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, 2022 and 2021, the consolidated statements of operations and comprehensive income, changes in net assets and cash flows for the years then ended , and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2022 and 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

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

Key Audit Matters

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

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

The key audit matter	How the matter was addressed in our audit
In the consolidated statement of financial position of Nagoya Railroad Co., Ltd. (hereinafter referred to as "the Company") and consolidated subsidiaries, deferred tax assets of ¥19,732 million were recognized as at March 31, 2022. As described in Note 13, "Income taxes," to the consolidated financial statements, the amount of gross deferred tax assets before being offset by deferred tax liabilities amounted to ¥29,333 million, which was calculated by deducting a valuation allowance of ¥43,474	The primary procedures we performed to assess whether management's judgment on the recoverability of deferred tax assets was appropriate included the following: **(1) Internal control testing** We tested the design and operating effectiveness of certain of the Company's internal controls over the process of planning future taxable income, including the development of the medium-term management plan.

million from the total amount of deferred tax assets of ¥72,808 million related to deductible temporary differences and tax loss carryforwards. Of this amount, the amount recognized by the Company and accounting for the largest share is particularly significant. Deferred tax assets are recognized to the extent that the reversal of deductible temporary differences or tax loss carryforwards are expected to reduce future taxable income resulting in a reduction in tax payments. The future taxable income of the Company, which was used to determine the recoverability of its deferred tax assets, was estimated based primarily on the medium-term management plan prepared by management. There was a high degree of uncertainty in the forecasts of future operating revenues incorporated into the management plan as they included key assumptions requiring significant management judgment. We, therefore, determined that our assessment of the appropriateness of management's judgment on the recoverability of deferred tax assets was of most significance in our audit of the consolidated financial statements for the current fiscal year and, accordingly, a key audit matter.	**(2) Assessment of the reasonableness of the estimated future taxable income** We assessed the reasonableness of the estimated future taxable income by inquiring of management regarding the basis for key assumptions used to estimate future taxable income, which was important for management's judgment on the recoverability of deferred tax assets. In addition, we: ・confirmed that the medium-term management plan, which formed the basis for planning future taxable income, was appropriately approved and then assessed the consistency of the estimated future taxable income used to determine the recoverability of the deferred tax assets with the details of the medium-term management plan; ・assessed the appropriateness of key assumptions underlying the forecasts of operating revenues from railroad operations included in the medium-term management plan by comparing the forecasts of operating revenues from railroad operations with relevant documents, including those describing actual operating revenues from railroad operations before the spread of COVID-19 and market research results published by external research organizations; and ・analyzed the achievement status of the previous plan of future taxable income, including the causes of any differences from actual taxable income, and then assessed the reasonableness and feasibility of the future taxable income considering the achievement of the previous plan.

Other Information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- 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.

From the matters communicated with corporate auditors and the board of corporate auditors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

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

Azami Kazuhiko

Designated Engagement Partner

Certified Public Accountant

Kishida Yoshihiko

Designated Engagement Partner

Certified Public Accountant

Inagaki Yoshito

Designated Engagement Partner

Certified Public Accountant

KPMG AZSA LLC

Nagoya Office, Japan

August 1, 2022

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 2021	31 March 2022
ASSETS		
Current assets		
Cash and deposits (Notes 3 and 7)	54,019	50,927
Trade notes and accounts receivable	61,829	-
Trade notes, accounts receivable and contract assets (Notes 3 and 14)	-	58,877
Short-term loans receivable	1,968	1,871
Land and buildings for sale	64,617	73,181
Merchandise and finished goods	6,154	5,427
Work in process	1,846	675
Raw materials and supplies	4,566	4,620
Others	20,282	16,196
Allowance for doubtful accounts	(187)	(182)
Total current assets	215,097	211,596
Non-current assets		
Property and equipment (Notes 5, 6 and 7)		
Buildings and structures, net	296,888	307,840
Machinery, equipment and vehicles, net	82,583	79,359
Land	359,179	356,040
Lease assets, net	11,625	12,000
Construction in progress	73,951	61,990
Other properties, net	7,199	7,933
Total property and equipment	831,429	825,163
Intangible assets		
Right-of-use facilities	5,379	7,040
Goodwill	854	660
Lease assets	75	335
Other intangible assets	2,912	3,063
Total intangible assets	9,222	11,099
Investments and other assets		
Investment securities (Notes 3 and 4)	101,642	101,661
Long-term loans receivable	485	431
Deferred tax assets (Note 13)	16,772	19,732
Others (Note 7)	16,858	17,714
Allowance for doubtful accounts	(376)	(501)
Total investments and other assets	135,382	139,037
Total non-current assets	976,033	975,301
Total assets	1,191,131	1,186,897

See Notes to Consolidated Financial Statements.

Nagoya Railroad Co., Ltd. and Consolidated Subsidiaries

Consolidated Balance Sheets

	Millions of yen	
	31 March 2021	31 March 2022
LIABILITIES AND NET ASSETS		
Liabilities		
Current liabilities		
Trade notes and accounts payable	72,424	67,091
Short-term loans payable (Notes 3 and 7)	53,920	38,257
Commercial papers (Note 7)	-	36,000
Current portion of bonds payable (Notes 3 and 7)	25,000	-
Lease obligations (Note 7)	1,727	2,132
Income taxes payable	2,808	5,388
Deposits received from employees	20,680	20,459
Provision for bonuses	5,088	5,193
Provision for loss on liquidation	178	20
Allowance for loss on collection of gift certificates outstanding	1,739	349
Others (Note 14)	98,212	89,620
Total current liabilities	281,782	264,512
Non-current liabilities		
Bonds payable (Notes 3 and 7)	215,100	225,100
Long-term loans payable (Notes 3 and 7)	156,355	155,296
Lease obligations (Note 7)	11,384	11,781
Deferred tax liabilities (Note 13)	3,770	4,646
Deferred tax liabilities for land revaluation	55,222	55,329
Accrued retirement benefits for directors	1,279	1,141
Provision for loss on liquidation	5,963	5,895
Allowance for loss on collection of gift certificates outstanding	405	-
Employee retirement benefit liability (Note 8)	32,893	33,620
Others	19,461	18,442
Total non-current liabilities	501,836	511,253
Total liabilities	783,619	775,765
Net assets (Note 12)		
Shareholders' equity		
Common stock	101,158	101,158
Capital surplus	35,289	38,405
Retained earnings	132,675	142,815
Treasury stock	(101)	(113)
Total shareholders' equity	269,022	282,266
Accumulated other comprehensive income		
Net unrealized gains on available-for-sale securities	15,402	13,616
Deferred gains and losses on hedges	183	741
Land revaluation increment	86,853	86,257
Foreign currency translation adjustments	(35)	(16)
Retirement benefit adjustments	587	457
Total accumulated other comprehensive income	102,991	101,057
Non-controlling interests	35,497	27,808
Total net assets	407,512	411,132
Total liabilities and net assets	1,191,131	1,186,897

Nagoya Railroad Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Operations and Consolidated Statements of Comprehensive Income

Consolidated Statements of Operations

	Millions of yen	
	1 April 2020 -31 March 2021	1 April 2021 -31 March 2022
Operating revenues (Notes 14 and 15)	481,645	490,919
Operating expenses		
Transportation, other services and cost of sales	451,261	442,132
Selling, general and administrative expenses	46,739	45,855
Total operating expenses	498,000	487,987
Operating income（loss）	(16,354)	2,932
Non-operating income		
Interest income	25	22
Dividend income	1,259	1,171
Equity in net earnings of affiliates	1,253	3,257
Subsidies for employment adjustment	7,175	4,184
Miscellaneous income	2,913	5,012
Total non-operating income	12,626	13,648
Non-operating expenses		
Interest expenses	3,231	2,927
Provision for loss on liquidation	122	52
Miscellaneous expenses	1,064	466
Total non-operating expenses	4,418	3,445
Ordinary income (loss)	(8,146)	13,135
Extraordinary income		
Gain on sales of fixed assets	441	2,050
Gain on contributions for construction (Note 2(k))	4,378	21,697
Gain on sales of investment securities	2,520	3,199
Others	572	1,532
Total extraordinary income	7,913	28,480
Extraordinary losses		
Loss on sales of fixed assets	215	100
Impairment loss on fixed assets (Note 5)	9,334	1,967
Loss on disposition of fixed assets	639	1,250
Loss on sales of investment securities	3,327	-
Loss on valuation of investment securities	47	146
Provision for loss on liquidation	1,758	329
Loss on reduction of property and equipment (Note 2(k))	3,941	21,140
Others	3,026	610
Total extraordinary losses	22,291	25,546
Profit (loss) before income taxes	(22,525)	16,069
Income taxes – current	3,896	7,424
Income taxes – deferred	1,290	(1,655)
Total income taxes	5,186	5,769
Profit (Loss)	(27,712)	10,300
Profit (loss) attributable to:		
Non-controlling interests	1,057	929
Owners of the parent	(28,769)	9,370

See Notes to Consolidated Financial Statements.

Nagoya Railroad Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Comprehensive Income

	Millions of yen	
	1 April 2020 -31 March 2021	1 April 2021 -31 March 2022
Profit (Loss)	(27,712)	10,300
Other comprehensive income (Note 16)		
Net unrealized gains and losses on available-for-sale securities	2,067	(1,646)
Deferred gains and losses on hedges	823	566
Land revaluation increment	-	(308)
Foreign currency translation adjustments	(8)	19
Retirement benefit adjustments	166	(112)
Share of other comprehensive income of affiliates accounted for using the equity method	430	(97)
Total other comprehensive income	3,479	(1,578)
Comprehensive income	(24,232)	8,721
Comprehensive income attributable to:		
Owners of the parent	(25,509)	7,850
Non-controlling interests	1,276	871

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 2021

(Millions of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the fiscal year start	101,158	35,266	167,207	(59)	303,572
Cumulative effects of changes in accounting policies					-
Restated balance	101,158	35,266	167,207	(59)	303,572
Changes of items during the year					
Cash dividends			(4,917)		(4,917)
Profit(Loss) attributable to owners of the parent			(28,769)		(28,769)
Purchase of treasury stock				(42)	(42)
Disposal of treasury stock		(0)		0	0
Reversal for land revaluation increment			(73)		(73)
Transfer from retained earnings to capital surplus		0	(0)		-
Change in the fiscal year of consolidated subsidiaries			(772)		(772)
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		23			23
Net changes in items other than shareholders' equity for the year					
Total changes of items during the year	-	23	(34,532)	(41)	(34,550)
Balance at the fiscal year end	101,158	35,289	132,675	(101)	269,022

	Accumulated other comprehensive income						Non-controlling interests	Total net assets
	Net unrealized gains on available-for-sale securities	Deferred gains and losses on hedges	Land revaluation increment	Foreign currency translation adjustments	Retirement benefit adjusutments	Total accumulated other comprehensive income		
Balance at the fiscal year start	13,012	(617)	87,227	(27)	603	100,198	34,630	438,401
Cumulative effects of changes in accounting policies								-
Restated balance	13,012	(617)	87,227	(27)	603	100,198	34,630	438,401
Changes of items during the year								
Cash dividends								(4,917)
Profit(Loss) attributable to owners of the parent								(28,769)
Purchase of treasury stock								(42)
Disposal of treasury stock								0
Reversal for land revaluation increment								(73)
Transfer from retained earnings to capital surplus								-
Change in the fiscal year of consolidated subsidiaries								(772)
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								23
Net changes in items other than shareholders' equity for the year	2,389	800	(373)	(7)	(16)	2,793	867	3,660
Total changes of items during the year	2,389	800	(373)	(7)	(16)	2,793	867	(30,889)
Balance at the fiscal year end	15,402	183	86,853	(35)	587	102,991	35,497	407,512

Fiscal year ended 31 March 2022

(Millions of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the fiscal year start	101,158	35,289	132,675	(101)	269,022
Cumulative effects of changes in accounting policies			356		356
Restated balance	101,158	35,289	133,031	(101)	269,378
Changes of items during the year					
Cash dividends			-		-
Profit(Loss) attributable to owners of the parent			9,370		9,370
Purchase of treasury stock				(13)	(13)
Disposal of treasury stock		(0)		1	0
Reversal for land revaluation increment			413		413
Transfer from retained earnings to capital surplus		0	(0)		-
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		3,115			3,115
Net changes in items other than shareholders' equity for the year					
Total changes of items during the year	-	3,115	9,784	(11)	12,887
Balance at the fiscal year end	101,158	38,405	142,815	(113)	282,266

	Accumulated other comprehensive income						Non-controlling interests	Total net assets
	Net unrealized gains on available-for-sale securities	Deferred gains and losses on hedges	Land revaluation increment	Foreign currency translation adjustments	Retirement benefit adjusutments	Total accumulated other comprehensive income		
Balance at the fiscal year start	15,402	183	86,853	(35)	587	102,991	35,497	407,512
Cumulative effects of changes in accounting policies							(156)	200
Restated balance	15,402	183	86,853	(35)	587	102,991	35,341	407,712
Changes of items during the year								
Cash dividends								-
Profit(Loss) attributable to owners of the parent								9,370
Purchase of treasury stock								(13)
Disposal of treasury stock								0
Reversal for land revaluation increment								413
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								3,115
Net changes in items other than shareholders' equity for the year	(1,786)	557	(596)	19	(129)	(1,934)	(7,532)	(9,467)
Total changes of items during the year	(1,786)	557	(596)	19	(129)	(1,934)	(7,532)	3,420
Balance at the fiscal year end	13,616	741	86,257	(16)	457	101,057	27,808	411,132

See Notes to Consolidated Financial Statements.

Nagoya Railroad Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Cash Flows (Note 17)

	Millions of yen	
	1 April 2020 -31 March 2021	1 April 2021 -31 March 2022
Cash flows from operating activities:		
Profit (loss) before income taxes	(22,525)	16,069
Depreciation	39,351	38,538
Impairment loss on fixed assets	9,334	1,967
Amortisation of goodwill	356	384
Increase (decrease) in allowance for doubtful accounts	(24)	121
Increase (decrease) in provision for bonuses	(808)	91
Increase (decrease) in provision for loss on liquidation	654	(225)
Increase (decrease) in other provision	620	(1,449)
Increase (decrease) in employee retirement benefit liability	612	554
Interest and dividend income	(1,284)	(1,194)
Interest expenses	3,231	2,927
Subsidies for employment adjustment	(7,296)	(4,184)
Share of (gain) loss of entities accounted for using equity method	(1,253)	(3,257)
Loss (gain) on sales of fixed assets	(226)	(1,950)
Loss on disposition of fixed assets	637	783
Loss (gain) on valuation of investment securities	47	146
Loss (gain) on sales of investment securities	807	(3,199)
Gain on contributions for construction	(4,378)	(21,697)
Decrease (increase) in trade notes, accounts receivable and constract assets	(5,889)	1,946
Decrease (increase) in inventories	8,506	(1,131)
Extra retirement payments	12	46
Increase (decrease) in trade notes and accounts payable	(563)	(9,316)
Others, net	6,858	20,703
Subtotal	26,782	36,675
Interest and dividends received	1,992	1,762
Interest paid	(3,219)	(2,991)
Amount of extra retirement payments	(12)	(46)
Amount of subsidies for employment adjustment received	6,733	4,606
Income taxes paid	(12,591)	(685)
Net cash provided by (used in) operating activities	19,685	39,320

	Millions of yen	
	1 April 2020 -31 March 2021	1 April 2021 -31 March 2022
Cash flows from investing activities:		
Purchases of fixed assets	(62,090)	(63,989)
Proceeds from sales of fixed assets	1,454	3,641
Purchases of investment securities	(110)	(406)
Proceeds from sales and redemptions of investment securities	2,883	3,272
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	-	520
Purchases of shares of subsidiaries resulting in change in scope of consolidation	(374)	-
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation	(747)	-
Payments of short-term loans receivable	(538)	(14)
Proceeds from collection of short-term loans receivable	416	179
Payments of long-term loans receivable	(31)	(36)
Proceeds from collection of long-term loans receivable	23	22
Proceeds from contribution received for construction	14,992	17,676
Others, net	(112)	106
Net cash provided by (used in) investing activities	(44,235)	(39,027)
Cash flows from financing activities:		
Net increase (decrease) in short-term borrowings	(2,000)	(2,573)
Increase (decrease) in commercial papers	-	35,998
Proceeds from long-term debt	26,375	17,162
Repayment of long-term debt	(22,583)	(31,539)
Issuance of bonds	64,707	9,956
Redemption of bonds	(10,000)	(25,000)
Purchases of shares of subsidiaries resulting in no change in scope of consolidation	(31)	(5,445)
Repayments of lease obligations	(1,760)	(1,609)
Proceeds from sales of treasury stock	0	0
Purchase of treasury stock	(42)	(13)
Dividends paid to non-controlling shareholders	(331)	(251)
Dividends paid to shareholders	(4,920)	(25)
Net cash provided by (used in) financing activities	49,413	(3,339)
Effect of exchange rate changes on cash and cash equivalents	(8)	16
Net increase (decrease) in cash and cash equivalents	24,856	(3,028)
Cash and cash equivalents at beginning of period	32,011	53,459
Increase (decrease) in cash and cash equivalents resulting from change in the fiscal period of consolidated subsidiaries	(3,407)	-
Cash and cash equivalents at end of period	53,459	50,430

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 unrealized profits included in assets resulting from transactions within the Group have also been eliminated.

The number of consolidated subsidiaries, unconsolidated subsidiaries and affiliated companies for the years ended 31 March 2021 and 2022were as follows.

	2021	2022
Consolidated subsidiaries	109	109
Unconsolidated subsidiaries accounted for using the equity method	—	—
Affiliated companies accounted for using the equity method	14	13
Unconsolidated subsidiaries stated at cost	7	7
Affiliated companies stated at cost	10	9

At 31 March 2021 and 2022, the fiscal year-end dates of three 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 2021, three 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. Investments in securities other than equity securities without market prices are stated at fair value, and net unrealized gains and losses on such securities, net of applicable income taxes, are reported as accumulated other comprehensive income. Gains and losses on the disposition of investment securities are computed using the moving average method. Investments in securities without market prices are carried at cost, determined using the moving average method. 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.

The special treatment prescribed in the PITF is applied to all the hedging relationships above included in the scope of Treatment of Hedge Accounting for Financial Instruments that Reference LIBOR (PITF No. 40, March 17, 2022). The details of the hedging relationships to which the PITF is applied are as follows.

Hedge accounting applied: Due to the special treatment of interest rate swaps
Hedging instruments: Interest rate swaps
Hedged items: Long-term borrowing
Categories of hedges: Those that fix cash flows

(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, seven 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., 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 seven consolidated subsidiaries amounted to ¥8,997 million and ¥8,633 million at 31 March 2021 and 2022, respectively. The differences in the Company, Meitetsu Real Estate Development Co., Ltd. and Meitetsu Kyosho Co., Ltd. at 31 March 2021 and at 31 March 2022 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 ¥235 million and ¥442 million at 31 March 2021 and 2022, 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 2021 and 2022, cumulative contributions amounting to ¥181,520 million and ¥201,863 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 eight to 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

(1) Provision for loss on liquidation

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

(2) 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) Recognition of revenue and expenses

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

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

(s) Income taxes

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

(t) Enterprise taxes

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

(u) 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 2021 and 2022 was as follows.

	yen	
	2021	2022
Per share:		
Net income (loss):		
- Basic	(146.29)	47.65
- Diluted *1	ー	44.53
Cash dividends *2	ー	12.50

**1 Net income per share - diluted was not indicated because a net loss per share was indicated for the fiscal year ended 31 March 2021, although there were potential common shares with dilutive effects.*
**2 For the fiscal year ended 31 March 2021, cash dividends were not distributed because of a loss was indicated due to COVID-19, etc.*

As described in Note 2(w), the Company has adopted the Revenue Recognition Accounting Standard and other standards. The impact on net assets per share - basic, net income per share - basic and net income per share - diluted was insignificant for the fiscal year ended 31 March 2022.

(v) Significant Accounting Estimates

Recoverability of deferred tax assets recorded by the Company for the year ended 31 March 2021 was as follows:

(1) The carrying values reflecting the possibility of recoverability of deferred tax assets in the consolidated financial statements for the year ended 31 March 2021

	Millions of yen
Deferred tax assets (the Group)	16,772
Deferred tax assets (the Company)	
Subtotal of deferred tax assets	31,237
Valuation allowance	(17,248)
Deferred tax liabilities which were offset	(8,365)
Net deferred tax assets	5,623

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

(i) Method of calculation of amount

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

(ii) Major assumptions for calculation of amounts

It is difficult to predict when COVID-19, which had a serious impact on business of the Company, will be contained. The Company assumes that the impact of COVID-19 will continue for a certain period of time, although people will gradually become more active and more mobile as vaccinations increase, and operating revenues of railroads will recover to about 80% of normal.

(iii) The effect on consolidated finance statements for the year ended 31 March 2022

There is a possibility that COVID-19 or other uncertain economic situation will effect future taxable income. Thus, if the future taxable income is different than what has been predicted, there is a possibility that the effect will be significant on deferred tax assets for the year ended 31 March 2022.

Recoverability of deferred tax assets recorded by the Company for the year ended 31 March 2022 was as follows:

(1) The carrying values reflecting the possibility of recoverability of deferred tax assets in the consolidated financial statements for the year ended 31 March 2022

	Millions of yen
Deferred tax assets (the Group)	19,732
Deferred tax assets (the Company)	
Subtotal of deferred tax assets	32,078
Valuation allowance	(16,986)
Deferred tax liabilities which were offset	(7,409)
Net deferred tax assets	7,683

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

(i) Method of calculation of amount

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

(ii) Major assumptions for calculation of amounts

The Company assumes that although COVID-19 will continue to a certain extent, domestic economic activity will gradually recover toward the middle of FY2022 and normalize from the second half of the year. The Company expects that the railroad business operating revenue will recover to 85% of the level that existed before the spread of COVID-19 in the year ended 31 March 2023.

(iii) The effect on consolidated finance statements for the year ended 31 March 2023

There is a possibility that COVID-19 or other uncertain economic situation will effect future taxable income. Thus, if the future taxable income is different than what has been predicted, there is a possibility that the effect will be significant on deferred tax assets for the year ended 31 March 2023.

(w) Changes in Accounting Policies

(Accounting Standard for Revenue Recognition)

The Company has adopted the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020, Accounting Standards Board of Japan) from the beginning of the fiscal year ended 31 March 2022. The Company has recognized revenue in the amount expected to be received in exchange for promised goods or services when control of the promised goods or services is transferred to the customer. The main changes resulting from the adoption of the Revenue Recognition Accounting Standard and other standards are as follows.

(1) Revenue recognition related to commuter pass sales
In the traffic business, the revenue related to commuter pass sales in the railroad business had been previously recognized on a monthly basis from the month of sale. However, since the performance obligations are satisfied over the period for which the commuter pass is valid, recognition has been changed to a monthly installment from the month in which the validity of the pass begins.

(2) Revenue recognition related to principal/agent transactions
In the leisure and services business, the revenue related to planned tours in the travel industry had been previously recognized in the net amount after deducting the payment amount to the supplier from the gross consideration received from the customer. For transactions in which the role in the provision of goods or services to the customer corresponds to the principal, the process has been changed to recognize revenue based on the gross consideration received from the customer.

In the distribution business, the revenue related to the consignment buying of the department store business had been previously recognized in the gross consideration received from the customer, but for transactions in which the role in providing goods or services to the customer corresponds to the agent, recognition has changed to recognize as revenue a net amount after deductuing the payment amount from the gross consideration received from the customer.

For the adoption of the Revenue Recognition Accounting Standard and other standards, the Company has followed the transitional treatment provided for in the proviso of Paragraph 84 of the accounting standard. Accordingly, the cumulative effect of retroactively applying the new accounting policies prior to the beginning of the fiscal year ended 31 March 2022 has been added to or subtracted from retained earnings at the beginning of the period. As a result, although operating revenues for the fiscal year ended 31 March 2022 decreased by ¥19,279 million, the impact on operating income, ordinary income and profit before income taxes was immaterial. In addition, as the cumulative effect was reflected in net assets at the beginning of the current fiscal year, the beginning balance of retained earnings increased by ¥356 million in the consolidated statements of changes in net assets. The impact on the consolidated balance sheets and consolidated statements of cash flows was insignificant.

Due to the adoption of the Revenue Recognition Accounting Standard and other standards, “Trade notes and accounts receivable,” which were presented under “current assets” in the consolidated balance sheets for the previous fiscal year, have been included in “Trade notes, accounts receivable and contract assets” from the fiscal year ended 31 March 2022.

In accordance with the transitional treatment provided in Paragraph 89-2 of the Accounting Standard for Revenue Recognition, reclassification based on the new presentation method was not carried out for the previous fiscal year.

The impact on per share information is described in the relevant section.

In accordance with the transitional treatment provided in Paragraph 89-3 of the Accounting Standard for Revenue Recognition, notes on "Revenue recognition" related to the previous consolidated fiscal year are not provided.

(Accounting Standard for Fair Value Measurement)

The Company has adopted the Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, 4 July 2019, Accounting Standards Board of Japan) from the beginning of the fiscal year ended 31 March 2022. In accordance with the transitional treatment provided in Paragraph 19 of the Accounting Standard for Fair Value Measurement and Paragraph 44–2 of the "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, 4 July 2019, Accounting Standards Board of Japan), the Company has decided to adopt the new accounting policies set forth by the Fair Value Measurement Accounting Standard and other standards into the future. These changes had no impact on the Company's consolidated financial statements.

In addition, fair value information for financial instruments by level are disclosed in the notes for "Financial Instruments." However, in accordance with the transitional treatment provided in Paragraph 7–4 of Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, 4 July 2019, Accounting Standards Board of Japan), relevant information for the previous consolidated fiscal year is not provided.

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

- Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31, 17 June 2021, Accounting Standards Board of Japan)

(1) Outline:
The handling of the calculation and notes for the market value of investment trusts and the handling of the notes for the market value of investment in partnerships, etc., that record the amount equivalent to equity in the balance sheet in a net amount have been stipulated.

(2) Effective date:
The above guidance will become effective from the beginning of the fiscal year ending 31 March 2023.

(3) Effects of adoption:
The Group is in the process of determining the effects of the above standard and guidance on the consolidated financial statements.

3. Financial instruments

Information on financial instruments for the years ended 31 March 2021 and 2022 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

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

(2) Fair values of financial instruments

The fair values and carrying values of financial instruments included in the consolidated balance sheets at 31 March 2021, other than those for which the fair values was extremely difficult to determine, are set forth in the table below. Notes are omitted for cash, and notes are omitted for deposits, trade notes and accounts receivable, trade notes and accounts payable and short-term borrowings because these items are settled in the short term and their market value is close to the book value.

	Carrying value	Fair value	Differences
	Millions of yen		
At 31 March 2021:			
Financial assets:			
Investment securities:			
Equity securities of affiliates	9,486	7,038	(2,447)
Available-for-sale securities	49,643	49,643	−
Total	59,129	56,681	(2,447)
Financial liabilities:			
Bonds payable, including current portion	240,100	243,721	3,621
Long-term loans payable, including current portion	187,691	190,405	2,713
Total	427,791	434,127	6,335
Derivative instruments:*			
Hedge accounting has not been applied	0	0	−
Hedge accounting has been applied	277	277	−
Total	277	277	−

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

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

	Millions of yen
	2021
Carrying value:	
Unlisted investments (equity securities) in unconsolidated subsidiaries and affiliates	28,737
Unlisted equity securities	13,775
Total	42,513

The fair values and carrying values of financial instruments included in the consolidated balance sheets at 31 March 2022, other than investments in securities without market prices, are set forth in the table below. Notes are omitted for cash, and notes are omitted for deposits, trade notes and accounts receivable, trade notes and accounts payable and short-term borrowings because these items are settled in a short period of time and their market value is close to the book value.

	Carrying value	Fair value	Differences
	Millions of yen		
At 31 March 2022:			
Financial assets:			
Investment securities:			
Equity securities of affiliates	10,095	6,721	(3,373)
Available-for-sale securities	47,297	47,297	－
Total	57,393	54,019	(3,373)
Financial liabilities:			
Bonds payable, including current portion	225,100	225,009	(90)
Long-term loans payable, including current portion	173,321	174,879	1,557
Total	398,421	399,888	1,466
Derivative instruments:*			
Hedge accounting has not been applied	(0)	(0)	－
Hedge accounting has been applied	1,134	1,134	－
Total	1,134	1,134	－

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

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

	Millions of yen
	2022
Carrying value:	
Unlisted investments (equity securities) in unconsolidated subsidiaries and affiliates	28,737
Unlisted equity securities	13,775
Total	42,513

Notes:

(1) Expected maturities of financial assets at 31 March 2022 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 2022:				
Cash and deposits	50,927	―	―	―
Trade notes and accounts receivable	57,249	―	―	―
Total	108,176	―	―	―

(2) The repayment schedules for short-term loans payable, bonds payable and long-term loans payable with contractual maturities at 31 March 2022 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	20,232	―	―	―	―	―
Bonds payable	―	30,100	40,000	15,000	―	140,000
Long-term loans payable	18,025	26,855	6,372	10,985	13,841	97,240
Total	38,257	56,955	46,372	25,985	13,841	237,240

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

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

Level 1 fair value: Fair value measured using (unadjusted) quoted prices in active markets for identical assets or liabilities
Level 2 fair value: Fair value measured using directly or indirectly observable inputs other than Level 1 inputs
Level 3 fair value: Fair value measured using significant unobservable inputs

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

(a) Financial instruments measured at fair value

Category	Fair value (Millions of yen)			
	Level 1	Level 2	Level 3	Total
At 31 March 2022:				
Securities and investment securities				
Available-for-sale securities				
Shares	47,297	–	–	47,297
Derivatives				
Commodity price related transactions	–	1,134	–	1,134
Total assets	47,297	1,134	–	48,431
Derivatives				
Foreign currency related transactions	–	0	–	0
Total liabilities	–	0	–	0

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

Category	Fair value (Millions of yen)			
	Level 1	Level 2	Level 3	Total
At 31 March 2022:				
Securities and investment securities				
Equity securities of affiliates				
Shares	6,721	–	–	6,721
Total assets	6,721	–	–	6,721
Bonds payable	–	225,009	–	225,009
Long-term loans payable	–	174,879	–	174,879
Total liabilities	–	399,888	–	399,888

Notes: Valuation techniques and inputs used to measure fair value

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

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

3. Bonds payable (including current portion)
The fair value of bonds payable issued by the Company is measured based on market prices and classified as Level 2 fair value.

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

4. Investments securities

At 31 March 2021 and 2022, short-term investments consisted of time deposits with original maturities of more than three months.

At 31 March 2021 and 2022, investment securities consisted of the following:

	Millions of yen	
	2021	2022
Listed securities		
Equity securities	49,643	47,297
Others	―	―
Total listed equity securities	49,643	47,297
Unlisted equity securities	13,775	13,989
Total	63,419	61,287

At 31 March 2021 and 2022, the fair values and gross unrealized gains and losses of available-for-sale securities were as follows:

	Cost	Gross unrealized gains	Gross unrealized losses	Fair value and carrying value
	Millions of yen			
At 31 March 2021:				
Equity securities	28,415	22,167	(939)	49,643
Others	―	―	―	―
At 31 March 2022:				
Equity securities	28,421	19,871	(995)	47,297
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 2021	2,912	2,520	0
For the year ended 31 March 2022	3,261	3,199	―

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	
	2021	2022
Property subject to impairment:	Leisure facilities, hotels, idle assets and others	Commercial facilities such as department stores, taxi facilities, idle assets and others
Impairment loss recorded:		
Buildings and structures	4,999	589
Land	2,925	810
Others	1,409	567
Total	9,334	1,967

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 2021 and 2.6% for the year ended 31 March 2022.

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 2021 and 2022 and the fair values of real estate were as follows:

	Millions of yen	
	2021	2022
Carrying value at beginning of year	134,953	135,469
Net changes during the year	516	9,440
Carrying value at end of year	135,469	144,910
Fair value at end of year*	176,955	196,953

**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 2021 and 2022 were as follows:

	Millions of yen	
	2021	2022
Income from rental operations	5,475	4,944
Impairment loss on rental properties	1,108	296

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

Short-term loans payable at 31 March 2021 and 2022 consisted of the following:

	Millions of yen	
	2021	2022
Bank loans with average interest rates of 0.1638% at 31 March 2022:		
Secured	1,196	190
Unsecured	21,388	20,042
Total	22,584	20,232

Commercial paper at 31 March 2021 and 2022 consisted of the following:

	Millions of yen	
	2021	2022
Commercial paper with average interest rates of (0.0411%) at 31 March 2022:	−	36,000

Long-term debt at 31 March 2021 and 2022 consisted of the following:

	Millions of yen	
	2021	2022
1.35% unsecured bonds, due July 2021	10,000	-
0.557% unsecured bonds, due April 2021	15,000	-
0.001% unsecured bonds, due August 2023	20,000	20,000
0.001% unsecured bonds, due October 2023	10,000	10,000
0.09% unsecured bonds, due March 2026	15,000	15,000
0.857% unsecured bonds, due April 2027	15,000	15,000
0.20% unsecured bonds, due December 2028 （Sustainability Bond）	-	10,000
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	10,000
0.53% unsecured bonds, due September 2039	10,000	10,000
0.78% unsecured bonds, due April 2040	10,000	10,000
0.69% unsecured bonds, due October 2040	10,000	10,000
Zero coupon unsecured convertible bonds, due October 2023	100	100
Zero coupon unsecured convertible bonds, due December 2024	40,000	40,000
Bank loans with average interest rate of 0.6511% at 31 March 2022, due through 2040:		
Secured	1,363	1,101
Unsecured	186,328	172,220
Capitalised lease obligations	13,112	13,914
Subtotal	440,903	412,335
Less current portion	(58,063)	(20,158)
Total	382,840	392,177

At 31 March 2022, 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 2022, 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 2022 were as follows:

Year ending 31 March	Millions of yen
2023	20,158
2024	58,376
2025	47,440
2026	26,808
2027	14,614
2028 and thereafter	244,937
Total	412,335

At 31 March 2021 and 2022, the following assets were pledged for short-term and long-term loans payable.

	Millions of yen	
	2021	2022
Buildings and structures	2,532	2,437
Land	3,486	3,434
Others	911	170
Total	6,930	6,042

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 2021 and 2022, 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	
	2021	2022
Balance at beginning of year:	34,650	34,992
Service cost	1,670	1,680
Interest cost	113	96
Actuarial differences incurred	(143)	(143)
Benefits paid	(1,986)	(2,305)
Past service cost incurred during the period	–	179
Transfer amount arising from the change from the simplified method to the principle method	689	–
Others	–	1
Balance at end of year:	34,992	34,501

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

	Millions of yen	
	2021	2022
Balance at beginning of year:	11,331	10,538
Expected return on plan assets	64	70
Actuarial differences incurred	154	(78)
Contributions paid by the employer	181	179
Benefits paid	(1,194)	(1,245)
Decrease due to partial termination of retirement benefit plans	–	(54)
Balance at end of year:	10,538	9,409

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

	Millions of yen	
	2021	2022
Balance at beginning of year:	9,195	8,438
Retirement benefit costs	719	821
Benefits paid	(1,002)	(694)
Contributions paid by the employer	(66)	(42)
Transfer amount arising from the change from the simplified method to the principle method	(384)	—
Others	(22)	5
Balance at end of year:	8,438	8,528

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

	Millions of yen	
	2021	2022
Funded retirement benefit obligations	27,178	26,530
Plan assets	(10,694)	(9,577)
	16,484	16,952
Unfunded retirement benefit obligations	16,409	16,667
Employee retirement benefit liability recorded at end of year:	32,893	33,620

(e) Net periodic retirement benefit expenses

	Millions of yen	
	2021	2022
Service cost	1,670	1,680
Interest cost	113	96
Expected return on plan assets	(64)	(70)
Net actuarial loss amortisation	(23)	(52)
Past service cost amortisation	(21)	(0)
Retirement benefit costs based on the simplified Method	719	821
Others	(46)	(59)
Total net periodic retirement benefit expenses	2,346	2,415

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

	Millions of yen	
	2021	2022
Actuarial differences	274	11
Past service cost	(21)	(179)
Total balance, before tax effects, at end of year:	252	(167)

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

	Millions of yen	
	2021	2022
Actuarial differences yet to be recognised	(774)	(786)
Past service costs yet to be recognised	(24)	154
Total balance, before tax effects, at end of year:	(799)	(631)

(h) Plan assets

1) Plan assets comprise:

	2021	2022
Equity securities	23.6%	20.6%
Bonds	19.9%	24.2%
Cash and deposits	41.6%	38.3%
General accounts	9.7%	10.8%
Others	5.2%	6.1%
Total	100.0%	100.0%

2) Long-term expected rate of return

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

(i) Actuarial assumptions

The principal actuarial assumptions at 31 March 2021 and 31 March 2022 (expressed as weighted averages) were as follows:

	2021	2022
Discount rate	0.2% to 0.4%	0.3% to 0.6%
Long-term expected rate of return	0.0% to 2.0%	0.0% to 2.0%

For the year ended 31 March 2021, the contributions required for defined contribution plans were ¥4,165 million in the Group. For the year ended 31 March 2022, the contributions required for defined contribution plans were ¥4,058 million in the Group.

9. Contingent liabilities

At 31 March 2021 and 2022, contingent liabilities were as follows:

	Millions of yen	
	2021	2022
Contingently liable for:		
Guarantees of loans of others	673	867
Total	673	867

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 2021:			
Acquisition cost	4,011	2,737	6,748
Accumulated depreciation	4,011	2,348	6,359
Net leased property	−	389	389
At 31 March 2022:			
Acquisition cost	−	1,953	1,953
Accumulated depreciation	−	1,664	1,664
Net leased property	−	289	289

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

	Millions of yen	
	2021	2022
Due within 1 year	163	148
Due after 1 year	516	367
Total	679	516

Lease expense and other information at 31 March 2021 and 2022 were as follows:

	Millions of yen	
	2021	2022
Lease expense	371	274
Imputed depreciation expense *(*1)*	162	100
Imputed interest expense *(*2)*	67	52

**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	
	2021	2022
Due within 1 year	546	977
Due after 1 year	2,415	3,205
Total	2,961	4,182

(As lessor)
(a) Finance leases

Lease investment assets at 31 March 2021 and 2022 were as follows:

	Millions of yen	
	2021	2022
Lease receivables	9,448	9,633
Estimated residual value	192	205
Unearned imputed interest	(1,665)	(1,719)
Lease investment assets included in trade receivables	7,976	8,119

The aggregate annual maturities of lease investments at 31 March 2021 were as follows:

Year ending 31 March	Millions of yen
2022	2,933
2023	2,480
2024	1,946
2025	1,261
2026	584
2027 and thereafter	242
Total	9,448

The aggregate annual maturities of lease investments at 31 March 2022 were as follows:

Year ending 31 March	Millions of yen
2023	3,158
2024	2,690
2025	1,958
2026	1,104
2027	564
2028 and thereafter	158
Total	9,633

(b) Operating leases

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

	Millions of yen	
	2021	2022
Due within 1 year	2,697	2,807
Due after 1 year	7,689	9,963
Total	10,386	12,771

11. Derivatives

At 31 March 2021 and 2022, derivative transactions to which hedge accounting was not applied were as follows:

(Foreign currency related transactions)

	Contract amount			
	Total amount	Due after 1 year	Fair value*	Unrealized gain/(loss)
	Millions of yen			
Foreign exchange forward contracts to buy foreign currencies:				
At 31 March 2021	22	–	0	0
At 31 March 2022	0	–	(0)	(0)

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

At 31 March 2021 and 2022, 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 2021			5,500	–	–
At 31 March 2022			–	–	–

**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		
Special treatment for interest rate swaps:	Interest rate swaps - pay fixed rate and receive floating rate	Long-term bank loans			
At 31 March 2021			50,301	43,675	−
At 31 March 2022			43,675	33,546	−

**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 2021			2,049	987	277
At 31 March 2022			987	251	1,134

**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 2021 and 2022, 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 2021 and 2022.

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 2021 and 2022 was as follows.

	Number of shares (Thousands of shares)	
	2021	2022
Common stock	360,000	360,000

Movements in issued shares of common stock and treasury stock during the years ended 31 March 2021 and 2022 were as follows.

	Number of shares (Thousands of shares)			
	2021			
	1 April 2020	Increase	Decrease	31 March 2021
Issued shares:				
Common stock	196,700	－	－	196,700
Treasury stock	36	14	0	50

	Number of shares (Thousands of shares)			
	2022			
	1 April 2021	Increase	Decrease	31 March 2022
Issued shares:				
Common stock	196,700	－	－	196,700
Treasury stock	50	6	0	56

13. Income taxes

The Company and its domestic consolidated subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a statutory effective tax rate of approximately 30.6% for the years ended 31 March 2021 and 2022, respectively.

Significant components of the Groups' deferred tax assets and liabilities as of 31 March 2021 and 2022 were as follows:

	Millions of yen	
	2021	2022
Deferred tax assets:		
Tax loss carryforwards (Note)	19,808	22,449
Employee retirement benefit liability	13,242	12,981
Impairment loss on fixed assets	12,026	11,820
Loss on valuation of investment securities	5,328	5,261
Depreciation	4,423	4,244
Elimination of unrealized profit	4,211	3,992
Provision for loss on liquidation	1,807	1,809
Valuation loss on fixed assets	2,048	1,757
Provision for bonuses	1,666	1,652
Loss on valuation of land caused by restructuring	821	821
Accrued retirement benefits for directors	427	384
Accrued enterprise taxes and accrued business office taxes	234	371
Allowance for doubtful accounts	232	148
Allowance for loss on collection of gift certificates outstanding	737	120
Loss on valuation of inventories	98	93
Others	3,637	4,899
Subtotal of deferred tax assets	70,752	72,808
Valuation allowance pertaining to tax loss carryforwards (Note)	(15,341)	(17,149)
Valuation allowance pertaining to deductible temporary difference etc.	(27,707)	(26,325)
Subtotal of less valuation allowance	(43,049)	(43,474)
Total deferred tax assets	27,703	29,333
Deferred tax liabilities:		
Net unrealized gains on available-for-sale securities	(6,113)	(5,412)
Gain on valuation of land caused by restructuring	(2,661)	(2,661)
Gain on valuation of investment securities	(2,083)	(2,083)
Deferred capital gains	(824)	(807)
Retained earnings	(946)	(634)
Trust for employee retirement benefits	(510)	(510)
Others	(1,562)	(2,138)
Total deferred tax liabilities	(14,701)	(14,247)
Net deferred tax assets	13,002	15,085

In assessing the realizability of deferred tax assets, management of the Group considers whether some portion or all of the deferred tax assets will not be realized. The ultimate 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 2021 and 2022, valuation allowance was provided to reduce deferred tax assets to the amount management believed would be realisable.

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

At 31 March 2021	Due in 1 year or less	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years	Total
	Millions of yen						
Tax loss carryforwards*1	50	244	351	737	372	18,051	19,808
Valuation allowance	(50)	(244)	(351)	(737)	(330)	(13,626)	(15,341)
Deferred tax assets	—	—	—	—	42	4,424	*2 4,466

**1 Tax loss carryforwards are shown in the amount multiplied by the effective statutory tax rate.*
**2 Deferred tax assets of 4,466 million yen were booked for tax loss carryforwards 19,808 million yen (amount multiplied by the effective statutory tax rate). The main breakdown of the deferred tax assets pertained to tax loss carryforwards of the Company, and valuation allowance is not recognized for a portion of the tax loss carryforwards judged to be collectible because of estimated future taxable income.*

At 31 March 2022	Due in 1 year or less	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years	Total
	Millions of yen						
Tax loss carryforwards*1	19	552	792	262	79	20,740	22,449
Valuation allowance	(19)	(552)	(792)	(229)	(79)	(15,474)	(17,149)
Deferred tax assets	—	—	—	33	—	5,266	*2 5,299

**1 Tax loss carryforwards are shown in the amount multiplied by the effective statutory tax rate.*
**2 Deferred tax assets of 5,299 million yen were booked for tax loss carryforwards 22,449 million yen (amount multiplied by the effective statutory tax rate). The main breakdown of the deferred tax assets pertained to tax loss carryforwards of the Company, and valuation allowance is not recognized for a portion of the tax loss carryforwards judged to be collectible because of estimated future taxable income.*

For the year ended 31 March 2022, 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:

A reconciliation for the year ended 31 March 2021 was not disclosed because of net loss before taxes.

	Percentage of pre-tax income
	2022
Japanese statutory tax rate	30.6%
Increase (decrease) due to:	
Permanently non-deductible expenses	3.1
Local minimum taxes per capita levy	3.8
Elimination of unrealized profit excluding income taxes	5.5
The deduction amount for tax loss carryforwards at certain subsidiaries	(1.5)
Permanently non-additional profit	(2.0)
Equity in net earnings of affiliates	(6.2)
Changes in retained earnings	(1.9)
Others	4.5
Effective income tax rate	35.9%

14. Revenue recognition

(1) Breakdown of revenue from contracts with customers

	Reportable segments								
	Traffic	Transport	Real Estate	Leisure and Services	Distribution	Aviation Services	Subtotal	Others (*)	Total
	Millions of yen								
For the year 2022:									
Railroad	71,107	–	–	–	–	–	71,107	–	71,107
Bus	25,610	–	–	–	–	–	25,610	–	25,610
Taxi	16,463	–	–	–	–	–	16,463	–	16,463
Truck	–	154,789	–	–	–	–	154,789	–	154,789
Maritime Transport	–	14,005	–	–	–	–	14,005	–	14,005
Real Estate Rental	–	–	15,652	–	–	–	15,652	–	15,652
Real Estate Condo Sales	–	–	36,658	–	–	–	36,658	–	36,658
Real Estate Management	–	–	13,182	–	–	–	13,182	–	13,182
Hotel	–	–	–	9,352	–	–	9,352	–	9,352
Tourist Facilities	–	–	–	12,886	–	–	12,886	–	12,886
Travel	–	–	–	25,819	–	–	25,819	–	25,819
Department Store	–	–	–	–	16,274	–	16,274	–	16,274
Other Goods Sold	–	–	–	–	48,502	–	48,502	–	48,502
Aviation Services	–	–	–	–	–	23,747	23,747	–	23,747
Equipment Maintenance	–	–	–	–	–	–	–	24,983	24,983
Others	–	–	–	–	–	–	–	14,447	14,447
Intersegment sales/transfers	(4,615)	(34,425)	(5,549)	(764)	(2,409)	(383)	(48,146)	(16,279)	(64,426)
Revenue from contracts with customers	108,565	134,369	59,944	47,294	62,367	23,364	435,905	23,150	459,055
Other earnings	4,704	–	19,559	–	–	–	24,263	7,600	31,864
Operating revenue to external customers	113,269	134,369	79,503	47,294	62,367	23,364	460,168	30,751	490,919

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

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

"Traffic"

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

"Transport"

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

“Real Estate”

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

“Leisure and Services”

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

“Distribution”

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

“Aviation Services”

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

“Others”

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

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

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

	Millions of yen
	1 April 2021 -31 March 2022
Receivables from contracts with customers (balance at beginning of period)	
Notes receivable	5,085
Accounts receivable	55,823
Receivables from contracts with customers (balance at end of period)	
Notes receivable	3,952
Accounts receivable	52,299
Contract assets (balance at beginning of period)	1,547
Contract assets (balance at end of period)	1,628
Contract liabilities (balance at beginning of period)	22,954
Contract liabilities (balance at end of period)	22,331

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

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

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

The amount of revenue recognized during the fiscal year that was included in the contract liability balance at the beginning of the fiscal year was 15,141 million yen.

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

15. Segment information

(1) General information about reportable segments

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

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

The business descriptions of the reportable segments are as follows:

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

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

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

As described in Note 2(w), the Company has adopted the Revenue Recognition Accounting Standard and other standards from the beginning of the fiscal year ended 31 March 2022 and has changed its accounting for revenue recognition. We have also changed the method used to calculate profit or loss for business segments.
With this change, compared to the conventional method, operating revenues for the fiscal year ended 31 March 2022 decreased by ¥192 million in the transport business, by ¥44,894 million in the distribution business, by ¥525 million in the others business, and increased by ¥223 million in the traffic business, by ¥139 million in the real estate business and by ¥17,317 million in the leisure and services business.
The impact on segment income (loss) was immaterial.

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

Information about reportable segments as of and for the year ended 31 March 2021 was as follows:

	Reportable segments									Consolidated financial statements
	Traffic	Transport	Real Estate	Leisure and Services	Distribution	Aviation Services	Others *(*1)*	Total	Adjustments *(*2)*	*(*3)*
	Millions of yen									
For the year 2021:										
Operating revenues:										
External customers	102,917	128,451	77,048	19,654	102,803	22,983	27,787	481,645	―	481,645
Intersegment sales/transfers	2,078	450	8,354	352	8,469	―	18,074	37,779	(37,779)	―
Total	104,995	128,901	85,402	20,007	111,272	22,983	45,862	519,425	(37,779)	481,645
Segment income (loss)	(17,866)	2,350	10,667	(13,008)	(2,185)	1,959	1,752	(16,329)	(24)	(16,354)
Segment assets	516,326	122,313	302,226	29,674	37,073	27,219	74,547	1,109,381	81,749	1,191,131
Other material items:										
Depreciation	18,351	6,985	6,013	1,233	1,185	2,279	3,710	39,760	(409)	39,351
Amortisation of goodwill	―	―	351	―	―	―	5	356	―	356
Impairment loss on fixed assets	932	0	2,752	4,918	626	―	103	9,334	―	9,334
Increase in property and equipment and intangible assets	16,869	8,788	11,037	1,623	786	4,920	3,911	47,937	―	47,937

**1) "Others" is a business segment that is not considered a reportable segment. It includes the business of equipment maintenance, information processing, insurance agency and others.*
**2) Adjustment is as follows*
(1) Segment income (loss) adjustment amounting to ¥(24) million was treated as intersegment elimination.
(2) Segment assets adjustment amounting to ¥81,749 million consisted of unallocated general corporate assets amounting to ¥110,521 million, net of intersegment elimination of ¥(28,772) million. Such general corporate assets consisted mainly of cash, deposits and investment securities.
(3) Depreciation adjustment amounting to ¥(409) million was treated as intersegment elimination.
**3) Segment income (loss) was reconciled to operating loss in the accompanying consolidated statements of income.*

Information about reportable segments as of and for the year ended 31 March 2022 was as follows:

	Reportable segments									
	Traffic	Transport	Real Estate	Leisure and Services	Distribution	Aviation Services	Others *(*1)*	Total	Adjustments *(*2)*	Consolidated financial statements *(*3)*
	Millions of yen									
For the year 2022:										
Operating revenues:										
External customers	113,269	134,369	79,503	47,294	62,367	23,364	30,751	490,919	-	490,919
Intersegment sales/transfers	2,476	397	9,913	278	2,285	-	15,809	31,159	(31,159)	-
Total	115,745	134,766	89,416	47,572	64,652	23,364	46,560	522,079	(31,159)	490,919
Segment income (loss)	(4,960)	3,086	11,085	(8,385)	(2,054)	1,453	1,971	2,195	736	2,932
Segment assets	500,520	121,655	314,832	32,755	36,213	29,779	70,950	1,106,707	80,190	1,186,897
Other material items:										
Depreciation	18,024	7,105	5,446	1,050	1,084	2,582	3,641	38,935	(396)	38,538
Amortisation of goodwill	-	-	351	28	-	-	5	384	-	384
Impairment loss on fixed assets	481	0	654	169	479	-	183	1,967	-	1,967
Increase in property and equipment and intangible assets	17,242	7,239	13,647	1,398	1,745	4,563	4,050	49,887	-	49,887

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

**2) Adjustment is as follows*

(1) Segment income (loss) adjustment amounting to ¥736 million was treated as intersegment elimination.

(2) Segment assets adjustment amounting to ¥80,190 million consisted of unallocated general corporate assets amounting to ¥110,492 million, net of intersegment elimination of ¥(30,302) million. Such general corporate assets consisted mainly of cash, deposits and investment securities.

(3) Depreciation adjustment amounting to ¥(396) million was treated as intersegment elimination.

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

(Related information)

(1) Information about products and services

As this information has been presented under segment information above, such information has been omitted.

(2) Information about geographic areas

(Operating revenues)

As operating revenues attributable to external customers in Japan represented more than 90% of operating revenues in the consolidated statements of income, such information has been omitted.

(Property and equipment)

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

(3) Information about major customers

The Company has not disclosed information about major customers because no single customer has represented 10% or more of operating revenue in the consolidated statements of income.

(4) Information on goodwill 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 2021	―	―	844	―	―	―	10	―	854
At 31 March 2022	―	―	493	161	―	―	5	―	660

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 2021 and 2022

None

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 2021 and 2022 were as follows.

	Millions of yen	
	2021	2022
Net unrealized gains and losses on available-for-sale securities, net of taxes:		
Amount arising during the year	4,639	854
Reclassification adjustments	(1,804)	(3,197)
Subtotal, before tax	2,835	(2,342)
The amount of tax effect	(768)	696
Subtotal, net of tax	2,067	(1,646)
Deferred gains and losses on hedges, net of taxes:		
Amount arising during the year	847	1,258
Reclassification adjustments	354	(394)
Subtotal, before tax	1,201	863
The amount of tax effect	(378)	(296)
Subtotal, net of tax	823	566
Land revaluation increments, net of taxes:		
The amount of tax effect	–	(308)
Subtotal, net of tax	–	(308)
Foreign currency translation adjustments		
Amount arising during the year	(8)	19
Reclassification adjustments	–	–
Subtotal, before tax	(8)	19
The amount of tax effect	–	–
Subtotal, net of tax	(8)	19
Retirement benefit adjustments		
Amount arising during the year	297	(114)
Reclassification adjustments	(45)	(53)
Subtotal, before tax	252	(167)
The amount of tax effect	(85)	55
Subtotal, net of tax	166	(112)
Share of other comprehensive income of affiliates accounted for using the equity method:		
Amount arising during the year	413	(107)
Reclassification adjustments	17	9
Subtotal	430	(97)
Total other comprehensive income	3,479	(1,578)

17. 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	
	2021	2022
Cash and deposits	54,019	50,927
Time deposits with maturities of more than three months	(559)	(496)
Cash and cash equivalents	53,459	50,430

(2) Breakdown of assets and liabilities of a company that ceased to be a consolidated subsidiary following the sale of stock for the year ended 31 March 2021

Kanazawa Meitetsu Marukoshi Department Store Co., Ltd.	Millions of yen
Current assets	2,276
Non-current assets	4,999
Total	7,275
Current liabilities	8,461
Non-current liabilities	1,029
Total	9,491

The Company sold all its shares of common stock of Kanazawa Meitetsu Marukoshi Department Store Co., Ltd. for the year ended 31 March 2021. The sale of shares of the consolidated subsidiary in the amount of ¥749 million has been included in the sales of shares of subsidiaries resulting in a change in the scope of consolidation.

There are no applicable items in the year ended 31 March 2022.

18. Business combination

(Regarding acquisition of shares through tender offer)
At the meeting of the Board of Directors on February 7, 2022, the Company resolved to acquire the common stock of Meitetsu Transport Co., Ltd., a consolidated subsidiary of the Company, through a tender offer based on the Financial Instruments and Exchange Act. The Tender Offer was completed on March 24, 2022.

(1) Outline of the transaction

(a) Name of acquired company and its business
Name of acquired company: Meitetsu Transport Co., Ltd. (A consolidated subsidiary of the Company)
Business content: Comprehensive logistics-related business centered on the freight transportation business

(b) Date of business combination
Acquisition by Tender Offer: March 24, 2022

(c) Legal form of business combination
Acquisition of shares from non-controlling interests

(d) Name of the company after the business combination
There was no change.

(e) Shareholding ratio of subsidiary shares after additional acquisition
Shareholding ratio before business combination: 51.09%
Shareholding ratio after Tender Offer: 70.12%

(2) Summary of the accounting treatment carried out
Based on Accounting Standard for Business Combinations (ASBJ Statement No. 21, 16 January 2019, Accounting Standards Board of Japan) and Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10, 16 January 2019, Accounting Standards Board of Japan), transactions under common control are treated as transactions with non-controlling interests.

(3) Matters to be raised when acquiring additional shares of a subsidiary

Transactions for each type of acquisition cost and consideration are as follows:

Consideration for acquisition: Cash and deposits - ¥4,314 million
Acquisition cost: ¥4,314 million

(4) Details and amount of major acquisition-related costs

Advisory fees, etc.: ¥246 million

(5) Matters concerning changes in the Company's equity related to transactions with non-controlling interests

(a) Factors in major fluctuations in capital surplus
Additional acquisition of subsidiary shares

(b) Capital surplus increase by transactions with non-controlling interests
¥3,135 million

(6) Squeeze-out procedures after the end of the tender offer

In the tender offer that ended on March 24, 2022, the planned number of common stock purchases was not reached, so squeeze-out procedures such as a reverse stock split were commenced.

At the extraordinary general meeting of shareholders held by Meitetsu Transport Co., Ltd. on May 25, 2022, a reverse stock split proposal was approved and became effective on June 16, 2022. In addition, the less than one share interests created as a result of the reverse stock split are planned to be acquired by the end of July 2022.

19. Subsequent events

(1) Cash dividends

An appropriation of retained earnings for the year ended 31 March 2022 was duly approved at the ordinary shareholders' meeting held on 28 June 2022 as follows:

	Millions of yen
Cash dividends (¥12.50 per share)	2,458

The above dividends became payable to shareholders of record as of 31 March 2022. However, the appropriation had not been accrued in the consolidated financial statements as of 31 March 2022 as such appropriations are recognised in the period in which they are approved by the shareholders.

(2) Bonds issued

Based on the resolution of the Board of Directors of the Company on 8 March 2022, the Company issued the 66th Series Unsecured Straight Bonds as shown below.

1. Bonds issue name: 66th Series Unsecured Straight Bonds
2. Total amount of issue: ¥10 billion
3. Issue value: ¥100 per face value of ¥100
4. Coupon: 0.549 % per annum
5. Issue date: 8 June 2022
6. Maturity date: 8 June 2032
7. Use of proceeds: Loan repayment funds