                     |

An allowance for impairment loss on leased property in the amount of ¥9 million and ¥2 million (\$18 thousand) was included in other current and non-current liabilities in the consolidated balance sheets for 31 March 2015 and 2016, respectively.

Lease expense and other information at 31 March 2015 and 2016 was as follows:

|   | Millions of yen |        | Thousands of<br>U.S. dollars |
|---|-----------------|--------|------------------------------|
|   | 2015            | 2016   | 2016                         |
| Lease expense   | ¥2,094          | ¥1,929 | \$17,071                     |
| Reversal of allowance for impairment loss<br>on leased property | 12              | 7      | 62                           |
| Imputed depreciation expense (*1)                               | 1,659           | 1,519  | 13,442                       |
| Imputed interest expense (*2)                                   | 285             | 239    | 2,115                        |
| Impairment loss   | —               | —      | —                            |

\*1) Depreciation was calculated using the straight-line method with the useful life equal to the lease period and residual value zero.

\*2) Imputed interest expense is the difference between total lease payments and the acquisition costs and was calculated based on the interest method.

## (b) Operating leases

Future minimum payments under non-cancellable operating leases were as follows:

|                   | Millions of yen |        | Thousands of<br>U.S. dollars |
|-------------------|-----------------|--------|------------------------------|
|                   | 2015            | 2016   | 2016                         |
| Due within 1 year | ¥791            | ¥667   | \$5,903                      |
| Due after 1 year  | 1,801           | 1,057  | 9,354                        |
| Total             | ¥2,592          | ¥1,724 | \$15,257                     |

## (As lessor)

### (a) Finance leases

Lease investment assets at 31 March 2015 and 2016 were as follows:

|  | Millions of yen |        | Thousands of<br>U.S. dollars |
|--|-----------------|--------|------------------------------|
|  | 2015            | 2016   | 2016                         |
| Lease receivables  | ¥4,776          | ¥4,890 | \$43,274                     |
| Estimated residual value                                 | 182             | 173    | 1,531                        |
| Unearned imputed interest                                | (1,011)         | (954)  | (8,442)                      |
| Lease investment assets included in trade<br>receivables | ¥3,947          | ¥4,109 | \$36,363                     |

The aggregate annual maturities of lease receivables and investments at 31 March 2016 were as follows:

| Year ending 31 March | Millions of<br>yen | Thousands of<br>U.S. dollars |
|----------------------|--------------------|------------------------------|
| 2017                 | ¥1,686             | \$14,920                     |
| 2018                 | 1,265              | 11,195                       |
| 2019                 | 1,004              | 8,885                        |
| 2020                 | 569                | 5,035                        |
| 2021                 | 313                | 2,770                        |
| 2022 and thereafter  | 53                 | 469                          |
| Total                | ¥4,890             | \$43,274                     |

## (b) Operating leases

Future minimum payments to be received under non-cancellable operating leases were as follows:

|                   | Millions of yen |         | Thousands of<br>U.S. dollars |
|-------------------|-----------------|---------|------------------------------|
|                   | 2015            | 2016    | 2016                         |
| Due within 1 year | ¥2,174          | ¥2,271  | \$20,098                     |
| Due after 1 year  | 7,250           | 9,171   | 81,159                       |
| Total             | ¥9,424          | ¥11,442 | \$101,257                    |

## 12. Derivatives

At 31 March 2015 and 2016, derivative transactions to which hedge accounting was not applied were as follows:

(Foreign currency related transactions)

|   | Contract amount           |                  |             | Unrealised<br>gain/(loss) |
|---|---------------------------|------------------|-------------|---------------------------|
|   | Total amount              | Due after 1 year | Fair value* |                           |
|   | Millions of yen           |                  |             |                           |
| Foreign exchange forward<br>contracts to buy foreign<br>currencies: |                           |                  |             |                           |
| At 31 March 2015  | ¥390                      | ¥14              | ¥26         | ¥26                       |
| At 31 March 2016  | 286                       | 12               | 1           | 1                         |
|   | Thousands of U.S. dollars |                  |             |                           |
| Foreign exchange forward<br>contracts to buy foreign<br>currencies: |                           |                  |             |                           |
| At 31 March 2016  | \$2,531                   | \$106            | \$9         | \$9                       |

\*The fair value was based on the forward exchange rate.



At 31 March 2015 and 2016, derivative transactions to which hedge accounting was applied were as follows:

(Foreign currency related transactions)

| Method of hedge accounting                                | Transaction  | Major hedged items   | Contract amount |                  | Fair value* |
|---|--|----------------------|-----------------|------------------|-------------|
|   |  |                      | Total amount    | Due after 1 year |             |
| Millions of yen   |  |                      |                 |                  |             |
| Allocation method for foreign exchange forward contracts: | Currency swaps - pay fixed rate and receive floating rate<br>- pay Japanese yen<br>receive U.S. dollar | Long-term bank loans |                 |                  |             |
| At 31 March 2015  |  |                      | ¥18,958         | ¥16,793          | ¥-          |
| At 31 March 2016  |  |                      | 18,543          | 12,904           | -           |
| Thousands of U.S. dollars                                 |  |                      |                 |                  |             |
| Allocation method for foreign exchange forward contracts: | Currency swaps - pay fixed rate and receive floating rate<br>- pay Japanese yen<br>receive U.S. dollar | Long-term bank loans |                 |                  |             |
| At 31 March 2016  |  |                      | \$164,097       | \$114,195        | \$-         |

*\*Derivative instruments such as currency swaps contracts are accounted for using hedge accounting under which such derivative instruments are not considered separate from the hedged bank loans. The fair value of such derivative instruments is considered part of the fair value of the related hedged bank loans (see Note 3).*

(Interest rate related transactions)

| Method of hedge accounting                 | Transaction  | Major hedged items   | Contract amount |                  | Fair value* |
|--|--|----------------------|-----------------|------------------|-------------|
|  |  |                      | Total amount    | Due after 1 year |             |
| Millions of yen                            |  |                      |                 |                  |             |
| General treatment for interest rate swaps: | Interest rate swaps - pay fixed rate and receive floating rate | Long-term bank loans |                 |                  |             |
| At 31 March 2015                           |  |                      | ¥-              | ¥-               | ¥-          |
| At 31 March 2016                           |  |                      | 1,750           | 1,575            | (22)        |
| Thousands of U.S. dollars                  |  |                      |                 |                  |             |
| General treatment for interest rate swaps: | Interest rate swaps - pay fixed rate and receive floating rate | Long-term bank loans |                 |                  |             |
| At 31 March 2016                           |  |                      | \$15,487        | \$13,938         | \$(195)     |

*\*The fair value of derivative transactions was measured at quoted prices obtained from the financial institutions.*

| Method of hedge accounting                 | Transaction  | Major hedged items   | Contract amount |                  | Fair value* |
|--|--|----------------------|-----------------|------------------|-------------|
|  |  |                      | Total amount    | Due after 1 year |             |
| Millions of yen                            |  |                      |                 |                  |             |
| Special treatment for interest rate swaps: | Interest rate swaps - pay fixed rate and receive floating rate | Long-term bank loans |                 |                  |             |
| At 31 March 2015                           |  |                      | ¥98,864         | ¥88,161          | ¥-          |
| At 31 March 2016                           |  |                      | 96,661          | 92,788           | -           |
| Thousands of U.S. dollars                  |  |                      |                 |                  |             |
| Special treatment for interest rate swaps: | Interest rate swaps - pay fixed rate and receive floating rate | Long-term bank loans |                 |                  |             |
| At 31 March 2016                           |  |                      | \$855,407       | \$821,133        | \$-         |

*\*Derivative instruments such as interest rate swaps contracts are accounted for using hedge accounting under which such derivative instruments are not considered separate from the hedged bank loans. The fair value of such derivative instruments is considered part of the fair value of the related hedged bank loans (see Note 3).*

(Commodity price - related transactions)

| Method of hedge accounting             | Transaction                                     | Major hedged items | Contract amount |                  | Fair value* |
|--|---|--------------------|-----------------|------------------|-------------|
|  |   |                    | Total amount    | Due after 1 year |             |
| Millions of yen                        |   |                    |                 |                  |             |
| General treatment for commodity swaps: | Commodity swaps- pay fixed and receive floating | Ship fuel          |                 |                  |             |
| At 31 March 2015                       |   |                    | ¥3,056          | ¥1,670           | ¥(316)      |
| At 31 March 2016                       |   |                    | 2,265           | 1,192            | (908)       |
| Thousands of U.S. dollars              |   |                    |                 |                  |             |
| General treatment for commodity swaps: | Commodity swaps- pay fixed and receive floating | Ship fuel          |                 |                  |             |
| At 31 March 2016                       |   |                    | \$20,044        | \$10,549         | \$(8,035)   |

*\*The fair value of derivative transactions was measured at quoted prices obtained from the financial institutions.*

### 13. Net assets

Under the Japanese Companies Act (the “Companies Act”) and related regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Companies Act, in cases in which a dividend distribution of surplus is made, the smaller of the amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of the additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. The additional paid-in-capital and legal earnings reserve have been included in capital surplus and retained earnings, respectively, in the accompanying consolidated balance sheets. Under the Companies Act, the legal earnings reserve and additional paid-in capital can be used to eliminate or reduce a deficit by a resolution at the shareholders’ meeting. The additional paid-in capital and legal earnings reserve may not be distributed as dividends. All additional paid-in capital and legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which may become available for distribution as dividends.

At 31 March 2015 and 2016, capital surplus consisted principally of additional paid-in capital. In addition, retained earnings included the legal earnings reserve of the Company in the amounts of ¥2,808 million and ¥2,808 million (\$24,850 thousand) at 31 March 2015 and 2016, respectively.

The maximum amount that the Company can distribute as dividends is calculated based on the separate financial statements of the Company in accordance with Japanese laws and regulations.

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased may not exceed the amount available for distribution to the shareholders, which is determined by using a specific formula.

## 14. Income taxes

The Company and its domestic consolidated subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a statutory effective tax rate of approximately 35.3% and 32.8% for the years ended 31 March 2015 and 2016, respectively.

Significant components of the Groups' deferred tax assets and liabilities as of 31 March 2015 and 2016 were as follows:

|  | Millions of yen |          | Thousands of<br>U.S. dollars |
|--|-----------------|----------|------------------------------|
|  | 2015            | 2016     | 2016                         |
| Deferred tax assets:   |                 |          |                              |
| Employee retirement benefit liability                              | ¥15,097         | ¥15,269  | \$135,124                    |
| Impairment loss on fixed assets                                    | 10,397          | 9,592    | 84,885                       |
| Loss on valuation of investment securities                         | 8,301           | 7,942    | 70,283                       |
| Elimination of unrealised profit                                   | 4,580           | 4,473    | 39,584                       |
| Tax loss carryforwards   | 5,847           | 3,442    | 30,460                       |
| Depreciation   | 3,708           | 3,161    | 27,974                       |
| Valuation loss on fixed assets                                     | 1,467           | 2,157    | 19,088                       |
| Provision for loss on liquidation                                  | 2,277           | 2,105    | 18,628                       |
| Accrued bonus  | 1,823           | 1,823    | 16,133                       |
| Loss on valuation of land caused by restructuring                  | 1,477           | 840      | 7,434                        |
| Allowance for loss on exchange of gift certificates<br>Outstanding | 810             | 752      | 6,655                        |
| Accrued enterprise taxes and accrued business office<br>taxes      | 525             | 698      | 6,177                        |
| Allowance for doubtful accounts                                    | 805             | 669      | 5,920                        |
| Provision for retirement benefits for directors                    | 543             | 569      | 5,036                        |
| Loss on valuation of inventories                                   | 354             | 283      | 2,504                        |
| Others   | 2,936           | 3,158    | 27,947                       |
| Subtotal of deferred tax assets                                    | 60,947          | 56,933   | 503,832                      |
| Less valuation allowance   | (33,311)        | (29,450) | (260,620)                    |
| Total deferred tax assets  | 27,636          | 27,483   | 243,212                      |
| Deferred tax liabilities:  |                 |          |                              |
| Net unrealised gains on available-for-sale securities              | (10,337)        | (8,140)  | (72,035)                     |
| Gain on valuation of land caused by restructuring                  | (3,416)         | (3,188)  | (28,212)                     |
| Gain on valuation of investment securities                         | (2,185)         | (2,076)  | (18,372)                     |
| Trust for employee retirement benefits                             | (1,905)         | (1,810)  | (16,018)                     |
| Deferred capital gains   | (1,052)         | (980)    | (8,673)                      |
| Others   | (742)           | (943)    | (8,345)                      |
| Total deferred tax liabilities                                     | (19,637)        | (17,137) | (151,655)                    |
| Net deferred tax assets  | ¥7,999          | ¥10,346  | \$91,557                     |

At 31 March 2015 and 2016, deferred tax assets and liabilities were as follows:

|                           | Millions of yen |        | Thousands of<br>U.S. dollars |
|---------------------------|-----------------|--------|------------------------------|
|                           | 2015            | 2016   | 2016                         |
| Deferred tax assets:      |                 |        |                              |
| Current                   | ¥5,387          | ¥3,411 | \$30,186                     |
| Noncurrent                | 9,056           | 10,573 | 93,566                       |
| Deferred tax liabilities: |                 |        |                              |
| Current                   | 1               | —      | —                            |
| Noncurrent                | 6,443           | 3,638  | 32,195                       |

In assessing the realisability of deferred tax assets, management of the Group considers whether some portion or all of the deferred tax assets will not be realised. The ultimate realisation of deferred tax assets is dependent upon the generation of future taxable income during the periods in which the temporary differences become deductible. At 31 March 2015 and 2016, a valuation allowance was provided to reduce deferred tax assets to the amount management believed would be realisable.

For the year ended 31 March 2016, a reconciliation of the differences between the combined Japanese statutory tax rate and the effective income tax rate on pre-tax income reflected in the accompanying consolidated statements of income was as follows:

|                                     | Percentage of<br>pre-tax income |
|-------------------------------------|---------------------------------|
|                                     | <u>2016</u>                     |
| Japanese statutory tax rate         | 32.8%                           |
| Increase (decrease) due to:         |                                 |
| Local minimum taxes per capita levy | 0.9                             |
| Permanently non-deductible expenses | 0.5                             |
| Tax exempt income                   | (4.8)                           |
| Changes in valuation allowance      | (0.5)                           |
| Others                              | 0.1                             |
| Effective income tax rate           | <u>29.0%</u>                    |

A reconciliation for the year ended 31 March 2015 was not disclosed as the difference between the rates was not material.

On 31 March 2015, amendments to the Japanese tax regulations were enacted into law. Based on the amendments, the statutory income tax rates utilised for the measurement of deferred tax assets and liabilities expected to be settled or realised from 1 April 2015 to 31 March 2016 and on or after 1 April 2016 are changed for the fiscal year ended 31 March 2015 from 35.3% to 32.8% and 32.1%, respectively, as of 31 March 2015.

Due to these changes in statutory income tax rates, net deferred tax assets (after deducting the deferred tax liabilities) decreased by ¥128 million as of 31 March 2015, deferred income tax expense recognised for the fiscal year ended 31 March 2015 increased by ¥1,026 million, accumulated other comprehensive income (except land revaluation increment) increased by ¥898 million, deferred tax liabilities for land revaluation decreased by ¥5,654 million and land revaluation increment increased by ¥5,654 million.

On 29 March 2016, amendments to the Japanese tax regulations were enacted into law. Based on the amendments, the statutory income tax rates utilized for the measurement of deferred tax assets and liabilities expected to be settled or realized from 1 April 2016 to 31 March 2018 and on or after 1 April 2018 are changed for the fiscal year ended 31 March 2016 from 32.1% to 30.7% and 30.5%, respectively, as of 31 March 2016.

Due to these changes in statutory income tax rates, net deferred tax assets (after deducting the deferred tax liabilities) decreased by ¥174 million (\$1,540 thousand) as of 31 March 2016, deferred income tax expense recognised for the fiscal year ended 31 March 2016 increased by ¥488 million (\$4,319 thousand), accumulated other comprehensive income (except land revaluation increment) increased by ¥314 million (\$2,779 thousand), deferred tax liabilities for land revaluation decreased by ¥2,806 million (\$24,832 thousand) and land revaluation increment increased by ¥2,806 million (\$24,832 thousand).

## **15. Segment information**

### **(1) General information about reportable segments**

The reportable segments of the Company are those units for which separate financial statements can be obtained among the constituent units of the Company and which are regularly examined by the Board of Directors to determine the allocation of management resources and to assess business performance.

The Group is engaged in diversified business activities involving traffic, transport, real estate, leisure, distribution, equipment maintenance and others. On the basis of the above activities, the Company's reportable segments are "Traffic," "Transport," "Real Estate," "Leisure and Services" and "Distribution."

The business descriptions of the reportable segments are as follows:

- Traffic: business related to railroads, buses and taxis
- Transport: business related to trucking and maritime transportation
- Real Estate: real estate development and real estate leasing
- Leisure and Services: business related to hotels, restaurants, tourist facilities and travel
- Distribution: department store operations and distributions of other merchandise sales

### **(2) Basis of measurement for reportable segment operating revenues, profit or loss, assets and other material items**

The accounting procedures applied to the reportable segments are basically the same as those described in Note 2, "Summary of significant accounting policies." Reportable segment income figures are on an operating income basis. Intersegment sales and transfers are based on prevailing market prices.

**(3) Information about reportable segment operating revenues, profit or loss, assets and other material items**

Information about reportable segments as of and for the year ended 31 March 2015 was as follows:

|  | Reportable segments |           |             |                      |              |             |           | Total      | Adjustments | Consolidated financial statements |
|--|---------------------|-----------|-------------|----------------------|--------------|-------------|-----------|------------|-------------|-----------------------------------|
|  | Traffic             | Transport | Real Estate | Leisure and Services | Distribution | Others (*1) |           |            |             |                                   |
| Millions of yen  |                     |           |             |                      |              |             |           |            |             |                                   |
| <b>For the year 2015:</b>                                |                     |           |             |                      |              |             |           |            |             |                                   |
| Operating revenues:                                      |                     |           |             |                      |              |             |           |            |             |                                   |
| External customers                                       | ¥ 156,653           | ¥ 132,585 | ¥ 85,523    | ¥ 52,070             | ¥ 127,362    | ¥ 55,187    | ¥ 609,380 | ¥ —        | ¥ 609,380   |                                   |
| Intersegment sales/transfers                             | 2,241               | 444       | 6,554       | 1,434                | 13,966       | 19,319      | 43,958    | (43,958)   | —           |                                   |
| Total  | ¥ 158,894           | ¥ 133,029 | ¥ 92,077    | ¥ 53,504             | ¥ 141,328    | ¥ 74,506    | ¥ 653,338 | ¥ (43,958) | ¥ 609,380   |                                   |
| Segment income (*2)                                      | 15,736              | 4,660     | 11,956      | 781                  | 820          | 3,620       | 37,573    | 500        | 38,073      |                                   |
| Segment assets (*3)                                      | 478,369             | 112,853   | 257,021     | 37,918               | 46,558       | 66,433      | 999,152   | 67,834     | 1,066,986   |                                   |
| Other material items:                                    |                     |           |             |                      |              |             |           |            |             |                                   |
| Depreciation and amortisation (*4)                       | 18,963              | 5,504     | 5,860       | 1,457                | 1,370        | 6,150       | 39,304    | (596)      | 38,708      |                                   |
| Amortisation of goodwill                                 | —                   | 63        | 95          | 10                   | 13           | 2           | 183       | —          | 183         |                                   |
| Impairment loss on fixed assets                          | 463                 | 106       | 718         | 217                  | 629          | 141         | 2,274     | —          | 2,274       |                                   |
| Increase in property and equipment and intangible assets | 14,158              | 5,108     | 13,024      | 1,672                | 2,245        | 8,604       | 44,811    | —          | 44,811      |                                   |

\*1) "Others" is a business segment that is not considered a reportable segment. It includes the business of equipment maintenance, air transportation, building maintenance, insurance agency and others.

\*2) Segment income adjustment amounting to ¥500 million was treated as intersegment elimination.

\*3) Segment assets adjustment amounting to ¥67,834 million consisted of unallocated general corporate assets amounting to ¥94,364 million, net of intersegment elimination of ¥26,530 million. Such general corporate assets consisted mainly of cash, deposits and investment securities.

\*4) Depreciation and amortisation adjustment amounting to ¥596 million was treated as intersegment elimination.

5) Segment income was reconciled to operating income in the accompanying consolidated statements of income.

Information about reportable segments as of and for the year ended 31 March 2016 was as follows:

|  | Reportable segments |           |             |                      |              |             |           | Total      | Adjustments | Consolidated financial statements |
|--|---------------------|-----------|-------------|----------------------|--------------|-------------|-----------|------------|-------------|-----------------------------------|
|  | Traffic             | Transport | Real Estate | Leisure and Services | Distribution | Others (*1) |           |            |             |                                   |
| Millions of yen  |                     |           |             |                      |              |             |           |            |             |                                   |
| <b>For the year 2016:</b>                                |                     |           |             |                      |              |             |           |            |             |                                   |
| Operating revenues:                                      |                     |           |             |                      |              |             |           |            |             |                                   |
| External customers                                       | ¥ 162,177           | ¥ 131,478 | ¥ 81,109    | ¥ 53,467             | ¥ 125,841    | ¥ 56,082    | ¥ 610,154 | ¥ —        | ¥ 610,154   |                                   |
| Intersegment sales/transfers                             | 2,312               | 538       | 6,699       | 1,572                | 10,545       | 21,829      | 43,495    | (43,495)   | —           |                                   |
| Total  | ¥ 164,489           | ¥ 132,016 | ¥ 87,808    | ¥ 55,039             | ¥ 136,386    | ¥ 77,911    | ¥ 653,649 | ¥ (43,495) | ¥ 610,154   |                                   |
| Segment income (*2)                                      | 22,004              | 6,234     | 9,595       | 2,103                | 863          | 3,691       | 44,490    | 375        | 44,865      |                                   |
| Segment assets (*3)                                      | 475,003             | 115,753   | 261,378     | 35,681               | 45,373       | 71,987      | 1,005,175 | 59,432     | 1,064,607   |                                   |
| Other material items:                                    |                     |           |             |                      |              |             |           |            |             |                                   |
| Depreciation and amortisation (*4)                       | 18,877              | 5,675     | 5,801       | 1,325                | 1,358        | 6,414       | 39,450    | (536)      | 38,914      |                                   |
| Amortisation of goodwill                                 | —                   | 63        | 127         | —                    | 13           | —           | 203       | —          | 203         |                                   |
| Impairment loss on fixed assets                          | 1,141               | 86        | 1,783       | 2,594                | 302          | 64          | 5,970     | —          | 5,970       |                                   |
| Increase in property and equipment and intangible assets | 17,195              | 8,350     | 11,052      | 1,687                | 2,652        | 8,429       | 49,365    | —          | 49,365      |                                   |

|  | Reportable segments |              |             |                      |              |             |              | Total        | Adjustments  | Consolidated financial statements |
|--|---------------------|--------------|-------------|----------------------|--------------|-------------|--------------|--------------|--------------|-----------------------------------|
|  | Traffic             | Transport    | Real Estate | Leisure and Services | Distribution | Others (*1) |              |              |              |                                   |
| Thousands of U.S. dollars                                |                     |              |             |                      |              |             |              |              |              |                                   |
| <b>For the year 2016:</b>                                |                     |              |             |                      |              |             |              |              |              |                                   |
| Operating revenues:                                      |                     |              |             |                      |              |             |              |              |              |                                   |
| External customers                                       | \$ 1,435,195        | \$ 1,163,522 | \$ 717,779  | \$ 473,159           | \$ 1,113,637 | \$ 496,301  | \$ 5,399,593 | \$ —         | \$ 5,399,593 |                                   |
| Intersegment sales/transfers                             | 20,460              | 4,761        | 59,283      | 13,912               | 93,319       | 193,177     | 384,912      | (384,912)    | —            |                                   |
| Total  | \$ 1,455,655        | \$ 1,168,283 | \$ 777,062  | \$ 487,071           | \$ 1,206,956 | \$ 689,478  | \$ 5,784,505 | \$ (384,912) | \$ 5,399,593 |                                   |
| Segment income (*2)                                      | 194,726             | 55,168       | 84,911      | 18,611               | 7,637        | 32,664      | 393,717      | 3,318        | 397,035      |                                   |
| Segment assets (*3)                                      | 4,203,566           | 1,024,363    | 2,313,080   | 315,761              | 401,531      | 637,053     | 8,895,354    | 525,947      | 9,421,301    |                                   |
| Other material items:                                    |                     |              |             |                      |              |             |              |              |              |                                   |
| Depreciation and amortisation (*4)                       | 167,053             | 50,221       | 51,336      | 11,726               | 12,018       | 56,761      | 349,115      | (4,743)      | 344,372      |                                   |
| Amortisation of goodwill                                 | —                   | 557          | 1,124       | —                    | 115          | —           | 1,796        | —            | 1,796        |                                   |
| Impairment loss on fixed assets                          | 10,097              | 761          | 15,779      | 22,956               | 2,673        | 566         | 52,832       | —            | 52,832       |                                   |
| Increase in property and equipment and intangible assets | 152,168             | 73,894       | 97,805      | 14,929               | 23,469       | 74,593      | 436,858      | —            | 436,858      |                                   |

\*1) "Others" is a business segment that is not considered a reportable segment. It includes the business of equipment maintenance, air transportation, building maintenance, insurance agency and others.

\*2) Segment income adjustment amounting to ¥375 million (\$3,318 thousand) was treated as intersegment elimination.

\*3) Segment assets adjustment amounting to ¥59,432 million (\$525,947 thousand) consisted of unallocated general corporate assets amounting to ¥87,180 million (\$771,504 thousand), net of intersegment elimination of ¥27,748 million (\$245,558 thousand). Such general corporate assets consisted mainly of cash, deposits and investment securities.

\*4) Depreciation and amortisation adjustment amounting to ¥536 million (\$4,743 thousand) was treated as intersegment elimination.

5) Segment income was reconciled to operating income in the accompanying consolidated statements of income.



**(Related information)**

(1) Information about products and services

As this information has been presented under segment information above, such information has been omitted.

(2) Information about geographic areas

(Operating revenues)

As operating revenues attributable to external customers in Japan represented more than 90% of operating revenues in the consolidated statements of income, such information has been omitted.

(Property and equipment)

As amounts of property and equipment located in Japan represented more than 90% of the amounts of property and equipment in the consolidated balance sheets, such information has been omitted.

(3) Information about major customers

The Company has not disclosed information about major customers because no single customer has represented 10% or more to operating revenue in the consolidated statements of income.

(4) Information on goodwill by reportable segment

|                      | <u>Traffic</u>  | <u>Transport</u> | <u>Real Estate</u> | <u>Leisure and Services</u> | <u>Distribution</u> | <u>Others</u> | <u>Eliminations</u> | <u>Consolidated</u> |
|----------------------|-----------------|------------------|--------------------|-----------------------------|---------------------|---------------|---------------------|---------------------|
|                      | Millions of yen |                  |                    |                             |                     |               |                     |                     |
| Balance of goodwill: |                 |                  |                    |                             |                     |               |                     |                     |
| At 31 March 2015     | ¥—              | ¥94              | ¥1,175             | ¥—                          | ¥26                 | ¥—            | ¥—                  | ¥1,295              |
| At 31 March 2016     | —               | 32               | 1,048              | —                           | 13                  | —             | —                   | 1,093               |

  

|                      | <u>Traffic</u>            | <u>Transport</u> | <u>Real Estate</u> | <u>Leisure and Services</u> | <u>Distribution</u> | <u>Others</u> | <u>Eliminations</u> | <u>Consolidated</u> |
|----------------------|---------------------------|------------------|--------------------|-----------------------------|---------------------|---------------|---------------------|---------------------|
|                      | Thousands of U.S. dollars |                  |                    |                             |                     |               |                     |                     |
| Balance of goodwill: |                           |                  |                    |                             |                     |               |                     |                     |
| At 31 March 2016     | \$—                       | \$283            | \$9,275            | \$—                         | \$115               | \$—           | \$—                 | \$9,673             |

*Note: Amortisation of goodwill has been omitted because such information has been presented under segment information above.*

(5) Information about reportable segment gain on negative goodwill

- Consolidated fiscal year ended 31 March 2015 and 2016

As this information was not material, it has been omitted.

## 16. Comprehensive income

Amounts reclassified to net income (loss) in the current period that were recognised in other comprehensive income in the current or previous periods and the tax effects for each component of other comprehensive income for the years ended 31 March 2015 and 2016 were as follows.

|  | Millions of yen |          | Thousands of<br>U.S. dollars |
|--|-----------------|----------|------------------------------|
|  | 2015            | 2016     | 2016                         |
| Unrealised gains on available-for-sale securities, net of taxes:                     |                 |          |                              |
| Amount arising during the year   | ¥15,199         | ¥(5,434) | \$(48,089)                   |
| Reclassification adjustments   | (488)           | (217)    | (1,920)                      |
| Subtotal, before tax   | 14,711          | (5,651)  | (50,009)                     |
| The amount of tax effect   | (4,167)         | 2,204    | 19,505                       |
| Subtotal, net of tax   | 10,544          | (3,447)  | (30,504)                     |
| Deferred gains and losses on hedges, net of taxes:                                   |                 |          |                              |
| Amount arising during the year   | (316)           | (476)    | (4,212)                      |
| Reclassification adjustments   | —               | (138)    | (1,222)                      |
| Subtotal, before tax   | (316)           | (614)    | (5,434)                      |
| The amount of tax effect   | 103             | 182      | 1,611                        |
| Subtotal, net of tax   | (213)           | (432)    | (3,823)                      |
| Land revaluation increments, net of taxes:   |                 |          |                              |
| Amount arising during the year   | —               | —        | —                            |
| Reclassification adjustments   | —               | —        | —                            |
| Subtotal, before tax   | —               | —        | —                            |
| The amount of tax effect   | 6,951           | 3,883    | 34,363                       |
| Subtotal, net of tax   | 6,951           | 3,883    | 34,363                       |
| Foreign currency translation adjustments   |                 |          |                              |
| Amount arising during the year   | 19              | —        | —                            |
| Reclassification adjustments   | —               | —        | —                            |
| Subtotal, before tax   | 19              | —        | —                            |
| The amount of tax effect   | —               | —        | —                            |
| Subtotal, net of tax   | 19              | —        | —                            |
| Retirement benefit adjustments   |                 |          |                              |
| Amount arising during the year   | 686             | (3,321)  | (29,389)                     |
| Reclassification adjustments   | 1,473           | 1,499    | 13,265                       |
| Subtotal, before tax   | 2,159           | (1,822)  | (16,124)                     |
| The amount of tax effect   | (647)           | 875      | 7,743                        |
| Subtotal, net of tax   | 1,512           | (947)    | (8,381)                      |
| Share of other comprehensive income of affiliates accounted for using equity method: |                 |          |                              |
| Amount arising during the year   | 770             | (409)    | (3,619)                      |
| Reclassification adjustments   | 18              | 10       | 88                           |
| Subtotal   | 788             | (399)    | (3,531)                      |
| Total other comprehensive income   | ¥19,601         | ¥(1,342) | \$(11,876)                   |

## 17. Subsequent events

### Cash dividends

An appropriation of retained earnings for the year ended 31 March 2016 was duly approved at the ordinary shareholders' meeting held on 28 June 2016 as follows:

|                                  | <u>Millions of yen</u> | <u>Thousands of<br/>U.S. dollars</u> |
|----------------------------------|------------------------|--------------------------------------|
| Cash dividends (¥5.00 per share) | ¥4,597                 | \$40,681                             |

The above dividends became payable to shareholders of record as of 31 March 2016. However, such appropriation has not been accrued in the consolidated financial statements as of 31 March 2016 as such appropriation is recognised in the period in which it is approved by the shareholders.