KPMG

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, 2018 and 2019, 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 judgment, 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, 2018 and 2019, 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, 2019 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, 2019
Nagoya, Japan

Nagoya Railroad Co., Ltd. and Consolidated Subsidiaries

Consolidated Balance Sheets

31 March 2018 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2019	2019
ASSETS			
Current assets:			
Cash and cash equivalents (Note 3)	¥ 30,855	¥ 25,192	$ 226,955
Short-term investments (Notes 3 and 4)	734	678	6,108
Trade notes and accounts receivable (Note 3)	57,808	63,297	570,243
Inventories (Note 5)	70,647	75,650	681,532
Others	18,282	18,061	162,712
Less allowance for doubtful accounts	(290)	(213)	(1,919)
Total current assets	178,036	182,665	1,645,631
Property and equipment: (Notes 6, 7 and 8)			
Land	362,632	362,296	3,263,928
Buildings and structures	691,180	702,273	6,326,784
Machinery, equipment and vehicles	323,094	336,187	3,028,712
Other properties	68,962	70,310	633,423
Construction in progress	41,167	46,168	415,928
	1,487,035	1,517,234	13,668,775
Less accumulated depreciation	(697,732)	(712,307)	(6,417,180)
Property and equipment, net	789,303	804,927	7,251,595
Investments and other assets:			
Investment securities (Notes 3 and 4)	80,477	76,048	685,117
Investments in unconsolidated subsidiaries and affiliates (Note 3)	35,656	36,105	325,270
Deferred tax assets (Note 2(w) and Note 14)	13,478	14,900	134,234
Intangible assets	8,804	10,779	97,108
Other assets	16,696	16,380	147,568
Allowance for doubtful accounts	(1,828)	(395)	(3,559)
Total investments and other assets	153,283	153,817	1,385,738
Total assets	¥ 1,120,622	¥ 1,141,409	$ 10,282,964

See Notes to Consolidated Financial Statements.

Nagoya Railroad Co., Ltd. and Consolidated Subsidiaries

Consolidated Balance Sheets

31 March 2018 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2019	2019
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term borrowings (Notes 3 and 8)	¥ 22,500	¥ 20,746	$ 186,901
Current portion of long-term debt (Notes 3 and 8)	55,867	44,488	400,793
Trade notes and accounts payable (Note 3)	69,163	77,695	699,955
Accrued expenses	15,669	16,450	148,198
Income taxes payable	9,138	7,277	65,559
Provisions	2,137	2,366	21,315
Other current liabilities	85,212	90,938	819,261
Total current liabilities	259,686	259,960	2,341,982
Non-current liabilities:			
Long-term debt (Notes 3 and 8)	348,003	333,297	3,002,676
Accrued retirement benefits for directors and corporate auditors	1,324	1,364	12,288
Deferred tax liabilities (Note 2(w) and Note 14)	3,792	4,068	36,649
Deferred tax liabilities for land revaluation	56,752	56,572	509,658
Provisions	12,880	11,643	104,892
Employee retirement benefit liability (Note 9)	30,719	31,406	282,937
Other non-current liabilities	17,910	18,072	162,810
Total non-current liabilities	471,380	456,422	4,111,910
Total liabilities	731,066	716,382	6,453,892
Contingent liabilities (Notes 10 and 11)			
Net assets:			
Shareholders' equity: (Notes 13 and 17)			
Common stock: authorised - 360,000 thousand shares issued - 190,467 thousand shares at 31 March 2018 and 196,306 thousand shares at 31 March 2019	95,149	100,779	907,919
Capital surplus	29,270	34,940	314,775
Retained earnings	117,154	142,912	1,287,495
Treasury stock - at cost: 27 thousand shares at 31 March 2018 and 28 thousand shares at 31 March 2019	(30)	(31)	(279)
Total shareholders' equity	241,543	278,600	2,509,910
Accumulated other comprehensive income (loss):			
Net unrealised gains on available-for-sale securities	28,922	25,225	227,252
Deferred gains and losses on hedges	120	81	730
Land revaluation increment	88,698	88,052	793,261
Foreign currency translation adjustments	(17)	(24)	(216)
Retirement benefit adjustments	1,074	1,092	9,838
Total accumulated other comprehensive income (loss)	118,797	114,426	1,030,865
Non-controlling interests	29,216	32,001	288,297
Total net assets	389,556	425,027	3,829,072
Total liabilities and net assets	¥ 1,120,622	¥ 1,141,409	$ 10,282,964

Nagoya Railroad Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Income

For the Years Ended 31 March 2018 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2019	2019
Operating revenues (Note 15)	¥ 604,804	¥ 622,568	$ 5,608,721
Operating expenses			
Transportation, other services and cost of sales	505,776	519,201	4,677,486
Selling, general and administrative expenses	52,051	53,911	485,685
Total operating expenses	557,827	573,112	5,163,171
Operating income	46,977	49,456	445,550
Other income (expenses):			
Interest and dividend income	1,614	1,674	15,081
Interest expense	(3,728)	(3,443)	(31,018)
Equity in net earnings of affiliates	2,926	2,708	24,396
Impairment loss on fixed assets (Note 6)	(3,907)	(1,487)	(13,396)
Gain on sale or disposition of property and equipment, net	197	(4,850)	(43,694)
Gain on contributions for construction (Note 2(k))	976	1,387	12,495
Loss on reduction of property and equipment (Note 2(k))	(890)	(1,228)	(11,063)
Provision for loss on liquidation	(915)	(573)	(5,162)
Others, net	2,167	2,476	22,306
Other income (expenses), net	(1,560)	(3,336)	(30,055)
Profit before income taxes	45,417	46,120	415,495
Income taxes:			
Current	15,407	14,498	130,612
Deferred	(1,377)	(366)	(3,297)
Total income taxes	14,030	14,132	127,315
Profit	31,387	31,988	288,180
Profit attributable to:			
Owners of the parent	28,692	30,457	274,387
Non-controlling interests	2,695	1,531	13,793
Total profit	¥ 31,387	¥ 31,988	$ 288,180
Per share:			
Net income:			
- Basic	¥ 155.04	¥ 158.90	$ 1.43
- Diluted	136.31	144.71	1.30
Cash dividends	27.50	27.50	0.25

＊The company's common stock was consolidated at the ratio of 5 shares to 1 share with an effective date of 1 October 2017. Accordingly, the net income per share-basic and the net income per share-diluted were calculated based on the assumption that the share consolidation was conducted at the beginning of the fiscal year ended 31 March 2018. The cash dividend per share for the fiscal year ended 31 March 2018 was calculated based on the number of shares after the share consolidation.

See Notes to Consolidated Financial Statements.

Nagoya Railroad Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Comprehensive Income

For the Years Ended 31 March 2018 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2019	2019
Profit	¥ 31,387	¥ 31,988	$ 288,180
Other comprehensive income: (Note 16)			
Net unrealised gains and losses on available-for-sale securities	5,094	(3,551)	(31,991)
Deferred gains and losses on hedges	338	(43)	(387)
Land revaluation increment	(175)	(164)	(1,477)
Foreign currency translation adjustments	(4)	(7)	(63)
Retirement benefit adjustments	2,322	49	441
Share of other comprehensive income of affiliates accounted for using the equity method	36	(235)	(2,118)
Total other comprehensive income	7,611	(3,951)	(35,595)
Comprehensive income	¥ 38,998	¥ 28,037	$ 252,585
Comprehensive income attributable to:			
Owners of the parent	¥ 36,048	¥ 26,568	$ 239,351
Non-controlling interests	2,950	1,469	13,234
Total comprehensive income	¥ 38,998	¥ 28,037	$ 252,585

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 2018 and 2019

		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 2017	183,955	¥ 88,864	¥ 23,156	¥ 93,165	¥ (271)	¥ 204,914	¥ 23,908	¥ (197)	¥ 88,835	¥ (13)	¥ (1,127)	¥ 111,406	¥ 26,493	¥ 342,813
Profit attributable to owners of the parent	–	–	–	28,692	–	28,692	–	–	–	–	–	–	–	28,692
Issuance of new shares	6,512	6,285	6,285	–	–	12,570	–	–	–	–	–	–	–	12,570
Cash dividends	–	–	–	(4,596)	–	(4,596)	–	–	–	–	–	–	–	(4,596)
Reversal for land revaluation increment	–	–	–	(36)	–	(36)	–	–	–	–	–	–	–	(36)
Transfer from retained earnings to capital surplus	–	–	71	(71)	–	–	–	–	–	–	–	–	–	–
Issuance of treasury stock upon conversion of convertible bonds and other, net of fractional shares acquired	–	–	(71)	–	241	170	–	–	–	–	–	–	–	170
Change in ownership interest of parent related to transactions with non-controlling interests	–	–	(171)	–	–	(171)	–	–	–	–	–	–	–	(171)
Net changes in items other than shareholders' equity for the year	–	–	–	–	–	–	5,014	317	(137)	(4)	2,201	7,391	2,723	10,114
Balance as of 31 March 2018	190,467	95,149	29,270	117,154	(30)	241,543	28,922	120	88,698	(17)	1,074	118,797	29,216	389,556
Profit attributable to owners of the parent	–	–	–	30,457	–	30,457	–	–	–	–	–	–	–	30,457
Issuance of new shares	5,839	5,630	5,630	–	–	11,260	–	–	–	–	–	–	–	11,260
Cash dividends	–	–	–	(5,238)	–	(5,238)	–	–	–	–	–	–	–	(5,238)
Reversal for land revaluation increment	–	–	–	481	–	481	–	–	–	–	–	–	–	481
Transfer from retained earnings to capital surplus	–	–	18	(18)	–	–	–	–	–	–	–	–	–	–
Issuance of treasury stock upon conversion of convertible bonds and other, net of fractional shares acquired	–	–	(18)	–	(1)	(19)	–	–	–	–	–	–	–	(19)
Change in ownership interest of parent related to transactions with non-controlling interests	–	–	40	–	–	40	–	–	–	–	–	–	–	40
Change in the fiscal year of consolidated subsidiaries	–	–	–	76	–	76	–	–	–	–	–	–	–	76
Net changes in items other than shareholders' equity for the year	–	–	–	–	–	–	(3,697)	(39)	(646)	(7)	18	(4,371)	2,785	(1,586)
Balance as of 31 March 2019	196,306	¥ 100,779	¥ 34,940	¥ 142,912	¥ (31)	¥ 278,600	¥ 25,225	¥ 81	¥ 88,052	¥ (24)	¥ 1,092	¥ 114,426	¥ 32,001	¥ 425,027

*The company's common stock was consolidated at the ratio of 5 shares to 1 share with an effective date of 1 October 2017. Accordingly, "Number of shares of common stock issued" was calculated based on the assumption that the share consolidation was conducted at the beginning of the fiscal year ended 31 March 2018.

	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 2018	$ 857,198	$ 263,694	$ 1,055,441	$ (270)	$ 2,176,063	$ 260,559	$ 1,081	$ 799,081	$ (153)	$ 9,676	$ 1,070,244	$ 263,207	$ 3,509,514
Profit attributable to owners of the parent	–	–	274,387	–	274,387	–	–	–	–	–	–	–	274,387
Issuance of new shares	50,721	50,721	–	–	101,442	–	–	–	–	–	–	–	101,442
Cash dividends	–	–	(47,189)	–	(47,189)	–	–	–	–	–	–	–	(47,189)
Reversal for land revaluation increment	–	–	4,333	–	4,333	–	–	–	–	–	–	–	4,333
Transfer from retained earnings to capital surplus	–	162	(162)	–	–	–	–	–	–	–	–	–	–
Issuance of treasury stock upon conversion of convertible bonds and other, net of fractional shares acquired	–	(162)	–	(9)	(171)	–	–	–	–	–	–	–	(171)
Change in ownership interest of parent related to transactions with non-controlling interests	–	360	–	–	360	–	–	–	–	–	–	–	360
Change in the fiscal year of consolidated subsidiaries	–	–	685	–	685	–	–	–	–	–	–	–	685
Net changes in items other than shareholders' equity for the year	–	–	–	–	–	(33,307)	(351)	(5,820)	(63)	162	(39,379)	25,090	(14,289)
Balance as of 31 March 2019	$ 907,919	$ 314,775	$ 1,287,495	$ (279)	$ 2,509,910	$ 227,252	$ 730	$ 793,261	$ (216)	$ 9,838	$ 1,030,865	$ 288,297	$ 3,829,072

See Notes to Consolidated Financial Statements.

Nagoya Railroad Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Cash Flows (Note 17)

For the Years Ended 31 March 2018 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2019	2019
Cash flows from operating activities:			
Profit before income taxes	¥ 45,417	¥ 46,120	$ 415,495
Adjustments for:			
Depreciation and amortisation	38,906	40,258	362,685
Impairment loss on fixed assets	3,907	1,487	13,396
Loss (gain) on sale or disposition of property and equipment, net	(210)	4,908	44,216
Gain on contributions for construction	(976)	(1,387)	(12,495)
Increase (decrease) in employee retirement benefit liability	(139)	759	6,838
Decrease (increase) in trade notes and accounts receivable	358	(5,896)	(53,117)
Decrease (increase)in inventories	1,925	(508)	(4,577)
Increase (decrease) in trade notes and accounts payable	(2,838)	5,200	46,847
Gain on negative goodwill	—	(1,079)	(9,721)
Others, net	(3,703)	(4,759)	(42,873)
Subtotal	82,647	85,103	766,694
Interest and dividends received	2,186	2,266	20,414
Interest paid	(3,777)	(3,461)	(31,180)
Income taxes paid	(15,124)	(16,504)	(148,685)
Net cash provided by (used in) operating activities	65,932	67,404	607,243
Cash flows from investing activities:			
Purchases of fixed assets	(50,315)	(56,632)	(510,198)
Proceeds from sales of fixed assets	2,609	2,551	22,982
Proceeds for contributions for construction	7,059	6,163	55,523
Purchases of investments securities	(232)	(810)	(7,297)
Proceeds from sales or redemptions of investment securities	841	588	5,297
Purchases of shares of subsidiaries resulting in change in scope of consolidation	(784)	(614)	(5,532)
Collections of loans receivable	366	638	5,748
Others, net	170	(172)	(1,550)
Net cash provided by (used in) investing activities	(40,286)	(48,288)	(435,027)
Cash flows from financing activities:			
Proceeds from long-term debt	65,386	37,614	338,865
Repayment of long-term debt	(79,366)	(55,448)	(499,532)
Net increase (decrease) in short-term borrowings	2,120	(1,263)	(11,378)
Dividends paid to shareholders	(4,593)	(5,235)	(47,162)
Dividends paid to minority shareholders	(218)	(243)	(2,189)
Purchases of shares of subsidiaries resulting in no change in scope of consolidation	(1)	(168)	(1,514)
Others, net	(60)	(60)	(540)
Net cash provided by (used in) financing activities	(16,732)	(24,803)	(223,450)
Effect of exchange rate changes on cash and cash equivalents	(3)	(4)	(36)
Net increase in cash and cash equivalents	8,911	(5,691)	(51,270)
Cash and cash equivalents at beginning of year	21,944	30,855	277,973
Increase (decrease) in cash and cash equivalents resulting from change in the fiscal year of consolidated subsidiaries	—	28	252
Cash and cash equivalents at end of year	¥ 30,855	¥ 25,192	$ 226,955

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 2019, 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 2018 and 2019, goodwill of ¥1,452 million and ¥1,567 million ($14,117 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 2018 and 2019 were as follows.

	2018	2019
Consolidated subsidiaries	119	117
Unconsolidated subsidiaries accounted for using the equity method	—	—
Affiliated companies accounted for using the equity method	16	15
Unconsolidated subsidiaries stated at cost	8	7
Affiliated companies stated at cost	11	11

At both 31 March 2018 and 2019, the fiscal year-end dates of six 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. In the fiscal year ended 31 March 2018, two of the consolidated subsidiaries changed their fiscal years, resulting in a change in the fiscal year-end date from the end of February to the end of March. As a result, the consolidated financial statements for the fiscal year ended 31 March 2018 included the financial information of the two consolidated subsidiaries for a 13-month period ended 31 March 2018. In the fiscal year ended 31 March 2019, one consolidated subsidiary changed its fiscal year, resulting in a change in the fiscal year-end date from the end of December to the end of March.

(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, eight consolidated subsidiaries (Toyohashi Railroad Co., Ltd., Gifu Bus Co., Ltd., Meitetsu Transportation Co., Ltd., Meitetsu Real Estate Development 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 eight consolidated subsidiaries amounted to ¥9,092 million and ¥9,107 million ($82,045 thousand) at 31 March 2018 and 2019, respectively. The differences in the Company, Meitetsu Real Estate Development Co., Ltd., Meitetsu Kyosho Co., Ltd. and Kanazawa Meitetsu Marukoshi Department Store Co., Ltd. at 31 March 2018 and at 31 March 2019 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 ¥933 million and ¥836 million ($7,532 thousand) at 31 March 2018 and 2019, 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 2018 and 2019, cumulative contributions amounting to ¥176,593 million and ¥176,549 million ($1,590,532 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 of certain consolidated subsidiaries 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 2018 and 2019, the following amounts were included in "Provisions" in the accompanying consolidated balance sheets.

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Provision in:			
Current liabilities	¥175	¥478	$4,306
Non-current liabilities	11,224	10,010	90,180
Total	¥11,399	¥10,488	$94,486

(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 2018 and 2019, the following amounts were included in "Provisions" in the accompanying consolidated balance sheets.

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Provision in:			
Current liabilities	¥1,844	¥1,827	$16,459
Non-current liabilities	412	393	3,541
Total	¥2,256	¥2,220	$20,000

(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) Bond issue costs

Bond issue costs are charged to income as incurred.

(r) 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.

(s) Enterprise taxes

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

(t) Consumption taxes

For the years ended 31 March 2018 and 2019, 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.

(u) 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.

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

(Accounting Standards for Revenue Recognition , etc.)

- Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, 30 March 2018, Accounting Standards Board of Japan)
- Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, 30 March 2018, Accounting Standards Board of Japan)

(1) Outline:

The International Accounting Standards Board (IASB) and US Financial Accounting Standards Board (FASB) co-developed a new comprehensive revenue recognition standard and published "Revenue from Contracts with Customers" in May 2014 (IFRS 15 by IASB, Topic 606 by FASB). Considering IFRS 15 will be adopted from the fiscal year beginning on or after 1 January 2018 and Topic 606 from the fiscal year beginning after 15 December 2017, the Accounting Standards Board of Japan developed comprehensive Accounting Standards for Revenue Recognition and published them together with implementation guidelines.

In developing its Accounting Standards for Revenue Recognition, the Accounting Standards Board of Japan incorporated the fundamental policy of IFRS 15 as the starting point from the perspective of comparability of financial statements, which is the one of the benefits of achieving consistency with IFRS 15. If there is any item that arises in accounting practice in Japan that requires additional alternative treatment, the treatment will be added to the extent that comparability of financial statements is not impaired.

(2) Effective date:

The above guidance will become effective from the beginning of the fiscal year ending on 31 March 2022.

(3) Effects of adoption of the implementation guidance:

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

(w) Changes in presentation methods

(Changes due to adoption of "Partial Amendments to Accounting Standard for Tax Effect Accounting")

Upon application of "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) from the beginning of the current fiscal year, the Company and its domestic subsidiaries changed the presentation of deferred tax assets and deferred tax liabilities, such that deferred tax assets and deferred tax liabilities are classified as part of "Investments and other assets" and "Non-current liabilities", respectively.

As a result, deferred tax assets of ¥4,010 million classified as "Current assets" have been included in deferred tax assets (¥13,478 million) in "Investments and other assets", and deferred tax liabilities of ¥1 million classified as "Current liabilities" have been included in deferred tax liabilities (¥3,792 million) classified as "Non-current liabilities" in the balance sheet as of the end of the previous fiscal year.

Deferred tax assets and deferred tax liabilities of the same taxable entity are offset before presentation, whereby total assets decreased by ¥439 million as a result of the aforementioned change.

3. Financial instruments

Information on financial instruments for the years ended 31 March 2018 and 2019 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 2018 and 2019, 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 2018:			
Financial assets:			
Cash and cash equivalents	¥30,855	¥30,855	¥—
Short-term investments	734	734	—
Trade notes and accounts receivable	57,808	57,808	—
Investment securities:			
Equity securities of affiliates	7,960	6,581	(1,379)
Available-for-sale securities	68,146	68,146	—
Total	¥165,503	¥164,124	¥(1,379)
Financial liabilities:			
Short-term borrowings	¥22,500	¥22,500	¥—
Trade notes and accounts payable	69,163	69,163	—
Bonds payable, including current portion	187,180	197,640	10,460
Long-term bank loans, including current portion	204,150	208,717	4,567
Total	¥482,993	¥498,020	¥15,027
Derivative instruments:*			
Hedge accounting has not been applied	¥2	¥2	¥—
Hedge accounting has been applied	178	178	—
Total	¥180	¥180	¥—

	Carrying value	Fair value	Differences
	Millions of yen		
At 31 March 2019:			
Financial assets:			
Cash and cash equivalents	¥25,192	¥25,192	¥—
Short-term investments	678	678	—
Trade notes and accounts receivable	63,297	63,297	—
Investment securities:			
Equity securities of affiliates	8,544	6,424	(2,120)
Available-for-sale securities	63,501	63,501	—
Total	¥161,212	¥159,092	¥(2,120)
Financial liabilities:			
Short-term borrowings	¥20,746	¥20,746	¥—
Trade notes and accounts payable	77,695	77,695	—
Bonds payable, including current portion	175,880	186,080	10,200
Long-term bank loans, including current portion	190,317	194,843	4,526
Total	¥464,638	¥479,364	¥14,726
Derivative instruments:*			
Hedge accounting has not been applied	¥(1)	¥(1)	¥—
Hedge accounting has been applied	116	116	—
Total	¥115	¥115	¥—

	Carrying value	Fair value	Differences
	Thousands of U.S. dollars		
At 31 March 2019:			
Financial assets:			
Cash and cash equivalents	$226,955	$226,955	$—
Short-term investments	6,108	6,108	—
Trade notes and accounts receivable	570,243	570,243	—
Investment securities:			
Equity securities of affiliates	76,973	57,874	(19,099)
Available-for-sale securities	572,081	572,081	—
Total	$1,452,360	$1,433,261	$(19,099)
Financial liabilities:			
Short-term borrowings	$186,901	$186,901	$—
Trade notes and accounts payable	699,955	699,955	—
Bonds payable, including current portion	1,584,505	1,676,397	91,892
Long-term bank loans, including current portion	1,714,567	1,755,342	40,775
Total	$4,185,928	$4,318,595	$132,667
Derivative instruments:*			
Hedge accounting has not been applied	$(9)	$(9)	$—
Hedge accounting has been applied	1,045	1,045	—
Total	$1,036	$1,036	$—

**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
	2018	2019	2019
Carrying value:			
Unlisted investments (equity securities) in unconsolidated subsidiaries and affiliates	¥27,625	¥27,490	$247,658
Unlisted equity securities	12,331	12,547	113,036
Total	¥39,956	¥40,037	$360,694

(3) Expected maturities of financial assets at 31 March 2019 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 2019:				
Cash and cash equivalents	¥25,192	¥—	¥—	¥—
Short-term investments	678	—	—	—
Trade notes and accounts receivable	63,297	—	—	—
Total	¥89,167	¥—	¥—	¥—
	Thousands of U.S. dollars			
At 31 March 2019:				
Cash and cash equivalents	$226,955	$—	$—	$—
Short-term investments	6,108	—	—	—
Trade notes and accounts receivable	570,243	—	—	—
Total	$803,306	$—	$—	$—

(4) The repayment schedules for borrowings and other debts with contractual maturities at 31 March 2019 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	¥20,746	¥—	¥—	¥—	¥—	¥—
Bonds payable	10,000	10,000	25,000	—	880	130,000
Long-term bank loans	32,017	22,486	31,142	15,846	22,132	66,694
Total	¥62,763	¥32,486	¥56,142	¥15,846	¥23,012	¥196,694
	Thousands of U.S. dollars					
Short-term borrowings	$186,901	$—	$—	$—	$—	$—
Bonds payable	90,090	90,090	225,225	—	7,928	1,171,172
Long-term bank loans	288,441	202,577	280,558	142,757	199,387	600,847
Total	$565,432	$292,667	$505,783	$142,757	$207,315	$1,772,019

4. Investments securities

At 31 March 2018 and 2019, short-term investments consisted of time deposits with original maturities of more than three months.

At 31 March 2018 and 2019, investment securities consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Marketable securities			
Equity securities	¥68,146	¥63,501	$572,081
Others	—	—	—
Total marketable securities	68,146	63,501	572,081
Nonmarketable securities	12,331	12,547	113,036
Total	¥80,477	¥76,048	$685,117

At 31 March 2018 and 2019, 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 2018:				
Equity securities	¥27,699	¥40,798	¥ (351)	¥68,146
Others	—	—	—	—
At 31 March 2019:				
Equity securities	28,211	35,890	(600)	63,501
Others	—	—	—	—
	Thousands of U.S. dollars			
At 31 March 2019:				
Equity securities	$254,153	$323,333	$(5,405)	$572,081
Others	—	—	—	—

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 2018	¥840	¥620	¥—
For the year ended 31 March 2019	537	471	5
	Thousands of U.S. dollars		
Equity securities and others:			
For the year ended 31 March 2019	$4,838	$4,243	$45

5. Inventories

Inventories at 31 March 2018 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Land and buildings for sale	¥57,211	¥61,671	$555,595
Merchandise and finished goods	8,698	9,074	81,748
Work in process	646	904	8,144
Raw materials and supplies	4,092	4,001	36,045
Total	¥70,647	¥75,650	$681,532

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, aviation services 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
	2018	2019	2019
Property subject to impairment:	Idle assets, rental property and others	Rental property, idle assets, leisure facilities and others	
Impairment loss recorded:			
Land	¥2,114	¥753	$6,784
Buildings and structures	1,710	698	6,288
Others	83	36	324
Total	¥3,907	¥1,487	$13,396

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 1.8% for the year ended 31 March 2018. The value in use was not applied for the year ended 31 March 2019.

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 2018 and 2019 and the fair values of real estate were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Carrying value at beginning of year	¥129,912	¥134,184	$1,208,865
Net changes during the year	4,272	(2,356)	(21,225)
Carrying value at end of year	134,184	131,828	1,187,640
Fair value at end of year*	¥162,422	¥174,164	$1,569,045

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

Profits or losses recorded for rental properties for the years ended 31 March 2018 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Income from rental operations	¥5,479	¥5,446	$49,063
Impairment loss on rental properties	2,415	185	$1,667

8. Short-term borrowings and long-term debt

Short-term borrowings at 31 March 2018 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Bank loans with average interest rates of 0.2793% at 31 March 2019:			
Secured	¥3,433	¥3,488	$31,423
Unsecured	19,067	17,258	155,478
Total	¥22,500	¥20,746	$186,901

Long-term debt at 31 March 2018 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
1.94% unsecured bonds, due September 2018	¥10,000	¥—	$—
0.24% unsecured bonds, due December 2018	10,000	—	—
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	15,000	135,135
0.75% unsecured bonds, due August 2036	15,000	15,000	135,135
0.806% unsecured bonds, due May 2037	15,000	15,000	135,135
0.79% unsecured bonds, due December 2037	10,000	10,000	90,090
0.748% unsecured bonds, due May 2038	—	10,000	90,090
0.863% unsecured bonds, due September 2038	—	10,000	90,090
Zero coupon unsecured convertible bonds, due October 2023	12,180	880	7,928
Zero coupon unsecured convertible bonds, due December 2024	40,000	40,000	360,362
Bank loans with average interest rate of 0.7381% at 31 March 2019, due through 2034:			
Secured	30,167	30,369	273,594
Unsecured	173,983	159,948	1,440,973
Capitalised lease obligations	12,540	11,588	104,397
Subtotal	403,870	377,785	3,403,469
Less current portion	(55,867)	(44,488)	(400,793)
Total	¥348,003	¥333,297	$3,002,676

At 31 March 2019, zero coupon convertible bonds due October 2023 and zero coupon convertible bonds due December 2024 were ¥1,928.3 and ¥2,912.4 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.

An appropriation of retained earnings, including the year-end dividends of ¥27.5 per share, was approved at the ordinary shareholders' meeting held on 26 June 2019. In accordance with the provision for adjustment of the conversion price stipulated in the bonds agreement, the conversion price for zero coupon convertible bonds due October 2023 and the conversion price for zero coupon convertible bonds due October 2024 were adjusted retrospectively as of 1 April 2019 from ¥1,928.3 to ¥1,926.7 and from ¥2,912.4 to ¥2,909.9, respectively.

At 31 March 2019, the number of shares of common stock necessary for conversion of all convertible bonds outstanding was approximately 14 million.

The annual maturities of long-term debt at 31 March 2019 were as follows:

Year ending 31 March	Millions of yen	Thousands of U.S. dollars
2020	¥44,488	$400,793
2021	34,126	307,441
2022	57,216	515,459
2023	17,152	154,523
2024	23,711	213,613
2025 and thereafter	201,092	1,811,640
Total	¥377,785	$3,403,469

At 31 March 2018 and 2019, the following assets were pledged for short-term and long-term bank loans.

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Land	¥82,113	¥79,519	$716,387
Buildings and structures	129,034	128,922	1,161,460
Machinery, equipment and vehicles	13,769	15,608	140,613
Others	2,366	4,335	39,054
Total	¥227,282	¥228,384	$2,057,514

9. Employee retirement benefit liability

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

As of and for the years ended 31 March 2018 and 2019, 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
	2018	2019	2019
Balance at beginning of year:	¥36,070	¥35,347	$318,441
Service cost	1,698	1,647	14,838
Interest cost	103	94	847
Actuarial differences incurred	(19)	202	1,820
Benefits paid	(3,032)	(1,823)	(16,423)
Transfers due to a change from the simplified method to the principle method	347	–	–
Decrease due to partial termination of retirement benefit plans	–	(524)	(4,721)
Others	180	(16)	(144)
Balance at end of year:	¥35,347	¥34,927	$314,658

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

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Balance at beginning of year:	¥11,647	¥14,326	$129,063
Expected return on plan assets	70	69	622
Decrease due to partial termination of retirement benefit plans	–	(468)	(4,216)
Actuarial differences incurred	2,042	(94)	(847)
Contributions paid by the employer	1,244	214	1,928
Benefits paid	(677)	(966)	(8,703)
Balance at end of year:	¥14,326	¥13,081	$117,847

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

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Balance at beginning of year:	¥9,891	¥9,698	$87,369
Retirement benefit costs	961	906	8,162
Benefits paid	(854)	(1,088)	(9,802)
Contributions paid by the employer	(13)	(13)	(117)
Transfers due to a change from the simplified method to the principle method	(347)	—	—
Others	60	57	514
Balance at end of year:	¥9,698	¥9,560	$86,126

(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
	2018	2019	2019
Funded retirement benefit obligations	¥28,279	¥27,876	$251,135
Plan assets	(14,494)	(13,244)	(119,315)
	13,785	14,632	131,820
Unfunded retirement benefit obligations	16,934	16,774	151,117
Employee retirement benefit liability recorded at end of year:	¥30,719	¥31,406	$282,937

(e) Net periodic retirement benefit expenses

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Service cost	¥1,698	¥1,647	$14,838
Interest cost	103	94	847
Expected return on plan assets	(70)	(69)	(622)
Net actuarial loss amortisation	1,329	414	3,730
Prior service cost amortisation	(19)	(20)	(180)
Retirement benefit costs based on the simplified Method	961	906	8,162
Others	81	(71)	(640)
Total net periodic retirement benefit expenses	¥4,083	¥2,901	$26,135

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

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Actuarial differences	¥3,390	¥118	$1,063
Past service cost	(19)	(20)	(180)
Total balance, before tax effects, at end of year:	¥3,371	¥98	$883

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

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Actuarial differences yet to be recognised	¥ (1,082)	¥(1,200)	$(10,810)
Past service costs yet to be recognised	(87)	(67)	(604)
Total balance, before tax effects, at end of year:	¥(1,169)	¥(1,267)	$(11,414)

(h) Plan assets

1) Plan assets comprise:

Equity securities	20.8%
Bonds	9.9%
Cash and cash equivalents	54.9%
General accounts	7.8%
Others	6.6%
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 2019 (expressed as weighted averages) were as follows:

Discount rate	0.2% to 0.3%
Long-term expected rate of return	0.0% to 2.0%

For the year ended 31 March 2019, the contributions required for defined contribution plans were ¥4,090 million ($36,847 thousand) in the Group.

10. Contingent liabilities

At 31 March 2018 and 2019, contingent liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Contingently liable for:			
Guarantees of loans of others	¥593	¥645	$5,811
Total	¥593	¥645	$5,811

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 2018:			
Acquisition cost	¥7,077	¥3,032	¥10,109
Accumulated depreciation	6,160	2,254	8,414
Net leased property	¥917	¥778	¥1,695
At 31 March 2019:			
Acquisition cost	¥7,077	¥2,817	¥9,894
Accumulated depreciation	6,704	2,176	8,880
Net leased property	¥373	¥641	¥1,014
	Thousands of U.S. dollars		
At 31 March 2019:			
Acquisition cost	$63,756	$25,379	$89,135
Accumulated depreciation	60,396	19,604	80,000
Net leased property	$3,360	$5,775	$9,135

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

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Due within 1 year	¥802	¥586	$5,279
Due after 1 year	1,512	926	8,342
Total	¥2,314	¥1,512	$13,621

Lease expense and other information at 31 March 2018 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Lease expense	¥1,639	¥978	$8,811
Imputed depreciation expense *(*1)*	1,211	681	6,135
Imputed interest expense *(*2)*	153	118	1,063

**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
	2018	2019	2019
Due within 1 year	¥310	¥250	$2,252
Due after 1 year	859	1,047	9,432
Total	¥1,169	¥1,297	$11,684

(As lessor)

(a) Finance leases

Lease investment assets at 31 March 2018 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Lease receivables	¥6,197	¥6,747	$60,784
Estimated residual value	134	156	1,405
Unearned imputed interest	(1,128)	(1,268)	(11,423)
Lease investment assets included in trade receivables	¥5,203	¥5,635	$50,766

The aggregate annual maturities of lease investments at 31 March 2019 were as follows:

Year ending 31 March	Millions of yen	Thousands of U.S. dollars
2020	¥2,080	$18,739
2021	1,786	16,090
2022	1,398	12,595
2023	866	7,802
2024	476	4,288
2025 and thereafter	141	1,270
Total	¥6,747	$60,784

(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
	2018	2019	2019
Due within 1 year	¥2,406	¥2,335	$21,036
Due after 1 year	6,660	6,502	58,577
Total	¥9,066	¥8,837	$79,613

12. Derivatives

At 31 March 2018 and 2019, 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 2018	¥119	¥—	¥2	¥2
At 31 March 2019	245	—	(1)	(1)
	Thousands of U.S. dollars			
Foreign exchange forward contracts to buy foreign currencies:				
At 31 March 2019	$2,207	$—	$(9)	$(9)

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

At 31 March 2018 and 2019, derivative transactions to which hedge accounting was applied were as follows:

(Foreign currency related transactions)

Method of hedge accounting	Transaction	Major hedged items	Contract amount: Total amount	Contract amount: Due after 1 year	Fair value*
			Millions of yen		
Allocation method for 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 2018			¥10,338	¥9,725	¥—
At 31 March 2019			9,725	8,500	—
			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 2019			$87,613	$76,577	$—

**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 2018			¥1,400	¥1,225	¥5
At 31 March 2019			1,225	―	3
			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 2019			$11,036	$―	$27

**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 2018			¥80,808	¥63,000	¥―
At 31 March 2019			64,054	50,428	―
			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 2019			$577,063	$454,306	$―

**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 2018			¥1,139	¥437	¥173
At 31 March 2019			2,075	1,102	113
			Thousands of U.S. dollars		
General treatment for commodity swaps:	Commodity swaps-pay fixed and receive floating	Ship fuel			
At 31 March 2019			$18,694	$9,928	$1,018

**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 2018 and 2019, 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 ($25,297 thousand) at 31 March 2018 and 2019.

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 30.7% and 30.5% for the years ended 31 March 2018 and 2019, respectively.

Significant components of the Groups' deferred tax assets and liabilities as of 31 March 2018 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Deferred tax assets:			
Employee retirement benefit liability	¥13,552	¥13,449	$121,162
Impairment loss on fixed assets	12,796	11,370	102,432
Loss on valuation of investment securities	5,343	5,317	47,901
Elimination of unrealised profit	4,569	4,501	40,549
Depreciation	3,688	4,171	37,577
Valuation loss on fixed assets	3,270	3,254	29,315
Tax loss carryforwards	3,476	3,231	29,108
Provision for loss on liquidation	3,445	3,169	28,550
Accrued bonuses	1,862	1,937	17,450
Loss on valuation of land caused by restructuring	843	843	7,595
Allowance for loss on exchange of gift certificates outstanding	758	749	6,748
Accrued enterprise taxes and accrued business office taxes	833	739	6,658
Provision for retirement benefits for directors	431	456	4,108
Loss on valuation of inventories	210	228	2,054
Allowance for doubtful accounts	650	188	1,694
Others	3,187	3,133	28,225
Subtotal of deferred tax assets	58,913	56,735	511,126
Subtotal of less valuation allowance	(27,348)	(25,624)	(230,847)
Total deferred tax assets	31,565	31,111	280,279
Deferred tax liabilities:			
Net unrealised gains on available-for-sale securities	(11,959)	(10,383)	(93,541)
Gain on valuation of land caused by restructuring	(3,388)	(2,711)	(24,423)
Retaind earnings	(2,164)	(2,348)	(21,153)
Gain on valuation of investment securities	(2,083)	(2,083)	(18,766)
Deferred capital gains	(908)	(880)	(7,928)
Trust for employee retirement benefits	(635)	(511)	(4,604)
Others	(742)	(1,363)	(12,279)
Total deferred tax liabilities	(21,879)	(20,279)	(182,694)
Net deferred tax assets	¥9,686	¥10,832	$97,585

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 2018 and 2019, a valuation allowance was provided to reduce deferred tax assets to the amount management believed would be realisable.

A reconciliation for the years ended 31 March 2018 and 2019 was not disclosed as the difference between the rates was not material.

15. Segment information

(1) General information about reportable segments

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

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

The business descriptions of the reportable segments are as follows:

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

(2) Basis of measurement for reportable segment operating revenues, 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 2018 was as follows:

	Reportable segments									
	Traffic	Transport	Real Estate	Leisure and Services	Distribution	Aviation Services	Others *(*1)*	Total	Adjustments	Consolidated financial statements
	Millions of yen									
For the year 2018:										
Operating revenues:										
External customers	¥ 164,771	¥ 131,767	¥ 79,057	¥ 52,751	¥ 123,386	¥ 25,245	¥ 27,827	¥ 604,804	¥ −	¥ 604,804
Intersegment sales/transfer	2,275	424	10,102	1,484	11,068	−	16,908	42,261	(42,261)	−
Total	¥ 167,046	¥ 132,191	¥ 89,159	¥ 54,235	¥ 134,454	¥ 25,245	¥ 44,735	¥ 647,065	¥ (42,261)	¥ 604,804
Segment income *(*2)*	23,942	5,690	10,603	1,509	1,267	1,953	1,586	46,550	427	46,977
Segment assets *(*3)*	482,237	113,299	282,607	32,680	46,735	23,253	57,596	1,038,407	82,215	1,120,622
Other material items:										
Depreciation and amortisation *(*4)*	18,500	5,920	6,071	1,250	1,447	2,676	3,514	39,378	(472)	38,906
Amortisation of goodwill	−	−	173	−	−	−	−	173	−	173
Impairment loss on fixed assets	12	73	3,584	208	6	−	24	3,907	−	3,907
Increase in property and equipment and intangible assets	18,830	8,768	12,875	1,056	1,169	5,312	4,227	52,237	−	52,237

**1) "Others" is a business segment that is not considered a reportable segment. It includes the business of equipment maintenance, information processing, insurance agency and others.*
**2) Segment income adjustment amounting to ¥427 million was treated as intersegment elimination.*
**3) Segment assets adjustment amounting to ¥82,215 million consisted of unallocated general corporate assets amounting to ¥111,753 million, net of intersegment elimination of ¥29,538 million. Such general corporate assets consisted mainly of cash, deposits and investment securities.*
**4) Depreciation and amortisation adjustment amounting to ¥472 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 2019 was as follows:

	Reportable segments									
	Traffic	Transport	Real Estate	Leisure and Services	Distribution	Aviation Services	Others *(*1)*	Total	Adjustments	Consolidated financial statements
	Millions of yen									
For the year 2019:										
Operating revenues:										
External customers	¥ 165,433	¥ 136,425	¥ 81,491	¥ 52,001	¥ 129,303	¥ 27,570	¥ 30,345	¥ 622,568	¥ −	¥ 622,568
Intersegment sales/transfer	2,228	438	10,523	1,419	12,929	−	17,668	45,205	(45,205)	−
Total	¥ 167,661	¥ 136,863	¥ 92,014	¥ 53,420	¥ 142,232	¥ 27,570	¥ 48,013	¥ 667,773	¥ (45,205)	¥ 622,568
Segment income *(*2)*	24,380	5,969	11,405	1,796	1,185	2,804	1,627	49,166	290	49,456
Segment assets *(*3)*	489,776	115,565	301,598	34,290	48,740	24,483	54,523	1,068,975	72,434	1,141,409
Other material items:										
Depreciation and amortisation *(*4)*	18,520	6,174	6,276	1,133	2,081	2,926	3,571	40,681	(423)	40,258
Amortisation of goodwill	−	−	322	−	−	−	4	326	−	326
Impairment loss on fixed assets	29	−	1,307	110	22	−	19	1,487	−	1,487
Increase in property and equipment and intangible assets	19,110	12,728	13,141	1,275	572	3,034	4,974	54,834	−	54,834

	Reportable segments									
	Traffic	Transport	Real Estate	Leisure and Services	Distribution	Aviation Services	Others *(*1)*	Total	Adjustments	Consolidated financial statements
	Thousands of U.S. dollars									
For the year 2019:										
Operating revenues:										
External customers	$ 1,490,387	$ 1,229,054	$ 734,153	$ 468,477	$ 1,164,892	$ 248,379	$ 273,379	$ 5,608,721	$ −	$ 5,608,721
Intersegment sales/transfer	20,072	3,946	94,802	12,784	116,477	−	159,171	407,252	(407,252)	−
Total	$ 1,510,459	$ 1,233,000	$ 828,955	$ 481,261	$ 1,281,369	$ 248,379	$ 432,550	$ 6,015,973	$ (407,252)	$ 5,608,721
Segment income *(*2)*	219,640	53,775	102,748	16,180	10,676	25,261	14,657	442,937	2,613	445,550
Segment assets *(*3)*	4,412,396	1,041,126	2,717,099	308,919	439,099	220,568	491,198	9,630,405	652,559	10,282,964
Other material items:										
Depreciation and amortisation *(*4)*	166,847	55,622	56,541	10,207	18,748	26,360	32,171	366,496	(3,811)	362,685
Amortisation of goodwill	−	−	2,901	−	−	−	36	2,937	−	2,937
Impairment loss on fixed assets	261	−	11,775	991	198	−	171	13,396	−	13,396
Increase in property and equipment and intangible assets	172,162	114,667	118,387	11,486	5,153	27,334	44,811	494,000	−	494,000

**1) "Others" is a business segment that is not considered a reportable segment. It includes the business of equipment maintenance, information processing, insurance agency and others.*
**2) Segment income adjustment amounting to ¥290 million ($2,613 thousand) was treated as intersegment elimination.*
**3) Segment assets adjustment amounting to ¥72,434 million ($652,559 thousand) consisted of unallocated general corporate assets amounting to ¥105,414 million ($949,676 thousand), net of intersegment elimination of ¥32,980 million ($297,117 thousand). Such general corporate assets consisted mainly of cash, deposits and investment securities.*
**4) Depreciation and amortisation adjustment amounting to ¥423million ($3,811 thousand) was treated as intersegment elimination.*
5) Segment income was reconciled to operating income in the accompanying consolidated statements of income.

(Information related to changes in reportable segments)

Based on “The new medium-term management plan, BUILD UP 2020,” the Company revised its reportable segments from the year ended 31 March 2019. Accordingly, the previous reportable segments “Traffic,” “Transport,” “Real Estate,” “Leisure and Services” and “Distribution” have been changed to “Traffic,” “Transport,” “Real Estate,” “Leisure and Services,” “Distribution” and “Aviation Services.” “Building Maintenance” included in “Others” has been reclassified to “Real Estate.” Further, the year ended 31 March 2018 information has been prepared and presented based on the new reportable segments

(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	Aviation Services	Others	Eliminations	Consolidated
	Millions of yen								
Balance of goodwill:									
At 31 March 2018	¥―	¥―	¥1,436	¥―	¥―	¥―	¥16	¥―	¥1,452
At 31 March 2019	―	―	1,547	―	―	―	20	―	1,567

	Traffic	Transport	Real Estate	Leisure and Services	Distribution	Aviation Services	Others	Eliminations	Consolidated
	Thousands of U.S. dollars								
Balance of goodwill:									
At 31 March 2019	$―	$―	$13,937	$―	$―	$―	$180	$―	$14,117

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 2018
  As this information was not material, it has been omitted.

- Consolidated fiscal year ended 31 March 2019
  The Company acquired additional shares of common stock of SAKAE KAIHATSU CO., LTD. that belongs in the “Real Estate” segment. As a result, gain on negative goodwill in the amount of ¥1,079 million ($9,721 thousand) was recognised.

16. Comprehensive income

Amounts reclassified to net income (loss) in the current year that were recognised in other comprehensive income in the current or previous years and the tax effects for each component of other comprehensive income for the years ended 31 March 2018 and 2019 were as follows.

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Unrealised gains on available-for-sale securities, net of taxes:			
Amount arising during the year	¥8,037	¥(4,660)	$(41,982)
Reclassification adjustments	(620)	(470)	(4,234)
Subtotal, before tax	7,417	(5,130)	(46,216)
The amount of tax effect	(2,323)	1,579	14,225
Subtotal, net of tax	5,094	(3,551)	(31,991)
Deferred gains and losses on hedges, net of taxes:			
Amount arising during the year	493	190	1,712
Reclassification adjustments	(5)	(252)	(2,270)
Subtotal, before tax	488	(62)	(558)
The amount of tax effect	(150)	19	171
Subtotal, net of tax	338	(43)	(387)
Land revaluation increments, net of taxes:			
The amount of tax effect	(175)	(164)	(1,477)
Subtotal, net of tax	(175)	(164)	(1,477)
Foreign currency translation adjustments			
Amount arising during the year	(4)	(7)	(63)
Reclassification adjustments	—	—	—
Subtotal, before tax	(4)	(7)	(63)
The amount of tax effect	—	—	—
Subtotal, net of tax	(4)	(7)	(63)
Retirement benefit adjustments			
Amount arising during the year	2,061	(294)	(2,649)
Reclassification adjustments	1,310	392	3,532
Subtotal, before tax	3,371	98	883
The amount of tax effect	(1,049)	(49)	(442)
Subtotal, net of tax	2,322	49	441
Share of other comprehensive income of affiliates accounted for using equity method:			
Amount arising during the year	27	(257)	(2,316)
Reclassification adjustments	9	22	198
Subtotal	36	(235)	(2,118)
Total other comprehensive income	¥7,611	¥(3,951)	$(35,595)

17. Supplemental information to consolidated statements of cash flows

(1) Breakdown of assets and liabilities of newly consolidated subsidiary by acquisition

SAKAE KAIHATSU CO., LTD.	Millions of yen	Thousands of U.S. dollars
Current assets	¥316	$2,847
Non-current assets	6,655	59,955
Total	6,971	62,802
Current liabilities	392	3,532
Non-current liabilities	2,729	24,585
Total	3,121	28,117

Purchases of shares of newly consolidated subsidiary of ¥1 million ($9 thousand) has been included in purchases of shares of subsidiaries resulting in change in scope of consolidation.

(2) Significant non-cash transactions

During the years ended 31 March 2018 and 2019, stock subscription rights were exercised and the related convertible bonds were converted to shares of common stock without any cash settlement. Relevant changes resulting from the exercise stock subscription rights are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Increase in common stock	¥6,285	¥5,630	$50,721
Increase in capital surplus	6,285	5,630	50,721
Loss on disposal of treasury stock	(72)	(18)	(162)
Decrease in treasury stock	312	58	522
Decrease in convertible bonds	¥12,810	¥11,300	$101,802

18. Subsequent events

Cash dividends

An appropriation of retained earnings for the year ended 31 March 2019 was duly approved at the ordinary shareholders' meeting held on 26 June 2019 as follows:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥27.50 per share)	¥5,398	$48,631

Special dividends of ¥2.5 were included in the cash dividend per share for the fiscal year ended 31 March 2019.

The above dividends became payable to shareholders of record as of 31 March 2019. However, the appropriation had not been accrued in the consolidated financial statements as of 31 March 2019 as such appropriation is recognised in the period in which it is approved by the shareholders.

Bonds issued

Based on the resolution of the Board of Directors of the Company on 25 March 2019, the Company issued the 58th Series Unsecured Straight Bonds as shown below.
The details are as follows:

58th Series Unsecured Straight Bonds

1. Total amount of issue: ¥10 billion
2. Issue value: ¥100 per face value of ¥100
3. Coupon: 0.725% per annum
4. Issue date: 25 April 2019
5. Maturity date: 25 April 2039
6. Use of proceeds: Redemption of bonds