# Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Nagoya Railroad Co., Ltd. (the "Company") and its consolidated subsidiaries, which comprise the consolidated balance sheets as at 31 March 2011, 2012 and 2013, and the consolidated statements of income and comprehensive income, statements of changes in net assets and statements of cash flows for each of the years then ended, and a summary of significant accounting policies and other explanatory information.

**Management's Responsibility for the Consolidated Financial Statements**
Management of the Company is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

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

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

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

**Opinion**
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and its consolidated subsidiaries as at 31 March 2011, 2012 and 2013, and their financial performance and cash flows for each of the years then ended in accordance with accounting principles generally accepted in Japan.

**Emphasis of Matter**
Without qualifying our opinion, we draw attention to the following:
(1) As described in Note 2(x) to the consolidated financial statements, the Company and its domestic consolidated subsidiaries have adopted the new accounting standard for Asset Retirement Obligations from the year ended 31 March 2011.
(2) As described in Note 2(x) to the consolidated financial statements, the Company and a certain consolidated subsidiary have changed the method of accounting for contributions for construction work from the year ended 31 March 2011.

**Convenience Translation**
The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended 31 March 2013 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC
5 September 2013
Nagoya, Japan

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

## Consolidated Balance Sheets

31 March 2011, 2012 and 2013

| | Millions of yen | | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2013 |
| **ASSETS** | | | | |
| **Current assets:** | | | | |
| Cash and cash equivalents (Note 3) | ¥ 8,102 | ¥ 9,031 | ¥ 9,711 | $ 103,309 |
| Short-term investments (Notes 3 and 4) | 826 | 737 | 712 | 7,574 |
| Trade notes and accounts receivable (Note 3) | 58,234 | 62,495 | 59,922 | 637,468 |
| Inventories (Note 5) | 90,028 | 78,355 | 67,890 | 722,234 |
| Deferred tax assets (Note 14) | 5,719 | 7,056 | 5,805 | 61,755 |
| Others | 19,575 | 20,177 | 19,897 | 211,670 |
| Less, allowance for doubtful accounts | (468) | (448) | (263) | (2,797) |
| Total current assets | 182,016 | 177,403 | 163,674 | 1,741,213 |
| | | | | |
| **Property and equipment (Notes 6, 7 and 8):** | | | | |
| Land | 374,388 | 372,344 | 367,197 | 3,906,351 |
| Buildings and structures | 674,100 | 672,372 | 672,493 | 7,154,181 |
| Machinery, equipment and vehicles | 302,016 | 300,100 | 300,236 | 3,194,000 |
| Other properties | 53,033 | 58,599 | 60,337 | 641,883 |
| Construction in progress | 36,547 | 51,967 | 50,327 | 535,394 |
| | 1,440,084 | 1,455,382 | 1,450,590 | 15,431,809 |
| Less accumulated depreciation | (591,829) | (615,308) | (629,596) | (6,697,830) |
| Property and equipment, net | 848,255 | 840,074 | 820,994 | 8,733,979 |
| | | | | |
| **Investments and other assets:** | | | | |
| Investment securities (Notes 3 and 4) | 49,905 | 50,594 | 53,195 | 565,904 |
| Investments in unconsolidated subsidiaries and affiliates (Note 3) | 22,948 | 24,059 | 25,676 | 273,149 |
| Deferred tax assets (Note 14) | 12,967 | 12,848 | 12,807 | 136,245 |
| Intangible assets | 15,944 | 12,269 | 11,902 | 126,617 |
| Other assets | 19,063 | 17,497 | 16,575 | 176,330 |
| Allowance for doubtful accounts | (1,742) | (2,046) | (1,848) | (19,660) |
| Total investments and other assets | 119,085 | 115,221 | 118,307 | 1,258,585 |
| | | | | |
| **Total assets** | ¥ 1,149,356 | ¥ 1,132,698 | ¥ 1,102,975 | $ 11,733,777 |

See Notes to Consolidated Financial Statements.

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

## Consolidated Balance Sheets

31 March 2011, 2012 and 2013

| | Millions of yen | | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2013 |
| **LIABILITIES AND NET ASSETS** | | | | |
| **Current liabilities:** | | | | |
| Short-term borrowings (Notes 3 and 8) | ¥ 126,252 | ¥ 123,658 | ¥ 72,144 | $ 767,489 |
| Current portion of long-term debt (Notes 3 and 8) | 107,242 | 85,619 | 66,820 | 710,851 |
| Trade notes and accounts payable | 72,219 | 70,769 | 67,391 | 716,926 |
| Accrued expenses | 14,745 | 15,267 | 14,994 | 159,511 |
| Income taxes payable | 2,769 | 3,529 | 3,651 | 38,840 |
| Provisions | 4,645 | 1,877 | 1,872 | 19,915 |
| Other current liabilities | 82,976 | 95,238 | 96,817 | 1,029,968 |
| Total current liabilities | 410,848 | 395,957 | 323,689 | 3,443,500 |
| **Non-current liabilities:** | | | | |
| Long-term debt (Notes 3 and 8) | 402,271 | 392,407 | 421,056 | 4,479,319 |
| Employee retirement liability (Note 9) | 30,893 | 30,260 | 28,905 | 307,500 |
| Accrued retirement benefits for directors and corporate auditors | 2,177 | 1,947 | 1,727 | 18,372 |
| Deferred tax liabilities (Note 14) | 4,856 | 3,840 | 3,697 | 39,330 |
| Deferred tax liabilities for land revaluation | 72,944 | 64,451 | 63,971 | 680,543 |
| Provisions | 4,675 | 4,250 | 4,761 | 50,649 |
| Other non-current liabilities | 18,675 | 19,339 | 19,579 | 208,287 |
| Total non-current liabilities | 536,491 | 516,494 | 543,696 | 5,784,000 |
| Total liabilities | 947,339 | 912,451 | 867,385 | 9,227,500 |
| **Commitments and contingent liabilities (Notes 10 and 11)** | | | | |
| **Net assets:** | | | | |
| **Shareholders' equity (Notes 13 and 17):** | | | | |
| Common stock, authorised - 1,800,000 thousand shares issued - 881,585 thousand shares in 2011, 2012 and 2013 | 84,186 | 84,186 | 84,186 | 895,596 |
| Capital surplus | 18,429 | 18,429 | 18,429 | 196,053 |
| Retained earnings | 27,281 | 34,253 | 43,394 | 461,638 |
| Treasury stock - at cost: 2,353 thousand shares in 2011, 2,395 thousand shares in 2012 and 2,451 thousand shares in 2013 | (743) | (747) | (757) | (8,053) |
| Total shareholders' equity | 129,153 | 136,121 | 145,252 | 1,545,234 |
| **Accumulated other comprehensive income:** | | | | |
| Net unrealised gains on available-for-sale securities | 6,420 | 7,314 | 9,387 | 99,862 |
| Deferred gains on hedges | — | — | 11 | 117 |
| Land revaluation increment | 50,320 | 60,078 | 63,140 | 671,702 |
| Foreign currency translation adjustments | (58) | (64) | (53) | (564) |
| Total accumulated other comprehensive income | 56,682 | 67,328 | 72,485 | 771,117 |
| **Minority interests** | 16,182 | 16,798 | 17,853 | 189,926 |
| Total net assets | 202,017 | 220,247 | 235,590 | 2,506,277 |
| **Total liabilities and net assets** | ¥ 1,149,356 | ¥ 1,132,698 | ¥ 1,102,975 | $ 11,733,777 |

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

## Consolidated Statements of Income

For the Years Ended 31 March 2011, 2012 and 2013

| | Millions of yen | | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2013 |
| **Operating revenues (Note 15)** | ¥ 609,716 | ¥ 603,790 | ¥ 609,836 | $ 6,487,617 |
| **Operating expenses** | | | | |
| Transportation, other services and cost of sales | 528,824 | 523,596 | 528,271 | 5,619,904 |
| Selling, general and administrative expenses | 53,001 | 51,453 | 49,237 | 523,798 |
| Total operating expenses | 581,825 | 575,049 | 577,508 | 6,143,702 |
| **Operating income** | 27,891 | 28,741 | 32,328 | 343,915 |
| **Other income (expenses):** | | | | |
| Interest and dividends income | 860 | 1,019 | 1,139 | 12,117 |
| Interest expenses | (9,495) | (8,746) | (7,714) | (82,064) |
| Equity in net earnings of affiliates | 1,638 | 1,252 | 369 | 3,926 |
| Impairment loss on fixed assets | (5,275) | (7,246) | (6,249) | (66,479) |
| Gain (loss) on sale or disposition of property and equipment | 303 | 615 | (473) | (5,032) |
| Gain on contributions for construction | 4,738 | 1,220 | 4,479 | 47,649 |
| Loss on reduction of property and equipment (Note 6) | (4,361) | (1,141) | (4,171) | (44,372) |
| Provision for loss on liquidation | (245) | (549) | (1,985) | (21,117) |
| Cumulative effect from adoption of accounting standard for asset retirement obligations | (1,322) | — | — | — |
| Others, net | 3,223 | 1,675 | 2,338 | 24,872 |
| Other expenses, net | (9,936) | (11,901) | (12,267) | (130,500) |
| **Income before income taxes and minority interests** | 17,955 | 16,840 | 20,061 | 213,415 |
| **Income taxes:** | | | | |
| Current | 4,312 | 5,084 | 5,286 | 56,234 |
| Deferred | 3,922 | (997) | 893 | 9,500 |
| Total income taxes | 8,234 | 4,087 | 6,179 | 65,734 |
| **Income before minority interests** | 9,721 | 12,753 | 13,882 | 147,681 |
| **Minority interests in net income of consolidated subsidiaries** | 742 | 1,752 | 1,155 | 12,287 |
| **Net income** | ¥ 8,979 | ¥ 11,001 | ¥ 12,727 | $ 135,394 |
| | Yen | | | U.S. dollars |
| **Per share:** | | | | |
| Net income: | | | | |
| - Basic | ¥ 10.21 | ¥ 12.51 | ¥ 14.48 | $ 0.15 |
| - Diluted | 9.54 | 11.67 | 13.88 | 0.15 |
| Cash dividends | 1.50 | 2.00 | 3.00 | 0.03 |

See Notes to Consolidated Financial Statements.

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

## Consolidated Statements of Comprehensive Income

For the Years Ended 31 March 2011, 2012 and 2013

| | Millions of yen | | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2013 |
| **Income before minority interests** | ¥ 9,721 | ¥ 12,753 | ¥ 13,882 | $ 147,681 |
| **Other comprehensive income (Note 16):** | | | | |
| Net unrealised gains or losses on available-for-sale securities | (3,188) | 685 | 1,900 | 20,213 |
| Land revaluation increment | (8,372) | 9,135 | 997 | 10,606 |
| Foreign currency translation adjustments | (13) | (6) | 11 | 117 |
| Share of other comprehensive income of affiliates accounted for using the equity method | (216) | 191 | 318 | 3,383 |
| Total other comprehensive income | (11,789) | 10,005 | 3,226 | 34,319 |
| **Comprehensive income** | ¥ (2,068) | ¥ 22,758 | ¥ 17,108 | $ 182,000 |
| **Comprehensive income attributable to:** | | | | |
| Owners of the parent | ¥ (2,674) | ¥ 20,653 | ¥ 15,823 | $ 168,330 |
| Minority interests | 606 | 2,105 | 1,285 | 13,670 |
| Total comprehensive income | ¥ (2,068) | ¥ 22,758 | ¥ 17,108 | $ 182,000 |

See Notes to Consolidated Financial Statements.

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

## Consolidated Statements of Changes in Net Assets
For the Years Ended 31 March 2011, 2012 and 2013

| | Number of shares of common stock issued | Common stock | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity | Net unrealised gains on available-for-sale securities | Deferred gains on hedges | Land revaluation increment | Foreign currency translation adjustments | Total accumulated other comprehensive income | Minority interests | Total net assets |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Shareholders' equity | | | | | Accumulated other comprehensive income | | | | | | |
| | Thousands | Millions of yen | | | | | | | | | | | |
| **Balance as of 1 April 2010** | 881,585 | ¥ 84,186 | ¥ 18,429 | ¥ 20,767 | ¥ (714) | ¥ 122,668 | ¥ 9,640 | ¥ – | ¥ 57,601 | ¥ (45) | ¥ 67,196 | ¥ 16,479 | ¥ 206,343 |
| Net income | – | – | – | 8,979 | – | 8,979 | – | – | – | – | – | – | 8,979 |
| Cash dividends | – | – | – | (1,319) | – | (1,319) | – | – | – | – | – | – | (1,319) |
| Reversal for land revaluation increment | – | – | – | (1,138) | – | (1,138) | – | – | – | – | – | – | (1,138) |
| Transfer from retained earnings to capital surplus | – | – | 8 | (8) | – | – | – | – | – | – | – | – | – |
| Fractional shares acquired, net | – | – | (8) | – | (29) | (37) | – | – | – | – | – | – | (37) |
| Net changes other than shareholders' equity for the year | – | – | – | – | – | – | (3,220) | – | (7,281) | (13) | (10,514) | (297) | (10,811) |
| **Balance as of 31 March 2011** | 881,585 | 84,186 | 18,429 | 27,281 | (743) | 129,153 | 6,420 | – | 50,320 | (58) | 56,682 | 16,182 | 202,017 |
| Net income | – | – | – | 11,001 | – | 11,001 | – | – | – | – | – | – | 11,001 |
| Cash dividends | – | – | – | (1,319) | – | (1,319) | – | – | – | – | – | – | (1,319) |
| Reversal for land revaluation increment | – | – | – | (1,042) | – | (1,042) | – | – | – | – | – | – | (1,042) |
| Transfer from retained earnings to capital surplus | – | – | 5 | (5) | – | – | – | – | – | – | – | – | – |
| Increase in unrealised gain on changes of equity share | – | – | – | (1,663) | – | (1,663) | – | – | – | – | – | – | (1,663) |
| Fractional shares acquired, net | – | – | (5) | – | (4) | (9) | – | – | – | – | – | – | (9) |
| Net changes other than shareholders' equity for the year | – | – | – | – | – | – | 894 | – | 9,758 | (6) | 10,646 | 616 | 11,262 |
| **Balance as of 31 March 2012** | 881,585 | 84,186 | 18,429 | 34,253 | (747) | 136,121 | 7,314 | – | 60,078 | (64) | 67,328 | 16,798 | 220,247 |
| Net income | – | – | – | 12,727 | – | 12,727 | – | – | – | – | – | – | 12,727 |
| Cash dividends | – | – | – | (1,759) | – | (1,759) | – | – | – | – | – | – | (1,759) |
| Reversal for land revaluation increment | – | – | – | (2,065) | – | (2,065) | – | – | – | – | – | – | (2,065) |
| Transfer from retained earnings to capital surplus | – | – | 3 | (3) | – | – | – | – | – | – | – | – | – |
| Increase in equity share of affiliates | – | – | – | 241 | – | 241 | – | – | – | – | – | – | 241 |
| Fractional shares acquired, net | – | – | (3) | – | (10) | (13) | – | – | – | – | – | – | (13) |
| Net changes other than shareholders' equity for the year | – | – | – | – | – | – | 2,073 | 11 | 3,062 | 11 | 5,157 | 1,055 | 6,212 |
| **Balance as of 31 March 2013** | 881,585 | ¥ 84,186 | ¥ 18,429 | ¥ 43,394 | ¥ (757) | ¥ 145,252 | ¥ 9,387 | ¥ 11 | ¥ 63,140 | ¥ (53) | ¥ 72,485 | ¥ 17,853 | ¥ 235,590 |

| | Common stock | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity | Net unrealised gains on available-for-sale securities | Deferred gains on hedges | Land revaluation increment | Foreign currency translation adjustments | Total accumulated other comprehensive income | Minority interests | Total net assets |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Shareholders' equity | | | | | Accumulated other comprehensive income | | | | | | |
| | Thousands of U.S. dollars (Note 1) | | | | | | | | | | | |
| **Balance as of 1 April 2012** | $ 895,596 | $ 196,053 | $ 364,394 | $ (7,947) | $ 1,448,096 | $ 77,809 | $ – | $ 639,128 | $ (681) | $ 716,256 | $ 178,702 | $ 2,343,054 |
| Net income | – | – | 135,394 | – | 135,394 | – | – | – | – | – | – | 135,394 |
| Cash dividends | – | – | (18,713) | – | (18,713) | – | – | – | – | – | – | (18,713) |
| Reversal for land revaluation increment | – | – | (21,968) | – | (21,968) | – | – | – | – | – | – | (21,968) |
| Transfer from retained earnings to capital surplus | – | 32 | (32) | – | – | – | – | – | – | – | – | – |
| Increase in equity share of affiliates | – | – | 2,563 | – | 2,563 | – | – | – | – | – | – | 2,563 |
| Fractional shares acquired, net | – | (32) | – | (106) | (138) | – | – | – | – | – | – | (138) |
| Net changes other than shareholders' equity for the year | – | – | – | – | – | 22,053 | 117 | 32,574 | 117 | 54,861 | 11,224 | 66,085 |
| **Balance as of 31 March 2013** | $ 895,596 | $ 196,053 | $ 461,638 | $ (8,053) | $ 1,545,234 | $ 99,862 | $ 117 | $ 671,702 | $ (564) | $ 771,117 | $ 189,926 | $ 2,506,277 |

See Notes to Consolidated Financial Statements.

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

## Consolidated Statements of Cash Flows

For the Years Ended 31 March 2011, 2012 and 2013

| | Millions of yen | | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2013 |
| **Cash flows from operating activities:** | | | | |
| Income before income taxes and minority interests | ¥ 17,955 | ¥ 16,840 | ¥ 20,061 | $ 213,415 |
| Adjustments for: | | | | |
| Depreciation and amortisation | 39,934 | 41,030 | 39,448 | 419,660 |
| Impairment loss on fixed assets | 5,275 | 7,246 | 6,249 | 66,479 |
| Loss (gain) on sale or disposition of property and equipment | 466 | (43) | 955 | 10,160 |
| Gain on contributions for construction | (4,738) | (1,220) | (4,479) | (47,649) |
| Decrease (increase) in trade notes and accounts receivable | 370 | (5,811) | 2,410 | 25,638 |
| Decrease in inventories | 19,446 | 12,084 | 10,898 | 115,936 |
| Increase (decrease) in trade notes and accounts payable | 304 | (1,723) | (2,763) | (29,394) |
| Others, net | 13,330 | 7,765 | 12,631 | 134,372 |
| Subtotal | 92,342 | 76,168 | 85,410 | 908,617 |
| Interest and dividends received | 1,127 | 1,253 | 1,358 | 14,447 |
| Interest paid | (9,738) | (8,820) | (7,855) | (83,564) |
| Extra retirement benefits paid | (1) | (67) | (172) | (1,830) |
| Income taxes paid | (4,228) | (4,368) | (5,436) | (57,830) |
| Net cash provided by operating activities | 79,502 | 64,166 | 73,305 | 779,840 |
| **Cash flows from investing activities:** | | | | |
| Purchases of property and equipment | (55,055) | (39,931) | (43,004) | (457,489) |
| Proceeds from sales of property and equipment | 3,509 | 3,346 | 4,231 | 45,011 |
| Proceeds for contributions for construction | 13,612 | 16,259 | 11,467 | 121,989 |
| Purchases of investments securities | (343) | (3,738) | (763) | (8,117) |
| Proceeds from sales or redemptions of investment securities | 166 | 512 | 222 | 2,362 |
| Proceeds from (payments for) acquisition of subsidiaries' stock, net of cash acquired | ― | 397 | (581) | (6,181) |
| Collections of loans receivable | 1,735 | 1,262 | 1,954 | 20,787 |
| Others, net | (603) | (301) | (585) | (6,224) |
| Net cash used in investing activities | (36,979) | (22,194) | (27,059) | (287,862) |
| **Cash flows from financing activities:** | | | | |
| Increase in long-term debt | 56,858 | 71,475 | 95,046 | 1,011,128 |
| Repayment of long-term debt | (61,285) | (108,908) | (87,093) | (926,521) |
| Net decrease in short-term borrowings | (36,553) | (2,206) | (51,568) | (548,596) |
| Dividends paid to shareholders | (1,333) | (1,331) | (1,757) | (18,691) |
| Dividends paid to minority shareholders | (69) | (60) | (185) | (1,968) |
| Others, net | (37) | (9) | (18) | (192) |
| Net cash used in financing activities | (42,419) | (41,039) | (45,575) | (484,840) |
| Effect of exchange rate changes on cash and cash equivalents | (11) | (4) | 9 | 96 |
| Net increase in cash and cash equivalents | 93 | 929 | 680 | 7,234 |
| Cash and cash equivalents at beginning of year | 8,009 | 8,102 | 9,031 | 96,075 |
| Cash and cash equivalents at end of year | ¥ 8,102 | ¥ 9,031 | ¥ 9,711 | $ 103,309 |

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 of the International Financial Reporting Standards.

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

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan, using the approximate rate prevailing at 31 March 2013, which was ¥94 to U.S. $1.00. Such translations should not be construed as a representation that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

## 2. Summary of significant accounting policies

### (a) Basis of consolidation

The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries. Investments in significant unconsolidated subsidiaries and affiliated companies are accounted for using the equity method. Investments in unconsolidated subsidiaries and affiliated companies not accounted for using the equity method are stated at cost. If the equity method of accounting had been applied to investments in these companies, the effect on the accompanying consolidated financial statements would have been immaterial. The difference between the acquisition cost of investments in subsidiaries and the underlying equity in the net assets, adjusted based on the fair value at the time of acquisition, is principally deferred as goodwill and amortised on a straight-line basis over five years. At 31 March 2011, 2012 and 2013, goodwill of ¥241 million, ¥379 million and ¥278 million ($2,957 thousand), respectively, were included in intangible assets in the accompanying consolidated balance sheets. Negative goodwill resulting from an acquisition, measured as the excess of the underlying equity in the net assets over the acquisition cost, is credited to income, except for that resulting from an acquisition that occurred before 1 April 2010, which is amortised over five years. Negative goodwill that arose before 1 April 2010 in the amounts of ¥53 million, ¥22 million and zero at 31 March 2011, 2012 and 2013, respectively, were included in other non-current liabilities in the accompanying consolidated balance sheets. All significant intercompany accounts and transactions have been eliminated on consolidation. All material unrealised profits included in assets resulting from transactions within the Group have also been eliminated.

The numbers of consolidated subsidiaries, unconsolidated subsidiaries and affiliated companies for the years ended 31 March 2011, 2012 and 2013 were as follows.

| | 2011 | 2012 | 2013 |
|---|---|---|---|
| Consolidated subsidiaries | 134 | 135 | 130 |
| Unconsolidated subsidiaries accounted for using the equity method | 1 | 1 | 1 |
| Affiliated companies accounted for using the equity method | 14 | 14 | 15 |
| Unconsolidated subsidiaries stated at cost | 7 | 7 | 7 |
| Affiliated companies stated at cost | 16 | 13 | 13 |

At 31 March 2011, 2012 and 2013, the fiscal year-end dates of sixteen, nine and nine consolidated subsidiaries, respectively, differed from the consolidated fiscal year-end date of the Company, which is 31 March. The Company has consolidated their accounts as of each of their year-end dates, because the difference for each was not more than three months. 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. As six of such consolidated subsidiaries changed their fiscal year-end date to 31 March during the year ended 31 March 2012, the consolidated financial statements for the year ended 31 March 2012 included such consolidated subsidiaries' operating results for the 13-month period.

**(b) Cash equivalents**

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

**(c) Investments and marketable securities**

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

**(d) Accounting for derivatives**

Derivative instruments are valued at fair value if hedge accounting is not appropriate or when there is no hedging designation, and gains and losses on such derivatives are recognised in current earnings. Certain transactions classified as hedging transactions are principally accounted for using the deferral method. 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. As an interim measure, foreign currency swaps that meet certain hedging criteria may be used to translate foreign currency denominated assets and liabilities at the applicable contract rates.

**(e) Inventories**

Land and buildings for sale are stated at the lower of cost, as 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 progress: principally by the specific identification method; and,

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

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

Property and equipment, including significant renewals and additions thereof, are stated at cost and depreciated using the following methods, as applicable.

- Company:
  Railroad vehicles: declining-balance method
  Other property and equipment: straight-line method
  (The replacement method is applied for replacement assets in the railroad business, which are included in "structures".)

- Consolidated subsidiaries: declining-balance method, except for buildings acquired on or after 1 April 1998, which are depreciated using the straight-line method.
  (Some of the consolidated subsidiaries depreciate property and equipment using the straight-line method.)

The Company and some of the consolidated subsidiaries capitalise property and equipment that cost ¥100,000 or more and depreciate property and equipment that cost between ¥100,000 and ¥200,000 over three years on a straight-line basis. Maintenance and repairs, including minor renovations and improvements, are charged to expense, and major improvements are capitalised.

The useful lives of the following property and equipment are principally as follows:
- Buildings and structures: 2 - 60 years; and,
- Machinery, equipment and vehicles: 2 - 20 years.

**(g) Intangible assets**

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

**(h) Leases**

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

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

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 useful life being equal to the lease period and residual value being zero.

Certain consolidated subsidiaries recognise leasing income from lease payments received from customers and related costs, net of imputed interest, at the due date of each such lease payments as permitted under the current accounting standard.

### (i) Impairment of fixed assets

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

### (j) Land revaluation

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

At 31 March 2011, 2012 and 2013, the differences between the carrying value of land used for business after reassessment and the market value of the same at the respective fiscal year-end date for the Company and nine consolidated subsidiaries amounted to ¥30,434 million, ¥33,894 million and ¥35,720 million ($380,000 thousand), respectively. At 31 March 2011, 2012 and 2013, the differences between the carrying value of land used for business after reassessment and the market value of the same at the respective fiscal year-end date for the affiliated company accounted for using the equity method amounted to ¥1,522 million, ¥1,610 million and ¥1,677 million ($17,840 thousand), respectively.

### (k) Contributions for construction work

When performing constructions relating to railroad facilities, such as those involving grade separations and widening of railroad crossings, the Company and a certain consolidated subsidiary may receive contributions from Japanese and local governments and other corporations to pay for part of the cost of construction. Such contributions have been recognised as other income in the accompanying consolidated statements of income. The amount corresponding to such contributions is directly deducted from the acquisition costs of the related assets upon completion of construction, and such deducted amount is recognised in the consolidated statements of income. At 31 March 2011, 2012 and 2013, contributions amounting to ¥133,695 million, ¥134,402 million and ¥137,970 million ($1,467,766 thousand), respectively, were deducted from the acquisition costs of property and equipment for the railroad business.

### (l) Allowance for doubtful accounts

An allowance for doubtful accounts is provided at the aggregate amount of estimated credit losses 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) Employees' 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 occurred.

In accordance with the accounting standard for employee retirement benefits, the Group has principally recognised retirement benefits, including pension costs and related liability 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. Unrecognised actuarial differences arising from changes in the projected benefit obligation or the value of pension plan assets not anticipated by previous assumptions or from changes in the assumptions themselves are amortised principally on a straight-line basis over 1 - 10 years (or a specific period not exceeding the average remaining service period of employees), measured from the year following the year in which such differences arise. Past service cost is amortised principally on a straight-line basis over 1 - 10 years (or a specific period not exceeding the average remaining service period of the employees), measured from the year in which such cost arises. Under the accounting standard for retirement benefits, the excess of the projected benefit obligation over the total of the fair value of pension assets as of 1 April 2000 and retirement benefit liability recorded as of 1 April 2000 (collectively, the "Transitional Obligations") that arose when some of the consolidated subsidiaries initially adopted such standard in the year ended 31 March 2001 have been and will be principally charged to income over 15 years from the year ended 31 March 2001 using the straight-line method.

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

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

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

A provision for loss on liquidation is provided at the estimated amount of losses at the balance sheet date. At 31 March 2011, 2012 and 2013, the following amounts were included in "Provisions" in the accompanying consolidated balance sheets.

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2013 |
| Provision in: | | | | |
| Current liabilities | ¥373 | ¥― | ¥69 | $734 |
| Non-current liabilities | 3,017 | 2,885 | 3,829 | 40,734 |
| Total | ¥3,390 | ¥2,885 | ¥3,898 | $41,468 |

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

An allowance for loss on collection of gift certificates outstanding issued by certain consolidated subsidiaries is provided to cover for losses due to future use of shopping coupons, travel gift coupons and similar coupons by customers. Such allowance is accounted for as non-accruals of liabilities, based on past experience plus estimated loss amounts. At 31 March 2011, 2012 and 2013, the following amounts were included in "Provisions" in the accompanying consolidated balance sheets.

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2013 |
| Provision in: | | | | |
| Current liabilities | ¥2,040 | ¥1,785 | ¥1,762 | $18,745 |
| Non-current liabilities | 195 | 148 | 108 | 1,149 |
| Total | ¥2,235 | ¥1,933 | ¥1,870 | $19,894 |

**(q) 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 minority interests, have been reported in foreign currency translation adjustments as a component of accumulated other comprehensive income in the accompanying consolidated balance sheets.

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

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

**(s) Bond issue costs**

Bond issue costs are charged to income as incurred.

**(t) Income taxes**

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

**(u) 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.

**(v) Consumption taxes**

Consumption taxes are levied in Japan on the domestic sales of goods and services at the rate of five percent (5%). Consumption taxes are excluded from revenue and expense amounts.

**(w) Per share information**

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

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

**(x) Accounting changes**

**(Adoption of accounting standard for asset retirement obligations)**
In March 2008, the ASBJ issued ASBJ Statement No.18, entitled the “Accounting Standard for Asset Retirement Obligations”, and ASBJ Guidance No.21, entitled the “Guidance on Accounting Standard for Asset Retirement Obligations.” Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract as a result of an acquisition, construction, development and/or normal operation of a tangible fixed asset, and is associated with the retirement of such tangible fixed asset. An asset retirement obligation is recognised as the sum of the discounted cash flows required for future asset retirement and is recorded in the period in which such obligation arises if a reasonable estimate thereof can be made. If a reasonable estimate of such asset retirement obligation cannot be made in the period in which such obligation arises, such obligation will be recognised as liability when a reasonable estimate thereof becomes available. Upon initial

recognition of an asset retirement obligation as liability, such obligation is capitalised by increasing the carrying amount of the related fixed asset by the amount of such obligation. Such amount of obligation is subsequently allocated to expenses through depreciation over the remaining useful life of the related tangible fixed asset. Over time, the liability representing such obligation is accreted to its present value for each period. Any subsequent revision to the timing or amount of the original estimate of undiscounted cash flows is reflected as adjustments to the carrying amount of the liability representing such obligation and to the capitalised amount of such obligation.

The Company and its domestic consolidated subsidiaries have adopted the above new standard from the year ended 31 March 2011. As a result of such adoption, operating income and income before income taxes and minority interests for the year ended 31 March 2011 were ¥68 million and ¥1,390 million less, respectively, than the amounts that would have been recorded without such adoption.

**(Adoption of accounting standard for business combinations and others)**
Effective from the year ended 31 March 2011, the Company has adopted the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21 issued on 26 December 2008), the "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22 issued on 26 December 2008), the "Partial Amendments to Accounting Standard for Research and Development Costs" (ASBJ Statement No. 23 issued on 26 December 2008), the "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No. 7 revised on 26 December 2008), the "Revised Accounting Standard for Equity Method of Accounting for Investments" (ASBJ Statement No. 16 revised on 26 December 2008) and the "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10 revised on 26 December 2008).

**(Accounting treatments for contributions for construction work)**
The Company and a certain consolidated subsidiary may receive contributions for constructions relating to railroad facilities, such as grade separations and widening of railroad crossings, from Japanese and local governments and other corporations. Until the year ended 31 March 2010, assets acquired using such contributions were stated at the total amount of acquisition cost in property and equipment. However, effective from the year ended 31 March 2011, the Group has changed the method of accounting for contributions for construction work so that assets acquired using such contributions are stated at acquisition cost of property and equipment after deducting the amounts corresponding to such contributions.

Constructions under contract that receive contributions, such as those involving grade separations and the like, had been thought to improve profitability by securing operational safety of railroad train, increasing operational efficiency and functional capability of stations and establishing commercial facilities underneath elevated railroad tracks. However, the purpose of such constructions has changed from improving profitability to mainly improving the social infrastructure. Future constructions under contract will contribute toward improving the social infrastructure by removing railroad crossings to facilitate road traffic and to eliminate accidents and promoting a unified urban development of a dissolving and/or severed community. Given such change, the Group has changed the accounting method for contributions for construction work to properly reflect related costs that are subsidised by such contributions and the effects of such constructions on future operating results and financial positions. As a result of such change in the accounting method, for the year ended 31 March 2011, operating income was ¥55 million more, and income before income taxes and minority interests was ¥4,005 million less, than the amount that would have been recorded without such change. Also, see Note 2(k).

**(Change in accounting policies with the amendment of law or regulation that is not distinguishable from change in accounting estimates)**
From the year ended 31 March 2013, in accordance with the amendment of the Corporation Tax Act of Japan, the Company and some of the consolidated subsidiaries have changed its depreciation method for property and equipment. Assets acquired on or after 1 April 2012 have been depreciated using the method prescribed in the amended Corporate Tax Act. The effect of this change in the depreciation method has been immaterial.

**(y) Additional information**

**(Adoption of accounting standard for presentation of comprehensive income)**
Effective from 31 March 2011, the Group has adopted ASBJ Statement No. 25, entitled the "Accounting Standard for Presentation of Comprehensive Income". As a result of the adoption of this accounting standard, the Group

has presented the consolidated statements of comprehensive income in its consolidated financial statements from the year ended 31 March 2011.

**(Adoption of accounting standards for accounting changes and error corrections)**
The Company and its domestic consolidated subsidiaries have adopted the “Accounting Standard for Accounting Changes and Error Corrections” (ASBJ Statement No. 24 issued on 4 December 2009) and “Guidance on Accounting Standard for Accounting Changes and Error Corrections” (ASBJ Guidance No. 24 issued on 4 December 2009) for accounting changes and corrections of prior period errors made after the beginning of the fiscal year ended 31 March 2012. Accounting treatments under this standard and guidance are as follows.

(1) Changes in accounting policies:
When a new accounting policy becomes effective in accordance with the revision of an accounting standard, such new policy shall apply retroactively unless the revised accounting standard includes specific transitional provisions, in which case such specific transitional provisions shall be applied.
(2) Changes in presentation:
When changes are made to the presentations in the financial statements, prior-period financial statements shall be reclassified in accordance with such changes.
(3) Changes in accounting estimates:
If changes are made to the accounting estimates, such changes shall be accounted for only in the period in which they have occurred if they affect such period only, however, they shall be accounted for prospectively if they affect both the period in which they have occurred and future periods.
(4) Corrections of prior-period errors:
If errors are discovered in prior-period financial statements, such financial statements shall be restated.

**(z) Accounting standard issued but not yet adopted**

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

On 17 May 2012, ASBJ issued ASBJ Statement No. 26, entitled the “Accounting Standard for Retirement Benefits” and ASBJ Guidance No. 25, entitled the “Guidance on Accounting Standard for Retirement Benefits”, which together replaced the accounting standard for retirement benefits originally issued by the Business Accounting Council of Japan in 1998.

Under the new standard, from the viewpoint of improvements to financial reporting and international convergence, actuarial differences and past service costs that are yet to be recognised in profit or loss will be recognised within the net asset section, after adjusting for tax effects, and the deficit or surplus will be recognised as liability or asset without any adjustments. In determining the method of attributing expected benefits to periods, the new standard allows a choice between the benefit formula method and the straight-line method. The new standard also amends the method for determining the discount rate.

The new standard and guidance will become effective from the end of the fiscal year ending on or after 31 March 2014, with the exception of amendments relating to determination of retirement benefit obligations and current service costs, which will become effective from the beginning of the fiscal year ending on or after 31 March 2015.

The Company and its domestic consolidated subsidiaries are currently in the process of determining the effects of the new standard on the consolidated financial statements.

## 3. Financial instruments

Information on financial instruments for the years ended 31 March 2011, 2012 and 2013 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 bonds issuance, borrowings from banks and other financial institutions and investments of its cash surplus, if any, in low-risk, highly liquid financial instruments. Derivative transactions are used for the purpose of hedging against the risk of future fluctuations in trade accounts payable denominated in foreign currencies and fluctuations in interest rates on borrowings. 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 debtors' 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 currencies. To reduce such risk, the Group enters into foreign exchange forward contracts.

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

The Group is a party to derivative financial instruments, such as foreign currency exchange forward contracts, currency swap and interest rate swap contracts, in the normal course of business. The Group enters into these instruments for hedging purpose so that it can reduce its own exposure to fluctuations in exchange rates and interest rates. 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 counterparty. However, the Group does not expect non-performance by its counterparties to the derivative transactions because the Group's counterparties are limited to major banks with relatively high credit ratings.

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

(c) Supplemental information on fair value

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

(2) Fair values of financial instruments

The fair values and carrying values of financial instruments included in the consolidated balance sheets at 31 March 2011, 2012 and 2013, other than those for which the fair values was extremely difficult to determine, are set forth in the table below.

| | Carrying value | Fair value | Differences |
|---|---|---|---|
| | | Millions of yen | |
| At 31 March 2011: | | | |
| Financial assets: | | | |
| Cash and cash equivalents | ¥8,102 | ¥8,102 | ¥— |
| Short-term investments | 826 | 826 | — |
| Trade notes and accounts receivable | 58,234 | 58,234 | — |
| Investment securities: | | | |
| Held-to-maturity securities | 10 | 10 | — |
| Equity securities of affiliates | 3,774 | 3,894 | 120 |
| Available-for-sale securities | 40,859 | 40,859 | — |
| Total | ¥111,805 | ¥111,925 | ¥120 |
| Financial liabilities: | | | |
| Short-term borrowings | ¥126,252 | ¥126,252 | ¥— |
| Trade notes and accounts payable | 72,219 | 72,219 | — |
| Bonds payable, including current portion | 154,773 | 158,920 | 4,147 |
| Long-term bank loans, including current portion | 345,595 | 351,878 | 6,283 |
| Total | ¥698,839 | ¥709,269 | ¥10,430 |
| Derivative instruments:* | ¥(12) | ¥(12) | ¥— |

| | Carrying value | Fair value | Differences |
|---|---|---|---|
| | | Millions of yen | |
| At 31 March 2012: | | | |
| Financial assets: | | | |
| Cash and cash equivalents | ¥9,031 | ¥9,031 | ¥— |
| Short-term investments | 737 | 737 | — |
| Trade notes and accounts receivable | 62,495 | 62,495 | — |
| Investment securities: | | | |
| Held-to-maturity securities | 727 | 736 | 9 |
| Equity securities of affiliates | 3,808 | 3,612 | (196) |
| Available-for-sale securities | 40,640 | 40,640 | — |
| Total | ¥117,438 | ¥117,251 | ¥(187) |
| Financial liabilities: | | | |
| Short-term borrowings | ¥123,658 | ¥123,658 | ¥— |
| Trade notes and accounts payable | 70,769 | 70,769 | — |
| Bonds payable, including current portion | 135,000 | 139,942 | 4,942 |
| Long-term bank loans, including current portion | 330,964 | 337,600 | 6,636 |
| Total | ¥660,391 | ¥671,969 | ¥11,578 |
| Derivative instruments:* | ¥(7) | ¥(7) | ¥— |

| | Carrying value | Fair value | Differences |
|---|---|---|---|
| | | Millions of yen | |
| At 31 March 2013: | | | |
| Financial assets: | | | |
| Cash and cash equivalents | ¥9,711 | ¥9,711 | ¥— |
| Short-term investments | 712 | 712 | — |
| Trade notes and accounts receivable | 59,922 | 59,922 | — |
| Investment securities: | | | |
| Held-to-maturity securities | 828 | 873 | 45 |
| Equity securities of affiliates | 4,076 | 3,271 | (805) |
| Available-for-sale securities | 42,982 | 42,982 | — |
| Total | ¥118,231 | ¥117,471 | ¥(760) |
| Financial liabilities: | | | |
| Short-term borrowings | ¥72,144 | ¥72,144 | ¥— |
| Trade notes and accounts payable | 67,391 | 67,391 | — |
| Bonds payable, including current portion | 119,995 | 128,197 | 8,202 |
| Long-term bank loans, including current portion | 357,130 | 363,380 | 6,250 |
| Total | ¥616,660 | ¥631,112 | ¥14,452 |
| Derivative instruments:* | ¥30 | ¥30 | ¥— |

| | Carrying value | Fair value | Differences |
|---|---|---|---|
| | | Thousands of U.S. dollars | |
| At 31 March 2013: | | | |
| Financial assets: | | | |
| Cash and cash equivalents | $103,309 | $103,309 | $— |
| Short-term investments | 7,574 | 7,574 | — |
| Trade notes and accounts receivable | 637,468 | 637,468 | — |
| Investment securities: | | | |
| Held-to-maturity securities | 8,809 | 9,287 | 478 |
| Equity securities of affiliates | 43,362 | 34,798 | (8,564) |
| Available-for-sale securities | 457,255 | 457,255 | — |
| Total | $1,257,777 | $1,249,691 | $(8,086) |
| Financial liabilities: | | | |
| Short-term borrowings | $767,489 | $767,489 | $— |
| Trade notes and accounts payable | 716,926 | 716,926 | — |
| Bonds payable, including current portion | 1,276,543 | 1,363,798 | 87,255 |
| Long-term bank loans, including current portion | 3,799,255 | 3,865,744 | 66,489 |
| Total | $6,560,213 | $6,713,957 | $153,744 |
| Derivative instruments:* | $319 | $319 | $— |

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

Notes:

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

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

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

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2013 |
| Carrying value: | | | | |
| Investments (equity securities) in unconsolidated subsidiaries and affiliates | ¥19,097 | ¥20,163 | ¥21,512 | $228,851 |
| Unlisted equity securities | 9,036 | 9,227 | 9,385 | 99,840 |
| Total | ¥28,133 | ¥29,390 | ¥30,897 | $328,691 |

(3) Expected maturities of financial assets at 31 March 2013 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 31 March 2013: | | | | |
| Cash and cash equivalents | ¥9,711 | ¥− | ¥− | ¥− |
| Trade notes and accounts receivable | 59,922 | − | − | − |
| Investments | − | − | 828 | − |
| | ¥69,633 | ¥− | ¥828 | ¥− |
| | Thousands of U.S. dollars | | | |
| At 31 March 2013: | | | | |
| Cash and cash equivalents | $103,309 | $− | $− | $− |
| Trade notes and accounts receivable | 637,468 | − | − | − |
| Investments | − | − | 8,809 | − |
| | $740,777 | $− | $8,809 | $− |

The repayment schedules for borrowings and other debts with contractual maturities at 31 March 2013 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 borrowings | ¥72,144 | ¥— | ¥— | ¥— | ¥— | ¥— |
| Bonds payable | — | 19,995 | 10,000 | 10,000 | 35,000 | 45,000 |
| Long-term bank loans | 62,990 | 66,369 | 57,758 | 38,179 | 42,134 | 89,701 |
| Total | ¥135,134 | ¥86,364 | ¥67,758 | ¥48,179 | ¥77,134 | ¥134,701 |
| | Thousands of U.S. dollars | | | | | |
| Short-term borrowings | $767,489 | $— | $— | $— | $— | $— |
| Bonds payable | — | 212,713 | 106,383 | 106,383 | 372,340 | 478,723 |
| Long-term bank loans | 670,107 | 706,053 | 614,447 | 406,160 | 448,234 | 954,266 |
| Total | $1,437,596 | $918,766 | $720,830 | $512,543 | $820,574 | $1,432,989 |

## 4. Investments securities

At 31 March 2011, 2012 and 2013, short-term investments consisted of the following.

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2013 |
| Time deposits with original maturities of more than three months | ¥826 | ¥727 | ¥712 | $7,574 |
| Japanese or local government bonds | — | 10 | — | — |
| Total | ¥826 | ¥737 | ¥712 | $7,574 |

At 31 March 2011, 2012 and 2013, investment securities consisted of the following.

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2013 |
| Marketable securities | | | | |
| Equity securities | ¥40,830 | ¥40,610 | ¥42,942 | $456,830 |
| Japanese or local government bonds | 10 | 727 | 828 | 8,809 |
| Others | 29 | 30 | 40 | 425 |
| Total marketable securities | 40,869 | 41,367 | 43,810 | 466,064 |
| Other nonmarketable securities | 9,036 | 9,227 | 9,385 | 99,840 |
| Total | ¥49,905 | ¥50,594 | ¥53,195 | $565,904 |

At 31 March 2011, 2012 and 2013, the carrying values and fair values of held-to-maturity debt securities were as follows.

| | Carrying value | Fair value | Differences |
|---|---|---|---|
| | Millions of yen | | |
| Securities with available fair value exceeding carrying value: | | | |
| At 31 March 2011 | ¥10 | ¥10 | ¥− |
| At 31 March 2012 | 737 | 746 | 9 |
| At 31 March 2013 | 828 | 873 | 45 |
| | Thousands of U.S. dollars | | |
| Securities with available fair value exceeding carrying value: | | | |
| At 31 March 2013 | $8,809 | $9,287 | $478 |

At 31 March 2011, 2012 and 2013, the fair values and gross unrealised gains/losses of available-for-sale securities were as follows.

| | Cost | Gross unrealised gains | Gross unrealised losses | Fair value and carrying value |
|---|---|---|---|---|
| | Millions of yen | | | |
| At 31 March 2011: | | | | |
| Equity securities | ¥30,005 | ¥12,706 | ¥(1,881) | ¥40,830 |
| Others | 27 | 2 | − | 29 |
| | ¥30,032 | ¥12,708 | ¥(1,881) | ¥40,859 |
| At 31 March 2012: | | | | |
| Equity securities | ¥29,621 | ¥12,906 | ¥(1,917) | ¥40,610 |
| Others | 27 | 3 | − | 30 |
| | ¥29,648 | ¥12,909 | ¥(1,917) | ¥40,640 |
| At 31 March 2013: | | | | |
| Equity securities | ¥29,317 | ¥16,194 | ¥(2,569) | ¥42,942 |
| Others | 27 | 13 | − | 40 |
| | ¥29,344 | ¥16,207 | ¥(2,569) | ¥42,982 |
| | Thousands of U.S. dollars | | | |
| At 31 March 2013: | | | | |
| Equity securities | $311,883 | $172,277 | $(27,330) | $456,830 |
| Others | 287 | 138 | − | 425 |
| | $312,170 | $172,415 | $(27,330) | $457,255 |

The sales amounts, and gains and losses from the sales, of available-for-sale securities were as follows.

| | Sales amounts | Gains | Losses |
|---|---|---|---|
| | Millions of yen | | |
| Equity securities and others: | | | |
| For the year ended 31 March 2011 | ¥98 | ¥36 | ¥2 |
| For the year ended 31 March 2012 | 442 | 64 | 43 |
| For the year ended 31 March 2013 | 211 | 52 | 154 |
| | Thousands of U.S. dollars | | |
| Equity securities and others: | | | |
| For the year ended 31 March 2013 | $2,245 | $553 | $1,638 |

## 5. Inventories

Inventories at 31 March 2011, 2012 and 2013 consisted of the following.

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2013 |
| Land and buildings for sale | ¥77,634 | ¥66,749 | ¥56,222 | $598,106 |
| Merchandise and finished goods | 7,897 | 7,386 | 7,320 | 77,872 |
| Work in process | 469 | 419 | 391 | 4,160 |
| Raw materials and supplies | 4,028 | 3,801 | 3,957 | 42,096 |
| Total | ¥90,028 | ¥78,355 | ¥67,890 | $722,234 |

## 6. Impairment loss on fixed assets

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

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

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2013 |
| Property subject to impairment: | Leisure facilities, bus terminals and others | Rental properties, truck terminals and others | Hotel facilities, rental properties and others | |
| Impairment loss recorded: | | | | |
| Buildings and structures | ¥2,183 | ¥3,561 | ¥3,303 | $35,138 |
| Land | 2,399 | 878 | 2,434 | 25,894 |
| Others | 693 | 2,807 | 512 | 5,447 |
| Total | ¥5,275 | ¥7,246 | ¥6,249 | $66,479 |

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 reasonable adjustments, as applicable. The value in use was based on the present value of expected cash flows discounted at 2.5%, 2.0% and 1.5% for the years ended 31 March 2011, 2012 and 2013, respectively.

## 7. Real estate for rent

The Company and some of the Company's consolidated subsidiaries own real estate for rent, such as office buildings, parking lots and other facilities. The carrying values of such real estate in the consolidated balance sheets, changes thereof during the years ended 31 March 2011, 2012 and 2013 and the fair values of such real estate were as follows.

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2013 |
| Carrying value at beginning of year | ¥114,137 | ¥116,327 | ¥115,139 | $1,224,883 |
| Net changes during the year | 2,190 | (1,188) | (390) | (4,149) |
| Carrying value at end of year | ¥116,327 | ¥115,139 | ¥114,749 | $1,220,734 |
| Fair value at end of year* | ¥139,052 | ¥136,499 | ¥138,236 | $1,470,596 |

**The fair value was measured at the reasonable estimated value principally based on the real estate appraisal, real estate valuation standard or property tax bases, as applicable.*

Profits or losses recorded for rental properties for the fiscal years ended 31 March 2011, 2012 and 2013 were as follows.

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2013 |
| Income from rental operations | ¥4,644 | ¥5,115 | ¥5,479 | $58,287 |
| Impairment loss on rental properties | 418 | 3,290 | 903 | 9,606 |

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

Short-term borrowings at 31 March 2011, 2012 and 2013 consisted of the following.

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2013 |
| Bank loans with average interest rate of 0.5352% at 31 March 2013: | | | | |
| Secured | ¥12,089 | ¥11,563 | ¥10,366 | $110,276 |
| Unsecured | 114,163 | 112,095 | 61,778 | 657,213 |
| Total | ¥126,252 | ¥123,658 | ¥72,144 | $767,489 |

Long-term debt at 31 March 2011, 2012 and 2013 consisted of the following.

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2013 |
| 1.71% unsecured bonds, due May 2011 | ¥10,000 | ¥― | ¥― | $― |
| 1.19% unsecured bonds, due September 2011 | 5,000 | ― | ― | ― |
| 1.45% unsecured bonds, due February 2012 | 10,000 | ― | ― | ― |
| 1.12% unsecured bonds, due June 2012 | 15,000 | 15,000 | ― | ― |
| 1.87% unsecured bonds, due June 2014 | 10,000 | 10,000 | 10,000 | 106,383 |
| 1.587% unsecured bonds, due September 2015 | 5,000 | 5,000 | 5,000 | 53,191 |
| 1.334% unsecured bonds, due February 2016 | 5,000 | 5,000 | 5,000 | 53,191 |
| 2.11% unsecured bonds, due February 2017 | 10,000 | 10,000 | 10,000 | 106,383 |
| 2.10% unsecured bonds, due June 2017 | 10,000 | 10,000 | 10,000 | 106,383 |
| 2.01% unsecured bonds, due September 2017 | 10,000 | 10,000 | 10,000 | 106,383 |
| 1.88% unsecured bonds, due February 2018 | 15,000 | 15,000 | 15,000 | 159,574 |
| 1.94% unsecured bonds, due September 2018 | 10,000 | 10,000 | 10,000 | 106,383 |
| 0.7525% unsecured bonds, due September 2018 | ― | 5,000 | 5,000 | 53,191 |
| 2.05% unsecured bonds, due August 2019 | 10,000 | 10,000 | 10,000 | 106,383 |
| 1.26% unsecured bonds, due October 2020 | 10,000 | 10,000 | 10,000 | 106,383 |
| 1.35% unsecured bonds, due July 2021 | ― | 10,000 | 10,000 | 106,383 |
| Zero coupon unsecured convertible bonds, due March 2012 | 9,773 | ― | ― | ― |
| 0.5% unsecured convertible bonds, due March 2015 | 10,000 | 10,000 | 9,995 | 106,330 |
| Bank loans with average interest rate of 1.2484% at 31 March 2013, due through 2030: | | | | |
| Secured | 77,674 | 73,619 | 67,706 | 720,277 |
| Unsecured | 267,920 | 257,345 | 289,425 | 3,078,990 |
| Capitalised lease obligations | 9,146 | 12,061 | 10,750 | 114,362 |
| Subtotal | 509,513 | 478,025 | 487,876 | 5,190,170 |
| Less current portion | (107,242) | (85,618) | (66,820) | (710,851) |
| | ¥402,271 | ¥392,407 | ¥421,056 | $4,479,319 |

At 31 March 2013, the current conversion price of 0.5% convertible bonds due March 2015 was ¥245 per share and subject to adjustment in certain circumstances, including in the event of a stock split. At 31 March 2013, the number of shares of common stock necessary for conversion of all convertible bonds outstanding was approximately 40 million.

The annual maturities of long-term debt at 31 March 2013 were as follows.

| Year ending 31 March | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| 2014 | ¥66,820 | $710,851 |
| 2015 | 88,973 | 946,521 |
| 2016 | 69,799 | 742,543 |
| 2017 | 49,388 | 525,404 |
| 2018 | 77,773 | 827,372 |
| 2019 and thereafter | 135,123 | 1,437,479 |
| Total | ¥487,876 | $5,190,170 |

At 31 March 2011, 2012 and 2013, the following assets were pledged for short-term and long-term bank loans.

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2013 |
| Land | ¥102,911 | ¥101,518 | ¥101,879 | $1,083,819 |
| Buildings and structures | 154,544 | 149,079 | 145,363 | 1,546,415 |
| Machinery, equipment and vehicles | 20,918 | 17,224 | 14,622 | 155,553 |
| Others | 4,822 | 4,527 | 4,176 | 44,426 |
| Total | ¥283,195 | ¥272,348 | ¥266,040 | $2,830,213 |

## 9. Employee retirement benefit liability

The Company and its domestic consolidated subsidiaries have lump-sum retirement benefit plans and defined benefit pension plans. In some cases, extra retirement benefits may be paid to retired employees. A certain portion of the Company's lump-sum retirement benefit plan was transferred to the Company's defined contribution pension plan and prepaid pension plan effective as of February 2003 and, thereafter, transferred to the Company's point based retirement benefit plan effective as of April 2007. The Company and one consolidated subsidiary also have trusts set up for their pension plan assets. In addition, some of the domestic consolidated subsidiaries participate in certain corporate pension plans under multi-employer pension programs established by the subsidiaries together with other employers.

The following table reconciles the employee retirement benefits liability as of 31 March 2011, 2012 and 2013.

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2013 |
| Projected benefit obligation | ¥(50,760) | ¥(47,552) | ¥(45,504) | $(484,085) |
| Less fair value of pension plan assets at end of year | 11,063 | 8,368 | 10,054 | 106,957 |
| Unfunded projected benefit obligation | (39,697) | (39,184) | (35,450) | (377,128) |
| Unrecognised transitional obligation | 3,120 | 2,351 | 1,534 | 16,319 |
| Unrecognised actuarial differences | 6,041 | 6,479 | 5,158 | 54,872 |
| Unrecognised past service costs | (155) | 94 | (147) | (1,563) |
| Carrying value (net) | (30,691) | (30,260) | (28,905) | (307,500) |
| Prepaid pension expense | (202) | − | − | − |
| Employee retirement benefit liability recorded in the consolidated balance sheets | ¥(30,893) | ¥(30,260) | ¥(28,905) | $(307,500) |

*Notes: 1. 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.*

*2. Some of the Company's domestic consolidated subsidiaries participate in certain corporate pension plans under the multi-employer pension programs established by the subsidiaries together with other employers. As information that would allow a determination of whether the value of the pension plan assets has been reasonably calculated in proportion to the contributions made by the subsidiaries is not available, the subsidiaries record the required contributions as net periodic retirement benefit expense for the period in accordance with the accounting standard for employee retirement benefits. The above table excludes the portion of the pension plan assets under the multi-employer pension programs.*

*Information regarding the funded status of the entire corporate pension plans available as of the latest calculation period-ends were as follows.*

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2013 |
| *Latest calculation period-end* | 31 March 2010 | 31 March 2011 | 31 March 2012 | |
| *Pension plan assets* | ¥34,952 | ¥26,280 | ¥26,075 | $277,394 |
| *Related benefit obligation under pension programs* | 40,224 | 30,912 | 31,237 | 332,309 |
| *Difference* | ¥(5,272) | ¥(4,632) | ¥(5,162) | $(54,915) |
| *Ratio of subsidiaries' contributions to total contributions to entire plans* | 2.7% | 3.0% | 3.0% | |

The net periodic retirement benefit expenses shown in the consolidated statements of income for the years ended 31 March 2011, 2012 and 2013 comprised of the following.

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2013 |
| Net periodic retirement benefit expenses: | | | | |
| Service cost | ¥2,886 | ¥2,978 | ¥2,579 | $27,436 |
| Interest cost | 883 | 847 | 704 | 7,490 |
| Expected return on plan assets | (109) | (77) | (47) | (500) |
| Amortisation of transitional obligation | 736 | 734 | 710 | 7,553 |
| Amortisation of actuarial differences | 737 | 432 | 120 | 1,277 |
| Amortisation of past service cost | (569) | (248) | 2 | 21 |
| Subtotal | 4,564 | 4,666 | 4,068 | 43,277 |
| Gains/(losses) resulted from revision of employees' retirement benefit plan | (31) | 334 | 65 | 691 |
| Contributions to defined contribution plan | 3,572 | 3,664 | 3,736 | 39,745 |
| Total | ¥8,105 | ¥8,664 | ¥7,869 | $83,713 |

Assumptions used in the calculation of the information above for the years ended 31 March 2011, 2012 and 2013 were as follows.

The estimated amount of all retirement benefits to be paid at future retirement dates is allocated equally to each service year using the estimated number of total service years or allocated to each service year based on points per each year.

| | 2011 | 2012 | 2013 |
|---|---|---|---|
| Discount rate | 1.0%to 2.5% | 1.0%to 2.0% | 0.9%to 2.0% |
| Expected rate of return on plan assets | 0.0%to 2.5% | 0.0%to 2.0% | 0.0%to 2.0% |
| Amortisation of past service cost | 4 to 10 years | 4 to 10 years | 1 to 10 years |
| Amortisation of actuarial differences | 1 to 10 years | 1 to 10 years | 1 to 10 years |
| Amortisation of transitional obligation | 15 years | 15 years | 15 years |

## 10. Contingent liabilities

At 31 March 2011, 2012 and 2013, the Group was contingently liable for guarantees of loans in the amounts of ¥1,865 million, ¥1,559 million and ¥1,131 million ($12,032 thousand), respectively.

## 11. Lease transactions

**(As lessee)**

**(a) Finance leases**

The Group mainly leases, as lessee, machinery, equipment and vehicles, such as buses under its traffic business and aircrafts under its other business, and software for transportation management. As described in Note 2(h), pro forma information of leased property, whose lease inception was prior to 1 April 2008 and which were accounted for similarly to operating leases, were as follows.

| | Machinery, equipment and vehicles | Others | Total |
|---|---|---|---|
| | Millions of yen | | |
| At 31 March 2011: | | | |
| Acquisition cost | ¥28,255 | ¥6,267 | ¥34,522 |
| Accumulated depreciation | 14,682 | 3,252 | 17,934 |
| Accumulated impairment loss | 603 | 558 | 1,161 |
| Net leased property | ¥12,970 | ¥2,457 | ¥15,427 |
| At 31 March 2012: | | | |
| Acquisition cost | ¥25,541 | ¥5,528 | ¥31,069 |
| Accumulated depreciation | 14,584 | 3,045 | 17,629 |
| Accumulated impairment loss | 619 | 524 | 1,143 |
| Net leased property | ¥10,338 | ¥1,959 | ¥12,297 |
| At 31 March 2013: | | | |
| Acquisition cost | ¥21,554 | ¥3,874 | ¥25,428 |
| Accumulated depreciation | 12,936 | 1,877 | 14,813 |
| Accumulated impairment loss | 590 | 395 | 985 |
| Net leased property | ¥8,028 | ¥1,602 | ¥9,630 |
| | Thousands of U.S. dollars | | |
| At 31 March 2013: | | | |
| Acquisition cost | $229,298 | $41,213 | $270,511 |
| Accumulated depreciation | 137,617 | 19,968 | 157,585 |
| Accumulated impairment loss | 6,277 | 4,202 | 10,479 |
| Net leased property | $85,404 | $17,043 | $102,447 |

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

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2013 |
| Due within 1 year | ¥3,438 | ¥2,863 | ¥2,089 | $22,223 |
| Due after 1 year | 13,790 | 10,961 | 8,806 | 93,681 |
| Total | ¥17,228 | ¥13,824 | ¥10,895 | $115,904 |

An allowance for impairment losses on leased property of ¥483 million, ¥254 million and ¥77 million ($819 thousand) were included in other current and non-current liabilities in the consolidated balance sheets for 31

March 2011, 2012 and 2013, respectively.

Lease expenses and other information at 31 March 2011, 2012 and 2013 were as follows.

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2013 |
| Lease expense | ¥4,533 | ¥3,830 | ¥3,219 | $34,245 |
| Reversal of allowance for impairment loss on leased property | 359 | 257 | 184 | 1,957 |
| Imputed depreciation expense *(*1)* | 3,874 | 3,227 | 2,658 | 28,277 |
| Imputed interest expense *(*2)* | 573 | 475 | 404 | 4,298 |
| Impairment loss | 13 | 28 | 7 | 74 |

**1) The above depreciation was calculated using the straight-line method with useful life being equal to the lease period and residual value being zero.*

**2) The difference between the total lease payments and the acquisition costs is considered to be imputed interest expense. The above imputed interest expense was calculated based on the interest method.*

**(b) Operating leases**

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

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2013 |
| Due within 1 year | ¥1,030 | ¥753 | ¥659 | $7,011 |
| Due after 1 year | 3,156 | 2,492 | 2,230 | 23,723 |
| Total | ¥4,186 | ¥3,245 | ¥2,889 | $30,734 |

**(As lessor)**

**(a) Finance leases**

Lease investment assets at 31 March 2011, 2012 and 2013 were as follows.

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2013 |
| Lease receivables | ¥2,687 | ¥4,607 | ¥4,798 | $51,043 |
| Estimated residual value | 152 | 189 | 217 | 2,308 |
| Unearned imputed interest | (774) | (1,069) | (1,118) | (11,894) |
| Lease investment assets included in trade receivables | ¥2,065 | ¥3,727 | ¥3,897 | $41,457 |

The aggregate annual maturities of lease receivables and investments at 31 March 2013 were as follows.

| Year ending 31 March | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| 2014 | ¥1,708 | $18,170 |
| 2015 | 1,334 | 14,192 |
| 2016 | 909 | 9,670 |
| 2017 | 539 | 5,734 |
| 2018 | 265 | 2,819 |
| 2019 and thereafter | 43 | 458 |
| Total | ¥4,798 | $51,043 |

**(b) Operating leases**

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

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2013 |
| Due within 1 year | ¥3,172 | ¥2,940 | ¥2,798 | $29,766 |
| Due after 1 year | 8,107 | 7,216 | 7,192 | 76,511 |
| Total | ¥11,279 | ¥10,156 | ¥9,990 | $106,277 |

## 12. Derivatives

At 31 March 2011, 2012 and 2013, derivative transactions to which hedge accounting was not applied were as follows.

(Foreign currency-related transactions)

| | Contract amounts | | | |
|---|---|---|---|---|
| | Total amount | Due after 1 year | Fair value* | Unrealised gain/(loss) |
| | Millions of yen | | | |
| Forward foreign exchange contracts to buy foreign currencies: | | | | |
| At 31 March 2011 | ¥582 | ¥− | ¥(12) | ¥(12) |
| At 31 March 2012 | 354 | − | (7) | (7) |
| At 31 March 2013 | 358 | − | 30 | 30 |
| | Thousands of U.S. dollars | | | |
| Forward foreign exchange contracts to buy foreign currencies: | | | | |
| At 31 March 2013 | $3,809 | $− | $319 | $319 |

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

At 31 March 2011, 2012 and 2013, derivative transactions to which hedge accounting was applied were as follows.

(Foreign currency-related transactions)

| Method of hedge accounting | Transaction | Major hedged items | Contract amount: Total amount | Contract amount: Due after 1 year | Fair value * |
|---|---|---|---|---|---|
| | | | Millions of yen | | |
| Allocation method for forward foreign exchange contracts: | Currency swaps | Long-term bank loans | | | |
| At 31 March 2011 | | | ¥14,800 | ¥14,800 | ¥ー |
| At 31 March 2012 | | | 14,800 | 5,300 | ー |
| At 31 March 2013 | | | 11,352 | 11,217 | ー |
| | | | Thousands of U.S. dollars | | |
| Allocation method for forward foreign exchange contracts: | Currency swaps | Long-term bank loans | | | |
| At 31 March 2013 | | | $120,766 | $119,330 | $ー |

**Derivative instruments, such as interest rate swaps and currency interest rate swap contracts, are accounted for using hedge accounting, under which such derivative instruments are not considered separate from the hedged bank loans. In other words, the fair values of such derivative instruments are considered part of the fair values of the related hedged bank loans (see Note 3).*

(Interest rate-related transactions)

| Method of hedge accounting | Transaction | Major hedged items | Contract amount: Total amount | Contract amount: Due after 1 year | Fair value * |
|---|---|---|---|---|---|
| | | | Millions of yen | | |
| Special treatment for interest rate swaps: | Interest rate swaps - pay fixed rate and receive floating rate | Long-term bank loans | | | |
| At 31 March 2011 | | | ¥101,673 | ¥78,449 | ¥ー |
| At 31 March 2012 | | | 103,499 | 87,526 | ー |
| At 31 March 2013 | | | 119,854 | 102,803 | ー |
| | | | Thousands of U.S. dollars | | |
| Special treatment for interest rate swaps: | Interest rate swaps - pay fixed rate and receive floating rate | Long-term bank loans | | | |
| At 31 March 2013 | | | $1,275,043 | $1,093,649 | $ー |

**Derivative instruments, such as interest rate swaps and currency interest rate swap contracts, are accounted for using hedge accounting, under which such derivative instruments are not considered separate from the hedged bank loans. In other words, the fair values of such derivative instruments are considered part of the fair values of the related hedged bank loans (see Note 3).*

## 13. Net assets

Under the Japanese Companies Act (the "Companies Act") and 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 prices of the new shares as additional paid-in capital, which is included in capital surplus.
Under the Companies Act, in cases where a dividend distribution of surplus is made, the smaller of the amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of the additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. The additional paid-in-capital and legal earnings reserve have been included in capital surplus and retained earnings, respectively, in the accompanying consolidated balance sheets.

Under the Companies Act, the legal earnings reserve and additional paid-in capital can be used to eliminate or reduce a deficit by a resolution at the shareholders' meeting. The additional paid-in capital and legal earnings reserve may not be distributed as dividends. All additional paid-in capital and legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which may become available for distribution as dividends.

At 31 March 2011, 2012 and 2013, 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 ¥1,881 million, ¥2,013 million, ¥2,189 million ($23,287 thousand) at 31 March 2011, 2012 and 2013, respectively.

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

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

## 14. Income taxes

The Company and its domestic consolidated subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a statutory effective tax rate of approximately 40.6%, 40.6% and 37.7% for the years ended 31 March 2011, 2012 and 2013, respectively.

Significant components of the Groups' deferred tax assets and liabilities as of 31 March 2011, 2012 and 2013 were as follows.

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2013 |
| Deferred tax assets: | | | | |
| Employee retirement benefit liability | ¥16,383 | ¥14,643 | ¥14,117 | $150,181 |
| Impairment losses on fixed assets | 14,892 | 13,357 | 13,238 | 140,830 |
| Tax loss carryforwards | 8,869 | 10,430 | 9,088 | 96,681 |
| Loss on valuation of investment securities | 10,462 | 8,726 | 8,567 | 91,138 |
| Elimination of unrealised profit | 5,553 | 5,302 | 5,215 | 55,479 |
| Depreciation | 3,742 | 3,278 | 3,553 | 37,798 |
| Accrued bonus | 2,100 | 1,989 | 2,011 | 21,394 |
| Valuation loss on fixed assets | 806 | 1,644 | 1,708 | 18,170 |
| Provision for loss on liquidation | 1,225 | 1,139 | 1,462 | 15,553 |
| Others | 16,406 | 9,212 | 7,994 | 85,042 |
| Subtotal of deferred tax assets | 80,438 | 69,720 | 66,953 | 712,266 |
| Less valuation allowance | (50,632) | (39,789) | (37,499) | (398,926) |
| Total deferred tax assets | 29,806 | 29,931 | 29,454 | 313,340 |
| Deferred tax liabilities: | | | | |
| Net unrealised gains on available-for-sale securities | (4,155) | (3,642) | (4,502) | (47,894) |
| Trust for employee retirement benefits | (2,410) | (2,095) | (2,095) | (22,287) |
| Deferred capital gains | (1,523) | (1,290) | (1,235) | (13,138) |
| Others | (7,888) | (6,860) | (6,708) | (71,361) |
| Total deferred tax liabilities | (15,976) | (13,887) | (14,540) | (154,680) |
| Net deferred tax assets | ¥13,830 | ¥16,044 | ¥14,914 | $158,660 |

At 31 March 2011, 2012 and 2013, deferred tax assets and liabilities were as follows.

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2013 |
| Deferred tax assets: | | | | |
| Current | ¥5,719 | ¥7,056 | ¥5,805 | $61,755 |
| Noncurrent | 12,967 | 12,848 | 12,807 | 136,245 |
| Deferred tax liabilities: | | | | |
| Current | — | 20 | 1 | 10 |
| Noncurrent | 4,856 | 3,840 | 3,697 | 39,330 |

In assessing the realisability of deferred tax assets, management of the Group considers whether some portion or all of the deferred tax assets will not be realised. The ultimate realisation of deferred tax assets is dependent upon the generation of future taxable income during the periods in which the temporary differences become deductible. At 31 March 2011, 2012 and 2013, a valuation allowance was provided to reduce deferred tax assets to the amount management believed would be realisable.

For the years ended 31 March 2011, 2012 and 2013, reconciliations of 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 were as follows.

| | Percentage of pre-tax income | | |
|---|---|---|---|
| | 2011 | 2012 | 2013 |
| Japanese statutory tax rate | 40.6% | 40.6% | 37.7% |
| Increase (decrease) due to: | | | |
| Local minimum taxes per capita levy | 2.2 | 2.5 | 2.1 |
| Permanently non-deductible expenses | 1.8 | 1.5 | 1.2 |
| Tax exempt income | (6.8) | (8.7) | (8.1) |
| Changes in valuation allowance | 12.1 | (14.3) | (0.4) |
| Effect on income tax rate changes | — | 6.2 | — |
| Others | (4.0) | (3.5) | (1.7) |
| Effective income tax rate | 45.9% | 24.3% | 30.8% |

On 2 December 2011, new tax reform laws were promulgated in Japan, which changed the statutory effective tax rate from approximately 40.6% to 37.7% for the fiscal years beginning on or after 1 April 2012 until 31 March 2015, and to 35.3% thereafter. As a result of such change, deferred tax assets and deferred tax liabilities for land revaluation in the consolidated balance sheets as of 31 March 2012 decreased by ¥506 million and ¥9,635 million, respectively. In addition, net unrealised gains on available-for-sale securities and land revaluation increment in the consolidated balance sheets as of 31 March 2012 increased by ¥532 million and ¥9,635 million, respectively. Finally, deferred income tax expenses in the consolidated statements of income increased by ¥1,038 million for the year ended 31 March 2012 as compared to the amounts that would have been recorded without such change.

## 15. Segment information

### (1) General information about reportable segments

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

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

The business descriptions of the reportable segments are as follows.

-Traffic: business relating to railroads, buses and taxies

-Transport: business relating to trucking and maritime transportation

-Real Estate: real estate development, real estate leasing

-Leisure and Services: business relating to hotels, restaurants, tourist facilities and travel

-Distribution: distributions to department stores, distributions of other merchandise sales

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

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

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

Information about reportable segments as of and for the year ended 31 March 2011 was as follows.

| | Reportable segments | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Traffic | Transport | Real Estate | Leisure and Services | Distribution | Others *(*1)* | Total | Adjustments | Consolidated financial statements |
| | Millions of yen | | | | | | | | |
| **For the year 2011:** | | | | | | | | | |
| Operating revenues: | | | | | | | | | |
| External customers | ¥154,647 | ¥133,006 | ¥89,172 | ¥55,929 | ¥131,111 | ¥45,851 | ¥609,716 | ¥− | ¥609,716 |
| Intersegment sales/transfer | 2,312 | 528 | 5,994 | 914 | 10,462 | 23,535 | 43,745 | (43,745) | − |
| Total | ¥156,959 | ¥133,534 | ¥95,166 | ¥56,843 | ¥141,573 | ¥69,386 | ¥653,461 | ¥(43,745) | ¥609,716 |
| Segment income (loss) *(*2)* | 10,894 | 5,220 | 8,607 | 410 | (183) | 2,330 | 27,278 | 613 | 27,891 |
| Segment assets *(*3)* | 544,139 | 117,172 | 300,016 | 47,611 | 45,817 | 61,051 | 1,115,806 | 33,550 | 1,149,356 |
| Other material items: | | | | | | | | | |
| Depreciation and amortisation *(*4)* | 21,890 | 4,681 | 5,664 | 1,879 | 1,149 | 5,163 | 40,426 | (575) | 39,851 |
| Amortisation of goodwill *(*5)* | 156 | − | − | 22 | − | 8 | 186 | (2) | 184 |
| Impairment losses on fixed assets | 300 | 388 | 3,283 | 970 | 175 | 159 | 5,275 | − | 5,275 |
| Increase in property and equipment and intangible assets | 18,489 | 10,857 | 4,379 | 1,671 | 1,103 | 7,368 | 43,867 | − | 43,867 |

**1) "Others" is a business segment that is not considered a reportable segment. It includes the business of equipment maintenance, air transportation, building maintenance, insurance agency and the like.*
**2) Segment income (loss) adjustment amounting to ¥613 million was treated as intersegment elimination.*
**3) Segment assets adjustment amounting to ¥33,550 million consisted of unallocated general corporate assets amounting to ¥65,340 million, net of intersegment elimination of ¥31,790 million. Such general corporate assets consisted mainly of cash, deposits and investment securities.*
**4) Depreciation and amortisation adjustment amounting to ¥575 million was treated as intersegment elimination.*
**5) Amortisation of goodwill adjustment amounting to ¥2 million was treated as intersegment elimination.*
*6) 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 31 March 2012 was as follows.

| | Reportable segments | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Traffic | Transport | Real Estate | Leisure and Services | Distribution | Others *(*1)* | Total | Adjustments | Consolidated financial statements |
| | Millions of yen | | | | | | | | |
| **For the year 2012** | | | | | | | | | |
| Operating revenues: | | | | | | | | | |
| External customers | ¥154,487 | ¥134,042 | ¥82,376 | ¥54,189 | ¥127,664 | ¥51,032 | ¥603,790 | ¥− | ¥603,790 |
| Intersegment sales/transfer | 2,341 | 485 | 5,544 | 903 | 12,453 | 20,501 | 42,227 | (42,227) | − |
| Total | ¥156,828 | ¥134,527 | ¥87,920 | ¥55,092 | ¥140,117 | ¥71,533 | ¥646,017 | ¥(42,227) | ¥603,790 |
| Segment income *(*2)* | 12,115 | 4,244 | 8,948 | 313 | 172 | 2,662 | 28,454 | 287 | 28,741 |
| Segment assets *(*3)* | 544,178 | 115,947 | 280,495 | 45,903 | 45,340 | 65,826 | 1,097,689 | 35,009 | 1,132,698 |
| Other material items: | | | | | | | | | |
| Depreciation and amortisation *(*4)* | 21,801 | 5,573 | 5,358 | 1,809 | 1,161 | 6,087 | 41,789 | (759) | 41,030 |
| Amortisation of goodwill | 149 | 33 | 2 | 25 | − | 16 | 225 | − | 225 |
| Impairment losses on fixed assets | 176 | 374 | 6,345 | 203 | 129 | 19 | 7,246 | − | 7,246 |
| Increase in property and equipment and intangible assets | 12,920 | 4,166 | 3,833 | 1,631 | 1,425 | 6,068 | 30,043 | − | 30,043 |

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

**2) Segment income adjustment amounting to ¥287 million was treated as intersegment elimination.*

**3) Segment assets adjustment amounting to ¥35,009 million consisted of unallocated general corporate assets amounting to ¥67,366 million, net of intersegment elimination of ¥32,357 million. Such general corporate assets consisted mainly of cash, deposits and investment securities.*

**4) Depreciation and amortisation adjustment amounting to ¥759 million was treated as intersegment elimination.*

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

Information about reportable segments as of and for the year ended 31 March 2013 was as follows.

| | Reportable segments | | | | | | | | Consolidated |
|---|---|---|---|---|---|---|---|---|---|
| | Traffic | Transport | Real Estate | Leisure and Services | Distribution | Others *(*1)* | Total | Adjustments | financial statements |
| | Millions of yen | | | | | | | | |
| **For the year 2013** | | | | | | | | | |
| Operating revenues: | | | | | | | | | |
| External customers | ¥154,547 | ¥133,189 | ¥86,623 | ¥52,946 | ¥129,510 | ¥53,021 | ¥609,836 | ¥− | ¥609,836 |
| Intersegment sales/transfer | 2,328 | 489 | 6,697 | 850 | 12,974 | 18,879 | 42,217 | (42,217) | − |
| Total | ¥156,875 | ¥133,678 | ¥93,320 | ¥53,796 | ¥142,484 | ¥71,900 | ¥652,053 | ¥(42,217) | ¥609,836 |
| Segment income *(*2)* | 14,098 | 3,628 | 8,698 | 1,087 | 1,543 | 2,794 | 31,848 | 480 | 32,328 |
| Segment assets *(*3)* | 531,312 | 114,868 | 265,078 | 40,378 | 45,148 | 64,785 | 1,061,569 | 41,406 | 1,102,975 |
| Other material items: | | | | | | | | | |
| Depreciation and amortisation *(*4)* | 19,893 | 5,534 | 5,919 | 1,687 | 1,185 | 5,883 | 40,101 | (653) | 39,448 |
| Amortisation of goodwill | 62 | 63 | − | 3 | 13 | 5 | 146 | − | 146 |
| Impairment losses on fixed assets | 539 | 157 | 1,909 | 3,162 | 354 | 128 | 6,249 | − | 6,249 |
| Increase in property and equipment and intangible assets | 15,849 | 5,814 | 5,083 | 1,842 | 1,096 | 5,605 | 35,289 | − | 35,289 |

| | Reportable segments | | | | | | | | Consolidated |
|---|---|---|---|---|---|---|---|---|---|
| | Traffic | Transport | Real Estate | Leisure and Services | Distribution | Others *(*1)* | Total | Adjustments | financial statements |
| | Thousands of U.S. dollars | | | | | | | | |
| **For the year 2013** | | | | | | | | | |
| Operating revenues: | | | | | | | | | |
| External customers | $1,644,117 | $1,416,904 | $921,521 | $563,255 | $1,377,766 | $564,054 | $6,487,617 | $− | $6,487,617 |
| Intersegment sales/transfer | 24,766 | 5,202 | 71,245 | 9,043 | 138,021 | 200,840 | 449,117 | (449,117) | − |
| Total | $1,668,883 | $1,422,106 | $992,766 | $572,298 | $1,515,787 | $764,894 | $6,936,734 | $(449,117) | $6,487,617 |
| Segment income *(*2)* | 149,979 | 38,596 | 92,532 | 11,564 | 16,415 | 29,723 | 338,809 | 5,106 | 343,915 |
| Segment assets *(*3)* | 5,652,255 | 1,222,000 | 2,819,979 | 429,553 | 480,298 | 689,202 | 11,293,287 | 440,490 | 11,733,777 |
| Other material items: | | | | | | | | | |
| Depreciation and amortisation *(*4)* | 211,628 | 58,872 | 62,968 | 17,947 | 12,606 | 62,585 | 426,606 | (6,946) | 419,660 |
| Amortisation of goodwill | 660 | 670 | − | 32 | 138 | 53 | 1,553 | − | 1,553 |
| Impairment losses on fixed assets | 5,734 | 1,670 | 20,309 | 33,638 | 3,766 | 1,362 | 66,479 | − | 66,479 |
| Increase in property and equipment and intangible assets | 168,606 | 61,851 | 54,074 | 19,596 | 11,660 | 59,628 | 375,415 | − | 375,415 |

**1) "Others" is a business segment that is not considered a reportable segment. It includes the business of equipment maintenance, air transportation, building maintenance, insurance agency and the like.*
**2) Segment income adjustment amounting to ¥480 million ($5,106 thousand) was treated as intersegment elimination.*
**3) Segment assets adjustment amounting to ¥41,406 million ($440,490 thousand) consisted of unallocated general corporate assets amounting to ¥72,395 million ($770,160 thousand), net of intersegment elimination of ¥30,989 million ($329,670 thousand). Such general corporate assets consisted mainly of cash, deposits and investment securities.*
**4) Depreciation and amortisation adjustment amounting to ¥653 million ($6,946 thousand) was treated as intersegment elimination.*
*5) Segment income was reconciled to operating income in the accompanying consolidated statements of income.*

## (Related information)

(1) Information about products and services
As this information has been presented under the 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 contributed 10% or more to operating revenue in the consolidated statements of income.

(4) Information on goodwill by reportable segment

| | Traffic | Transport | Real Estate | Leisure and Services | Distribution | Others | Eliminations | Consolidated |
|---|---|---|---|---|---|---|---|---|
| | Millions of yen | | | | | | | |
| Balance of Goodwill: | | | | | | | | |
| At 31 March 2011 | ¥200 | ¥− | ¥− | ¥25 | ¥− | ¥17 | ¥(1) | ¥241 |
| At 31 March 2012 | 83 | 283 | − | 3 | − | 11 | (1) | 379 |
| At 31 March 2013 | − | 220 | − | − | 52 | 7 | (1) | 278 |

| | Traffic | Transport | Real Estate | Leisure and Services | Distribution | Others | Eliminations | Consolidated |
|---|---|---|---|---|---|---|---|---|
| | Thousands of U.S. dollars | | | | | | | |
| Balance of Goodwill: | | | | | | | | |
| At 31 March 2013 | $− | $2,340 | $− | $− | $553 | $75 | $(11) | $2,957 |

*Notes: 1. Amortisation of goodwill has been omitted because such information has been presented under the segment information above.*

*2. As the amounts and amortisation of negative goodwill that were allocated through business combinations and arose before 1 April 2010 were immaterial, such information has been omitted.*

(5) Information about reportable segment gain on negative goodwill

- Consolidated fiscal year ended 31 March 2011 and 2013:
  As this information was not material, it has been omitted.
- Consolidated fiscal year ended 31 March 2012:
  The Company acquired additional common stocks of one of its consolidated subsidiaries that belongs in the "Others" segment.
  As a result, gain on negative goodwill amounting to ¥1,191 million was recognised.

(Additional information)

The "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Statement No.17 issued on 27 March 2009) and "Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Guidance No.20 issued on 21 March 2008) have been applied from the year ended 31 March 2011.

## 16. Comprehensive income

Amounts reclassified to net income (loss) in the current period that were recognised in other comprehensive income in the current or previous periods, and the tax effects for each component of other comprehensive income, for the years ended 31 March 2012 and 2013 were as follows.

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2012 | 2013 | 2013 |
| Unrealised gains on available-for-sale securities, net of taxes: | | | |
| Amount arising during the year | ¥149 | ¥2,377 | $25,287 |
| Reclassification adjustments | 13 | 278 | 2,958 |
| Subtotal, before tax | 162 | 2,655 | 28,245 |
| The amount of tax effect | 523 | (755) | (8,032) |
| Subtotal, net of tax | 685 | 1,900 | 20,213 |
| Land revaluation increments, net of taxes: | | | |
| Amount arising during the year | — | — | — |
| Reclassification adjustments | — | — | — |
| Subtotal, before tax | — | — | — |
| The amount of tax effect | 9,135 | 997 | 10,606 |
| Subtotal, net of tax | 9,135 | 997 | 10,606 |
| Foreign currency translation adjustments | | | |
| Amount arising during the year | (6) | 11 | 117 |
| Reclassification adjustments | — | — | — |
| Subtotal, before tax | (6) | 11 | 117 |
| The amount of tax effect | — | — | — |
| Subtotal, net of tax | (6) | 11 | 117 |
| Share of other comprehensive income of affiliates accounted for using equity method: | | | |
| Amount arising during the year | 150 | 326 | 3,468 |
| Reclassification adjustments | 41 | (8) | (85) |
| Subtotal | 191 | 318 | 3,383 |
| Total other comprehensive income | ¥10,005 | ¥3,226 | $34,319 |

The corresponding information for the year ended 31 March 2011 was not required to be provided under the accounting standard for presentation of comprehensive income due to a first-year exemption applicable to companies adopting such standard. Thus, such information is not disclosed herein.

## 17. Subsequent events

**Cash dividends**

Appropriation of retained earnings for the year ended 31 March 2013 was duly approved at the ordinary shareholders' meeting held on 26 June 2013 as follows.

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Cash dividends (¥3.00 per share) | ¥2,638 | $28,064 |

The above dividends became payable to shareholders of record as of 31 March 2013. However, such appropriation has not been accrued in the consolidated financial statements as of 31 March 2013 as such appropriation is recognised in the period in which it is approved by the shareholders.