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 2016 and 2017, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and its consolidated subsidiaries as at 31 March 2016 and 2017, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended 31 March 2017 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 of the Notes to Consolidated Financial Statements.

KPMG AZSA LLC
31 July, 2017
Nagoya, Japan

Nagoya Railroad Co., Ltd. and Consolidated Subsidiaries

Consolidated Balance Sheets

31 March 2016 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2017	2017
ASSETS			
Current assets:			
Cash and cash equivalents (Note 3)	¥ 16,922	¥ 21,944	$ 197,694
Short-term investments (Notes 3 and 4)	794	759	6,838
Trade notes and accounts receivable (Note 3)	55,711	57,828	520,973
Inventories (Note 5)	64,029	70,284	633,189
Deferred tax assets (Note 14)	3,411	4,241	38,207
Others	17,260	18,325	165,090
Less allowance for doubtful accounts	(203)	(323)	(2,910)
Total current assets	157,924	173,058	1,559,081
Property and equipment: (Notes 6, 7 and 8)			
Land	359,804	361,851	3,259,919
Buildings and structures	677,307	683,926	6,161,495
Machinery, equipment and vehicles	307,164	314,249	2,831,072
Other properties	65,146	62,283	561,108
Construction in progress	27,785	33,583	302,550
	1,437,206	1,455,892	13,116,144
Less accumulated depreciation	(663,008)	(676,977)	(6,098,892)
Property and equipment, net	774,198	778,915	7,017,252
Investments and other assets:			
Investment securities (Notes 3 and 4)	66,317	73,181	659,288
Investments in unconsolidated subsidiaries and affiliates (Note 3)	30,763	33,157	298,712
Deferred tax assets (Note 14)	10,573	11,913	107,324
Intangible assets	10,605	9,157	82,496
Other assets	16,239	16,386	147,622
Allowance for doubtful accounts	(2,012)	(1,884)	(16,973)
Total investments and other assets	132,485	141,910	1,278,469
Total assets	¥ 1,064,607	¥ 1,093,883	$ 9,854,802

See Notes to Consolidated Financial Statements.

Nagoya Railroad Co., Ltd. and Consolidated Subsidiaries

Consolidated Balance Sheets

31 March 2016 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2017	2017
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term borrowings (Notes 3 and 8)	¥ 26,287	¥ 20,790	$ 187,297
Current portion of long-term debt (Notes 3 and 8)	59,114	79,673	717,775
Trade notes and accounts payable (Note 3)	69,403	71,411	643,342
Accrued expenses	15,472	15,424	138,955
Income taxes payable	6,246	9,158	82,505
Provisions	2,142	2,257	20,333
Other current liabilities	75,386	80,247	722,946
Total current liabilities	254,050	278,960	2,513,153
Non-current liabilities:			
Long-term debt (Notes 3 and 8)	372,968	344,138	3,100,342
Accrued retirement benefits for directors and corporate auditors	1,738	1,699	15,306
Deferred tax liabilities (Note 14)	3,638	4,196	37,802
Deferred tax liabilities for land revaluation	54,245	56,672	510,559
Provisions	8,564	13,135	118,333
Employee retirement benefit liability (Note 9)	37,340	34,315	309,144
Other non-current liabilities	18,516	17,955	161,757
Total non-current liabilities	497,009	472,110	4,253,243
Total liabilities	751,059	751,070	6,766,396
Contingent liabilities (Notes 10 and 11)			
Net assets:			
Shareholders' equity: (Notes 13 and 17)			
Common stock: authorised - 1,800,000 thousand shares issued - 919,773 thousand shares in 2016 and 2017	88,864	88,864	800,577
Capital surplus	23,042	23,156	208,613
Retained earnings	80,615	93,165	839,324
Treasury stock - at cost: 449 thousand shares in 2016 and 625 thousand shares in 2017	(170)	(271)	(2,442)
Total shareholders' equity	192,351	204,914	1,846,072
Accumulated other comprehensive income (loss):			
Net unrealised gains on available-for-sale securities	20,355	23,908	215,388
Deferred gains and losses on hedges	(615)	(197)	(1,775)
Land revaluation increment	82,538	88,835	800,315
Foreign currency translation adjustments	(9)	(13)	(117)
Retirement benefit adjustments	(3,628)	(1,127)	(10,153)
Total accumulated other comprehensive income (loss)	98,641	111,406	1,003,658
Non-controlling interests	22,556	26,493	238,676
Total net assets	313,548	342,813	3,088,406
Total liabilities and net assets	¥ 1,064,607	¥ 1,093,883	$ 9,854,802

Nagoya Railroad Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Income

For the Years Ended 31 March 2016 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2017	2017
Operating revenues (Note 15)	¥ 610,154	¥ 599,570	$ 5,401,532
Operating expenses			
Transportation, other services and cost of sales	514,051	503,422	4,535,334
Selling, general and administrative expenses	51,238	51,967	468,171
Total operating expenses	565,289	555,389	5,003,505
Operating income	44,865	44,181	398,027
Other income (expenses):			
Interest and dividend income	1,367	1,448	13,045
Interest expense	(4,855)	(4,151)	(37,396)
Equity in net earnings of affiliates	3,054	2,822	25,423
Impairment loss on fixed assets (Note 6)	(5,970)	(4,174)	(37,604)
Loss on sale or disposition of property and equipment, net	(706)	(1,187)	(10,694)
Gain on contributions for construction (Note 2(k))	1,771	945	8,514
Loss on reduction of property and equipment (Note 2(k))	(1,584)	(703)	(6,333)
Provision for loss on liquidation	(554)	(4,986)	(44,919)
Others, net	1,985	2,747	24,748
Other income (expenses), net	(5,492)	(7,239)	(65,216)
Profit before income taxes	39,373	36,942	332,811
Income taxes:			
Current	9,878	13,128	118,271
Deferred	1,526	(1,978)	(17,820)
Total income taxes	11,404	11,150	100,451
Profit	27,969	25,792	232,360
Profit attributable to:			
Owners of the parent	24,533	23,433	211,108
Non-controlling interests	3,436	2,359	21,252
Total profit	¥ 27,969	¥ 25,792	$ 232,360
Per share:			
Net income:			
- Basic	¥ 26.68	¥ 25.49	$ 0.23
- Diluted	23.30	22.26	0.20
Cash dividends	5.00	5.00	0.05

See Notes to Consolidated Financial Statements.

Nagoya Railroad Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Comprehensive Income

For the Years Ended 31 March 2016 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2017	2017
Profit	¥ 27,969	¥ 25,792	$ 232,360
Other comprehensive income (Note 16):			
Net unrealised gains and losses on available-for-sale securities	(3,447)	3,515	31,667
Deferred gains and losses on hedges	(432)	430	3,874
Land revaluation increment	3,883	14	126
Foreign currency translation adjustments	−	(4)	(36)
Retirement benefit adjustments	(947)	2,583	23,270
Share of other comprehensive income of affiliates accounted for using the equity method	(399)	153	1,379
Total other comprehensive income	(1,342)	6,691	60,280
Comprehensive income	¥ 26,627	¥ 32,483	$ 292,640
Comprehensive income attributable to:			
Owners of the parent	¥ 22,984	¥ 29,913	$ 269,487
Non-controlling interests	3,643	2,570	23,153
Total comprehensive income	¥ 26,627	¥ 32,483	$ 292,640

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 2016 and 2017

		Shareholders' equity					Accumulated other comprehensive income							
	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 and losses on hedges	Land revaluation increment	Foreign currency translation adjustments	Retirement benefit adjustments	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
	Thousands	Millions of yen												
Balance as of 1 April 2015	919,773	¥ 88,864	¥ 23,107	¥ 63,237	¥ (51)	¥ 175,157	¥ 23,910	¥ (189)	¥ 75,748	¥ (9)	¥ (2,285)	¥ 97,175	¥ 19,153	¥ 291,485
Profit attributable to owners of the parent	–	–	–	24,533	–	24,533	–	–	–	–	–	–	–	24,533
Cash dividends	–	–	–	(4,139)	–	(4,139)	–	–	–	–	–	–	–	(4,139)
Reversal for land revaluation increment	–	–	–	(3,016)	–	(3,016)	–	–	–	–	–	–	–	(3,016)
Transfer from retained earnings to capital surplus	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Issuance of treasury stock upon conversion of convertible bonds and other, net of fractional shares acquired	–	–	–	–	(119)	(119)	–	–	–	–	–	–	–	(119)
Change in ownership interest of parent related to transactions with non-controlling interests	–	–	(65)	–	–	(65)	–	–	–	–	–	–	–	(65)
Net changes in items other than shareholders' equity for the year	–	–	–	–	–	–	(3,555)	(426)	6,790	–	(1,343)	1,466	3,403	4,869
Balance as of 31 March 2016	919,773	88,864	23,042	80,615	(170)	192,351	20,355	(615)	82,538	(9)	(3,628)	98,641	22,556	313,548
Profit attributable to owners of the parent	–	–	–	23,433	–	23,433	–	–	–	–	–	–	–	23,433
Cash dividends	–	–	–	(4,597)	–	(4,597)	–	–	–	–	–	–	–	(4,597)
Reversal for land revaluation increment	–	–	–	(6,285)	–	(6,285)	–	–	–	–	–	–	–	(6,285)
Transfer from retained earnings to capital surplus	–	–	1	(1)	–	–	–	–	–	–	–	–	–	–
Issuance of treasury stock upon conversion of convertible bonds and other, net of fractional shares acquired	–	–	(2)	–	(101)	(103)	–	–	–	–	–	–	–	(103)
Change in ownership interest of parent related to transactions with non-controlling interests	–	–	115	–	–	115	–	–	–	–	–	–	–	115
Net changes in items other than shareholders' equity for the year	–	–	–	–	–	–	3,553	418	6,297	(4)	2,501	12,765	3,937	16,702
Balance as of 31 March 2017	919,773	¥ 88,864	¥ 23,156	¥ 93,165	¥ (271)	¥ 204,914	¥ 23,908	¥ (197)	¥ 88,835	¥ (13)	¥ (1,127)	¥ 111,406	¥ 26,493	¥ 342,813

	Shareholders' equity					Accumulated other comprehensive income							
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealised gains on available-for-sale securities	Deferred gains and losses on hedges	Land revaluation increment	Foreign currency translation adjustments	Retirement benefit adjustments	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
	Thousands of U.S. dollars (Note 1)												
Balance as of 1 April 2016	$ 800,577	$ 207,586	$ 726,261	$ (1,532)	$ 1,732,892	$ 183,378	$ (5,540)	$ 743,586	$ (81)	$ (32,685)	$ 888,658	$ 203,207	$ 2,824,757
Profit attributable to owners of the parent	–	–	211,108	–	211,108	–	–	–	–	–	–	–	211,108
Cash dividends	–	–	(41,414)	–	(41,414)	–	–	–	–	–	–	–	(41,414)
Reversal for land revaluation increment	–	–	(56,622)	–	(56,622)	–	–	–	–	–	–	–	(56,622)
Transfer from retained earnings to capital surplus	–	9	(9)	–	–	–	–	–	–	–	–	–	–
Issuance of treasury stock upon conversion of convertible bonds and other, net of fractional shares acquired	–	(18)	–	(910)	(928)	–	–	–	–	–	–	–	(928)
Change in ownership interest of parent related to transactions with non-controlling interests	–	1,036	–	–	1,036	–	–	–	–	–	–	–	1,036
Net changes in items other than shareholders' equity for the year	–	–	–	–	–	32,010	3,765	56,729	(36)	22,532	115,000	35,469	150,469
Balance as of 31 March 2017	$ 800,577	$ 208,613	$ 839,324	$ (2,442)	$ 1,846,072	$ 215,388	$ (1,775)	$ 800,315	$ (117)	$ (10,153)	$ 1,003,658	$ 238,676	$ 3,088,406

See Notes to Consolidated Financial Statements.

Nagoya Railroad Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Cash Flows

For the Years Ended 31 March 2016 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2017	2017
Cash flows from operating activities:			
Profit before income taxes	¥ 39,373	¥ 36,942	$ 332,811
Adjustments for:			
Depreciation and amortisation	38,914	38,748	349,081
Impairment loss on fixed assets	5,970	4,174	37,604
Loss on sale or disposition of property and equipment, net	1,215	1,371	12,351
Gain on contributions for construction	(1,771)	(945)	(8,514)
(Decrease) increase in employee retirement benefit liability	(774)	664	5,982
Increase in trade notes and accounts receivable	(2,440)	(2,494)	(22,468)
Increase in inventories	(3,827)	(8,018)	(72,234)
Decrease in trade notes and accounts payable	(3,729)	(345)	(3,108)
Others, net	5,055	3,724	33,549
Subtotal	77,986	73,821	665,054
Interest and dividends received	1,851	2,010	18,108
Interest paid	(4,880)	(4,225)	(38,063)
Extra retirement benefits paid	(1)	−	−
Income taxes paid	(7,427)	(10,886)	(98,072)
Net cash provided by operating activities	67,529	60,720	547,027
Cash flows from investing activities:			
Purchases of property and equipment	(51,954)	(46,820)	(421,802)
Proceeds from sales of property and equipment	6,038	2,389	21,523
Proceeds for contributions for construction	6,731	6,124	55,171
Purchases of investments securities	(898)	(1,922)	(17,315)
Proceeds from sales or redemptions of investment securities	1,168	1,016	9,153
Collections of loans receivable	741	723	6,514
Others, net	(1,952)	(179)	(1,613)
Net cash used in investing activities	(40,126)	(38,669)	(348,369)
Cash flows from financing activities:			
Increase in long-term debt	57,373	53,365	480,766
Repayment of long-term debt	(71,778)	(61,796)	(556,721)
Net decrease in short-term borrowings	(7,310)	(5,345)	(48,153)
Dividends paid to shareholders	(4,133)	(4,592)	(41,369)
Dividends paid to non-controlling shareholders	(171)	(189)	(1,703)
Others, net	(238)	1,531	13,793
Net cash used in financing activities	(26,257)	(17,026)	(153,387)
Effect of exchange rate changes on cash and cash equivalents	−	(3)	(28)
Net increase in cash and cash equivalents	1,146	5,022	45,243
Cash and cash equivalents at beginning of year	15,776	16,922	152,451
Cash and cash equivalents at end of year	¥ 16,922	¥ 21,944	$ 197,694

See Notes to Consolidated Financial Statements.

1. Basis of consolidated financial statements

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

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

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan, using the approximate exchange rate prevailing at 31 March 2017, which was ¥111 to U.S. $1.00. Such translations should not be construed as a representation that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. Summary of significant accounting policies

(a) Basis of consolidation

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

The difference between the acquisition cost of investments in subsidiaries and the underlying equity in the net assets, adjusted based on the fair value at the time of acquisition, is principally deferred as goodwill and amortised on a straight-line basis principally over ten years. At 31 March 2016 and 2017, goodwill of ¥1,093 million and ¥921 million ($8,297 thousand), respectively, were included in intangible assets in the accompanying consolidated balance sheets.

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

The number of consolidated subsidiaries, unconsolidated subsidiaries and affiliated companies for the years ended 31 March 2016 and 2017 were as follows.

	2016	2017
Consolidated subsidiaries	125	123
Unconsolidated subsidiaries accounted for using the equity method	–	–
Affiliated companies accounted for using the equity method	15	15
Unconsolidated subsidiaries stated at cost	8	7
Affiliated companies stated at cost	12	12

At both 31 March 2016 and 2017, the fiscal year-end dates of eight consolidated subsidiaries differed from the consolidated fiscal year-end date of the Company, which is 31 March. Because the difference in year-end dates was not more than three months, the Company has consolidated the subsidiaries' accounts as of each of their year-end dates. Significant transactions for the period between each of such subsidiaries fiscal year-end dates and the Company's year-end date have been adjusted on consolidation.

(b) Cash equivalents

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

(c) Investments and marketable securities

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

(d) Accounting for derivatives

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

(e) Inventories

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

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

(1) Merchandise and finished goods: principally by the retail inventory method or the specific identification method

(2) Work in process: principally by the specific identification method

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

(f) Property and equipment, excluding leased assets

Property and equipment, including significant renewals and additions are stated at cost and depreciated following over their useful lives. The Company depreciates railroad vehicles by the declining balance method and other property and equipment by the straight-line method. For replacement assets in the railroad business, which are included in "structures," the Company applies the replacement method. The consolidated subsidiaries depreciate property and equipment principally by the straight-line method. For buildings and structures, useful lives are from 2-60 years. For machinery, equipment and vehicles, useful lives range from 2-18 years.

(g) Intangible assets

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

(h) Leases

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

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

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

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

(i) Impairment of fixed assets

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

(j) Land revaluation

In accordance with the Act on Revaluation of Land in Japan, the Company, nine consolidated subsidiaries (Toyohashi Railroad Co., Ltd., Gifu Bus Co., Ltd., Meitetsu Transport Co., Ltd., Meitetsu Real Estate Development Co., Ltd., Meitetsu Building Administration Co., Ltd., MEITETSU DEPARTMENT STORE CO., LTD., Ishikawa Hire & Taxi Co., Ltd., Kanazawa Meitetsu Marukoshi Department Store Co., Ltd. and Meitetsu Kyosho Co., Ltd.) and one affiliated company accounted for using the equity method (YAHAGI CONSTRUCTION CO., LTD.) elected the one-time revaluation option to restate the cost of land used for business at a reassessed value, effective as of the respective fiscal year-end date between 31 March 2000 and 31 March 2002, based on adjustments for land shape and other factors and appraised values issued by the Japanese National Tax Agency or by municipal property tax bases. According to the law, an amount equivalent to the tax effect on the difference between the original carrying value and the reassessed value has been recorded as deferred tax liabilities for land revaluation account. The remaining difference, net of the tax effect and non-controlling interests portion, has been recorded in land revaluation increment as a component of accumulated other comprehensive income in the accompanying consolidated balance sheets.

The difference between the carrying value of land used for business after reassessment over the market value at the respective fiscal year-end of the Company and nine consolidated subsidiaries amounted to ¥9,646 million and ¥9,068 million ($81,694 thousand) at 31 March 2016 and 2017, respectively. The differences in the Company and Meitetsu Real Estate Development Co., Ltd. at 31 March 2016 and 2017 and Meitetsu Kyosho Co., Ltd. and Kanazawa Meitetsu Marukoshi Department Store Co., Ltd. at 31 March 2017 were not included in the amount at the respective fiscal year-end because the market value was higher than the carrying value of the revaluated lands. The difference between the carrying value of land used for business after reassessment over the market value at the respective fiscal year-end date for the affiliated company accounted for using the equity method amounted to ¥1,111 million and ¥965 million ($8,694 thousand) at 31 March 2016 and 2017, respectively.

(k) Contributions for construction work

In connection with construction related to railroad facilities, such as construction involving grade separations and the widening of railroad crossings, the Company and a certain consolidated subsidiary may receive contributions from the Japanese national government, local governments and/or other corporations to pay for part of the cost of construction. Such contributions are recognised as other income in the accompanying consolidated statements of income. An amount corresponding to such contributions is directly deducted from the acquisition costs of the related assets upon completion of construction, and the deducted amount is recognised as other expenses in the consolidated statements of income. At 31 March 2016 and 2017, cumulative contributions amounting to ¥175,849 million and ¥175,993 million ($1,585,523 thousand), respectively, were deducted from the acquisition costs of property and equipment for the railroad business.

(l) Allowance for doubtful accounts

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

(m) Employee retirement benefit liability

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

Actuarial differences arising from changes in the projected benefit obligation or the value of pension plan assets from the amounts assumed and from changes in the assumptions themselves are amortised principally on a straight-line basis over one to ten years, a specific period not exceeding the average remaining service period of employees, from the year following the year in which they arise. Past service cost is amortised principally on a straight-line basis over ten years, a specific period not exceeding the average remaining service period of the employees, from the year in which it occurs. In calculating retirement benefits obligations, the benefit formula basis is used to attribute the expected benefit attributable to the respective fiscal year.

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

(n) Accrued retirement benefits for directors and corporate auditors

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

(o) Provisions

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

(i) Provision for loss on liquidation

A provision for loss on liquidation is provided at the estimated amount of losses at the balance sheet date. At 31 March 2016 and 2017, the following amounts were included in "Provisions" in the accompanying consolidated balance sheets.

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Provision in:			
Current liabilities	¥312	¥363	$3,270
Non-current liabilities	6,750	11,292	101,730
Total	¥7,062	¥11,655	$105,000

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

An allowance for loss on collection of gift certificates outstanding issued by certain consolidated subsidiaries is provided to cover for losses due to future use of shopping coupons, travel gift coupons and similar coupons by customers. Such allowance is provided for the non-accrual of liabilities based on past experience plus estimated loss amounts. At 31 March 2016 and 2017, the following amounts were included in "Provisions" in the accompanying consolidated balance sheets.

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Provision in:			
Current liabilities	¥1,778	¥1,815	$16,351
Non-current liabilities	429	401	3,613
Total	¥2,207	¥2,216	$19,964

(p) Translation of foreign currency accounts

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

(q) Revenue recognition for the construction business

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

(r) Bond issue costs

Bond issue costs are charged to income as incurred.

(s) Income taxes

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

(t) Enterprise taxes

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

(u) Consumption taxes

For the years ended 31 March 2016 and 2017, consumption taxes were levied in Japan on the domestic sale of goods and services at a rate of 8%. Consumption taxes are excluded from revenue and expense amounts.

(v) Per share information

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

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

(w) Accounting changes

(Changes in accounting policies for business combination)
The Company and its domestic subsidiaries adopted "Revised Accounting Standard for Business Combinations" (ASBJ Statement No. 21, 13 September 2013 (hereinafter, "Statement No. 21")), "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, 13 September 2013 (hereinafter, "Statement No. 22")) and "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, 13 September 2013 (hereinafter, "Statement No. 7")) (together, the "Business Combination Accounting Standards") from the fiscal year ended 31 March 2016. As a result, the Company changed its accounting policies to recognise in capital surplus the differences arising from the changes in

the Company’s ownership interest of subsidiaries over which the Company continues to maintain control and to record acquisition related costs as expenses in the fiscal year in which the costs are incurred. In addition, the Company changed its accounting policy for the reallocation of acquisition costs due to the completion following provisional accounting to reflect such reallocation in the consolidated financial statements for the fiscal year in which the business combination took place. The Company also changed the presentation of net income and the term “non-controlling interests” is used instead of “minority interests.”

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

With regard to the application of the Business Combination Accounting Standards, the Company followed the provisional treatments in Article 58-2 (4) of Statement No. 21, Article 44-5 (4) of Statement No. 22 and Article 57-4 (4) of Statement No. 7 with application from the beginning of the fiscal year ended 31 March 2016 prospectively.

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

(Application of Practical Solution on Accounting for Changes in Depreciation Method Related to the 2016 Tax Law Changes)
Due to amendments to the Japanese Corporation Tax Act, certain consolidated subsidiaries adopted “Practical Solution on Accounting for Changes in Depreciation Method Related to the 2016 Tax Law Changes” (ASBJ Practical Issues Task Force (“PITF”) No. 32, 17 June 2016) from the year ended 31 March 2017 and changed the depreciation method of facilities attached to the buildings and structures acquired on and after 1 April 2016 from the declining balance method to the straight-line method. The effects on the consolidated financial statements for the year ended 31 March 2017 were not material.

(x) Additional information

(Application of Revised Implementation Guidance on Recoverability of Deferred Tax Assets)
The Group adopted “Revised Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No. 26, 28 March 2016) from the current fiscal year.

3. Financial instruments

Information on financial instruments for the years ended 31 March 2016 and 2017 are set forth below.

(1) Qualitative information on financial instruments

(a) Policy for financial instruments

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

(b) Financial instruments and risk management

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

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

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

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

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

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

(c) Supplemental information on fair value

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

(2) Fair values of financial instruments

The fair values and carrying values of financial instruments included in the consolidated balance sheets at 31 March 2016 and 2017, 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 2016:			
Financial assets:			
Cash and cash equivalents	¥16,922	¥16,922	¥—
Short-term investments	794	794	—
Trade notes and accounts receivable	55,711	55,711	—
Investment securities:			
Equity securities of affiliates	6,419	6,613	194
Available-for-sale securities	55,724	55,724	—
Total	¥135,570	¥135,764	¥194
Financial liabilities:			
Short-term borrowings	¥26,287	¥26,287	¥—
Trade notes and accounts payable	69,403	69,403	—
Bonds payable, including current portion	190,000	208,151	18,151
Long-term bank loans, including current portion	231,795	238,569	6,774
Total	¥517,485	¥542,410	¥24,925
Derivative instruments:*			
Hedge accounting has not been applied	¥1	¥1	¥—
Hedge accounting has been applied	(930)	(930)	—
Total	¥(929)	¥(929)	¥—

	Carrying value	Fair value	Differences
	Millions of yen		
At 31 March 2017:			
Financial assets:			
Cash and cash equivalents	¥21,944	¥21,944	¥—
Short-term investments	759	759	—
Trade notes and accounts receivable	57,828	57,828	—
Investment securities:			
Equity securities of affiliates	7,337	8,229	892
Available-for-sale securities	60,929	60,929	—
Total	¥148,797	¥149,689	¥892
Financial liabilities:			
Short-term borrowings	¥20,790	¥20,790	¥—
Trade notes and accounts payable	71,411	71,411	—
Bonds payable, including current portion	209,990	222,895	12,905
Long-term bank loans, including current portion	205,909	210,886	4,977
Total	¥508,100	¥525,982	¥17,882
Derivative instruments:*			
Hedge accounting has not been applied	¥28	¥28	¥—
Hedge accounting has been applied	(309)	(309)	—
Total	¥(281)	¥(281)	¥—

	Carrying value	Fair value	Differences
		Thousands of U.S. dollars	
At 31 March 2017:			
Financial assets:			
Cash and cash equivalents	$197,694	$197,694	$—
Short-term investments	6,838	6,838	—
Trade notes and accounts receivable	520,973	520,973	—
Investment securities:			
Equity securities of affiliates	66,099	74,135	8,036
Available-for-sale securities	548,910	548,910	—
Total	$1,340,514	$1,348,550	$8,036
Financial liabilities:			
Short-term borrowings	$187,297	$187,297	$—
Trade notes and accounts payable	643,342	643,342	—
Bonds payable, including current portion	1,891,802	2,008,064	116,262
Long-term bank loans, including current portion	1,855,036	1,899,874	44,838
Total	$4,577,477	$4,738,577	$161,100
Derivative instruments:*			
Hedge accounting has not been applied	$252	$252	$—
Hedge accounting has been applied	(2,784)	(2,784)	—
Total	$(2,532)	$(2,532)	$—

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

Notes:

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

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

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

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Carrying value:			
Unlisted investments (equity securities) in unconsolidated subsidiaries and affiliates	¥24,257	¥25,748	$231,964
Unlisted equity securities	10,593	12,252	110,378
Total	¥34,850	¥38,000	$342,342

(3) Expected maturities of financial assets at 31 March 2017 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 2017:				
Cash and cash equivalents	¥21,944	¥—	¥—	¥—
Short-term investments	759	—	—	—
Trade notes and accounts receivable	57,828	—	—	—
Total	¥80,531	¥—	¥—	¥—
	Thousands of U.S. dollars			
At 31 March 2017:				
Cash and cash equivalents	$197,694	$—	$—	$—
Short-term investments	6,838	—	—	—
Trade notes and accounts receivable	520,973	—	—	—
Total	$725,505	$—	$—	$—

The repayment schedules for borrowings and other debts with contractual maturities at 31 March 2017 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	¥20,790	¥—	¥—	¥—	¥—	¥—
Bonds payable	35,000	20,000	10,000	10,000	25,000	109,990
Long-term bank loans	42,398	32,820	31,749	15,811	19,072	64,059
Total	¥98,188	¥52,820	¥41,749	¥25,811	¥44,072	¥174,049
	Thousands of U.S. dollars					
Short-term borrowings	$187,297	$—	$—	$—	$—	$—
Bonds payable	315,316	180,180	90,090	90,090	225,225	990,901
Long-term bank loans	381,964	295,676	286,027	142,441	171,820	577,108
Total	$884,577	$475,856	$376,117	$232,531	$397,045	$1,568,009

4. Investments securities

At 31 March 2016 and 2017, short-term investments consisted of time deposits with original maturities of more than three months.

At 31 March 2016 and 2017, investment securities consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Marketable securities			
Equity securities	¥55,724	¥60,730	$547,117
Others	−	199	1,793
Total marketable securities	55,724	60,929	548,910
Nonmarketable securities	10,593	12,252	110,378
Total	¥66,317	¥73,181	$659,288

At 31 March 2016 and 2017, the fair values and gross unrealised gains and 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 2016:				
Equity securities	¥27,689	¥28,697	¥(662)	¥55,724
At 31 March 2017:				
Equity securities	27,695	33,283	(248)	60,730
Others	199	−	−	199
	Thousands of U.S. dollars			
At 31 March 2017:				
Equity securities	$249,504	$299,847	$(2,234)	$547,117
Others	1,793	−	−	1,793

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 2016	¥1,047	¥238	¥2
For the year ended 31 March 2017	729	681	2
	Thousands of U.S. dollars		
Equity securities and others:			
For the year ended 31 March 2017	$6,568	$6,135	$18

5. Inventories

Inventories at 31 March 2016 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Land and buildings for sale	¥52,438	¥57,909	$521,703
Merchandise and finished goods	7,114	7,607	68,531
Work in process	655	873	7,865
Raw materials and supplies	3,822	3,895	35,090
Total	¥64,029	¥70,284	$633,189

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

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
	¥2,242	¥3,203	$28,856

6. Impairment loss on fixed assets

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

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

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Property subject to impairment:	Leisure facilities, rental properties and others	Department stores and commercial facilities, truck facilities, idle land and others	
Impairment loss recorded:			
Buildings and structures	¥932	¥1,898	$17,099
Land	4,813	1,919	17,288
Others	225	357	3,217
Total	¥5,970	¥4,174	$37,604

The Group applied either the net selling price or value in use to determine the recoverable amounts of the asset groups described in the above table. The net selling price was based on the appraised value obtained from a professional real estate appraiser, estate tax valuations determined through land assessments or property tax bases with adjustments as applicable. The value in use was based on the present value of expected cash flows discounted at 2.4% and 1.8% for the years ended 31 March 2016 and 2017, respectively.

7. Real estate for rent

The Company and some of the consolidated subsidiaries own real estate such as office buildings, parking lots and other facilities for rent. The carrying values of such real estate in the consolidated balance sheets, changes during the years ended 31 March 2016 and 2017 and the fair values of real estate were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Carrying value at beginning of year	¥118,385	¥121,635	$1,095,811
Net changes during the year	3,250	8,277	74,567
Carrying value at end of year	121,635	129,912	1,170,378
Fair value at end of year*	¥151,364	¥160,857	$1,449,162

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

Profits or losses recorded for rental properties for the fiscal years ended 31 March 2016 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Income from rental operations	¥5,336	¥5,188	$46,739
Impairment loss on rental properties	551	985	8,874

8. Short-term borrowings and long-term debt

Short-term borrowings at 31 March 2016 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Bank loans with average interest rates of 0.1681% at 31 March 2017:			
Secured	¥4,222	¥3,608	$32,504
Unsecured	22,065	17,182	154,793
Total	¥26,287	¥20,790	$187,297

Long-term debt at 31 March 2016 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
2.11% unsecured bonds, due February 2017	¥10,000	¥ —	$—
2.1% unsecured bonds, due June 2017*	—	—	—
0.3% unsecured bonds, due June 2017	10,000	10,000	90,090
2.01% unsecured bonds, due September 2017	10,000	10,000	90,090
1.88% unsecured bonds, due February 2018	15,000	15,000	135,135
1.94% unsecured bonds, due September 2018	10,000	10,000	90,090
0.24% unsecured bonds, due December 2018	10,000	10,000	90,090
2.05% unsecured bonds, due August 2019	10,000	10,000	90,090
1.26% unsecured bonds, due October 2020	10,000	10,000	90,090
0.557% unsecured bonds, due April 2021	15,000	15,000	135,135
1.35% unsecured bonds, due July 2021	10,000	10,000	90,090
0.857% unsecured bonds, due April 2027	15,000	15,000	135,135
0.85% unsecured bonds, due February 2035	—	15,000	135,135
0.75% unsecured bonds, due August 2036	—	15,000	135,135
Zero coupon unsecured convertible bonds, due October 2023	25,000	24,990	225,135
Zero coupon unsecured convertible bonds, due December 2024	40,000	40,000	360,360
Bank loans with average interest rate of 0.8690% at 31 March 2017, due through 2030:			
Secured	50,538	41,936	377,802
Unsecured	181,257	163,972	1,477,226
Capitalised lease obligations	10,287	7,913	71,289
Subtotal	432,082	423,811	3,818,117
Less current portion	(59,114)	(79,673)	(717,775)
Total	¥372,968	¥344,138	$3,100,342

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

At 31 March 2017, zero coupon convertible bonds due October 2023 and zero coupon convertible bonds due December 2024 were ¥386 and ¥583 per share, respectively, and subject to adjustment in certain circumstances, including in the event of a stock split. The Company may, at its call option, redeem all, but not some only, of the zero coupon convertible bonds due October 2023 for the period from 5 October 2020 at 100% of the principal amount, subject to certain conditions. And the Company may, at its call option, redeem all, but not some only, of the zero coupon convertible bonds due December 2024 for the period from 11 December 2022 at 100% of the principal amount, subject to certain conditions.

At 31 March 2017, the number of shares of common stock necessary for conversion of all convertible bonds outstanding was approximately 133 million.

The annual maturities of long-term debt at 31 March 2017 were as follows:

Year ending 31 March	Millions of yen	Thousands of U.S. dollars
2018	¥79,673	$717,775
2019	54,675	492,567
2020	43,379	390,802
2021	26,561	239,288
2022	44,291	399,018
2023 and thereafter	175,232	1,578,667
Total	¥423,811	$3,818,117

At 31 March 2016 and 2017, the following assets were pledged for short-term and long-term bank loans.

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Land	¥97,332	¥95,282	$858,396
Buildings and structures	136,998	133,157	1,199,613
Machinery, equipment and vehicles	11,274	13,009	117,198
Others	1,176	1,506	13,568
Total	¥246,780	¥242,954	$2,188,775

9. Employee retirement benefit liability

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

As of and for the years ended 31 March 2016 and 2017, the details of the defined benefit plans were as follows:

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

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Balance as of the beginning of the period:	¥40,602	¥39,382	$354,793
Service cost	1,919	1,663	14,982
Interest cost	221	94	847
Actuarial differences incurred	1,270	(145)	(1,306)
Benefits paid	(2,061)	(1,933)	(17,415)
Transfers due to a change from the principle method to the simplified method	(677)	(2,012)	(18,126)
Decrease due to partial termination of retirement benefit plans	(1,896)	(979)	(8,820)
Others	4	—	—
Balance as of the end of the period:	¥39,382	¥36,070	$324,955

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

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Balance as of the beginning of the period:	¥12,272	¥10,391	$93,613
Expected return on plan assets	46	49	441
Actuarial differences incurred	(2,051)	1,091	9,829
Contributions paid by the employer	276	354	3,189
Benefits paid	(152)	(238)	(2,144)
Balance as of the end of the period:	¥10,391	¥11,647	$104,928

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

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Balance as of the beginning of the period:	¥8,077	¥8,350	$75,225
Retirement benefit costs	767	999	9,000
Benefits paid	(1,125)	(1,212)	(10,919)
Contributions paid by the employer	(53)	(13)	(117)
Transfers due to changing from the principle method to the simplified method	677	2,012	18,126
Decrease due to partial termination of retirement benefit plans	—	(247)	(2,225)
Others	7	2	18
Balance as of the end of the period:	¥8,350	¥9,891	$89,108

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

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Funded retirement benefit obligations	¥28,913	¥28,922	$260,558
Plan assets	(10,549)	(11,805)	(106,351)
	18,364	17,117	154,207
Unfunded retirement benefit obligations	18,976	17,198	154,937
Employee retirement benefit liability recorded as of the end of the period:	¥37,340	¥34,315	$309,144

(e) Net periodic retirement benefit expenses

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Service cost	¥1,920	¥1,662	$14,973
Interest cost	221	94	847
Expected return on plan assets	(47)	(49)	(441)
Transitional obligation amortisation	153	—	—
Net actuarial loss amortisation	1,111	2,268	20,432
Prior service cost amortisation	(16)	(16)	(144)
Retirement benefit costs based on the simplified method	771	999	9,000
Others	(68)	(93)	(838)
Total net periodic retirement benefit expenses	¥4,045	¥4,865	$43,829

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

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Transitional obligation	¥157	¥ —	$ —
Actuarial differences	(1,963)	3,707	33,396
Past service cost	(16)	(17)	(153)
Total balance, before tax effects, as of the end of the period:	¥(1,822)	¥3,690	$33,243

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

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Actuarial differences yet to be recognised	¥6,014	¥2,307	$20,784
Past service costs yet to be recognised	(122)	(105)	(946)
Total balance, before tax effects, as of the end of the period:	¥5,892	¥2,202	$19,838

(h) Plan assets

1) Plan assets comprise:

Equity securities	76.2%
Bonds	5.0%
Cash and cash equivalents	2.4%
General accounts	11.8%
Others	4.6%
Total	100.0%

2) Long-term expected rate of return

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

(i) Actuarial assumptions

The principal actuarial assumptions at 31 March 2017 (expressed as weighted averages) are as follows:

Discount rate	0.2% to 0.4%
Long-term expected rate of return	0.0% to 2.0%

For the year ended 31 March 2017, the contributions required for defined contribution plans were ¥3,927 million ($35,378 thousand) in the Group.

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

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

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Latest calculation period-end	31 March 2015	31 March 2016	31 March 2016
Pension plan assets	¥18,095	¥−	$−
Total of actuarial obligation and minimum liability reserve under pension programs	20,476	−	−
Difference	¥(2,381)	¥−	$−
Ratio of subsidiaries' contributions to total contributions to entire plans	2.7%	−	−

10. Contingent liabilities

At 31 March 2016 and 2017, contingent liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Contingently liable for:			
Guarantees of loans of others	¥490	¥605	$5,451
Guarantees under debt assumption agreements	10,000	10,000	90,090
Total	¥10,490	¥10,605	$95,541

11. Lease transactions

(As lessee)

(a) Finance leases

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

	Machinery, equipment and vehicles	Others	Total
	Millions of yen		
At 31 March 2016:			
Acquisition cost	¥16,797	¥3,225	¥20,022
Accumulated depreciation	13,251	2,135	15,386
Accumulated impairment loss	233	1	234
Net leased property	¥3,313	¥1,089	¥4,402
At 31 March 2017:			
Acquisition cost	¥16,119	¥3,225	¥19,344
Accumulated depreciation	13,880	2,291	16,171
Accumulated impairment loss	233	1	234
Net leased property	¥2,006	¥933	¥2,939
	Thousands of U.S. dollars		
At 31 March 2017:			
Acquisition cost	$145,216	$29,054	$174,270
Accumulated depreciation	125,045	20,640	145,685
Accumulated impairment loss	2,099	9	2,108
Net leased property	$18,072	$8,405	$26,477

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

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Due within 1 year	¥1,602	¥1,454	$13,099
Due after 1 year	3,768	2,315	20,856
Total	¥5,370	¥3,769	$33,955

An allowance for impairment loss on leased property in the amount of ¥2 million was included in other current and non-current liabilities in the consolidated balance sheets for 31 March 2016.

Lease expense and other information at 31 March 2016 and 2017 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Lease expense	¥1,929	¥1,829	$16,477
Reversal of allowance for impairment loss on leased property	7	2	18
Imputed depreciation expense *(*1)*	1,519	1,435	12,928
Imputed interest expense *(*2)*	239	196	1,766
Impairment loss	―	―	―

**1) Depreciation was calculated using the straight-line method with the useful life equal to the lease period and residual value zero.*
**2) Imputed interest expense is the difference between total lease payments and the acquisition costs and was calculated based on the interest method.*

(b) Operating leases

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

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Due within 1 year	¥667	¥376	$3,387
Due after 1 year	1,057	663	5,973
Total	¥1,724	¥1,039	$9,360

(As lessor)
(a) Finance leases

Lease investment assets at 31 March 2016 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Lease receivables	¥4,890	¥5,121	$46,135
Estimated residual value	173	137	1,234
Unearned imputed interest	(954)	(960)	(8,648)
Lease investment assets included in trade receivables	¥4,109	¥4,298	$38,721

The aggregate annual maturities of lease receivables and investments at 31 March 2017 were as follows:

Year ending 31 March	Millions of yen	Thousands of U.S. dollars
2018	¥1,668	$15,027
2019	1,408	12,685
2020	1,001	9,018
2021	622	5,604
2022	359	3,234
2023 and thereafter	63	567
Total	¥5,121	$46,135

(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
	2016	2017	2017
Due within 1 year	¥2,271	¥2,369	$21,342
Due after 1 year	9,171	6,931	62,442
Total	¥11,442	¥9,300	$83,784

12. Derivatives

At 31 March 2016 and 2017, derivative transactions to which hedge accounting was not applied were as follows:

(Foreign currency related transactions)

	Contract amount			
	Total amount	Due after 1 year	Fair value*	Unrealised gain/(loss)
	Millions of yen			
Foreign exchange forward contracts to buy foreign currencies:				
At 31 March 2016	¥286	¥12	¥1	¥1
At 31 March 2017	319	—	28	28
	Thousands of U.S. dollars			
Foreign exchange forward contracts to buy foreign currencies:				
At 31 March 2017	$2,874	$—	$252	$252

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

At 31 March 2016 and 2017, derivative transactions to which hedge accounting was applied were as follows:

(Foreign currency related transactions)

			Contract amount		
Method of hedge accounting	Transaction	Major hedged items	Total amount	Due after 1 year	Fair value*
			Millions of yen		
Allocation method for foreign exchange forward contracts:	Currency swaps - pay fixed rate and receive floating rate - pay Japanese yen receive U.S. dollar	Long-term bank loans			
At 31 March 2016			¥18,543	¥12,904	¥—
At 31 March 2017			12,904	10,338	—
			Thousands of U.S. dollars		
Allocation method for foreign exchange forward contracts:	Currency swaps - pay fixed rate and receive floating rate - pay Japanese yen receive U.S. dollar	Long-term bank loans			
At 31 March 2017			$116,252	$93,135	$—

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

(Interest rate related transactions)

Method of hedge accounting	Transaction	Major hedged items	Contract amount: Total amount	Contract amount: Due after 1 year	Fair value*
			Millions of yen		
General treatment for interest rate swaps:	Interest rate swaps - pay fixed rate and receive floating rate	Long-term bank loans			
At 31 March 2016			¥1,750	¥1,575	¥(22)
At 31 March 2017			1,575	1,400	2
			Thousands of U.S. dollars		
General treatment for interest rate swaps:	Interest rate swaps - pay fixed rate and receive floating rate	Long-term bank loans			
At 31 March 2017			$14,189	$12,613	$18

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

Method of hedge accounting	Transaction	Major hedged items	Contract amount: 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 2016			¥96,661	¥92,788	¥—
At 31 March 2017			92,788	80,808	—
			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 2017			$835,928	$728,000	$—

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

(Commodity price - related transactions)

Method of hedge accounting	Transaction	Major hedged items	Contract amount Total amount	Contract amount Due after 1 year	Fair value*
			Millions of yen		
General treatment for commodity swaps:	Commodity swaps-pay fixed and receive floating	Ship fuel			
At 31 March 2016			¥2,265	¥1,192	¥(908)
At 31 March 2017			1,634	364	(311)
			Thousands of U.S. dollars		
General treatment for commodity swaps:	Commodity swaps-pay fixed and receive floating	Ship fuel			
At 31 March 2017			$14,721	$3,279	$(2,802)

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

13. Net assets

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

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

At 31 March 2016 and 2017, capital surplus consisted principally of additional paid-in capital. In addition, retained earnings included the legal earnings reserve of the Company in the amounts of ¥2,808 million and ¥2,808 million ($25,297 thousand) at 31 March 2016 and 2017, 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 32.8% and 30.7% for the years ended 31 March 2016 and 2017, respectively.

Significant components of the Groups' deferred tax assets and liabilities as of 31 March 2016 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Deferred tax assets:			
Employee retirement benefit liability	¥15,269	¥14,310	$128,919
Impairment loss on fixed assets	9,592	12,407	111,775
Loss on valuation of investment securities	7,942	5,404	48,685
Elimination of unrealised profit	4,473	4,668	42,054
Tax loss carryforwards	3,442	3,865	34,820
Provision for loss on liquidation	2,105	3,508	31,604
Depreciation	3,161	3,399	30,622
Valuation loss on fixed assets	2,157	3,127	28,171
Accrued bonus	1,823	1,837	16,550
Accrued enterprise taxes and accrued business office taxes	698	889	8,009
Loss on valuation of land caused by restructuring	840	840	7,568
Allowance for loss on exchange of gift certificates Outstanding	752	749	6,748
Allowance for doubtful accounts	669	679	6,117
Provision for retirement benefits for directors	569	555	5,000
Loss on valuation of inventories	283	272	2,449
Others	3,480	3,414	30,756
Subtotal of deferred tax assets	57,255	59,923	539,847
Less valuation allowance	(29,450)	(27,451)	(247,306)
Total deferred tax assets	27,805	32,472	292,541
Deferred tax liabilities:			
Net unrealised gains on available-for-sale securities	(8,140)	(9,642)	(86,865)
Gain on valuation of land caused by restructuring	(3,188)	(3,187)	(28,712)
Gain on valuation of investment securities	(2,076)	(2,076)	(18,703)
Retained earnings	(322)	(1,939)	(17,468)
Trust for employee retirement benefits	(1,810)	(1,810)	(16,306)
Deferred capital gains	(980)	(935)	(8,423)
Others	(943)	(926)	(8,343)
Total deferred tax liabilities	(17,459)	(20,515)	(184,820)
Net deferred tax assets	¥10,346	¥11,957	$107,721

At 31 March 2016 and 2017, deferred tax assets and liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Deferred tax assets:			
Current	¥3,411	¥4,241	$38,207
Noncurrent	10,573	11,913	107,324
Deferred tax liabilities:			
Current	—	1	9
Noncurrent	3,638	4,196	37,802

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 2016 and 2017, a valuation allowance was provided to reduce deferred tax assets to the amount management believed would be realisable.

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

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

A reconciliation for the year ended 31 March 2017 was not disclosed as the difference between the rates was not material.

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

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

15. Segment information

(1) General information about reportable segments

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

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

The business descriptions of the reportable segments are as follows:

-Traffic: business related to railroads, buses and taxis

-Transport: business related to trucking and maritime transportation

-Real Estate: real estate development and real estate leasing

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

-Distribution: department store operations and distributions of other merchandise sales

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

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

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

Information about reportable segments as of and for the year ended 31 March 2016 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 2016:									
Operating revenues:									
External customers	¥ 162,177	¥ 131,478	¥ 81,109	¥ 53,467	¥ 125,841	¥ 56,082	¥ 610,154	¥ －	¥ 610,154
Intersegment sales/transfers	2,312	538	6,699	1,572	10,545	21,829	43,495	(43,495)	－
Total	¥ 164,489	¥ 132,016	¥ 87,808	¥ 55,039	¥ 136,386	¥ 77,911	¥ 653,649	¥ (43,495)	¥ 610,154
Segment income *(*2)*	22,004	6,234	9,595	2,103	863	3,691	44,490	375	44,865
Segment assets *(*3)*	475,003	115,753	261,378	35,681	45,373	71,987	1,005,175	59,432	1,064,607
Other material items:									
Depreciation and amortisation *(*4)*	18,877	5,675	5,801	1,325	1,358	6,414	39,450	(536)	38,914
Amortisation of goodwill	－	63	127	－	13	－	203	－	203
Impairment loss on fixed assets	1,141	86	1,783	2,594	302	64	5,970	－	5,970
Increase in property and equipment and intangible assets	17,195	8,350	11,052	1,687	2,652	8,429	49,365	－	49,365

**1) "Others" is a business segment that is not considered a reportable segment. It includes the business of equipment maintenance, air transportation, building maintenance, insurance agency and others.*
**2) Segment income adjustment amounting to ¥375 million was treated as intersegment elimination.*
**3) Segment assets adjustment amounting to ¥59,432 million consisted of unallocated general corporate assets amounting to ¥87,180 million, net of intersegment elimination of ¥27,748 million. Such general corporate assets consisted mainly of cash, deposits and investment securities.*
**4) Depreciation and amortisation adjustment amounting to ¥536 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 2017 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 2017:									
Operating revenues:									
External customers	¥ 162,873	¥ 129,416	¥ 74,251	¥ 53,465	¥ 124,826	¥ 54,739	¥ 599,570	¥ －	¥ 599,570
Intersegment sales/transfers	2,310	449	7,032	1,647	9,572	18,792	39,802	(39,802)	－
Total	¥ 165,183	¥ 129,865	¥ 81,283	¥ 55,112	¥ 134,398	¥ 73,531	¥ 639,372	¥ (39,802)	¥ 599,570
Segment income *(*2)*	22,723	5,690	8,997	1,766	928	4,031	44,135	46	44,181
Segment assets *(*3)*	479,513	108,906	281,611	36,466	45,222	77,966	1,029,684	64,199	1,093,883
Other material items:									
Depreciation and amortisation *(*4)*	18,117	5,985	5,906	1,366	1,632	6,244	39,250	(502)	38,748
Amortisation of goodwill	－	32	127	－	13	－	172	－	172
Impairment loss on fixed assets	182	990	1,035	235	1,711	21	4,174	－	4,174
Increase in property and equipment and intangible assets	18,825	7,458	12,744	1,763	780	6,551	48,121	－	48,121

	Traffic	Transport	Real Estate	Leisure and Services	Distribution	Others *(*1)*	Total	Adjustments	Consolidated financial statements
	Reportable segments								
	Thousands of U.S. dollars								
For the year 2017:									
Operating revenues:									
External customers	$ 1,467,324	$ 1,165,910	$ 668,928	$ 481,667	$ 1,124,559	$ 493,144	$ 5,401,532	$ —	$ 5,401,532
Intersegment sales/transfers	20,811	4,045	63,351	14,838	86,234	169,297	358,576	(358,576)	—
Total	$ 1,488,135	$ 1,169,955	$ 732,279	$ 496,505	$ 1,210,793	$ 662,441	$ 5,760,108	$ (358,576)	$ 5,401,532
Segment income *(*2)*	204,712	51,261	81,054	15,910	8,361	36,315	397,613	414	398,027
Segment assets *(*3)*	4,319,937	981,135	2,537,036	328,523	407,405	702,396	9,276,432	578,370	9,854,802
Other material items:									
Depreciation and amortisation *(*4)*	163,216	53,919	53,207	12,307	14,703	56,252	353,604	(4,523)	349,081
Amortisation of goodwill	—	289	1,144	—	117	—	1,550	—	1,550
Impairment loss on fixed assets	1,640	8,919	9,324	2,117	15,415	189	37,604	—	37,604
Increase in property and equipment and intangible assets	169,595	67,189	114,811	15,883	7,027	59,018	433,523	—	433,523

**1) "Others" is a business segment that is not considered a reportable segment. It includes the business of equipment maintenance, air transportation, building maintenance, insurance agency and others.*
**2) Segment income adjustment amounting to ¥46 million ($414 thousand) was treated as intersegment elimination.*
**3) Segment assets adjustment amounting to ¥64,199 million ($578,370 thousand) consisted of unallocated general corporate assets amounting to ¥93,126 million ($838,973 thousand), net of intersegment elimination of ¥28,927 million ($260,604 thousand). Such general corporate assets consisted mainly of cash, deposits and investment securities.*
**4) Depreciation and amortisation adjustment amounting to ¥502 million ($4,523 thousand) was treated as intersegment elimination.*
5) Segment income was reconciled to operating income in the accompanying consolidated statements of income.

(Related information)

(1) Information about products and services
As this information has been presented under segment information above, such information has been omitted.

(2) Information about geographic areas
(Operating revenues)
As operating revenues attributable to external customers in Japan represented more than 90% of operating revenues in the consolidated statements of income, such information has been omitted.

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

(3) Information about major customers
The Company has not disclosed information about major customers because no single customer has represented 10% or more of 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 2016	¥—	¥32	¥1,048	¥—	¥13	¥—	¥—	¥1,093
At 31 March 2017	—	—	921	—	—	—	—	921

	Traffic	Transport	Real Estate	Leisure and Services	Distribution	Others	Eliminations	Consolidated
	Thousands of U.S. dollars							
Balance of goodwill:								
At 31 March 2017	$—	$—	$8,297	$—	$—	$—	$—	$8,297

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

(5) Information about reportable segment gain on negative goodwill

- Consolidated fiscal year ended 31 March 2016 and 2017

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

16. Comprehensive income

Amounts reclassified to net income (loss) in the current period that were recognised in other comprehensive income in the current or previous periods and the tax effects for each component of other comprehensive income for the years ended 31 March 2016 and 2017 were as follows.

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Unrealised gains on available-for-sale securities, net of taxes:			
Amount arising during the year	¥(5,434)	¥5,731	$51,631
Reclassification adjustments	(217)	(706)	(6,360)
Subtotal, before tax	(5,651)	5,025	45,271
The amount of tax effect	2,204	(1,510)	(13,604)
Subtotal, net of tax	(3,447)	3,515	31,667
Deferred gains and losses on hedges, net of taxes:			
Amount arising during the year	(476)	669	6,027
Reclassification adjustments	(138)	(49)	(441)
Subtotal, before tax	(614)	620	5,586
The amount of tax effect	182	(190)	(1,712)
Subtotal, net of tax	(432)	430	3,874
Land revaluation increments, net of taxes:			
The amount of tax effect	3,883	14	126
Subtotal, net of tax	3,883	14	126
Foreign currency translation adjustments			
Amount arising during the year	—	(4)	(36)
Reclassification adjustments	—	—	—
Subtotal, before tax	—	(4)	(36)
The amount of tax effect	—	—	—
Subtotal, net of tax	—	(4)	(36)
Retirement benefit adjustments			
Amount arising during the year	(3,321)	1,233	11,108
Reclassification adjustments	1,499	2,457	22,135
Subtotal, before tax	(1,822)	3,690	33,243
The amount of tax effect	875	(1,107)	(9,973)
Subtotal, net of tax	(947)	2,583	23,270
Share of other comprehensive income of affiliates accounted for using equity method:			
Amount arising during the year	(409)	151	1,361
Reclassification adjustments	10	2	18
Subtotal	(399)	153	1,379
Total other comprehensive income	¥(1,342)	¥6,691	$60,280

17. Subsequent events

(a) Cash dividends

An appropriation of retained earnings for the year ended 31 March 2017 was duly approved at the ordinary shareholders' meeting held on 28 June 2017 as follows:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥5.00 per share)	¥4,596	$41,405

The above dividends became payable to shareholders of record as of 31 March 2017. However, such appropriation has not been accrued in the consolidated financial statements as of 31 March 2017 as such appropriation is recognised in the period in which it is approved by the shareholders.

(b) Bonds issued

Based on the resolution of the Board of Directors of the Company on 27 March 2017, the Company issued the 54th Series Unsecured Straight Bonds as shown below.
The details are as follows:

54th Series Unsecured Straight Bonds
- Total amount of issue: 15 billion yen
- Issue value: 100 yen per face value of 100 yen
- Coupon: 0.806% per annum
- Issue date: 31 May 2017
- Maturity date: 29 May 2037
- Use of proceeds: Repayment of borrowings

(c) Change in the number of shares per trading unit and share consolidation

At the meeting of its Board of Directors held on 10 May 2017, the Company decided to submit a proposal for change in the number of shares per trading unit and a share consolidation at the ordinary general meeting of shareholders held on 28 June 2017. The proposal was approved at the meeting of shareholders. The details are as follows:

(i) Change in the number of shares per trading unit

(1) Reason for change

Based on the "Action Plan for Consolidating Trading Units," the Japanese Stock Exchanges seek to standardize the trading units for common shares issued by all listed domestic corporations at 100 shares by 1 October 2018. As a corporation listed on Tokyo Stock Exchange and Nagoya Stock Exchange, the Company respects the objective of this plan and will change its number of shares per trading unit.

(2) Details of change

The Company will change the number of shares per trading unit from 1,000 to 100 on 1 October 2017.

(ii) Share Consolidation

(1) Reason for share consolidation

As discussed in "1. Change in the number of shares per trading unit" above, in changing the number of shares per trading unit from 1,000 shares to 100 shares, in order to adjust the appropriate price level of a trading unit, the Company decided to carry out a share consolidation of the shares under which every 5 shares will be consolidated into 1 share. The Company will reduce its total number of authorized shares from 920 million shares to 184 million shares at the same ratio as that of the Share Consolidation.

(2) Details of share consolidation

(a) Class of shares to be consolidated: Common shares

(b) Method and ratio of consolidation

Every 5 shares will be consolidated into 1 share on 1 October 2017 based on the number of shares held by shareholders of record in the latest Register of Shareholders as of 30 September 2017.

(c) Decrease in number of shares due to consolidation

Number of outstanding shares before share consolidation (as of 31 March 2017)	919,772,531
Decrease in number of shares due to share consolidation	735,818,025
Number of outstanding shares after share consolidation	183,954,506

Note: "Decrease in number of shares after share consolidation" and "Number of outstanding shares after share consolidation" are theoretical figures calculated based on the number of outstanding shares before the share consolidation and the consolidation ratio.

(d) Handling of fractional shares less than 1 share

In accordance with the Companies Act, if a fractional share of less than 1 share is created as a result of the share consolidation, all the fractional shares will be sold together, and the proceeds will be distributed to shareholders who held the fractional shares in proportion to the number of fractional shares they held.

(iii) Influence on per share information due to share consolidation

Per share information for the year ended 31 March 2016 and 2017 if the share consolidation had already been completed is as follows:

	Yen		U.S. dollars
	2016	2017	2017
Net assets per share	¥1,582.64	¥1,720.72	$15.02
Per share net income:			
- Basic	133.41	127.46	1.15
- Diluted	116.51	111.31	1.00