KPMG

Independent auditor's report

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

Opinion

We have audited the accompanying consolidated financial statements of Nagoya Railroad Co., Ltd. ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group"), which comprise the consolidated balance sheets as at March 31, 2020 and 2019, the consolidated statements of income and comprehensive income, changes in net assets and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies, other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2020 and 2019, and its consolidated financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

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

Responsibilities of Management and Corporate auditors and the board of corporate auditors for the Consolidated Financial Statements

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

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

Corporate auditors and the board of corporate auditors are responsible for overseeing the directors' performance of their duties including the design, implementation and maintenance of the Group's financial reporting process.

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group’s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management’s use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with accounting standards generally accepted in Japan, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide corporate auditors and the board of corporate auditors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

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

Sawada Masayuki
Designated Engagement Partner
Certified Public Accountant

Kishida Yoshihiko
Designated Engagement Partner
Certified Public Accountant

Kosuge Takeharu
Designated Engagement Partner
Certified Public Accountant

KPMG AZSA LLC
Nagoya Office, Japan

August 5, 2020

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

Nagoya Railroad Co., Ltd. and Consolidated Subsidiaries

Consolidated Balance Sheets

	Millions of yen	
	31 March 2019	31 March 2020
ASSETS		
Current assets		
Cash and deposits (Note 3)	20,870	27,702
Trade notes and accounts receivable (Note 3)	63,297	56,644
Short-term loans receivable	2,425	2,084
Land and buildings for sale	61,670	65,804
Merchandise and finished goods	9,074	9,019
Work in process	904	1,641
Raw materials and supplies	4,000	4,269
Others	20,635	22,184
Allowance for doubtful accounts	(212)	(208)
Total current assets	182,665	189,143
Non-current assets		
Property and equipment(Notes 5, 6 and 7)		
Buildings and structures, net	292,470	297,403
Machinery, equipment and vehicles, net	85,311	86,005
Land	362,296	367,748
Lease assets, net	10,449	9,679
Construction in progress	46,168	62,158
Other properties, net	8,231	8,776
Total property and equipment	804,926	831,771
Intangible assets		
Right-of-use facilities	6,060	5,586
Goodwill	1,567	1,211
Lease assets	171	119
Other intangible assets	2,979	3,085
Total intangible assets	10,779	10,002
Investments and other assets		
Investment securities (Notes 3 and 4)	112,082	98,625
Long-term loans receivable	605	549
Deferred tax assets (Note 13)	14,900	18,665
Others	15,845	16,607
Allowance for doubtful accounts	(395)	(385)
Total investments and other assets	143,038	134,062
Total non-current assets	958,744	975,836
Total assets	1,141,409	1,164,979

See Notes to Consolidated Financial Statements.

Nagoya Railroad Co., Ltd. and Consolidated Subsidiaries

Consolidated Balance Sheets

	Millions of yen	
	31 March 2019	31 March 2020
LIABILITIES AND NET ASSETS		
Liabilities		
Current liabilities		
Trade notes and accounts payable (Note 3)	77,694	77,526
Short-term loans payable (Notes 3 and 7)	52,763	45,995
Current portion of bonds payable (Notes 3 and 7)	10,000	10,000
Lease obligations	2,470	1,932
Income taxes payable	7,277	8,180
Deposits received from employees	19,440	19,949
Provision for bonuses	5,935	6,091
Provision for loss on liquidation	478	1,088
Allowance for loss on collection of gift certificates outstanding	1,827	1,838
Others	82,073	90,185
Total current liabilities	259,960	262,787
Non-current liabilities		
Bonds payable (Notes 3 and 7)	165,880	175,100
Long-term loans payable (Notes 3 and 7)	158,299	161,514
Lease obligations	9,118	8,884
Deferred tax liabilities (Note 13)	4,068	3,116
Deferred tax liabilities for land revaluation	56,571	56,110
Accrued retirement benefits for directors	1,363	1,344
Provision for loss on liquidation	10,009	4,403
Allowance for loss on collection of gift certificates outstanding	393	380
Employee retirement benefit liability (Note 8)	31,406	32,514
Others	19,311	20,422
Total non-current liabilities	456,421	463,790
Total liabilities	716,381	726,577
Net assets (Notes 12)		
Shareholders' equity		
Common stock	100,778	101,158
Capital surplus	34,939	35,266
Retained earnings	142,912	167,207
Treasury stock	(30)	(59)
Total shareholders' equity	278,600	303,572
Accumulated other comprehensive income		
Net unrealised gains on available-for-sale securities	25,224	13,012
Deferred gains and losses on hedges	81	(617)
Land revaluation increment	88,052	87,227
Foreign currency translation adjustments	(24)	(27)
Retirement benefit adjustments	1,092	603
Total accumulated other comprehensive income	114,426	100,198
Non-controlling interests	32,001	34,630
Total net assets	425,027	438,401
Total liabilities and net assets	1,141,409	1,164,979

Nagoya Railroad Co., Ltd. and Consolidated Subsidiaries

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

	Millions of yen	
	1 April 2018 -31 March 2019	1 April 2019 -31 March 2020
Operating revenues (Note 14)	622,567	622,916
Operating expenses		
Transportation, other services and cost of sales	519,200	520,579
Selling, general and administrative expenses	53,911	54,974
Total operating expenses	573,112	575,553
Operating income	49,455	47,363
Non-operating income		
Interest income	27	25
Dividend income	1,646	1,889
Equity in net earnings of affiliates	2,708	2,562
Miscellaneous income	1,982	1,907
Total non-operating income	6,364	6,384
Non-operating expenses		
Interest expenses	3,442	3,245
Provision for loss on liquidation	-	553
Miscellaneous expenses	777	660
Total non-operating expenses	4,220	4,459
Ordinary income	51,599	49,288
Extraordinary income		
Gain on sales of fixed assets	1,484	800
Gain on contributions for construction (Note 2(k))	1,387	2,018
Gain on sales of investment securities	486	1,038
Reversal of provision for loss on liquidation	-	4,816
Gain on bargain purchases	1,078	-
Others	576	614
Total extraordinary income	5,013	9,287
Extraordinary losses		
Loss on sales of fixed assets	5,793	1,700
Impairment loss on fixed assets (Note 5)	1,487	6,338
Loss on disposition of fixed assets	540	1,019
Loss on sales of investment securities	5	-
Loss on valuation of investment securities	0	37
Provision for loss on liquidation	809	276
Loss on reduction of property and equipment (Note 2(k))	1,228	1,770
Others	627	95
Total extraordinary losses	10,492	11,238
Profit before income taxes	46,120	47,337
Income taxes – current	14,498	14,987
Income taxes – deferred	(365)	375
Total income taxes	14,132	15,363
Profit	31,987	31,974
Profit attributable to:		
Non-controlling interests	1,530	3,094
Owners of the parent	30,457	28,879

See Notes to Consolidated Financial Statements.

Nagoya Railroad Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Comprehensive Income

	Millions of yen	
	1 April 2018 -31 March 2019	1 April 2019 -31 March 2020
Profit	31,987	31,974
Other comprehensive income (Note 15)		
Net unrealised gains and losses on available-for-sale securities	(3,550)	(11,741)
Deferred gains and losses on hedges	(43)	(713)
Land revaluation increment	(164)	-
Foreign currency translation adjustments	(7)	(3)
Retirement benefit adjustments	49	(509)
Share of other comprehensive income of affiliates accounted for using the equity method	(234)	(626)
Total other comprehensive income	(3,950)	(13,593)
Comprehensive income	28,037	18,380
Comprehensive income attributable to:		
Owners of the parent	26,567	15,476
Non-controlling interests	1,469	2,903

See Notes to Consolidated Financial Statements.

Nagoya Railroad Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Changes in Net Assets
Fiscal year ended 31 March 2019

(Millions of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the fiscal year start	95,148	29,269	117,153	(29)	241,542
Changes in items during the year					
Issuance of new shares	5,630	5,630			11,260
Cash dividends			(5,237)		(5,237)
Profit attributable to owners of the parent			30,457		30,457
Purchase of treasury stock				(61)	(61)
Disposal of treasury stock		(18)		59	41
Reversal for land revaluation increment			481		481
Transfer from retained earnings to capital surplus		18	(18)		-
Change in the fiscal year of consolidated subsidiaries			76		76
Change in treasury shares arising from change in equity in entities accounted for using equity method				-	-
Change in ownership interest of parent related to transactions with non-controlling interests		39			39
Net changes in items other than shareholders' equity for the year					
Total changes in items during the year	5,630	5,669	25,759	(1)	37,057
Balance at the fiscal year end	100,778	34,939	142,912	(30)	278,600

	Accumulated other comprehensive income						Non-controlling interests	Total net assets
	Net unrealised gains on available-for-sale securities	Deferred gains and losses on hedges	Land revaluation increment	Foreign currency translation adjustments	Retirement benefit adjusutments	Total accumulated other comprehensive income		
Balance at the fiscal year start	28,922	120	88,697	(17)	1,073	118,796	29,216	389,555
Changes in items during the year								
Issuance of new shares								11,260
Cash dividends								(5,237)
Profit attributable to owners of the parent								30,457
Purchase of treasury stock								(61)
Disposal of treasury stock								41
Reversal for land revaluation increment								481
Transfer from retained earnings to capital surplus								-
Change in the fiscal year of consolidated subsidiaries								76
Change in treasury shares arising from change in equity in entities accounted for using equity method								-
Change in ownership interest of parent related to transactions with non-controlling interests								39
Net changes in items other than shareholders' equity for the year	(3,697)	(38)	(645)	(7)	18	(4,370)	2,785	(1,585)
Total changes in items during the year	(3,697)	(38)	(645)	(7)	18	(4,370)	2,785	35,471
Balance at the fiscal year end	25,224	81	88,052	(24)	1,092	114,426	32,001	425,027

Fiscal year ended 31 March 2020

(Millions of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the fiscal year start	100,778	34,939	142,912	(30)	278,600
Changes in items during the year					
Issuance of new shares	380	380			760
Cash dividends			(5,398)		(5,398)
Profit attributable to owners of the parent			28,879		28,879
Purchase of treasury stock				(61)	(61)
Disposal of treasury stock		(11)		32	21
Reversal for land revaluation increment			824		824
Transfer from retained earnings to capital surplus		11	(11)		-
Change in the fiscal year of consolidated subsidiaries			-		-
Change in treasury shares arising from change in equity in entities accounted for using equity method				(0)	(0)
Change in ownership interest of parent related to transactions with non-controlling interests		(53)			(53)
Net changes in items other than shareholders' equity for the year					
Total changes in items during the year	380	326	24,295	(28)	24,972
Balance at the fiscal year end	101,158	35,266	167,207	(59)	303,572

	Accumulated other comprehensive income						Non-controlling interests	Total net assets
	Net unrealised gains on available-for-sale securities	Deferred gains and losses on hedges	Land revaluation increment	Foreign currency translation adjustments	Retirement benefit adjusutments	Total accumulated other comprehensive income		
Balance at the fiscal year start	25,224	81	88,052	(24)	1,092	114,426	32,001	425,027
Changes in items during the year								
Issuance of new shares								760
Cash dividends								(5,398)
Profit attributable to owners of the parent								28,879
Purchase of treasury stock								(61)
Disposal of treasury stock								21
Reversal for land revaluation increment								824
Transfer from retained earnings to capital surplus								-
Change in the fiscal year of consolidated subsidiaries								-
Change in treasury shares arising from change in equity in entities accounted for using equity method								(0)
Change in ownership interest of parent related to transactions with non-controlling interests								(53)
Net changes in items other than shareholders' equity for the year	(12,211)	(698)	(824)	(3)	(489)	(14,227)	2,628	(11,598)
Total changes in items during the year	(12,211)	(698)	(824)	(3)	(489)	(14,227)	2,628	13,373
Balance at the fiscal year end	13,012	(617)	87,227	(27)	603	100,198	34,630	438,401

See Notes to Consolidated Financial Statements.

Nagoya Railroad Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Cash Flows (Note 16)

	Millions of yen	
	1 April 2018 -31 March 2019	1 April 2019 -31 March 2020
Cash flows from operating activities:		
Profit before income taxes	46,120	47,337
Depreciation	40,258	41,239
Impairment loss on fixed assets	1,487	6,338
Gain on bargain purchases	(1,078)	—
Amortisation of goodwill	326	356
Increase (decrease) in allowance for doubtful accounts	(133)	(13)
Increase (decrease) in provision for bonuses	155	157
Increase (decrease) in provision for loss on liquidation	(911)	(4,995)
Increase (decrease) in other provision	(57)	(250)
Increase (decrease) in employee retirement benefit liability	758	392
Interest and dividend income	(1,674)	(1,914)
Interest expense	3,442	3,245
Share of (gain) loss of entities accounted for using equity method	(2,708)	(2,562)
Loss (gain) on sale of fixed assets	4,309	900
Loss on disposition of fixed assets	598	1,048
Loss (gain) on valuation of investment securities	0	37
Loss (gain) on sales of investment securities	(481)	(1,038)
Gain on contributions for construction	(1,387)	(2,018)
Decrease (increase) in trade notes and accounts receivable	(5,896)	6,952
Decrease (increase) in inventories	(508)	52
Increase (decrease) in trade notes and accounts payable	5,200	(7,089)
Others, net	(2,718)	(2,960)
Subtotal	85,103	85,215
Interest and dividends received	2,266	2,597
Interest paid	(3,461)	(3,250)
Income taxes paid	(16,504)	(14,314)
Net cash provided by (used in) operating activities	67,404	70,247

	Millions of yen	
	1 April 2018 -31 March 2019	1 April 2019 -31 March 2020
Cash flows from investing activities:		
Purchases of fixed assets	(56,632)	(75,343)
Proceeds from sales of fixed assets	2,551	2,550
Purchases of investment securities	(810)	(2,524)
Proceeds from sales or redemptions of investment securities	588	1,329
Purchases of shares of subsidiaries resulting in change in scope of consolidation	(614)	—
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation	—	(31)
Payments of short-term loans receivable	(23)	(26)
Proceeds from collection of short-term loans receivable	638	586
Payments of long-term loans receivable	(53)	(43)
Proceeds from collection of long-term loans receivable	24	32
Proceeds from contribution received for construction	6,163	11,529
Others, net	(119)	(586)
Net cash provided by (used in) investing activities	(48,287)	(62,527)
Cash flows from financing activities:		
Net increase (decrease) in short-term borrowings	(1,263)	3,264
Proceeds from long-term debt	17,731	25,714
Repayment of long-term debt	(33,331)	(32,033)
Issuance of bonds	19,882	19,881
Redemption of bonds	(20,000)	(10,000)
Purchases of shares of subsidiaries resulting in no change in scope consolidation	(168)	(20)
Repayments of lease obligations	(2,116)	(1,939)
Proceeds from sales of treasury stock	1	1
Purchase of treasury stock	(61)	(61)
Dividends paid to non-controlling shareholders	(242)	(306)
Dividends paid to shareholders	(5,235)	(5,398)
Net cash provided by (used in) financing activities	(24,803)	(898)
Effect of exchange rate changes on cash and cash equivalents	(4)	(2)
Net increase (decrease) in cash and cash equivalents	(5,691)	6,819
Cash and cash equivalents at beginning of year	30,854	25,192
Increase (decrease) in cash and cash equivalents resulting from change in the fiscal period of consolidated subsidiaries	28	—
Cash and cash equivalents at end of year	25,192	32,011

See Notes to Consolidated Financial Statements.

1. Basis of consolidated financial statements

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

The accompanying consolidated financial statements have been translated into English from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Japanese Financial Instruments and Exchange Act. Certain supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements. In addition, certain comparative figures have been reclassified to conform to the current year's presentation.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. Japanese yen figures less than one million yen are rounded down to the nearest million yen, except for per share data. As a result, the totals shown in the accompanying consolidated financial statements in Japanese yen do not necessarily agree with the sums of the individual amounts.

2. Summary of significant accounting policies

(a) Basis of consolidation

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

The difference between the acquisition cost of investments in subsidiaries and the underlying equity in the net assets, adjusted based on the fair value at the time of acquisition, is principally deferred as goodwill and amortised on a straight-line basis principally over ten years.

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 2019 and 2020 were as follows.

	2019	2020
Consolidated subsidiaries	117	113
Unconsolidated subsidiaries accounted for using the equity method	—	—
Affiliated companies accounted for using the equity method	15	15
Unconsolidated subsidiaries stated at cost	7	8
Affiliated companies stated at cost	11	11

At both 31 March 2019 and 2020, 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 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

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

(c) Investments and marketable securities

The Group classifies certain investments in debt and equity securities as "held-to-maturity," "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 ¥9,106 million and ¥9,148 million at 31 March 2019 and 2020, 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 2019 and at 31 March 2020 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 ¥835 million and ¥508 million at 31 March 2019 and 2020, 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 2019 and 2020, cumulative contributions amounting to ¥176,549 million and ¥178,024 million, respectively, were deducted from the acquisition costs of property and equipment for the railroad business.

(l) Allowance for doubtful accounts

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

(m) Employee retirement benefit liability

Employees who terminate their service with the Group are entitled to retirement benefits generally determined by basic rates of pay at the time of retirement, length of service and conditions under which the termination occurs. The Group has principally 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

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

(o) Provisions

(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.

(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.

(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 year ended 31 March 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.

From 1 April 2019 to 30 September 2019, consumption taxes were levied in Japan on the domestic sale of goods and services at a rate of 8%. From 1 October 2019 to 31 March 2020, consumption taxes were levied in Japan on the domestic sale of goods and services at a rate of 10% or a reduced 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. Unless there is an anti-dilutive effect, diluted net income per share is calculated to reflect the potential dilution assuming that all convertible bonds are converted at the time of issue.

Cash dividends per share shown in the diagram below represent dividends declared by the Company applicable to the respective years indicated, including dividends to be paid after the end of each such year.

Per share information for the years ended 31 March 2019 and 2020 was as follows.

	Millions of yen	
	2019	2020
Per share:		
Net income:		
- Basic	158.90	146.89
- Diluted	144.71	137.21
Cash dividends	27.50	25.00

(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, 31 March 2020, Accounting Standards Board of Japan)
・Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, 31 March 2020, 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:
The Company and its consolidated subsidiaries are currently in the process of determining the effects of the above standard and guidance on the consolidated financial statements.

(Accounting Standard for Fair Value Measurement, etc.)

・Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, 4 July 2019, Accounting Standards Board of Japan)
・Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31, 4 July 2019, Accounting Standards Board of Japan)
・Accounting Standard for Measurement of Inventories (ASBJ Statement No. 9, 4 July 2019, Accounting Standards Board of Japan)
・Accounting Standard for Financial Instruments (ASBJ Statement No. 10, 4 July 2019, Accounting Standards Board of Japan)
・Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, 31 March 2020, Accounting Standards Board of Japan)

(1) Outline:
In order to enhance comparability with internationally recognized accounting standards, “Accounting Standard for Fair Value Measurement” and “Implementation Guidance on Accounting Standard for Fair Value Measurement” (together, hereinafter referred to as “Fair Value Accounting Standards”) were developed and guidance on methods for measuring fair value was issued. The Fair Value Accounting Standards are applicable to the fair value measurement of the following items:

・Financial instruments in “Accounting Standard for Financial Instruments” and
・Inventories held for trading purposes in “Accounting Standard for Measurement of Inventories.”

In addition, the “Implementation Guidance on Disclosures about Fair Value of Financial Instruments” has been revised and a note on the breakdown of financial instruments by market price level has been set.

(2) Effective date:
The above guidance will become effective from the beginning of the fiscal year ending 31 March 2022.

(3) Effects of adoption:
The Company and its consolidated subsidiaries are currently in the process of determining the effects of the above standards and guidance on the consolidated financial statements.

(Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections)

・Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections (ASBJ Statement No. 24, 31 March 2020, Accounting Standards Board of Japan)

(1) Outline:
The purpose is to provide an outline of the accounting principles and procedures adopted when the relevant accounting standards are not clear.

(2) Effective date:
The above standard will become effective from 31 March 2021.

(Accounting Standard for Disclosure of Accounting Estimates)

・Accounting standards for disclosure of accounting estimates (ASBJ Statement No. 31, 31 March 2020, Accounting Standards Board of Japan)

(1) Outline:
For amounts recorded in the financial statements for the current year using accounting estimates that will have a significant impact on the financial statements for the next year, disclose information that contributes to the understanding of the users of the financial statements regarding the content of the accounting estimates for these items.

(2) Effective date:
The above standard will become effective from 31 March 2021.

(w) Changes in accounting estimates

(Provision for loss on liquidation)

The Company recorded a provision for loss on liquidation in preparation for the demolition of buildings associated with the redevelopment of the Meitetsu Nagoya Station area, but has changed the estimate in accordance with the progress of the redevelopment plan. As a result of this change, profit before income taxes for the fiscal year ended 31 March 2020 increased by ¥ 4,816 million.

(x) Additional Information

(Accounting estimate for the impact of COVID-19)

It is difficult to accurately predict how COVID-19 will spread in the future or when the pandemic will come to an end. However, the Company estimates future cash flows for the impairment of fixed assets, the recoverability of deferred tax assets and other matters assuming that during the fiscal year ending 31 March 2021, economic activities would be limited under certain restrictions, but that the situation will gradually normalize over a certain period of time, potentially from July 2020 onwards.

3. Financial instruments

Information on financial instruments for the years ended 31 March 2019 and 2020 are set forth below.

(1) Qualitative information on financial instruments

(a) Policy for financial instruments

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

(b) Financial instruments and risk management

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

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

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

Bank loans payable and bonds payable are used for capital investment. Loans payable with floating interest rates expose the Group to risks associated with fluctuation in interest rates. Loans payable denominated in foreign currencies expose the Group to risks associated with fluctuation in exchange rates. In connection with some such loans payable, 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 2019 and 2020, 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 2019:			
Financial assets:			
Cash and deposits	20,870	20,870	—
Trade notes and accounts receivable	63,297	63,297	—
Investment securities:			
Equity securities of affiliates	8,544	6,423	(2,120)
Available-for-sale securities	68,500	68,500	—
Total	161,212	159,091	(2,120)
Financial liabilities:			
Trade notes and accounts payable	77,694	77,694	—
Short-term loans payable	20,745	20,745	—
Bonds payable, including current portion	175,880	186,080	10,200
Long-term loans payable, including current portion	190,317	194,843	4,526
Total	464,637	479,364	14,726
Derivative instruments:*			
Hedge accounting has not been applied	(0)	(0)	—
Hedge accounting has been applied	115	115	—
Total	114	114	—

	Carrying value	Fair value	Differences
	Millions of yen		
At 31 March 2020:			
Financial assets:			
Cash and deposits	27,702	27,702	—
Trade notes and accounts receivable	56,644	56,644	—
Investment securities:			
Equity securities of affiliates	9,098	6,559	(2,539)
Available-for-sale securities	52,243	52,243	—
Total	145,689	143,150	(2,539)
Financial liabilities:			
Trade notes and accounts payable	77,526	77,526	—
Short-term loans payable	23,501	23,501	—
Bonds payable, including current portion	185,100	191,316	6,216
Long-term loans payable, including current portion	184,008	187,875	3,866
Total	470,136	480,220	10,083
Derivative instruments:*			
Hedge accounting has not been applied	3	3	—
Hedge accounting has been applied	(918)	(918)	—
Total	(915)	(915)	—

**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 deposits, short-term investments, trade receivables, short-term loans payable 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	
	2019	2020
Carrying value:		
Unlisted investments (equity securities) in unconsolidated subsidiaries and affiliates	27,489	28,185
Unlisted equity securities	12,547	14,097
Total	40,037	42,283

(3) Expected maturities of financial assets at 31 March 2020 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 2020:				
Cash and deposits	27,702	–	–	–
Trade notes and accounts receivable	56,644	–	–	–
Securities and investment securities	5,000	–	–	–
Total	89,347	–	–	–

(4) The repayment schedules for short-term loans payable, bonds payable and long-term loans payable with contractual maturities at 31 March 2020 were as follows:

	Due in 1 year or less	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
	Millions of yen					
Short-term loans payable	23,501	–	–	–	–	–
Bonds payable	10,000	25,000	–	100	40,000	110,000
Long-term loans payable	22,493	31,218	16,920	22,456	4,034	86,885
Total	55,994	56,218	16,920	22,556	44,034	196,885

4. Investments securities

At 31 March 2019 and 2020, short-term investments consisted of time deposits with original maturities of more than three months.

At 31 March 2019 and 2020, investment securities consisted of the following:

	Millions of yen	
	2019	2020
Listed securities		
Equity securities	63,500	47,243
Others	—	—
Total listed equity securities	63,500	47,243
Unlisted equity securities	12,547	14,097
Total	76,047	61,340

At 31 March 2019 and 2020, 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 2019:				
Equity securities	28,211	35,890	(600)	63,500
Others	—	—	—	—
At 31 March 2020:				
Equity securities	28,715	19,899	(1,371)	47,243
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 2019	536	471	5
For the year ended 31 March 2020	970	901	—

5. 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	
	2019	2020
Property subject to impairment:	Rental property, idle assets, leisure facilities and others	Idle assets, commercial facilities such as department stores, rental property and others
Impairment loss recorded:		
Land	753	3,149
Buildings and structures	698	2,158
Others	35	1,030
Total	1,487	6,338

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 not applied for the year ended 31 March 2019. The value in use was based on the present value of expected cash flows discounted at 1.2% for the year ended 31 March 2020.

6. Real estate for rent

The Company and some of the consolidated subsidiaries own real estate such as office buildings, parking lots and other facilities for rent. The carrying values of such real estate in the consolidated balance sheets, changes during the years ended 31 March 2019 and 2020 and the fair values of real estate were as follows:

	Millions of yen	
	2019	2020
Carrying value at beginning of year	134,184	131,828
Net changes during the year	(2,355)	3,125
Carrying value at end of year	131,828	134,953
Fair value at end of year*	174,163	176,283

**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 2019 and 2020 were as follows:

	Millions of yen	
	2019	2020
Income from rental operations	5,445	4,730
Impairment loss on rental properties	184	832

7. Short-term loans payable and long-term debt

Short-term loans payable at 31 March 2019 and 2020 consisted of the following:

	Millions of yen	
	2019	2020
Bank loans with average interest rates of 0.2336% at 31 March 2020:		
Secured	3,487	2,588
Unsecured	17,257	20,912
Total	20,745	23,501

Long-term debt at 31 March 2019 and 2020 consisted of the following:

	Millions of yen	
	2019	2020
2.05% unsecured bonds, due August 2019	10,000	—
1.26% unsecured bonds, due October 2020	10,000	10,000
0.557% unsecured bonds, due April 2021	15,000	15,000
1.35% unsecured bonds, due July 2021	10,000	10,000
0.857% unsecured bonds, due April 2027	15,000	15,000
0.85% unsecured bonds, due February 2035	15,000	15,000
0.75% unsecured bonds, due August 2036	15,000	15,000
0.806% unsecured bonds, due May 2037	15,000	15,000
0.79% unsecured bonds, due December 2037	10,000	10,000
0.748% unsecured bonds, due May 2038	10,000	10,000
0.863% unsecured bonds, due September 2038	10,000	10,000
0.725% unsecured bonds, due April 2039	—	10,000
0.53% unsecured bonds, due September 2039	—	10,000
Zero coupon unsecured convertible bonds, due October 2023	880	100
Zero coupon unsecured convertible bonds, due December 2024	40,000	40,000
Bank loans with average interest rate of 0.7057% at 31 March 2020, due through 2039:		
Secured	30,369	3,506
Unsecured	159,947	180,502
Capitalised lease obligations	11,588	10,816
Subtotal	377,785	379,925
Less current portion	(44,487)	(34,426)
Total	333,297	345,499

At 31 March 2020, zero coupon convertible bonds due October 2023 and zero coupon convertible bonds due December 2024 were ¥1,926.7 and ¥2,909.9 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 2020, 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 2020 were as follows:

Year ending 31 March	Millions of yen
2021	34,426
2022	57,719
2023	18,414
2024	23,394
2025	44,579
2026 and thereafter	201,391
Total	379,925

At 31 March 2019 and 2020, the following assets were pledged for short-term and long-term loans payable.

	Millions of yen	
	2019	2020
Buildings and structures	128,922	2,733
Machinery, equipment and vehicles	15,608	—
Land	79,519	4,456
Others	4,334	2,552
Total	228,384	9,741

8. Employee retirement benefit liability

The Company and its domestic consolidated subsidiaries have lump-sum retirement benefit plans, defined benefit pension plans and defined contribution plans. In some cases, extra retirement benefits may be paid to retired employees. 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 2019 and 2020, 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	
	2019	2020
Balance at beginning of year:	35,347	34,927
Service cost	1,646	1,629
Interest cost	93	69
Actuarial differences incurred	202	(166)
Benefits paid	(1,822)	(1,809)
Decrease due to partial termination of retirement benefit plans	(524)	−
Others	(15)	(0)
Balance at end of year:	34,927	34,650

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

	Millions of yen	
	2019	2020
Balance at beginning of year:	14,326	13,080
Expected return on plan assets	69	67
Decrease due to partial termination of retirement benefit plans	(468)	−
Actuarial differences incurred	(94)	(863)
Contributions paid by the employer	214	205
Benefits paid	(966)	(1,158)
Balance at end of year:	13,080	11,331

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

	Millions of yen	
	2019	2020
Balance at beginning of year:	9,697	9,559
Retirement benefit costs	905	989
Benefits paid	(1,088)	(1,299)
Contributions paid by the employer	(12)	(14)
Others	56	(39)
Balance at end of year:	9,559	9,195

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

	Millions of yen	
	2019	2020
Funded retirement benefit obligations	27,875	27,686
Plan assets	(13,243)	(11,503)
	14,631	16,182
Unfunded retirement benefit obligations	16,774	16,331
Employee retirement benefit liability recorded at end of year:	31,406	32,514

(e) Net periodic retirement benefit expenses

	Millions of yen	
	2019	2020
Service cost	1,646	1,629
Interest cost	93	69
Expected return on plan assets	(69)	(67)
Net actuarial loss amortisation	414	(2)
Prior service cost amortisation	(19)	(20)
Retirement benefit costs based on the simplified Method	905	989
Others	(70)	(78)
Total net periodic retirement benefit expenses	2,900	2,518

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

	Millions of yen	
	2019	2020
Actuarial differences	117	(699)
Past service cost	(19)	(20)
Total balance, before tax effects, at end of year:	97	(720)

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

	Millions of yen	
	2019	2020
Actuarial differences yet to be recognised	(1,200)	(500)
Past service costs yet to be recognised	(67)	(46)
Total balance, before tax effects, at end of year:	(1,267)	(546)

(h) Plan assets

1) Plan assets comprise:

Equity securities	15.0%
Bonds	6.3%
Cash and deposits	56.2%
General accounts	8.8%
Others	13.7%
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 2020 (expressed as weighted averages) were as follows:

Discount rate	0.3% to 0.5%
Long-term expected rate of return	0.0% to 2.0%

For the year ended 31 March 2020, the contributions required for defined contribution plans were ¥4,174 million in the Group.

9. Contingent liabilities

At 31 March 2019 and 2020, contingent liabilities were as follows:

	Millions of yen	
	2019	2020
Contingently liable for:		
Guarantees of loans of others	645	634
Total	645	634

10. Lease transactions

(As lessee)

(a) Finance leases

The Group leases, as lessee, mainly machinery, equipment and vehicles such as buses under its traffic business, aircraft under its other business and software. As described in Note 2(h), pro forma information regarding leased property whose lease inception was prior to 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 2019:			
Acquisition cost	7,077	2,817	9,894
Accumulated depreciation	6,704	2,175	8,880
Net leased property	372	641	1,014
At 31 March 2020:			
Acquisition cost	7,077	2,737	9,814
Accumulated depreciation	7,031	2,231	9,262
Net leased property	46	505	552

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

	Millions of yen	
	2019	2020
Due within 1 year	585	246
Due after 1 year	926	679
Total	1,512	926

Lease expense and other information at 31 March 2019 and 2020 were as follows:

	Millions of yen	
	2019	2020
Lease expense	977	733
Imputed depreciation expense *(*1)*	680	462
Imputed interest expense *(*2)*	117	89

**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	
	2019	2020
Due within 1 year	249	406
Due after 1 year	1,046	2,694
Total	1,296	3,100

(As lessor)
(a) Finance leases

Lease investment assets at 31 March 2019 and 2020 were as follows:

	Millions of yen	
	2019	2020
Lease receivables	6,747	8,959
Estimated residual value	156	174
Unearned imputed interest	(1,268)	(1,623)
Lease investment assets included in trade receivables	5,635	7,511

The aggregate annual maturities of lease investments at 31 March 2020 were as follows:

Year ending 31 March	Millions of yen
2021	2,711
2022	2,350
2023	1,823
2024	1,217
2025	681
2026 and thereafter	174
Total	8,956

(b) Operating leases

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

	Millions of yen	
	2019	2020
Due within 1 year	2,334	2,543
Due after 1 year	6,501	6,791
Total	8,836	9,334

11. Derivatives

At 31 March 2019 and 2020, 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 2019	245	−	(0)	(0)
At 31 March 2020	257	−	3	3

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

At 31 March 2019 and 2020, 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 2019			9,725	8,500	−
At 31 March 2020			8,500	5,500	−

**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 2019			1,225	―	3
At 31 March 2020			―	―	―

**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 2019			64,053	50,427	―
At 31 March 2020			50,427	50,301	―

**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 2019			2,074	1,102	112
At 31 March 2020			3,152	2,049	(918)

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

12. Net assets

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

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

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

At 31 March 2019 and 2020, capital surplus consisted principally of additional paid-in capital. In addition, retained earnings included the legal earnings reserve of the Company in the amounts of ¥2,807 million at 31 March 2019 and 2020.

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

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

Total number of shares authorized to be issued as of 31 March 2019 and 2020 was as follows.

	Number of shares (Thousands of shares)	
	2019	2020
Common stock	360,000	360,000

Movements in issued shares of common stock and treasury stock during the years ended 31 March 2019 and 2020 were as follows.

	Number of shares (Thousands of shares)			
	2019			
	1 April 2018	Increase	Decrease	31 March 2019
Issued shares:				
Common stock	190,467	5,839	—	196,306
Treasury stock	27	22	21	27

	Number of shares (Thousands of shares)			
	2020			
	1 April 2019	Increase	Decrease	31 March 2020
Issued shares:				
Common stock	196,306	394	—	196,700
Treasury stock	27	19	11	36

13. Income taxes

The Company and its domestic consolidated subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a statutory effective tax rate of approximately 30.5% and 30.6% for the years ended 31 March 2019 and 2020, respectively.

Significant components of the Groups' deferred tax assets and liabilities as of 31 March 2019 and 2020 were as follows:

	Millions of yen	
	2019	2020
Deferred tax assets:		
Employee retirement benefit liability	13,449	13,470
Impairment loss on fixed assets	11,369	11,527
Loss on valuation of investment securities	5,317	5,277
Tax loss carryforwards	3,230	4,768
Elimination of unrealised profit	4,500	4,447
Depreciation	4,170	4,390
Valuation loss on fixed assets	3,253	3,232
Provision for bonuses	1,937	1,981
Provision for loss on liquidation	3,169	1,581
Loss on valuation of land caused by restructuring	842	821
Accrued enterprise taxes and accrued business office taxes	739	786
Allowance for loss on collection of gift certificates outstanding	749	749
Accrued retirement benefits for directors	455	444
Loss on valuation of inventories	228	190
Allowance for doubtful accounts	187	184
Others	3,133	3,455
Subtotal of deferred tax assets	56,735	57,310
Subtotal of less valuation allowance	(25,624)	(27,978)
Total deferred tax assets	31,111	29,332
Deferred tax liabilities:		
Net unrealised gains on available-for-sale securities	(10,382)	(5,408)
Gain on valuation of land caused by restructuring	(2,711)	(2,664)
Gain on valuation of investment securities	(2,083)	(2,083)
Retained earnings	(2,348)	(1,118)
Deferred capital gains	(880)	(851)
Trust for employee retirement benefits	(510)	(510)
Others	(1,363)	(1,146)
Total deferred tax liabilities	(20,279)	(13,782)
Net deferred tax assets	10,832	15,549

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 2019 and 2020, a valuation allowance was provided to reduce deferred tax assets to the amount management believed would be realisable.

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

For the year ended 31 March 2020, 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
	2020
Japanese statutory tax rate	30.6%
Increase (decrease) due to:	
Permanently non-deductible expenses	0.4
Local minimum taxes per capita levy	0.9
Changes in valuation allowance	6.3
Elimination of unrealised profit excluding income taxes	(0.6)
Permanently non-additional profit	(1.5)
Equity in net earnings of affiliates	(1.7)
Changes in retained earnings	(2.6)
Others	0.7
Effective income tax rate	32.5%

14. 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 2019 was as follows:

	Reportable segments									Consolidated financial statements (*3)
	Traffic	Transport	Real Estate	Leisure and Services	Distribution	Aviation Services	Others (*1)	Total	Adjustments (*2)	
	Millions of yen									
For the year 2019:										
Operating revenues:										
External customers	165,432	136,424	81,491	52,001	129,303	27,570	30,345	622,567	—	622,567
Intersegment sales/transfer	2,228	438	10,522	1,418	12,928	—	17,667	45,204	(45,204)	—
Total	167,660	136,863	92,013	53,419	142,231	27,570	48,012	667,772	(45,204)	622,567
Segment income	24,379	5,968	11,404	1,796	1,185	2,803	1,627	49,165	290	49,455
Segment assets	489,775	115,565	301,598	34,289	48,740	24,483	54,522	1,068,974	72,434	1,141,409
Other material items:										
Depreciation	18,520	6,174	6,276	1,132	2,081	2,925	3,570	40,681	(423)	40,258
Amortisation of goodwill	—	—	322	—	—	—	4	326	—	326
Impairment loss on fixed assets	29	0	1,306	109	22	—	19	1,487	—	1,487
Increase in property and equipment and intangible assets	19,110	12,727	13,140	1,275	571	3,034	4,974	54,834	—	54,834

**1) "Others" is a business segment that is not considered a reportable segment. It includes the business of equipment maintenance, information processing, insurance agency and others.*
**2) Adjustment is as follows*
(1) Segment income adjustment amounting to ¥290 million was treated as intersegment elimination.
(2) Segment assets adjustment amounting to ¥72,434 million consisted of unallocated general corporate assets amounting to ¥105,414 million, net of intersegment elimination of ¥32,980 million. Such general corporate assets consisted mainly of cash, deposits and investment securities.
(3) Depreciation adjustment amounting to ¥(423) million was treated as intersegment elimination.
**3) 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 2020 was as follows:

	Reportable segments						Others (*1)	Total	Adjustments (*2)	Consolidated financial statements (*3)
	Traffic	Transport	Real Estate	Leisure and Services	Distribution	Aviation Services				
	Millions of yen									
For the year 2020										
Operating revenues:										
External customers	161,214	137,798	90,372	48,806	127,608	27,251	29,866	622,916	—	622,916
Intersegment sales/transfer	2,330	421	10,497	1,331	12,930	—	22,257	49,769	(49,769)	—
Total	163,544	138,220	100,869	50,137	140,538	27,251	52,123	672,686	(49,769)	622,916
Segment income	21,577	5,342	14,309	611	330	2,616	2,854	47,642	(279)	47,363
Segment assets	504,719	118,032	305,528	38,488	47,213	24,986	66,112	1,105,081	59,897	1,164,979
Other material items:										
Depreciation	18,577	6,873	6,483	1,120	2,384	2,689	3,547	41,676	(437)	41,239
Amortisation of goodwill	—	—	351	—	—	—	5	356	—	356
Impairment loss on fixed assets	817	247	3,212	251	1,484	—	324	6,338	—	6,338
Increase in property and equipment and intangible assets	24,706	10,566	19,897	3,548	2,239	5,827	6,499	73,286	—	73,286

**1) "Others" is a business segment that is not considered a reportable segment. It includes the business of equipment maintenance, information processing, insurance agency and others.*
**2) Adjustment is as follows*
(1) Segment income adjustment amounting to ¥(279) million was treated as intersegment elimination.
(2) Segment assets adjustment amounting to ¥59,897 million consisted of unallocated general corporate assets amounting to ¥92,864 million, net of intersegment elimination of ¥32,966 million. Such general corporate assets consisted mainly of cash, deposits and investment securities.
(3) Depreciation adjustment amounting to ¥(437) million was treated as intersegment elimination.
**3) 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."

(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 2019	–	–	1,546	–	–	–	20	–	1,567
At 31 March 2020	–	–	1,195	–	–	–	15	–	1,211

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 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 ¥1,078 million was recognised.

- Consolidated fiscal year ended 31 March 2020
As this information was not material, it has been omitted.

15. 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 2019 and 2020 were as follows.

	Millions of yen	
	2019	2020
Unrealised gains on available-for-sale securities, net of taxes:		
Amount arising during the year	(4,660)	(15,903)
Reclassification adjustments	(470)	(867)
Subtotal, before tax	(5,130)	(16,770)
The amount of tax effect	1,579	5,029
Subtotal, net of tax	3,550	(11,741)
Deferred gains and losses on hedges, net of taxes:		
Amount arising during the year	190	(870)
Reclassification adjustments	(252)	(157)
Subtotal, before tax	(62)	(1,028)
The amount of tax effect	19	314
Subtotal, net of tax	(43)	(713)
Land revaluation increments, net of taxes:		
The amount of tax effect	(164)	–
Subtotal, net of tax	(164)	–
Foreign currency translation adjustments		
Amount arising during the year	(7)	(3)
Reclassification adjustments	–	–
Subtotal, before tax	(7)	(3)
The amount of tax effect	–	–
Subtotal, net of tax	(7)	(3)
Retirement benefit adjustments		
Amount arising during the year	(294)	(697)
Reclassification adjustments	392	(23)
Subtotal, before tax	97	(720)
The amount of tax effect	(48)	211
Subtotal, net of tax	49	(509)
Share of other comprehensive income of affiliates accounted for using equity method:		
Amount arising during the year	(256)	(615)
Reclassification adjustments	22	(10)
Subtotal	(234)	(626)
Total other comprehensive income	(3,950)	(13,593)

16. Supplemental information to consolidated statements of cash flows

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

	Millions of yen	
	2019	2020
Cash and deposits	20,870	27,702
Securities	5,000	5,000
Time deposits with maturities of more than three months	(677)	(691)
Cash and cash equivalents	25,192	32,011

(2) Breakdown of assets and liabilities of consolidated subsidiary by acquisition for the year ended 31 March 2019

SAKAE KAIHATSU CO., LTD.	Millions of yen
Current assets	316
Non-current assets	6,654
Total	6,971
Current liabilities	392
Non-current liabilities	2,728
Total	3,120

The Company acquired additional shares of common stock of SAKAE KAIHATSU CO., LTD. for the year ended 31 March 2019. Purchases of shares of consolidated subsidiary of ¥0 million has been included in purchases of shares of subsidiaries resulting in change in scope of consolidation.

(3) Significant non-cash transactions

During the years ended 31 March 2019 and 2020, 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	
	2019	2020
Increase in common stock	5,630	380
Increase in capital surplus	5,630	380
Loss on disposal of treasury stock	(18)	(11)
Decrease in treasury stock	58	31
Decrease in convertible bonds	11,300	780

17. Subsequent events

Cash dividends
An appropriation of retained earnings for the year ended 31 March 2020 was duly approved at the ordinary shareholders' meeting held on 25 June 2020 as follows:

	Millions of yen
Cash dividends (¥25.00 per share)	4,917

The above dividends became payable to shareholders of record as of 31 March 2020. However, the appropriation had not been accrued in the consolidated financial statements as of 31 March 2020 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 23 March 2020, the Company issued the 60th Series Unsecured Straight Bonds as shown below.

1. Bond name: 60th Series Unsecured Straight Bonds
2. Total amount of issue: ¥10 billion
3. Issue value: ¥100 per face value of ¥100
4. Coupon: 0.780 % per annum
5. Issue date: 30 April 2020
6. Maturity date: 27 April 2040
7. Use of proceeds: Redemption of bonds