



Independent auditor's report

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

Opinion

We have audited the accompanying consolidated financial statements of Nagoya Railroad Co., Ltd. ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group"), which comprise the consolidated balance sheets as at March 31, 2025 and 2024, the consolidated statements of income, comprehensive income, changes in net assets and cash flows for the years then ended and notes, comprising a summary of significant accounting policies and other explanatory information. In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2025 and 2024, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Appropriateness of management's judgment on the recoverability of deferred tax assets

The key audit matter	How the matter was addressed in our audit
In the consolidated statement of financial position of Nagoya Railroad Co., Ltd. (hereinafter referred to as "the Company") and consolidated subsidiaries, deferred tax assets of ¥13,178 million were recognized as at March 31, 2025. As described in Note 13, "Income taxes," to the consolidated financial statements, the amount of gross deferred tax assets before	<p>The primary procedures we performed to assess whether management's judgment on the recoverability of deferred tax assets was appropriate included the following:</p> <p>(1) Internal control testing</p> <p>We tested the design and operating effectiveness of certain of the Company's internal controls over the process of planning future taxable income, including the development</p>

being offset by deferred tax liabilities amounted to ¥28,760 million, which was calculated by deducting a valuation allowance of ¥50,037 million from the total amount of deferred tax assets of ¥78,798 million related to deductible temporary differences and tax loss carryforwards. Of this amount, the amount recognized by the Company and accounting for the largest share is particularly significant.

Deferred tax assets are recognized to the extent that the reversal of deductible temporary differences or tax loss carryforwards are expected to reduce future taxable income resulting in a reduction in tax payments.

The future taxable income of the Company, which was used to determine the recoverability of its deferred tax assets, was estimated based primarily on the medium-term management plan prepared by management. There was a high degree of uncertainty in the forecasts of future operating revenues incorporated into the management plan as they included key assumptions requiring significant management judgment.

We, therefore, determined that our assessment of the appropriateness of management's judgment on the recoverability of deferred tax assets was of most significance in our audit of the consolidated financial statements for the current fiscal year and, accordingly, a key audit matter.

of the medium-term management plan.

(2) Assessment of the reasonableness of the estimated future taxable income

We assessed the reasonableness of the estimated future taxable income by inquiring of management regarding the basis for key assumptions used to estimate future taxable income, which was important for management's judgment on the recoverability of deferred tax assets. In addition, we:

- confirmed that the medium-term management plan, which formed the basis for planning future taxable income, was appropriately approved and then assessed the consistency of the estimated future taxable income used to determine the recoverability of the deferred tax assets with the details of the medium-term management plan;
- assessed the appropriateness of key assumptions underlying the forecasts of operating revenues from railroad operations included in the medium-term management plan by comparing the forecasts of operating revenues from railroad operations with relevant documents, including those describing actual operating revenues from railroad operations before the spread of COVID-19 and market research results published by external research organizations; and
- analyzed the achievement status of the previous plan of future taxable income, including the causes of any differences from actual taxable income, and then assessed the reasonableness and feasibility of the future taxable income considering the achievement of the previous plan.

Other Information

The other information comprises the information included in the disclosure documents that contain or accompany the audited financial statements, but does not include the consolidated financial statements and our auditor's reports thereon.

We do not perform any work on the other information as we determine such information does not exist.

Responsibilities of Management and Corporate Auditors and the Board of Corporate Auditors for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan.

Corporate auditors and the board of corporate auditors are responsible for overseeing the directors'

performance of their duties with regard to the design, implementation and maintenance of the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of our audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with accounting standards generally accepted in Japan, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group as a basis for forming an opinion on the group financial statements. We are responsible for the direction, supervision and review of the audit work performed for the purpose of the group audit. We remain solely responsible for our audit opinion.

We communicate with corporate auditors and the board of corporate auditors regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide corporate auditors and the board of corporate auditors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied. From the matters communicated with corporate auditors and the board of corporate auditors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Fee-related Information

Fees paid or payable to our firm for audit and non-audit services provided to the Company and its consolidated subsidiaries for the current year are 292 million yen and 16 million yen, respectively

Interest required to be disclosed by the Certified Public Accountants Act of Japan

We do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Azami Kazuhiko

Designated Engagement Partner

Certified Public Accountant

Kishida Yoshihiko

Designated Engagement Partner

Certified Public Accountant

Inagaki Yoshito

Designated Engagement Partner

Certified Public Accountant

KPMG AZSA LLC

Nagoya Office, Japan

July 31, 2025

Notes to the Reader of Independent Auditor's Report:

This is a copy of the Independent Auditor's Report and the original copies are kept separately by the Company and KPMG AZSA LLC.

This document has been extracted and translated from the Japanese original report (Yukashoken-Hokokusho) issued on June 25, 2025, which was prepared in accordance with the Financial Instruments and Exchange Act. This document is for reference only and in the event of any discrepancy between this translated document and the Japanese original, the original shall prevail.

Nagoya Railroad Co., Ltd. and Consolidated Subsidiaries

Consolidated Balance Sheets

	Millions of yen	
	31 March 2024	31 March 2025
ASSETS		
Current assets		
Cash and deposits(Notes 3 and 7)	60,388	58,637
Trade notes, accounts receivable and contract assets(Notes 3 and 14)	63,831	71,559
Short-term loans receivable	1,814	96
Land and buildings for sale	76,717	84,471
Merchandise and finished goods	6,329	7,859
Work in process	626	824
Raw materials and supplies	5,511	6,376
Others	23,451	26,774
Allowance for doubtful accounts	(185)	(182)
Total current assets	238,484	256,417
Non-current assets		
Property and equipment (Notes 5, 6 and 7)		
Buildings and structures, net	317,548	333,452
Machinery, equipment and vehicles, net	83,615	89,238
Land	381,227	421,580
Lease assets, net	9,569	8,854
Construction in progress	90,654	130,782
Other properties, net	11,008	14,073
Total property and equipment	893,624	997,980
Intangible assets		
Right-of-use facilities	7,945	8,809
Goodwill	2,294	2,027
Lease assets	217	173
Other intangible assets	3,505	3,941
Total intangible assets	13,963	14,952
Investments and other assets		
Investment securities (Notes 3 and 4)	128,202	147,074
Long-term loans receivable	292	238
Deferred tax assets (Note 13)	11,606	13,178
Employee retirement benefit asset	-	27
Others (Note 7)	17,525	19,432
Allowance for doubtful accounts	(493)	(392)
Total investments and other assets	157,133	179,558
Total non-current assets	1,064,720	1,192,491
Total assets	1,303,205	1,448,908

Nagoya Railroad Co., Ltd. and Consolidated Subsidiaries

Consolidated Balance Sheets

	Millions of yen	
	31 March 2024	31 March 2025
LIABILITIES AND NET ASSETS		
Liabilities		
Current liabilities		
Trade notes and accounts payable	74,816	90,679
Short-term loans payable (Notes 3 and 7)	43,574	75,462
Commercial papers (Note 7)	-	10,000
Current portion of bonds payable (Notes 3 and 7)	40,000	25,000
Lease obligations (Note 7)	1,373	1,225
Income taxes payable	4,619	8,981
Deposits received from employees	19,964	4,039
Advances received	68,511	83,856
Provision for bonuses	5,841	6,736
Provision for loss on liquidation	29	27
Allowance for loss on redemption of gift certificates outstanding	369	378
Others (Note 14)	49,848	49,998
Total current liabilities	308,949	356,386
Non-current liabilities		
Bonds payable (Notes 3 and 7)	225,000	270,000
Long-term loans payable (Notes 3 and 7)	179,631	194,533
Lease obligations (Note 7)	9,958	9,286
Deferred tax liabilities (Note 13)	3,229	5,940
Deferred tax liabilities for land revaluation	55,271	56,706
Provision for loss on liquidation	3,906	459
Employee retirement benefit liability (Note 8)	32,535	35,874
Others	20,669	21,410
Total non-current liabilities	530,201	594,210
Total liabilities	839,151	950,597
Net assets (Note 12)		
Shareholders' equity		
Common stock	101,158	101,158
Capital surplus	40,426	35,978
Retained earnings	179,468	211,944
Treasury stock	(233)	(1,116)
Total shareholders' equity	320,819	347,965
Accumulated other comprehensive income		
Net unrealized gains on available-for-sale securities	28,631	25,885
Deferred gains and losses on hedges	379	107
Land revaluation increment	87,298	85,629
Foreign currency translation adjustments	24	47
Retirement benefit adjustments	1,332	2,075
Total accumulated other comprehensive income	117,667	113,745
Non-controlling interests	25,567	36,600
Total net assets	464,054	498,311
Total liabilities and net assets	1,303,205	1,448,908

See Notes to Consolidated Financial Statements.

Nagoya Railroad Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Income and Consolidated Statements of Comprehensive Income Consolidated Statements of Income

	Millions of yen	
	1 April 2023 -31 March 2024	1 April 2024 -31 March 2025
Operating revenues (Notes 14 and 15)	601,121	690,720
Operating expenses		
Transportation, other services and cost of sales	512,245	586,267
Selling, general and administrative expenses	54,125	62,376
Total operating expenses	566,371	648,643
Operating income	34,750	42,076
Non-operating income		
Interest income	47	227
Dividend income	1,379	1,938
Equity in net earnings of affiliates	2,996	5,798
Miscellaneous income	2,313	1,898
Total non-operating income	6,737	9,862
Non-operating expenses		
Interest expenses	3,061	3,521
Provision for loss on liquidation	198	-
Miscellaneous expenses	684	745
Total non-operating expenses	3,943	4,267
Ordinary income	37,544	47,671
Extraordinary income		
Gain on sales of fixed assets	1,535	1,064
Gain on contributions for construction (Note 2(k))	1,480	2,278
Gain on sales of investment securities	1,798	6,209
Gain on bargain purchase	-	4,756
Others	574	1,356
Total extraordinary income	5,390	15,664
Extraordinary losses		
Loss on sales of fixed assets	222	197
Impairment loss on fixed assets (Note 5)	1,761	2,236
Loss on disposition of fixed assets	630	1,319
Loss on valuation of investment securities	49	97
Loss on reduction of property and equipment (Note 2(k))	1,691	2,218
Loss on subsidy return	2,552	2,696
Loss on step acquisitions	-	1,530
Others	1,481	1,797
Total extraordinary losses	8,388	12,095
Profit before income taxes	34,546	51,240
Income taxes – current	8,489	11,340
Income taxes – deferred	647	2,375
Total income taxes	9,137	13,715
Profit	25,409	37,525
Profit (loss) attributable to:		
Non-controlling interests	1,009	(208)
Owners of the parent	24,400	37,733

See Notes to Consolidated Financial Statements.

Nagoya Railroad Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Comprehensive Income

	Millions of yen	
	1 April 2023 -31 March 2024	1 April 2024 -31 March 2025
Profit	25,409	37,525
Other comprehensive income (Note 16)		
Net unrealized gains and losses on available-for-sale securities	11,094	(3,378)
Deferred gains and losses on hedges	242	(278)
Land revaluation increment	-	(1,517)
Foreign currency translation adjustments	13	22
Retirement benefit adjustments	70	842
Share of other comprehensive income of affiliates accounted for using the equity method	1,494	444
Total other comprehensive income	12,914	(3,864)
Comprehensive income	38,323	33,661
Comprehensive income attributable to:		
Owners of the parent	37,069	33,991
Non-controlling interests	1,254	(330)

See Notes to Consolidated Financial Statements.

Nagoya Railroad Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Changes in Net Assets Fiscal year ended 31 March 2024

(Millions of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the fiscal year start	101,158	40,144	158,112	(365)	299,050
Cumulative effects of changes in accounting policies			521		521
Restated balance	101,158	40,144	158,634	(365)	299,572
Changes of items during the year					
Cash dividends			(3,931)		(3,931)
Profit attributable to owners of the parent			24,400		24,400
Purchase of treasury stock				(42)	(42)
Disposal of treasury stock		(20)		173	153
Reversal for land revaluation increment			384		384
Transfer from retained earnings to capital surplus		20	(20)		-
Change in treasury shares arising from change in equity in entities accounted for using equity method				0	0
Change in ownership interest of parent related to transactions with non-controlling interests		281			281
Net changes in items other than shareholders' equity for the year					
Total changes of items during the year	-	281	20,833	131	21,246
Balance at the fiscal year end	101,158	40,426	179,468	(233)	320,819

	Accumulated other comprehensive income						Non-controlling interests	Total net assets
	Net unrealized 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		
Balance at the fiscal year start	16,490	143	87,683	11	1,053	105,382	24,655	429,089
Cumulative effects of changes in accounting policies								521
Restated balance	16,490	143	87,683	11	1,053	105,382	24,655	429,610
Changes of items during the year								
Cash dividends								(3,931)
Profit attributable to owners of the parent								24,400
Purchase of treasury stock								(42)
Disposal of treasury stock								153
Reversal for land revaluation increment								384
Transfer from retained earnings to capital surplus								-
Change in treasury shares arising from change in equity in entities accounted for using equity method								0
Change in ownership interest of parent related to transactions with non-controlling interests								281
Net changes in items other than shareholders' equity for the year	12,140	236	(384)	13	279	12,285	911	13,196
Total changes of items during the year	12,140	236	(384)	13	279	12,285	911	34,443
Balance at the fiscal year end	28,631	379	87,298	24	1,332	117,667	25,567	464,054

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the fiscal year start	101,158	40,426	179,468	(233)	320,819
Cumulative effects of changes in accounting policies					-
Restated balance	101,158	40,426	179,468	(233)	320,819
Changes of items during the year					
Cash dividends			(5,406)		(5,406)
Profit attributable to owners of the parent			37,733		37,733
Purchase of treasury stock				(1,025)	(1,025)
Disposal of treasury stock		(30)		142	112
Reversal for land revaluation increment			179		179
Transfer from retained earnings to capital surplus		30	(30)		-
Change in treasury shares arising from change in equity in entities accounted for using equity method					-
Change in ownership interest of parent related to transactions with non-controlling interests		(4,447)			(4,447)
Net changes in items other than shareholders' equity for the year					
Total changes of items during the year	-	(4,447)	32,476	(882)	27,146
Balance at the fiscal year end	101,158	35,978	211,944	(1,116)	347,965

	Accumulated other comprehensive income						Non-controlling interests	Total net assets
	Net unrealized 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		
Balance at the fiscal year start	28,631	379	87,298	24	1,332	117,667	25,567	464,054
Cumulative effects of changes in accounting policies								-
Restated balance	28,631	379	87,298	24	1,332	117,667	25,567	464,054
Changes of items during the year								
Cash dividends								(5,406)
Profit attributable to owners of the parent								37,733
Purchase of treasury stock								(1,025)
Disposal of treasury stock								112
Reversal for land revaluation increment								179
Transfer from retained earnings to capital surplus								-
Change in treasury shares arising from change in equity in entities accounted for using equity method								-
Change in ownership interest of parent related to transactions with non-controlling interests								(4,447)
Net changes in items other than shareholders' equity for the year	(2,746)	(272)	(1,669)	22	742	(3,922)	11,033	7,110
Total changes of items during the year	(2,746)	(272)	(1,669)	22	742	(3,922)	11,033	34,256
Balance at the fiscal year end	25,885	107	85,629	47	2,075	113,745	36,600	498,311

See Notes to Consolidated Financial Statements.

Nagoya Railroad Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Cash Flows (Note 17)

	Millions of yen	
	1 April 2023 -31 March 2024	1 April 2024 -31 March 2025
Cash flows from operating activities:		
Profit before income taxes	34,546	51,240
Depreciation	38,879	41,824
Impairment loss on fixed assets	1,761	2,236
Amortization of goodwill	330	266
Increase (decrease) in allowance for doubtful accounts	(90)	(105)
Increase (decrease) in provision for bonuses	140	481
Increase (decrease) in provision for loss on liquidation	(1,926)	(3,448)
Increase (decrease) in other provision	204	(212)
Gain on bargain purchase	-	(4,756)
Increase (decrease) in employee retirement benefit liability	91	1,952
Interest and dividend income	(1,427)	(2,165)
Interest expenses	3,061	3,521
Share of (gain) loss of entities accounted for using equity method	(2,996)	(5,798)
Loss (gain) on sales of fixed assets	(1,313)	(866)
Loss on disposition of fixed assets	399	284
Loss (gain) on valuation of investment securities	49	97
Loss (gain) on sales of investment securities	(1,796)	(6,206)
Gain on contributions for construction	(1,480)	(2,278)
Decrease (increase) in trade notes, accounts receivable and contract assets	(2,863)	(5,456)
Decrease (increase) in inventories	4,360	2,260
Increase (decrease) in trade notes and accounts payable	153	6,368
Others, net	(4,850)	5,714
Subtotal	65,230	84,956
Interest and dividends received	2,572	4,022
Interest paid	(2,991)	(3,508)
Income taxes paid	(9,278)	(6,740)
Net cash provided by (used in) operating activities	55,533	78,729

	Millions of yen	
	1 April 2023 -31 March 2024	1 April 2024 -31 March 2025
Cash flows from investing activities:		
Decrease (increase) in time deposits	11	(1,822)
Purchases of fixed assets	(85,996)	(133,363)
Proceeds from sales of fixed assets	5,859	1,855
Purchases of investment securities	(5,008)	(36,203)
Proceeds from sales and redemptions of investment securities	1,980	19,731
Purchases of shares of subsidiaries resulting in change in scope of consolidation	(791)	-
Proceeds from purchase of shares of subsidiaries resulting in changes in the scope of consolidation	-	1,404
Payments of short-term loans receivable	(13)	(14)
Proceeds from collection of short-term loans receivable	108	1,808
Payments of long-term loans receivable	(21)	(30)
Proceeds from collection of long-term loans receivable	12	10
Proceeds from contribution received for construction	15,421	10,161
Others, net	6	(1,669)
Net cash provided by (used in) investing activities	(68,430)	(138,132)
Cash flows from financing activities:		
Net increase (decrease) in short-term borrowings	11,213	17,677
Increase (decrease) in commercial papers	(10,000)	9,999
Proceeds from long-term debt	30,755	31,461
Repayment of long-term debt	(27,880)	(8,373)
Issuance of bonds	49,782	69,730
Redemption of bonds	(30,000)	(40,000)
Increase (decrease) in deposits received from employees	(419)	(15,925)
Purchases of shares of subsidiaries not resulting in change in scope of consolidation	(17)	(1,098)
Proceeds from sale of shares of subsidiaries not resulting in change in scope of consolidation	92	-
Repayments of lease obligations	(1,385)	(1,077)
Proceeds from sales of treasury stock	0	1
Purchase of treasury stock	(42)	(1,025)
Dividends paid to non-controlling shareholders	(136)	(136)
Dividends paid to shareholders	(3,927)	(5,378)
Net cash provided by (used in) financing activities	18,034	55,854
Effect of exchange rate changes on cash and cash equivalents	7	16
Net increase (decrease) in cash and cash equivalents	5,145	(3,532)
Cash and cash equivalents at beginning of period	54,879	60,025
Cash and cash equivalents at end of period	60,025	56,493

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 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. 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. Japanese yen figures less than one million yen are rounded down to the nearest million yen, except for per share data. As a result, the totals shown in the accompanying consolidated financial statements in Japanese yen do not necessarily agree with the sums of the individual amounts.

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 amortized on a straight-line over five to fifteen years.

All significant intercompany accounts and transactions have been eliminated on consolidation. All material unrealized 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 March 31, 2024 and 2025 were as follows.

	<u>2024</u>	<u>2025</u>
Consolidated subsidiaries	104	109
Unconsolidated subsidiaries accounted for using the equity method	—	—
Affiliated companies accounted for using the equity method	14	15
Unconsolidated subsidiaries stated at cost	6	8
Affiliated companies stated at cost	8	7

At March 31, 2024 and 2025, the fiscal year-end dates of three consolidated subsidiaries differed from the consolidated fiscal year-end date of the Company, which is March 31. 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

Cash equivalents are cash on hand, demand deposits and short-term highly liquid investments of three months or less from the date of acquisition that are readily convertible to known amounts of cash and subject to an insignificant risk of change in value.

(c) Investments and marketable securities

The Group classifies certain investments in debt and equity securities as "held-to-maturity," or "available-for-sale" securities. The classification determines the respective accounting method to be applied under the accounting standard for financial instruments. Held-to-maturity receivables are carried at cost. Investments in securities other than equity securities without market prices are stated at fair value, and net unrealized 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. Investments in securities without market prices are carried at cost, determined using the moving average method.

Investments in limited investment partnerships and similar partnerships (those deemed as securities under Article 2, Paragraph 2 of the Financial Instruments and Exchange Act) are accounted for at the net amount of the Company's equity interest based on the most recent financial statements available as of the reporting date stipulated in the partnership agreement.

(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 recognized 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 recognized 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. 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;
- (3) Raw materials and supplies: principally by the weighted 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 straight-line method. For buildings and structures, useful lives are from 2-60 years. For machinery, equipment and vehicles useful lives range from 2-18 years.

(g) Intangible assets

Intangible assets are amortized using the straight-line method. Software for internal use is amortized 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 April 1, 2008.

Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain “as if capitalized” information was disclosed in the notes to the lessee’s financial statements. The revised accounting standard requires the capitalization of all finance lease transactions, as lessee, so that lease assets and lease obligations are recognized in the balance sheets. However, the revised accounting standard permits finance leases which commenced prior to April 1, 2008 to continue to be accounted for using the accounting treatment similar to that used for operating leases if certain “as if capitalized” 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 recognize 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 recognized 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, seven consolidated subsidiaries (Toyohashi Railroad Co., Ltd., Gifu Bus Co., Ltd., Meitetsu Transportation Co., Ltd., Meitetsu City Design Co., Ltd., MEITETSU DEPARTMENT STORE CO., LTD., Ishikawa Hire & Taxi Co., Ltd., and Meitetsu Kyosho Co., Ltd.) and one affiliated company accounted for using the equity method (Yahagi Construction Co., Ltd.) 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 March 31, 2000 and March 31, 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 seven consolidated subsidiaries amounted to ¥8,549 million and ¥8,106 million at March 31, 2024 and 2025, respectively. The differences in the Company, Meitetsu City Design Co., Ltd. and Meitetsu Kyosho Co., Ltd. at March 31, 2024 and at March 31, 2025 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 ¥353 million and ¥140 million at March 31, 2024 and 2025, 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 recognized 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 recognized as other expenses in the consolidated statements of income. At March 31, 2024 and 2025, cumulative contributions amounting to ¥204,409 million and ¥204,970 million, 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 recognized 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.

In calculating the retirement benefit obligations, the amount of retirement benefits is estimated based on the period up to the end of the current fiscal year based on the benefit calculation method.

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 amortized 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 amortized principally on a straight-line basis over eight to ten years, a specific period not exceeding the average remaining service period of the employees, from the year in which it occurs.

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) Provisions

(1) Provision for loss on liquidation

A provision for loss on liquidation due to contractual obligations is provided at the estimated amount of losses at the balance sheet date.

(2) Allowance for loss on redemption of gift certificates outstanding

An allowance for loss on redemption of gift certificates outstanding issued by certain consolidated subsidiaries is provided to cover for losses that may be incurred in the event that shopping coupons, travel gift coupons or similar coupons for which the liabilities are no longer recognized are redeemed. Such allowance is provided for the non-accrual of liabilities based on past experience plus estimated loss amounts.

(o) 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.

(p) Bond issue costs

Bond issue costs are charged to income as incurred.

(q) Recognition of revenue and expenses

The Group has adopted the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) and the Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 26, 2021) and recognizes revenue in the amount expected to be received in exchange for promised goods or services when control of promised goods or services is transferred to the customer.

Details are described in the consolidated financial statements Note 14 (2), “A basis for understanding revenue from contracts with customers.”

(r) Income taxes

Income taxes are accounted for using the asset-liability method. Deferred tax assets and liabilities are recognized 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 recognized in the period that includes the enactment date.

(s) 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.

(t) 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. 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 diagram below represent dividends declared by the Company applicable to the respective years indicated, including dividends to be paid after the end of each such year.

Per share information for the years ended March 31, 2024 and 2025 was as follows.

	yen	
	2024	2025
Per share:		
Net income:		
- Basic	124.13	192.12
- Diluted	116.01	167.69
Cash dividends	27.50	38.50

(u) Significant accounting estimates

Recoverability of deferred tax assets recorded by the Company for the year ended March 31, 2024 was as follows:

- (1) The carrying values reflecting the possibility of recoverability of deferred tax assets in the consolidated financial statements for the year ended March 31, 2024

	Millions of yen
Deferred tax assets (the Group)	11,606
Deferred tax assets (the Company)	
Subtotal of deferred tax assets	30,826
Valuation allowance	(19,151)
Total deferred tax assets (the Group)	11,675
Total deferred tax liabilities (the Group)	11,995
Deferred tax liabilities	320

- (2) Information for significant accounting estimates regarding the carrying values reflecting the possibility of recoverability of deferred tax assets

- (i) Method of calculation of amount

The Company estimates the possibility of recoverability of deferred tax assets considering future taxable income based on business plans.

- (ii) Major assumptions for calculation of amounts

The Company expects that the operating revenue of railroad business will recover to the same level of that before the spread of COVID-19 in the year ended March 31, 2025 due to the impact of fare revisions, etc.

- (iii) The effect on consolidated finance statements for the year ended March 31, 2025

There is a possibility that uncertain economic situation will affect future taxable income. Thus, if the future taxable income is different than what has been predicted, there is a possibility that the effect will be significant on deferred tax assets for the year ended March 31, 2025.

Recoverability of deferred tax assets recorded by the Company for the year ended March 31, 2025 was as follows:

- (1) The carrying values reflecting the possibility of recoverability of deferred tax assets in the consolidated financial statements for the year ended March 31, 2025

	Millions of yen
Deferred tax assets (the Group)	13,178
Deferred tax assets (the Company)	
Subtotal of deferred tax assets	28,256
Valuation allowance	(20,110)
Total deferred tax assets (the Group)	8,146
Total deferred tax liabilities (the Group)	11,313
Deferred tax liabilities	3,166

- (2) Information for significant accounting estimates regarding the carrying values reflecting the possibility of recoverability of deferred tax assets

- (i) Method of calculation of amount

The Company estimates the possibility of recoverability of deferred tax assets considering future taxable income based on business plans.

- (ii) Major assumptions for calculation of amounts

The Company assumes that the domestic economy will continue its gradual recovery and the number of passengers will increase accordingly. The Company expects that the operating revenue of railroad business for the year ending March 31, 2026 will exceed the previous fiscal year.

- (iii) The effect on consolidated finance statements for the year ending March 31, 2026

There is a possibility that uncertain economic situation will affect future taxable income. Thus, if the future taxable income is different than what has been predicted, there is a possibility that the effect will be significant on deferred tax assets for the year ending March 31, 2026.

(v) Change in Accounting Policies

(Application of the Accounting Standard for Current Income Taxes and others)

The Company has applied the “Accounting Standard for Current Income Taxes” (ASBJ Statement No. 27, October 28, 2022. Hereinafter referred to as the “2022 Revised Accounting Standard”.) and others from the beginning of the current fiscal year.

The revision regarding the classification of income taxes (taxation on other comprehensive income) is based on the transitional treatment stipulated in the proviso of paragraph 20-3 of the 2022 Revised Accounting Standard and the proviso paragraph 65-2(2) of “Guidance on Accounting Standard for Tax Effect Accounting” (ASBJ Guidance No. 28, October 28, 2022. Hereinafter referred to as the “2022 Revised Implementation Guidance”). The change in accounting policy has no impact on the consolidated financial statements.

In addition, the Company has adopted the 2022 Revised Implementation Guidance for the revision related to the treatment in consolidated financial statements of the deferral of gains or losses arising from the sale of shares of subsidiaries and other securities among consolidated companies, effective as of the beginning of the current fiscal year. The change in accounting policy has been applied retrospectively, and consolidated financial statements for the previous fiscal year have been prepared accordingly. With respect to the treatment of the tax effect of deferring the gain or losses arising from the sale of shares of subsidiaries and other securities among consolidated companies, if deferred tax assets or liabilities are recognized in the financial statements for the temporary difference related to the gain or loss on the sale of the entity that sold such shares of subsidiaries and other securities, the Company had not adjusted the amount of deferred tax assets or liabilities relating to such temporary differences, but it has decided to reverse the deferred tax assets or liabilities related to such temporary differences, in the process of consolidated accounting. As a result, deferred tax liabilities decreased by ¥521 million as compared to the consolidated balance sheet of the previous fiscal year before the retrospective application, and the opening balance of retained earnings of the previous fiscal year increased by ¥521 million. Please refer to “Notes ((t)Per Share Information)” for the impact on the per share information at for the previous fiscal year.

(w) New standards and interpretations not yet adopted by the Company

- Accounting Standard for Leases (ASBJ Statement No. 34, September 13, 2024, Accounting Standards Board of Japan)
- Implementation Guidance on Accounting Standard for Leases (ASBJ Guidance No.33, September 13, 2024, Accounting Standards Board of Japan)

(1) Outline:

Similar to international accounting standards, the new standard requires lessees to record all leases as assets and liabilities.

(2) Effective date:

The above standard and guidance will become effective from the beginning of the fiscal year ending March 31, 2028.

(3) Effects of adoption:

The Group is in the process of determining the effects of the above standard and guidance on the consolidated fiscal statements.

(x) Change in presentation method

(Notes to Consolidated Statements of Income)

“Subsidies for employment adjustment,” which was independently presented under “Non-operating income” in the previous fiscal year, is included in “Miscellaneous income” from the current fiscal year because it has become insignificant in terms of amount. In addition, “Loss on sales of investment securities” and “Provision for loss on liquidation,” which were independently presented under “Extraordinary losses” in the previous fiscal year, are included in “Others” from the current fiscal year because they have become insignificant in terms of amount. To reflect these changes in presentation, the consolidated financial statements for the previous fiscal year have been reclassified.

As a result, “Subsidies for employment adjustment” of ¥38 million and “Miscellaneous income” of ¥2,275 million, which were presented in “Non-operating revenues” in the consolidated statement of income for the previous fiscal year, have been reclassified as “Miscellaneous income” of ¥2,313 million. “Loss on sales of investment securities” of ¥2 million, “Provision for loss on liquidation” of ¥18 million and “Others” of ¥1,460 million were reclassified as “Others” of ¥1,481 million in “Extraordinary losses”.

(Notes to Consolidated Statements of Cash Flows)

“Subsidies for employment adjustment” and “Amount of subsidies for employment adjustment received,” which were independently presented in “Cash flows from operating activities” in the previous fiscal year, are included in “Others, net” in the current fiscal year as they have become insignificant in terms of amount. In addition, “Decrease(increase) in time deposits,” which was included in “Others, net” under “Cash flows from investing activities” and “Increase (decrease) in deposits received from employees” which was included in “Net increase (decrease) in short-term borrowings” under “Cash flows from financing activities” in the previous fiscal year, are separately presented in the current fiscal year as they have increased in importance in terms of amount. To reflect these changes in presentation, the consolidated financial statements for the previous fiscal year have been reclassified.

As a result, “Subsidies for employment adjustment” of ¥(38) million, “Amount of subsidies for employment adjustment received” of ¥45 million, and “Others, net” of ¥(4,857) million, which were presented in “Cash flows from operating activities” in the consolidated statements of cash flows for the previous fiscal year, are reclassified as “Others, net” of ¥(4,850) million. The ¥18 million presented as “Others, net” in “Cash flows from investing activities” has been reclassified as “Decrease (increase) in time deposits” of ¥11 million and “Others, net” of ¥6 million, and the ¥10,794 million presented as “Net increase (decrease) in short-term borrowings” in “Cash flows from financing activities” has been reclassified as “Net increase (decrease) in short-term borrowings” of ¥11,213 million and “Increase (decrease) in deposits received from employees” of ¥(419) million.

3. Financial instruments

Information on financial instruments for the years ended March 31, 2024 and 2025 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, loans payable 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 loans payable 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 loans payable and bonds payable are used for capital investment. Loans payable with floating interest rates expose the Group to risks associated with fluctuation in interest rates. In connection with some such loans payable, the Group enters into interest rate swap contracts with the intent to manage the risks of interest 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, 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 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 counterparties to derivative financial instruments. However, the Group does not expect any non-performance by its counterparties to the derivative financial instruments 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

Since certain assumptions are used in making estimates, the fair values of financial instruments 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 March 31, 2024, other than investments in securities without market prices, were set forth in the table below. Notes are omitted for cash, and notes are omitted for deposits, trade notes and accounts receivable, trade notes and accounts payable and short-term borrowings because these items are settled in a short period of time and their market value is close to the book value.

	Carrying value	Fair value	Differences
	Millions of yen		
At March 31, 2024:			
Financial assets:			
Investment securities: *2			
Held-to-maturity receivables, including current portion	10	9	(0)
Equity securities of affiliates	11,587	13,047	1,459
Available-for-sale securities	67,752	67,752	—
Total	79,350	80,809	1,459
Financial liabilities:			
Bonds payable, including current portion	265,000	253,036	(11,963)
Long-term loans payable, including current portion	186,300	184,031	(2,269)
Total	451,300	437,067	(14,233)
Derivative instruments: *3			
Hedge accounting has not been applied	1	1	—
Hedge accounting has been applied	659	659	—
Total	660	660	—

*1 "Cash" is omitted. "Deposits," "Trade receivables," "Trade payables," and "Short-term loans payable" are omitted mainly because they are settled in a short period of time and their book value approximates their fair value.

*2 Investments in securities without market prices, etc. and Investments in partnerships and other similar entities that are recorded on a net basis in the consolidated balance sheets are not included in Securities and investment securities.

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

The following investments in securities without market prices were not included in the table above.

	Millions of yen
	2024
Carrying value:	
Unlisted investments (equity securities) in unconsolidated subsidiaries and affiliates	33,879
Unlisted equity securities	10,569
Partnership capital, etc.	4,404
Total	48,852

The fair values and carrying values of financial instruments included in the consolidated balance sheets at March 31, 2025, other than investments in securities without market prices, were set forth in the table below. Notes are omitted for cash, and notes are omitted for deposits, trade notes and accounts receivable, trade notes and accounts payable and short-term borrowings because these items are settled in a short period of time and their market value is close to the book value.

	Carrying value	Fair value	Differences
	Millions of yen		
At March 31, 2025:			
Financial assets:			
Investment securities: *2			
Held-to-maturity receivables, including current portion	10	8	(1)
Equity securities of affiliates	32,086	28,736	(3,350)
Available-for-sale securities	63,018	63,018	—
Total	95,114	91,762	(3,351)
Financial liabilities:			
Bonds payable, including current portion	295,000	274,001	(20,998)
Long-term loans payable, including current portion	211,037	204,878	(6,159)
Total	506,037	478,880	(27,157)
Derivative instruments: *3			
Hedge accounting has not been applied	(7)	(7)	—
Hedge accounting has been applied	166	166	—
Total	159	159	—

*1 “Cash” is omitted. “Deposits,” “Trade receivables,” “Trade payables,” “Short-term loans payable,” and “Commercial paper” are omitted mainly because they are settled in a short period of time and their book value approximates their fair value.

*2 Investments in securities without market prices, etc. and Investments in partnerships and other similar entities that are recorded on a net basis in the consolidated balance sheets are not included in Securities and investment securities.

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

The following investments in securities without market prices were not included in the table above.

	Millions of yen
	2025
Carrying value:	
Unlisted investments (equity securities) in unconsolidated subsidiaries and affiliates	35,648
Unlisted equity securities	8,480
Partnership capital, etc.	7,831
Total	51,960

Notes:

(1) Expected maturities of financial assets at March 31, 2024 were as follows:

	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
	Millions of yen			
At March 31, 2024:				
Cash and deposits	60,388	—	—	—
Trade notes and accounts receivable	60,936	—	—	—
Securities and investment securities				
Held-to-maturity securities(Others)	—	—	—	10
Total	<u>121,325</u>	<u>—</u>	<u>—</u>	<u>10</u>

Expected maturities of financial assets at March 31, 2025 were as follows:

	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
	Millions of yen			
At March 31, 2025:				
Cash and deposits	58,637	—	—	—
Trade notes and accounts receivable	68,290	—	—	—
Securities and investment securities				
Held-to-maturity securities(Others)	—	—	—	10
Total	<u>126,928</u>	<u>—</u>	<u>—</u>	<u>10</u>

(2) The repayment schedules for short-term loans payable, bonds payable and long-term loans payable with contractual maturities at March 31, 2024 were as follows:

	Due in 1 year or less	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
	Millions of yen					
Short-term loans payable	36,905	—	—	—	—	—
Bonds payable	40,000	25,000	15,000	15,000	20,000	150,000
Long-term loans payable	6,668	17,212	15,477	16,976	6,950	123,014
Total	<u>83,573</u>	<u>42,212</u>	<u>30,477</u>	<u>31,976</u>	<u>26,950</u>	<u>273,014</u>

The repayment schedules for short-term loans payable, bonds payable and long-term loans payable with contractual maturities at March 31, 2025 were as follows:

	Due in 1 year or less	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
	Millions of yen					
Short-term loans payable	58,958	—	—	—	—	—
Bonds payable	25,000	15,000	15,000	20,000	20,000	200,000
Long-term loans payable	16,504	18,486	19,542	6,966	11,560	137,977
Total	<u>100,462</u>	<u>33,486</u>	<u>34,542</u>	<u>26,966</u>	<u>31,560</u>	<u>337,977</u>

(3) Breakdown of fair value of financial instrument by appropriate classifications

The fair value of financial instruments is classified into the following three levels based on the observability and significance of the inputs used to measure the fair value.

Level 1 fair value: Fair value measured using (unadjusted) quoted prices in active markets for identical assets or liabilities

Level 2 fair value: Fair value measured using directly or indirectly observable inputs other than Level 1 inputs

Level 3 fair value: Fair value measured using significant unobservable inputs

If multiple inputs are used that are significant to the fair value measurement, the fair value measurement is categorized in its entirety in the level of the lowest level input that is significant to the entire measurement.

(a) Financial instruments measured at fair value

Category	Fair value (Millions of yen)			
	Level 1	Level 2	Level 3	Total
At 31 March 2024:				
Securities and investment securities ※				
Available-for-sale securities				
Shares	67,383	—	—	67,383
Derivatives				
Foreign currency related transactions	—	1	—	1
Commodity price related transactions	—	659	—	659
Total assets	<u>67,383</u>	<u>660</u>	<u>—</u>	<u>68,044</u>

※ Fair value of investment trusts to which the transitional treatments stipulated in Paragraph 24-9 of the “Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No. 31, June 17, 2021) applies is not included in the above table. The amount of investment trusts reported in the consolidated balance sheets is ¥369 million.

Category	Fair value (Millions of yen)			
	Level 1	Level 2	Level 3	Total
At March 31, 2025				
Securities and investment securities ※				
Available-for-sale securities				
Shares	62,644	—	—	62,644
Derivatives				
Foreign currency related transactions	—	(7)	—	(7)
Commodity price related transactions	—	166	—	166
Total assets	<u>62,644</u>	<u>159</u>	<u>—</u>	<u>62,803</u>

※ Fair value of investment trusts to which the transitional treatments stipulated in Paragraph 24-9 of the “Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No. 31, June 17, 2021) applies is not included in the above table. The amount of investment trusts reported in the consolidated balance sheets is ¥373 million.

(b) Financial instruments for which book value is not measured at fair value

Category	Fair value (Millions of yen)			
	Level 1	Level 2	Level 3	Total
At March 31, 2024:				
Securities and investment securities				
Held-to-maturity receivables				
Others	—	9	—	9
Equity securities of affiliates				
Shares	13,047	—	—	13,047
Total assets	13,047	9	—	13,056
Bonds payable	—	253,036	—	253,036
Long-term loans payable	—	184,031	—	184,031
Total liabilities	—	437,067	—	437,067
At March 31, 2025:				
Securities and investment securities				
Held-to-maturity receivables				
Others	—	8	—	8
Equity securities of affiliates				
Shares	28,736	—	—	28,736
Total assets	28,736	8	—	28,744
Bonds payable	—	274,001	—	274,001
Long-term loans payable	—	204,878	—	204,878
Total liabilities	—	478,880	—	478,880

Notes: Valuation techniques and inputs used to measure fair value

1. Securities and investment securities

Listed stocks are valued using market prices. Since listed stocks are traded in active markets, their fair value is classified as Level 1 fair value.

2. Derivatives

The fair value of derivative instruments is based on prices provided by financial institutions and is classified as Level 2 fair value. The fair value of interest rate swaps that qualify for special treatment is included in the fair value of the relevant long-term borrowings because the interest rate swaps are accounted for as an integral part of the long-term loans payable that are hedged.

3. Bonds payable (including current portion)

The fair value of bonds payable issued by the Company is measured based on market prices and classified as Level 2 fair value.

4. Long-term loans payable (including current portion)

The fair value of long-term loans payable is measured by discounting the total amount of principal and interest by the interest rate that would be applicable to a new loan of the same type. Certain long-term loans payable with floating interest rates are subject to the special treatment for interest rate swaps. The fair value of such long-term loans payable is measured by discounting the total amount of principal and interest treated together with the interest rate swap by the reasonably estimated interest rate that would be applied if a similar loan payable were made, and the fair value is classified as Level 2 fair value.

4. Investments securities

At March 31, 2024 and 2025, short-term investments consisted of time deposits with original maturities of more than three months.

At March 31, 2024, Held-to-maturity bonds consisted of the following:

	Type	Amount recorded in the consolidated balance sheet	Fair value	Difference
	Millions of yen			
Items of which fair value does not exceed the amount recorded in the consolidated balance sheet	Government bonds, local government bonds, etc.	—	—	—
	Corporate bonds	—	—	—
	Other	10	9	(0)
Total		10	9	(0)

At March 31, 2025, Held-to-maturity bonds consisted of the following:

	Type	Amount recorded in the consolidated balance sheet	Fair value	Difference
	Millions of yen			
Items of which fair value does not exceed the amount recorded in the consolidated balance sheet	Government bonds, local government bonds, etc.	—	—	—
	Corporate bonds	—	—	—
	Other	10	8	(1)
Total		10	8	(1)

At March 31, 2024 and 2025, investment securities consisted of the following:

	Millions of yen	
	2024	2025
Listed securities		
Equity securities, etc.	67,752	63,018
Total listed equity securities	67,752	63,018
Unlisted equity securities	10,569	8,480
Total	78,322	71,498

At March 31, 2024 and 2025, the fair values and gross unrealized gains and losses of available-for-sale securities were as follows:

	<u>Cost</u>	<u>Gross unrealized gains</u>	<u>Gross unrealized losses</u>	<u>Fair value and carrying value</u>
	<u>Millions of yen</u>			
At March 31, 2024:				
Equity securities, etc.	28,580	39,228	(55)	67,752
At March 31, 2025:				
Equity securities, etc.	28,293	34,882	(156)	63,018

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

	<u>Sales amounts</u>	<u>Gains</u>	<u>Losses</u>
	<u>Millions of yen</u>		
Equity securities and others:			
For the year ended March 31, 2024	1,828	1,798	2
For the year ended March 31, 2025	6,504	6,209	2

5. Impairment loss on fixed assets

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

The Group has recognized impairment loss on the following fixed assets because of no foreseeable recovery of performance due to worsening operating profitability and/or a significant decline in the fair value of land against its carrying value.

	Millions of yen
At March 31, 2024:	
Property subject to impairment:	Rental property, commercial facilities such as department stores, taxi facilities and others
Impairment loss recorded:	
Buildings and structures	1,196
Land	162
Investments, other assets and others	401
Total	1,761

	Millions of yen
At March 31, 2025:	
Property subject to impairment:	Truck facilities, commercial facilities such as department stores, rental property and others
Impairment loss recorded:	
Buildings and structures	1,286
Land	536
Right-of-use facilities and others	413
Total	2,236

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 2.6% for the year ended 31 March 2024 and 2.8% for the year ended 31 March 2025.

6. 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 March 31, 2024 and 2025 and the fair values of real estate were as follows:

	Millions of yen	
	2024	2025
Carrying value at beginning of year	154,286	170,115
Net changes during the year	15,829	37,957
Carrying value at end of year	170,115	208,072
Fair value at end of year*	223,248	258,418

*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 years ended March 31, 2024 and 2025 were as follows:

	Millions of yen	
	2024	2025
Income from rental operations	4,058	3,482
Impairment loss on rental properties	206	20

7. Short-term loans payable, commercial paper and long-term debt

Short-term loans payable at March 31, 2024 and 2025 consisted of the following:

	Millions of yen	
	2024	2025
Bank loans with average interest rates of 0.5371% at March 31, 2025:		
Secured	599	1,367
Unsecured	36,306	57,590
Total	36,905	58,958

Commercial paper at March 31, 2024 and 2025 consisted of the following:

	Millions of yen	
	2024	2025
Commercial paper with average interest rates of (0.5170%) at March 31, 2025:	-	10,000

Long-term debt at March 31, 2024 and 2025 consisted of the following:

	Millions of yen	
	2024	2025
0.310% unsecured bonds, due December 2025	10,000	10,000
0.090% unsecured bonds, due March 2026	15,000	15,000
0.350% unsecured bonds, due March 2027	15,000	15,000
0.857% unsecured bonds, due April 2027	15,000	15,000
0.375% unsecured bonds, due July 2028		
(Sustainability Bond)	10,000	10,000
0.200% unsecured bonds, due December 2028		
(Sustainability Bond)	10,000	10,000
0.993% unsecured bonds, due November 2029	-	10,000
0.993% unsecured bonds, due December 2029	-	10,000
0.549% unsecured bonds, due June 2032	10,000	10,000
0.794% unsecured bonds, due July 2033	15,000	15,000
0.850% unsecured bonds, due February 2035	15,000	15,000
1.252% unsecured bonds, due March 2036	10,000	10,000
0.750% unsecured bonds, due August 2036	15,000	15,000
0.806% unsecured bonds, due May 2037	15,000	15,000
0.790% unsecured bonds, due December 2037	10,000	10,000
0.748% unsecured bonds, due May 2038	10,000	10,000
0.863% unsecured bonds, due September 2038	10,000	10,000
0.725% unsecured bonds, due April 2039	10,000	10,000
0.530% unsecured bonds, due September 2039	10,000	10,000
0.780% unsecured bonds, due April 2040	10,000	10,000
0.690% unsecured bonds, due October 2040	10,000	10,000
Zero coupon unsecured convertible bonds, due December 2024	40,000	-
Zero coupon unsecured convertible bonds, due June 2033	-	25,000
Zero coupon unsecured convertible bonds, due June 2034	-	25,000
Bank loans with average interest rate of 0.7603% at March 31, 2025, due through 2040:		
Secured	453	1,228
Unsecured	185,846	209,809
Capitalized lease obligations	11,332	10,512
Subtotal	462,633	516,550
Less current portion	(48,042)	(42,729)
Total	414,590	473,820

At the 161st Ordinary General Meeting of Shareholders held on June 26, 2025, the Company plans to submit a proposal for a year-end dividend of ¥38.50 per share. Upon approval of this proposal, the annual dividend amount for the fiscal year ending March 31, 2025 will be determined, and in accordance with the conversion price adjustment clause, the conversion price of the Euro Yen Convertible Bonds due June 2033 will be adjusted from ¥2,098.0 to ¥2,051.7 retroactively as of April 1, 2025, and the conversion price of the Euro Yen Convertible Bonds due June 2034 will be adjusted from ¥2,058.0 to ¥2,012.6 retroactively as of April 1, 2025.

The annual maturities of long-term debt at March 31, 2025 were as follows:

Year ending March 31	Millions of yen
2026	42,729
2027	34,483
2028	35,531
2029	27,448
2030	31,985
2031 and thereafter	344,371
Total	516,550

At March 31, 2024 and 2025, the following assets were pledged for short-term and long-term loans payable.

	Millions of yen	
	2024	2025
Buildings and structures	2,198	528
Land	3,124	1,340
Others	493	1,351
Total	5,816	3,219

8. Employee retirement benefit liability

The Company and its domestic consolidated subsidiaries have lump-sum retirement benefit plans, defined benefit pension plans and defined contribution plans. In some cases, extra retirement benefits may be paid to retired employees. One consolidated subsidiary also has trusts set up for their pension plan assets. 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 March 31, 2024 and 2025, 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	
	2024	2025
Balance at beginning of year:	32,549	31,517
Service cost	1,515	1,056
Interest cost	239	302
Actuarial differences incurred	(82)	(1,506)
Benefits paid	(2,844)	(4,470)
Past service cost	-	(62)
Transfer arising from the change from the simplified method to the principle method	138	-
Increase due to new subsidiaries consolidated	-	5,794
Balance at end of year:	<u>31,517</u>	<u>32,631</u>

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

	Millions of yen	
	2024	2025
Balance at beginning of year:	8,176	7,009
Expected return on plan assets	68	74
Actuarial differences incurred	386	57
Contributions paid by the employer	205	337
Benefits paid	(1,827)	(2,921)
Balance at end of year:	<u>7,009</u>	<u>4,557</u>

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

	Millions of yen	
	2024	2025
Balance at beginning of year:	8,166	8,027
Retirement benefit costs	889	855
Benefits paid	(860)	(923)
Contributions paid by the employer	(179)	(186)
Others	10	1
Balance at end of year:	8,027	7,773

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

	Millions of yen	
	2024	2025
Funded retirement benefit obligations	23,800	23,314
Plan assets	(7,195)	(4,752)
	16,605	18,562
Unfunded retirement benefit obligations	15,929	17,284
Employee retirement benefit liability recorded at end of year:	32,535	35,847
Liabilities for retirement benefits	32,535	35,874
Assets for retirement benefits	-	(27)
Employee retirement benefit obligations recorded at the end of the year:	32,535	35,847

(e) Net periodic retirement benefit expenses

	Millions of yen	
	2024	2025
Service cost	1,515	1,056
Interest cost	239	302
Expected return on plan assets	(68)	(74)
Net actuarial loss amortization	(387)	(323)
Past service cost amortization	24	4
Retirement benefit costs based on the simplified Method	889	855
Transfer arising from the change from the simplified method to the principle method	138	-
Others	74	(57)
Total net periodic retirement benefit expenses	2,425	1,762

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

	Millions of yen	
	2024	2025
Actuarial differences	80	1,240
Past service cost	24	67
Total balance, before tax effects, at end of year:	104	1,308

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

	Millions of yen	
	2024	2025
Actuarial differences yet to be recognized	(1,917)	(3,157)
Past service costs yet to be recognized	118	50
Total balance, before tax effects, at end of year:	(1,798)	(3,107)

(h) Plan assets

1) Plan assets comprise:

	2024	2025
Equity securities	15.8%	15.1%
Bonds	17.1%	11.9%
Cash and deposits	44.1%	36.9%
General accounts	12.9%	19.8%
Others	10.0%	16.3%
Total	100.0%	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 March 31, 2024 and March 31, 2025 (expressed as weighted averages) were as follows:

	2024	2025
Discount rate	0.8% to 1.3%	0.8% to 2.1%
Long-term expected rate of return	0.0% to 2.0%	0.0% to 2.0%

For the year ended March 31, 2024, the contributions required for defined contribution plans were ¥3,777 million in the Group. For the year ended March 31, 2025, the contributions required for defined contribution plans were ¥3,931 million in the Group.

9. Contingent liabilities

At March 31, 2024 and 2025, contingent liabilities were as follows:

	Millions of yen	
	2024	2025
Contingently liable for:		
Guarantees of loans of others	725	562
Total	725	562

10. 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 April 1, 2008 and which were accounted for with accounting treatment similar to that used for operating leases is as follows:

	Buildings and structures	Total
	Millions of yen	
At March 31, 2024:		
Acquisition cost	1,561	1,561
Accumulated depreciation	1,448	1,448
Net leased property	113	113
At March 31, 2025:		
Acquisition cost	1,561	1,561
Accumulated depreciation	1,528	1,528
Net leased property	33	33

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

	Millions of yen	
	2024	2025
Due within 1 year	151	70
Due after 1 year	70	—
Total	221	70

Lease expense and other information at March 31, 2024 and 2025 were as follows:

	Millions of yen	
	2024	2025
Lease expense	230	209
Imputed depreciation expense (*1)	85	79
Imputed interest expense (*2)	26	13

*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	
	2024	2025
Due within 1 year	782	734
Due after 1 year	1,614	986
Total	<u>2,396</u>	<u>1,720</u>

(As lessor)**(a) Finance leases**

Lease investment assets at March 31, 2024 and 2025 were as follows:

	Millions of yen	
	2024	2025
Lease receivables	12,298	13,987
Estimated residual value	210	206
Unearned imputed interest	<u>(1,946)</u>	<u>(2,123)</u>
Lease investment assets included in trade receivables	<u>10,562</u>	<u>12,070</u>

The aggregate annual maturities of lease investments at March 31, 2024 were as follows:

Year ending March 31	Millions of yen
2025	4,083
2026	3,426
2027	2,330
2028	1,376
2029	829
2030 and thereafter	<u>251</u>
Total	<u>12,298</u>

The aggregate annual maturities of lease investments at March 31, 2025 were as follows:

Year ending March 31	Millions of yen
2026	4,529
2027	3,664
2028	2,641
2029	1,765
2030	1,036
2031 and thereafter	<u>349</u>
Total	<u>13,987</u>

(b) Operating leases

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

	Millions of yen	
	2024	2025
Due within 1 year	2,931	2,712
Due after 1 year	8,545	7,784
Total	11,476	10,496

11. Derivatives

At March 31, 2024 and 2025, derivative transactions to which hedge accounting was not applied were as follows:

(Foreign currency related transactions)

	Contract amount			
	Total amount	Due after 1 year	Fair value*	Unrealized gain/(loss)
	Millions of yen			
Foreign exchange forward contracts to buy foreign currencies:				
At March 31, 2024	158	—	1	1
At March 31, 2025	316	—	(7)	(7)

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

At March 31, 2024 and 2025, derivative transactions to which hedge accounting was applied were as follows:

(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		
Special treatment for interest rate swaps:	Interest rate swaps - pay fixed rate and receive floating rate	Long-term bank loans			
At March 31, 2024			20,420	20,000	—
At March 31, 2025			20,000	20,000	—

**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 March 31, 2024			1,913	992	659
At March 31, 2025			2,018	995	166

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

12. 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 March 31, 2024 and 2025, 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 ¥2,807 million at March 31, 2024 and 2025.

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.

Total number of shares authorized to be issued as of March 31, 2024 and 2025 was as follows.

	Number of shares (Thousands of shares)	
	2024	2025
Common stock	360,000	360,000

Movements in issued shares of common stock and treasury stock during the years ended March 31, 2024 and 2025 were as follows.

	Number of shares (Thousands of shares)			
	2024			
	April 1, 2023	Increase	Decrease	March 31, 2024
Issued shares:				
Common stock	196,700	—	—	196,700
Treasury stock	172	18	74	116

	Number of shares (Thousands of shares)			
	2025			
	April 1, 2024	Increase	Decrease	March 31, 2025
Issued shares:				
Common stock	196,700	—	—	196,700
Treasury stock	116	573	63	627

13. 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 30.6% for the year ended March 31, 2024.

However, following the enactment of the “Act for Partial Revision of the Income Tax Act, etc.” (Act No. 13 of 2025) by the Diet on March 31, 2025, the statutory tax rate used to calculate deferred tax assets and liabilities for the current fiscal year (limited to those to be eliminated after April 1, 2025) has been changed to approximately 31.5% for those expected to be reversed on or after April 1, 2026. As a result, the amount of deferred tax assets (net of deferred tax liabilities) and deferred tax liabilities for land revaluation increased by ¥197 million and ¥1,517 million, respectively, and income taxes-deferred decreased by ¥173 million.

Significant components of the Groups’ deferred tax assets and liabilities as of March 31, 2024 and 2025 were as follows:

	Millions of yen	
	2024	2025
Deferred tax assets:		
Tax loss carryforwards (Note)	21,111	19,552
Investment securities etc.	12,013	12,500
Employee retirement benefit liability	11,299	12,101
Impairment loss on fixed assets	10,686	11,593
Depreciation	4,414	4,344
Elimination of unrealized profit	4,081	4,197
Provision for bonuses	1,922	2,250
Valuation loss on fixed assets	1,616	1,663
Accrued enterprise taxes and accrued business office taxes	644	813
Loss on valuation of land caused by restructuring	800	809
Provision for loss on liquidation	1,195	143
Allowance for loss on redemption of gift certificates outstanding	127	133
Loss on valuation of inventories	111	107
Allowance for doubtful accounts	205	83
Others	6,605	8,503
Subtotal of deferred tax assets	76,833	78,798
Valuation allowance pertaining to tax loss carryforwards (Note)	(16,728)	(17,151)
Valuation allowance pertaining to deductible temporary difference etc.	(30,840)	(32,886)
Subtotal of less valuation allowance	(47,569)	(50,037)
Total deferred tax assets	29,264	28,760
Deferred tax liabilities:		
Net unrealized gains on available-for-sale securities	(11,657)	(10,583)
Gain on valuation of land caused by restructuring	(2,362)	(2,525)
Gain on valuation of investment securities	(2,083)	(2,144)
Deferred capital gains	(1,074)	(1,432)
Retained earnings	(702)	(743)
Trust for employee retirement benefits	(63)	(64)
Others	(2,943)	(4,028)
Total deferred tax liabilities	(20,887)	(21,522)
Net deferred tax assets	8,377	7,238

In assessing the realizability of deferred tax assets, management of the Group considers whether some

portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which the temporary differences become deductible. At March 31, 2024 and 2025, valuation allowance was provided to reduce deferred tax assets to the amount management believed would be realizable.

(Note) Tax loss carryforwards and amount of deferred tax assets by period due

	Due in 1 year or less	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years	Total
At March 31, 2024	Millions of yen						
Tax loss carryforwards*1	299	246	72	224	1,094	19,173	21,111
Valuation allowance	(299)	(233)	(72)	(120)	(1,075)	(14,927)	(16,728)
Deferred tax assets	—	12	—	104	18	4,246	*2 4,382

*1 Tax loss carryforwards are shown in the amount multiplied by the effective statutory tax rate.

*2 Deferred tax assets of ¥4,382 million were booked for tax loss carryforwards ¥21,111 million (amount multiplied by the effective statutory tax rate). The main breakdown of the deferred tax assets pertained to tax loss carryforwards of the Company, and valuation allowance is not recognized for a portion of the tax loss carryforwards judged to be collectible because of estimated future taxable income.

	Due in 1 year or less	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years	Total
At March 31, 2025	Millions of yen						
Tax loss carryforwards*1	235	48	123	1,064	5,102	12,977	19,552
Valuation allowance	(235)	(48)	(123)	(1,055)	(4,005)	(11,683)	(17,151)
Deferred tax assets	—	—	—	9	1,096	1,294	*2 2,401

*1 Tax loss carryforwards are shown in the amount multiplied by the effective statutory tax rate.

*2 Deferred tax assets of ¥2,401 million were booked for tax loss carryforwards ¥19,552 million (amount multiplied by the effective statutory tax rate). The main breakdown of the deferred tax assets pertained to tax loss carryforwards of the Company, and valuation allowance is not recognized for a portion of the tax loss carryforwards judged to be collectible because of estimated future taxable income.

For the year ended March 31, 2024 and 2025, 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 pre-tax income	
	2024	2025
Japanese statutory tax rate	30.6%	30.6%
Increase (decrease) due to:		
Permanently non-deductible expenses	0.6	0.3
Local minimum taxes per capita levy	1.2	0.8
Elimination of unrealized profit excluding income taxes	(0.4)	0.3
The deduction amount for tax loss carryforwards at certain subsidiaries	(4.0)	(1.9)
Permanently non-additional profit	(2.7)	(1.0)
Equity in net earnings of affiliates	(2.7)	(3.5)
Adjustment of year-end deferred tax assets due to change in tax rate	-	(0.4)
Changes in valuation allowance	0.5	1.7
Gain on bargain purchase	-	(2.8)
Loss on step acquisitions	-	0.9
Others	3.3	1.8
Effective income tax rate	26.4%	26.8%

14. Revenue recognition

(1) Breakdown of revenue from contracts with customers

	Reportable segments						Subtotal	Others (*)	Total
	Traffic	Transport	Real Estate	Leisure and Services	Distribution	Aviation Services			
	Millions of yen								
For the year 2024:									
Railroad	88,338	—	—	—	—	—	88,338	—	88,338
Bus	35,723	—	—	—	—	—	35,723	—	35,723
Taxi	21,186	—	—	—	—	—	21,186	—	21,186
Truck	—	154,118	—	—	—	—	154,118	—	154,118
Maritime Transport	—	16,778	—	—	—	—	16,778	—	16,778
Real Estate Rental	—	—	18,572	—	—	—	18,572	—	18,572
Real Estate Condo Sales	—	—	49,150	—	—	—	49,150	—	49,150
Real Estate Management	—	—	14,139	—	—	—	14,139	—	14,139
Hotel	—	—	—	21,838	—	—	21,838	—	21,838
Tourist Facilities	—	—	—	19,382	—	—	19,382	—	19,382
Travel	—	—	—	58,133	—	—	58,133	—	58,133
Department Store	—	—	—	—	17,762	—	17,762	—	17,762
Other Goods Sold	—	—	—	—	49,088	—	49,088	—	49,088
Aviation Services	—	—	—	—	—	26,605	26,605	—	26,605
Equipment Maintenance	—	—	—	—	—	—	—	31,039	31,039
Others	—	—	—	—	—	—	—	17,348	17,348
Intersegment sales/transfers	(4,719)	(33,012)	(5,887)	(1,167)	(2,962)	(382)	(48,132)	(22,528)	(70,660)
Revenue from contracts with customers	140,529	137,884	75,974	98,186	63,888	26,222	542,686	25,860	568,546
Other earnings	3,332	—	20,676	—	—	—	24,008	8,566	32,575
Operating revenue to external customers	143,862	137,884	96,650	98,186	63,888	26,222	566,695	34,426	601,121

*"Others" is a business segment that is not considered a reportable segment. It includes the business of equipment maintenance, information processing, insurance agency and others.

	Reportable segments						Subtotal	Others (*)	Total
	Traffic	Transport	Real Estate	Leisure and Services	Distribution	Aviation Services			
	Millions of yen								
For the year 2025:									
Railroad	97,910	-	-	-	-	-	97,910	-	97,910
Bus	38,099	-	-	-	-	-	38,099	-	38,099
Taxi	21,936	-	-	-	-	-	21,936	-	21,936
Truck	-	196,601	-	-	-	-	196,601	-	196,601
Maritime Transport	-	18,554	-	-	-	-	18,554	-	18,554
Real Estate Rental	-	-	18,997	-	-	-	18,997	-	18,997
Real Estate Condo Sales	-	-	66,159	-	-	-	66,159	-	66,159
Real Estate Management	-	-	15,519	-	-	-	15,519	-	15,519
Hotel	-	-	-	24,402	-	-	24,402	-	24,402
Tourist Facilities	-	-	-	20,634	-	-	20,634	-	20,634
Travel	-	-	-	58,184	-	-	58,184	-	58,184
Department Store	-	-	-	-	17,209	-	17,209	-	17,209
Other Goods Sold	-	-	-	-	52,159	-	52,159	-	52,159
Aviation Services	-	-	-	-	-	30,133	30,133	-	30,133
Equipment Maintenance	-	-	-	-	-	-	-	39,049	39,049
Others	-	-	-	-	-	-	-	20,436	20,436
Intersegment sales/transfers	△ 5,024	△ 35,398	△ 6,844	△ 1,163	△ 3,840	△ 404	△ 52,675	△ 28,106	△ 80,781
Revenue from contracts with customers	152,922	179,757	93,831	102,057	65,529	29,729	623,827	31,380	655,207
Other earnings	4,020	-	22,576	-	-	-	26,597	8,915	35,512
Operating revenue to external customers	156,942	179,757	116,408	102,057	65,529	29,729	650,424	40,295	690,720

***Others” is a business segment that is not considered a reportable segment. It includes the business of equipment maintenance, information processing, insurance agency and others.*

(2) A basis for understanding revenue from contracts with customers

“Traffic”

The “Traffic” business is the railroad business, bus business and taxi business. The primary performance obligations are passenger transportation by railroad, bus and taxi. We mainly recognize the revenue judging that the performance obligations will be satisfied when the service is completed. However, for commuter passes in the railroad business and the bus business, revenue is recognized over the period from the month in which the validity of the pass begins to the month it ends. Consideration for the transactions is generally received in a single month, mainly at the time of prepayment or when the provision of services is completed.

“Transport”

The “Transport” business is the truck business and maritime transport business. The primary performance obligations are freight transportation by truck and passenger and freight transportation by ferry. Revenue is recognized over a period of time, mainly due to the satisfaction of performance obligations. Consideration for the transactions is generally received within two months after prepayment or when the provision of services is completed.

“Real Estate”

The “Real Estate” business is the real estate leasing business, real estate condo sales business and real estate management business. The primary performance obligations are the operation of coin parking, the sale of condominiums, etc., and the management of buildings and condominiums. Revenue from sales of real estate is recognized judging that the performance obligations will be satisfied at the time of delivery of the product to the customer, and at the time the provision of services is completed for real estate rental and contract management of buildings, etc.

“Leisure and Services”

The “Leisure and Services” business is the hotel business, tourist facilities business and travel business. The primary performance obligations are the provision of facilities and services related to accommodation and banquets, the sale and operation of domestic and overseas travel products and the operation of theme parks and ropeways. Revenue is recognized mainly judging that the performance obligations will be satisfied when the service is completed. Consideration for the transactions is generally received in a single month, mainly at the time of prepayment or completion of service provision.

“Distribution”

The “Distribution” business is the department store business and other goods sales. The primary performance obligations are the sale of products at department stores, convenience stores, dealers, etc. For the sale of products that we are deemed to be an agent, revenue is recognized at the net amount obtained by subtracting the amount paid to another party from the gross amount received in exchange for the products provided by another party. Consideration for the transactions is generally received in a single month, mainly at the time of prepayment or delivery of goods.

“Aviation Services”

The primary performance obligations of “Aviation Services” are the surveying business using airplanes and helicopters and the preparation of meals provided on board. In the surveying business, revenue is recognized over a period of time determined by the satisfaction of performance obligations. If the result of the performance obligations can be reasonably measured, the progress related to the satisfaction of the performance obligations is estimated with the output method to calculate by the ratio of the total amount of goods or services to be transferred. For small and very short-term deals, we recognize revenue when the performance obligations are completely satisfied. Consideration for the transactions is generally received within two months after the provision of services is completed.

“Others”

The “Others” business is the business of equipment maintenance and the other businesses. The primary performance obligations are planning, design and construction of electrical equipment, vehicle maintenance for buses, taxis and passenger cars, system development and maintenance, car leasing and car sharing. For construction contracts for electrical equipment, etc., and system development, revenue is recognized over a period of time determined by the satisfaction of performance obligations. If the result of the performance obligations can be reasonably measured, the progress related to the satisfaction of the performance obligations are estimated with the input method to calculate it by the ratio of the actual cost to the estimated total cost. For small and very short-term deals, we recognize revenue when the performance obligations are completely satisfied. Consideration for the transactions is generally received within three months after the provision of services is completed.

- (3) Relationship between the satisfaction of performance obligations under contracts with customers and cash flows from such contracts and the amount and timing of revenue expected to be recognized from contracts with customers that existed at the end of the current fiscal year and are expected to be recognized in the following fiscal year

(a) Balance of contract assets and contract liabilities, etc.

	Millions of yen	
	April 1, 2023 -March 31, 2024	April 1, 2024 -March 31, 2025
Receivables from contracts with customers (balance at beginning of period)		
Notes receivable	4,032	4,333
Accounts receivable	53,595	55,010
Receivables from contracts with customers (balance at end of period)		
Notes receivable	4,333	3,061
Accounts receivable	55,010	63,347
Contract assets (balance at beginning of period)	2,223	2,894
Contract assets (balance at end of period)	2,894	3,269
Contract liabilities (balance at beginning of period)	24,575	25,629
Contract liabilities (balance at end of period)	25,629	24,942

Contract assets are related mainly to the rights of consolidated subsidiaries to unbilled consideration arising from construction contracts for which performance obligations have been satisfied as construction progresses as of the reporting date.

Contract assets are reclassified to receivables arising from contracts with customers when the consolidated subsidiaries' rights to the consideration become unconditional.

Contract liabilities are included in others in current liabilities on the balance sheets. Contract liabilities are related mainly to the consideration received from customers representing the unexpired months of rail and bus commuter passes. These contract liabilities are reversed upon revenue recognition.

For the year ended March 31, 2024, the amount of revenue recognized during the fiscal year that was included in the contract liability balance at the beginning of the fiscal year was ¥15,882 million.

For the year ended March 31, 2025, the amount of revenue recognized during the fiscal year that was included in the contract liability balance at the beginning of the fiscal year was ¥17,989 million.

(b) Transaction price allocated to remaining performance obligations

The Company and its consolidated subsidiaries apply the practical expedient and omit notes for transaction prices allocated to remaining performance obligations since there are no significant contracts with a term initially expected to be more than one year. In addition, there were no material amounts of consideration arising from contracts with customers that were not included in the transaction price.

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, aviation services, equipment maintenance and others. On the basis of the above activities, the Company's reportable segments are "Traffic," "Transport," "Real Estate," "Leisure and Services," "Distribution" and "Aviation Services."

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, real estate leasing and building maintenance
- Leisure and Services: business related to hotels, restaurants, tourist facilities and travel
- Distribution: department store operations and distributions of other merchandise sales
- Aviation Services: business related to general aviation and flight catering

(2) Basis of measurement for reportable segment operating revenues, income (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 (loss) figures are based on an operating income (loss). Intersegment sales and transfers are based on prevailing market prices.

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

Information about reportable segments as of and for the year ended March 31, 2024 was as follows:

	Reportable segments							Total	Adjustments (*2)	Consolidated financial statements (*3)
	Traffic	Transport	Real Estate	Leisure and Services	Distribution	Aviation Services	Others (*1)			
Millions of yen										
For the year 2024:										
Operating revenues:										
External customers	143,862	137,884	96,650	98,186	63,888	26,222	34,426	601,121	-	601,121
Intersegment sales/transfers	2,720	424	11,255	585	2,788	55	21,957	39,786	(39,786)	-
Total	146,582	138,308	107,906	98,772	66,676	26,278	56,383	640,908	(39,786)	601,121
Segment income (loss)	12,980	1,792	15,967	2,671	(2,697)	1,087	3,299	35,101	(351)	34,750
Segment assets	527,196	123,265	362,492	32,882	34,776	32,879	83,784	1,197,275	105,929	1,303,205
Other material items:										
Depreciation	17,847	7,120	5,594	1,134	1,217	2,790	3,630	39,334	(454)	38,879
Amortization of goodwill	-	-	155	37	115	-	21	330	-	330
Impairment loss on fixed assets	99	0	1,207	173	406	-	13	1,900	(139)	1,761
Increase in property and equipment and intangible assets	25,578	7,053	30,515	1,839	1,635	4,211	5,985	76,818	-	76,818

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

*2) Adjustment is as follows

(1) Segment income (loss) adjustment amounting to ¥(351) million was treated as intersegment elimination.

(2) Segment assets adjustment amounting to ¥105,929 million consisted of unallocated general corporate assets amounting to ¥141,686 million, net of intersegment elimination of ¥(35,756) million. Such general corporate assets consisted mainly of cash, deposits and investment securities.

(3) Depreciation adjustment amounting to ¥(454) million was treated as intersegment elimination.

*3) Segment income (loss) was reconciled to operating income in the accompanying consolidated statements of income.

Information about reportable segments as of and for the year ended March 31, 2025 was as follows:

	Reportable segments							Total	Adjustments (*2)	Consolidated financial statements (*3)
	Traffic	Transport	Real Estate	Leisure and Services	Distribution	Aviation Services	Others (*1)			
Millions of yen										
For the year 2025:										
Operating revenues:										
External customers	156,942	179,757	116,408	102,057	65,529	29,729	40,295	690,720	-	690,720
Intersegment sales/transfers	2,882	425	12,620	625	3,583	52	27,678	47,867	(47,867)	-
Total	159,825	180,183	129,028	102,682	69,112	29,781	67,973	738,587	(47,867)	690,720
Segment income (loss)	19,602	(3,721)	18,947	2,546	(1,292)	2,266	4,622	42,971	(895)	42,076
Segment assets	573,396	141,236	424,888	33,710	34,078	37,892	88,982	1,334,186	114,722	1,448,908
Other material items:										
Depreciation	18,666	8,316	6,196	1,232	1,427	2,703	3,881	42,425	(601)	41,824
Amortization of goodwill	-	-	31	37	115	-	81	266	-	266
Impairment loss on fixed assets	176	1,065	240	256	472	-	25	2,236	-	2,236
Increase in property and equipment and intangible assets	35,504	10,164	60,994	2,347	1,802	5,103	5,539	121,455	-	121,455

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

*2) Adjustment is as follows

(1) Segment income (loss) adjustment amounting to ¥(895) million was treated as intersegment elimination.

(2) Segment assets adjustment amounting to ¥114,722 million consisted of unallocated general corporate assets amounting to ¥157,069 million, net of intersegment elimination of ¥(42,347) million. Such general corporate assets consisted mainly of cash, deposits and investment securities.

(3) Depreciation adjustment amounting to ¥(601) million was treated as intersegment elimination.

*3) Segment income (loss) 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 of operating revenue in the consolidated statements of income.

(4) Information on goodwill in each reporting segment

	Traffic	Transport	Real Estate	Leisure and Services	Distribution	Aviation Services	Others	Eliminations	Consolidated
	Millions of yen								
Balance of goodwill:									
At March 31, 2024	—	—	31	85	969	—	1,207	—	2,294
At March 31, 2025	—	—	—	47	854	—	1,125	—	2,027

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

(5) Information on gain on bargain purchase in each reporting segment**- Consolidated fiscal year ended March 31, 2024**

None

- Consolidated fiscal year ended March 31, 2025

In the “Transport” business, a gain on bargain purchase was recorded due to the acquisition of shares of NX Transport Co., Ltd. on April 1, 2024, which was included in the scope of consolidation, and the succession of the Combined Delivery Service Business of Nippon Express Co., Ltd. on January 1, 2025. The amount of the gain on bargain purchase is ¥1,224 million. Since the gain on bargain purchase is included in extraordinary income, it is not included in segment income (loss).

In the “Traffic” business, a gain on bargain purchase was recorded due to the additional acquisition of Miyagi Transportation Co., Ltd. on March 31, 2025, and the inclusion of the company and its four subsidiaries in the scope of consolidation. The amount of the gain on bargain purchase is ¥3,531 million. Since the gain on bargain purchase is included in extraordinary income, it is not included in segment income (loss).

16. Comprehensive income

Amounts reclassified to net income (loss) in the current year that were recognized in other comprehensive income in the current or previous years and the tax and tax effects for each component of other comprehensive income for the years ended March 31, 2024 and 2025 were as follows.

	Millions of yen	
	2024	2025
Net unrealized gains and losses on available-for-sale securities, net of taxes:		
Amount arising during the year	17,883	1,733
Reclassification adjustments	(1,791)	(6,194)
Subtotal, before tax and tax effect	16,091	(4,460)
The amount of tax and tax effect	(4,997)	1,081
Subtotal, net of tax	11,094	(3,378)
Deferred gains and losses on hedges, net of taxes:		
Amount arising during the year	805	(46)
Reclassification adjustments	(435)	(378)
Subtotal, before tax and tax effect	370	(424)
The amount of tax and tax effect	(127)	146
Subtotal, net of tax	242	(278)
Land revaluation increments, net of taxes:		
The amount of tax and tax effect	—	(1,517)
Subtotal, net of tax	—	(1,517)
Foreign currency translation adjustments		
Amount arising during the year	13	22
Reclassification adjustments	—	—
Subtotal, before tax and tax effect	13	22
The amount of tax and tax effect	—	—
Subtotal, net of tax	13	22
Retirement benefit adjustments		
Amount arising during the year	468	1,627
Reclassification adjustments	(363)	(318)
Subtotal, before tax and tax effect	104	1,308
The amount of tax and tax effect	(34)	(465)
Subtotal, net of tax	70	842
Share of other comprehensive income of affiliates accounted for using the equity method:		
Amount arising during the year	1,482	535
Reclassification adjustments	11	(90)
Subtotal	1,494	444
Total other comprehensive income	12,914	(3,864)

17. Supplemental information to consolidated statements of cash flows

(a) Components of cash and cash equivalents at end of the year that were in the consolidated balance sheet

	Millions of yen	
	2024	2025
Cash and deposits	60,388	58,637
Time deposits with maturities of more than three months	(362)	(2,144)
Cash and cash equivalents	<u>60,025</u>	<u>56,493</u>

(b) Major breakdown of assets and liabilities of the company newly consolidated as a result of share acquisition

- Consolidated fiscal year ended March 31, 2024
None

- Consolidated fiscal year ended March 31, 2025

The breakdown of assets and liabilities at the time of consolidation, as well as the relationship between the acquisition price of NX Transport Co., Ltd. shares and the net proceeds from the acquisition, due to NX Transport Co., Ltd. becoming a consolidated subsidiary through the acquisition of shares by Meitetsu Transportation Co., Ltd., a consolidated subsidiary of the Company, were as follows:

	Millions of yen
	2025
Current assets	5,796
Non-current assets	8,309
Current liabilities	(8,950)
Non-current liabilities	(3,335)
Gain on bargain purchase	(1,210)
Non-controlling interests	(610)
Acquisition price of shares	0
Cash and cash equivalents	(12)
Net proceeds from acquisition	<u>(12)</u>

In addition, the breakdown of assets and liabilities at the time of consolidation due to the new consolidation of Miyagi Transportation Co., Ltd. and its four subsidiaries through the acquisition of shares by the Company, as well as the relationship between the acquisition price of Miyagi Transportation Co., Ltd. shares and the net proceeds from the acquisition were as follows:

	Millions of yen
	2025
Current assets	4,025
Non-current assets	11,984
Current liabilities	(3,935)
Non-current liabilities	(4,542)
Gain on bargain purchase	(3,531)
Non-controlling interests	(1,496)
Valuation of interests until acquisition of control	(2,953)
Loss on step acquisitions	1,530
Acquisition price of shares	1,082
Cash and cash equivalents	(2,473)
Net proceeds from acquisition	<u>(1,391)</u>

(c) Significant non-cash transactions

- Consolidated fiscal year ended March 31, 2024

None

- Consolidated fiscal year ended March 31, 2025

On August 21, 2024, Meitetsu Transportation Co., Ltd., a consolidated subsidiary of the Company, entered into an absorption-type split agreement to take over the Combined Delivery Service Business from Nippon Express Co., Ltd. through an absorption-type split with the shares of Meitetsu Transportation Co., Ltd. as consideration, and took over the business on January 1, 2025.

Please refer to “Notes (Business Combinations)” for the breakdown of assets and liabilities related to the business succeeded through this absorption-type split. In addition, the increase in capital surplus due to the issuance of shares by Meitetsu Transportation Co., Ltd. to Nippon Express Co., Ltd. as consideration for the absorption-type split is as follows:

Increase in capital surplus due to issuance of new shares ¥6,000 million

18. Business combinations

Business combination through acquisition

In accordance with Article 370 of the Companies Act and Article 26 of the Articles of Incorporation of the Company, the Company's Board of Directors resolved in writing on February 14, 2024, to enter into a Business Integration Agreement as of the same date with NIPPON EXPRESS HOLDINGS, INC., the parent company of Nippon Express Co., Ltd.. Under this business integration agreement Meitetsu Transportation Co. Ltd., a consolidated subsidiary of Company, would acquire 100% of the shares of NX Transport Co., Ltd., a subsidiary of Nippon Express Co., Ltd., by means of a share transfer, and would succeed to the special combined delivery service business(“Combined Delivery Service Business”) of Nippon Express Co., Ltd., through an absorption-type split, and Nippon Express Co., Ltd. and Meitetsu Transportation Co., Ltd. would develop the Combined Delivery Service Business after the integration. Based on this agreement, a share transfer agreement was concluded between Meitetsu Transportation Co., Ltd. and Nippon Express Co., Ltd. on the same date. ((1) Share transfer) NX Transport Co., Ltd. became a consolidated subsidiary of the Company on April 1, 2024.

In addition, based on Article 370 of the Companies Act and Article 24 of its Articles of Incorporation, Meitetsu Transportation Co., Ltd., in a written resolution of its Board of Directors dated August 21, 2024, resolved that it would succeed to the Combined Delivery Service Business from Nippon Express Co., Ltd. through the absorption-type split and entered into the absorption-type split agreement ((2) Absorption-type split). Based on this resolution, the absorption-type split was implemented on January 1, 2025.)

1. Outline of the business combination

(a) Name and business of the acquired company and name and business to be split of the splitting company

(1) Share transfer:

Name of the acquired company: NX Transport Co., Ltd.

Business lines: Road freight transportation business, cargo transportation business, warehousing business, etc.

(2) Absorption-type split:

Name of the splitting company: Nippon Express Co., Ltd.

Business to be split: Combined Delivery Services Business

(b) Main reasons for the business combination

Meitetsu Transportation Co., Ltd. and Nippon Express Co., Ltd. signed a capital and business alliance agreement on 25 December 2015, and the companies have collaborated in the Combined Delivery Services Business since then.

At the same time, rising energy prices, chronic labor shortages for truck drivers, changes in laws concerning work-style reform, etc. have combined in recent years to cause rising labor and outsourcing costs. Further, total domestic freight volume is likely to decline due to decreasing population in Japan and changes to the industrial structure. Accordingly, the industry does not expect meaningful increases in total freight volume for the combined delivery services market in the future.

Given this environment, the companies determined that further mutual use of business resources, expertise, and other management resources of the two groups would be essential in solving issues and improving service levels in response to changes in the business environment. It aims to promote and develop the Combined Delivery Services Business.

(c) Date of business combination

(1) Share transfer: April 1, 2024

(2) Absorption-type split: January 1, 2025

(d) Legal form of the business combinations

(1) Share transfer: Acquisition of share for cash

(2) Absorption-type split:

Absorption-type split with Meitetsu Transportation Co., Ltd. as the successor company and Nippon Express Co., Ltd. as the splitting company

- (e) Name of the controlling entity after the business combination
- (1) Share transfer: No change
 - (2) Absorption-type split: Meitetsu Transportation Co., Ltd.
- (f) Percentage share of voting rights after acquisition
- (1) Share transfer: 100.00%
 - (2) Absorption-type split: Not applicable
- (g) Basis for determining the acquiring company
- (1) Share transfer:
It is because Meitetsu Transportation Co., Ltd. acquired shares of NX Transport Co., Ltd. in exchange for cash.
 - (2) Absorption-type split:
It is because Meitetsu Transportation Co., Ltd. took over Nippon Express Co., Ltd.'s Combined Delivery Service Business in exchange for shares.
2. The period for which the acquired company's financial results is included in the consolidated financial statements and the period for which the acquired business is performing
- (1) Share transfer: From April 1, 2024 to December 31, 2024
 - (2) Absorption-type split: From January 1, 2025 to March 31, 2025
3. Breakdown of acquisition cost and type of consideration for the acquired company and breakdown of acquisition cost and type of consideration for the acquired business
- (1) Share transfer:

	Millions of yen
Consideration for Cash	0
Acquisition cost	0
 - (2) Absorption-type split:

	Millions of yen
Consideration for Market value of common stock of Meitetsu Transportation Co., Ltd. delivered on the date of business combination	6,000
Acquisition cost	6,000
4. Number of shares delivered and calculation method
- (a) Number of shares delivered
 - (1) Share transfer: Not applicable
 - (2) Absorption-type split: 5 shares
 - (b) Calculation method
 - (1) Share transfer: None
 - (2) Absorption-type split:
After a series of negotiations and discussions with reference to the results of the calculations by the third-party appraisers and comprehensive consideration of factors such as their respective financial conditions, asset conditions, and future prospects, the Company ultimately concluded that it is appropriate to deliver the shares as described above.
5. Contents and amount of major acquisition-related expenses
- Advisory fees and other ¥225 million
6. Amount and reason of gain on bargain purchase
- (a) Amount of gain on bargain purchase
 - (1) Share transfer: ¥1,210 million
 - (2) Absorption-type split: ¥13 million

(b) Reason for gain on bargain purchase

Since the acquisition cost was less than the net amount allocated to the assets received and liabilities assumed, the difference was recognized as a gain on bargain purchase.

7. Amounts of assets received and liabilities assumed on the date of business combination and their breakdown

(1)Share transfer:

	Millions of yen
Current assets	5,796
Non-current assets	8,309
Total assets	14,106
Current liabilities	8,950
Non-current liabilities	3,335
Total liabilities	12,285

(2)Absorption-type split:

	Millions of yen
Non-current assets	6,023
Total assets	6,023

8. Approximate amounts and calculation methods of the impact on the consolidated financial statements for the fiscal year ended March 31, 2025, assuming that the business combinations had been completed at the beginning of the fiscal year

(1)Share transfer:

There is no impact because the acquisition date is the beginning of the current fiscal year.

(2)Absorption-type split:

Not stated as it is difficult to reasonably calculate the estimated amount for the current fiscal year.

Business combination through acquisition

At the meeting of the Board of Directors held on February 13, 2025, the Company resolved to acquire additional shares of Miyagi transportation Co., Ltd. an affiliate of the Company accounted for using the equity method, making the company and its four subsidiaries consolidated subsidiaries as of March 31, 2025.

1. Outline of the business combination

(a) Names of the acquired companies and their businesses

Names of the acquired companies: Miyagi transportation Co., Ltd. and its four subsidiaries

Business lines: Passenger car transport business, Real Estate business, etc.

(b) Main reason for the business combination

The Company has participated in the management of the company since 1975, and supported the management of the group by dispatching management team members as the company's largest shareholder.

While the company's earnings have remained stable after the COVID-19 pandemic, the bus business is facing a period of change in order to cope with declining population and an aging society with a declining birthrate. Under these circumstances, we will clarify our role as a parent company and further strengthen governance by making the company a consolidated subsidiary, thereby driving the company's sustainable development.

In addition, in the bus business, which is the core business of the Company group, we will strengthen cooperation within the group and aim for further growth. In addition, from the perspective of our shareholders' interests, we believe that making the company a consolidated subsidiary will allow us to incorporate the net income generated by the company into our Group's consolidated financial results, and the increase in net income per share of the company will contribute to our shareholders' interests.

(c) Date of the business combination

March 31, 2025

(d) Legal form of the business combination

Acquisition of shares for cash

(e) Name of the controlling entity after the business combination

No change

(f) Percentage share of voting rights after acquisition

Percentage of voting rights held immediately prior to the business combination	38.19%
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Percentage of voting rights additionally acquired on the date of business combination	41.48%
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Percentage of voting rights after acquisition	79.67%
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(g) Basis for determining the acquiring company

The Company acquired the shares for cash consideration.

2. The period for which the acquired company's financial results is included in the consolidated financial statements and the period for which the acquired business is performing

Since the acquired company was an affiliate accounted for using the equity method, the financial results for the period from April 1, 2024 to March 31, 2025 are reported as "Equity in net earnings of affiliates".

3. Acquisition cost of the acquired company and breakdown by type of consideration

		Millions of yen
Consideration for acquisition	Fair value of equity interests held immediately prior to the business combination at the date of the business combination	1,423
	Amount paid for additional acquisition	1,082
Acquisition cost		2,505

4. Contents and amounts of major acquisition-related costs

Compensation for share value calculation services ¥1 million

5. Difference between the acquisition cost of the acquired company and the total acquisition cost for each transaction that led to the acquisition

Loss on step acquisitions ¥1,530 million

6. Amount of and reason for gain on bargain purchase

(a) Amount of gain on bargain purchase: ¥3,531 million

(b) Reason for gain on bargain purchase:

Since the acquisition cost was less than the net amount allocated to the assets received and liabilities assumed, the difference was recognized as a gain on bargain purchase.

7. Amounts of assets received and liabilities assumed on the date of business combination and their breakdown

	Millions of yen
Current assets	4,025
Non-current assets	11,984
Total assets	16,009
Current liabilities	3,935
Non-current liabilities	4,542
Total liabilities	8,477

8. Approximate amounts and calculation method of the impact on the consolidated financial statements for the fiscal year ended March 31, 2025, assuming that the business combinations had been completed on the commencement date of the fiscal year

	Millions of yen
Operating revenue	11,528
Operating income	944
Ordinary income	777
Profit before income taxes	790
Profit attributable to owners of the parent	322
Net income per share-basic(yen)	1.65

Estimated amounts

The impact on the consolidated financial statements is estimated as the difference between the operating revenues and income (loss) information calculated as if the business combination had been completed at the beginning of the fiscal year and the operating revenues and income (loss) information in the consolidated statements of income. Operating revenues and income (loss) information as if the acquisition had been completed at the beginning of the fiscal year excluded the share of gain (loss) of entities accounted for using equity method of the acquired companies recorded during the fiscal year.

The information above is unaudited.

19. Subsequent events

(1) Cash dividends

An appropriation of retained earnings for the year ended March 31, 2025 was duly approved at the ordinary shareholders' meeting held on June 26, 2025 as follows:

	<u>Millions of yen</u>
Cash dividends (¥38.50 per share)	7,549

The above dividends became payable to shareholders of record as of March 31, 2025. However, the appropriation had not been accrued in the consolidated financial statements as of March 31, 2025 as such appropriations are recognized in the period in which they are approved by the shareholders.

(2) Signing of important agreements

The Company and its consolidated subsidiary Meitetsu City Design Co., Ltd. have reached an agreement with Nippon Life Insurance Company, Kintetsu Railway Co., Ltd., and Kintetsu Real Estate Co., Ltd. to commercialize the "Nagoya Station District Redevelopment Project", and resolved to conclude a joint venture agreement at a meeting of the Board of Directors held on May 26, 2025.

(a) Purpose

To promote redevelopment operations related to the Nagoya Station District Redevelopment Project

(b) Name of the joint operators

Nippon Life Insurance Company, Kintetsu Railway Co., Ltd. and Kintetsu Real Estate Co., Ltd

(c) Time of the agreement conclusion

May 2025

(d) Contents of the agreement

Agreement on the commercialization of the Nagoya Station District Redevelopment Project with the joint operators.

(e) (reference) Overview of the Nagoya Station District Redevelopment Project

Subject site: 1-2 Meieki, Nakamura-ku, Nagoya-shi and other land parcels

Site area: Approx. 32,700 m²

Total floor area: Approx. 520,000 m²

Usage: Commercial facilities, offices, hotel, railroad station, bus terminal

Schedule (plan): FY2026

Start of demolition

FY2027

Start of construction

FY2033

Phase 1 construction completion

Early 2040s

Phase 2 construction completion

(3) Bonds issued

Based on the resolution of the Board of Directors of the Company on March 24, 2025, the Company issued the 74th Series Unsecured Straight Bonds and the 75th Series Unsecured Straight Bonds as shown below.

1. Name of bonds issued: 74th Series Unsecured Straight Bonds
2. Total amount of issue: ¥10 billion
3. Issue value: ¥100 per face value of ¥100
4. Coupon: 1.291% per annum
5. Issue date: June 19, 2025
6. Maturity date: June 19, 2030
7. Use of proceeds: Funds for redemption of short-term bonds and repayment of short-term loans

1. Name of bonds issued: 75th Series Unsecured Straight Bonds
2. Total amount of issue: ¥15 billion
3. Issue value: ¥100 per face value of ¥100
4. Coupon: 1.890% per annum
5. Issue date: June 19, 2025
6. Maturity date: June 19, 2035
7. Use of proceeds: Funds for redemption of short-term bonds and repayment of short-term loans

20. Related party information

(a) Related party transactions

(1) Transactions between the Company and its related parties

-Consolidated fiscal years ended March 31, 2024 and 2025.

None

(2) Transactions between the consolidated subsidiaries of the Company and related parties

(i) Non-consolidated subsidiaries and affiliates of the Company

-Consolidated fiscal year ended March 31, 2024

None

Significant related party transaction for the year ended March 31, 2025 was as follows:

(millions of yen)										
Type	Name of company	Location	Share capital or investments in capital	Description of business or occupation	Ratio of voting rights holding (%)	Relationship with the related party	Summary of transaction	Transaction amount	Account	Balance at end of period
Non-consolidated subsidiary	O·T·I Special Purpose Company	Chiyoda-ku, Tokyo	40	Operations related to liquidation of assets	(Holding) Indirect: 100.00	Acquisition of beneficial interests in trust	Acquisition of beneficial interests in trust	34,098	-	-

Note: Transaction amount is determined based on real estate appraisals.

(ii) Directors and major shareholders (limited to individuals) of the Company

Significant related party transaction for the year ended March 31, 2024 was as follows:

(millions of yen)										
Type	Name of individual	Location	Share capital or investments in capital	Description of business or occupation	Ratio of voting rights held (%)	Relationship with the related party	Summary of transaction	Transaction amount	Account	Balance at end of period
Director	Hiroyasu Naito	-	-	The Company's director	(Held) Direct: 0.00	Use of Hotel Facilities	Use of Hotel Facilities	14	-	-

Note: Transaction amount is determined based on the same terms and conditions as arm's length transactions.

-Consolidated fiscal year ended March 31, 2025

None

(b) Notes on the parent company and significant affiliates

-Consolidated fiscal years ended March 31, 2024 and 2025.

None