



Building a better
working world

Independent Auditor's Report

The Board of Directors
Keihan Holdings Co., Ltd.

We have audited the accompanying consolidated financial statements of Keihan Holdings Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at 31 March 2018, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Keihan Holdings Co., Ltd. and its consolidated subsidiaries as at 31 March 2018, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 1.

Ernst & Young Shin Nihon LLC

19 June 2018
Osaka, Japan

Consolidated Balance Sheet
Keihan Holdings Co., Ltd. and Consolidated Subsidiaries
31 March 2018

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
CURRENT ASSETS:			
Cash and deposits (Notes 8, 19 and 20)	¥ 20,317	¥ 18,372	\$ 191,239
Notes and accounts receivable (Note 20)	31,199	25,760	293,671
Short-term investments (Notes 4 and 20)	51	70	480
Land and buildings for sale	105,070	99,541	988,989
Inventories	1,772	1,878	16,684
Deferred tax assets (Note 15)	3,223	2,670	30,342
Other	10,099	9,970	95,066
Allowance for doubtful accounts	(243)	(609)	(2,294)
Total current assets	171,490	157,655	1,614,179
PROPERTY, PLANT AND EQUIPMENT (Note 5):			
Buildings and structures, net (Notes 6, 8, 14 and 17)	193,388	198,409	1,820,294
Machinery, equipment and vehicles, net (Notes 6, 8 and 17)	16,672	16,575	156,935
Land (Notes 6, 7, 8 and 14)	217,866	222,847	2,050,700
Construction in progress	19,065	10,623	179,454
Other, net (Note 8)	8,632	8,464	81,253
Total property, plant and equipment, net	455,624	456,920	4,288,638
INTANGIBLE ASSETS	9,267	8,044	87,227
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 4, 8 and 20)	43,676	38,229	411,108
Long-term loans receivable	689	682	6,487
Deferred tax assets (Note 15)	6,697	7,209	63,041
Assets for retirement benefits (Note 11)	704	266	6,635
Other	11,340	10,843	106,742
Allowance for doubtful accounts	(283)	(219)	(2,666)
Total investments and other assets	62,824	57,011	591,348
TOTAL ASSETS (Note 24)	¥ 699,207	¥ 679,631	\$ 6,581,394

Consolidated Balance Sheet (continued)
Keihan Holdings Co., Ltd. and Consolidated Subsidiaries
31 March 2018

LIABILITIES AND NET ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
CURRENT LIABILITIES:			
Notes and accounts payable (Notes 8 and 20)	¥ 11,588	¥ 11,248	\$ 109,078
Short-term loans and current portion of long-term loans (Notes 8, 9, 10 and 20)	80,202	65,363	754,915
Current portion of bonds (Notes 9 and 20)	10,045	45	94,558
Income taxes payable (Note 15)	4,524	5,990	42,588
Advances received	7,521	6,979	70,793
Allowance for employees' bonuses	2,555	2,630	24,055
Provision for unutilised gift tickets	565	508	5,327
Other (Notes 8 and 23)	44,596	43,450	419,767
Total current liabilities	161,600	136,217	1,521,084
NONCURRENT LIABILITIES:			
Bonds (Notes 9 and 20)	80,125	90,191	754,193
Long-term loans (Notes 8, 9, 20 and 21)	146,026	158,938	1,374,494
Long-term payables - other	536	685	5,048
Deferred tax liabilities (Note 15)	11,336	11,236	106,708
Deferred tax liabilities for land revaluation (Notes 7 and 15)	33,137	33,168	311,912
Accrued retirement benefits for directors and audit and supervisory board members	345	437	3,252
Liability for retirement benefits (Note 11)	18,790	20,011	176,867
Other (Note 23)	23,749	25,289	223,545
Total noncurrent liabilities	314,047	339,959	2,956,023
Total liabilities	475,647	476,176	4,477,107
COMMITMENTS AND CONTINGENT LIABILITIES (Note 22)			
NET ASSETS (Note 12) :			
Common stock:			
Authorised, 319,177,200 shares as at 31 March 2018, and 1,595,886,000 shares as at 31 March 2017;	51,466	51,466	484,435
Issued, 113,182,703 shares as at 31 March 2018, and 565,913,515 shares as at 31 March 2017			
Capital surplus	28,787	28,782	270,963
Retained earnings	117,384	98,392	1,104,895
Treasury stock, at cost, 5,989,571 shares as at 31 March 2018, and 29,912,535 shares as at 31 March 2017	(21,603)	(21,580)	(203,350)
Total shareholders' equity	176,033	157,060	1,656,943
Accumulated other comprehensive income:			
Net unrealised holding gain on securities (Note 4)	10,787	11,266	101,538
Revaluation reserve for land (Note 7)	36,088	35,584	339,688
Foreign currency translation adjustments	6	(2)	58
Retirement benefit liability adjustment (Note 11)	(2,540)	(3,338)	(23,916)
Total accumulated other comprehensive income, net	44,341	43,509	417,369
Stock acquisition rights	44	27	421
Non-controlling interests	3,139	2,857	29,551
Total net assets	223,559	203,455	2,104,286
TOTAL LIABILITIES AND NET ASSETS	¥ 699,207	¥ 679,631	\$ 6,581,394

See accompanying notes to consolidated financial statements.

Consolidated Statement of Income
Keihan Holdings Co., Ltd. and Consolidated Subsidiaries
Year Ended 31 March 2018

Thousands of
U.S. Dollars
(Note 1)

	Millions of Yen		\$
	2018	2017	
OPERATING REVENUES (Notes 6 and 24)	¥ 322,276	¥ 302,917	\$ 3,033,475
OPERATING EXPENSES:			
Transportation, other service expenses and cost of sales (Note 13)	248,780	232,252	2,341,679
Selling, general and administrative expenses (Notes 6 and 12)	42,037	38,320	395,684
Total operating expenses	290,817	270,573	2,737,364
Operating income (Note 24)	31,458	32,343	296,111
OTHER INCOME (EXPENSES):			
Interest and dividend income	854	850	8,040
Interest expense	(2,561)	(2,802)	(24,109)
Loss on impairment of property, plant and equipment (Notes 6, 14 and 24)	(61)	(1,359)	(582)
Shares of loss of affiliates, net	(59)	(16)	(559)
Gain on contribution received for construction	516	292	4,859
Subsidies	1,473	1,417	13,867
Compensation income	—	602	—
Gain on sales of investment securities, net (Note 4)	916	2,776	8,623
Loss on sales or disposal of property, plant and equipment, net (Note 6)	(711)	(996)	(6,696)
Loss on deduction of contributions received for construction from acquisition costs of property, plant and equipment	(1,042)	(911)	(9,816)
Special retirement expenses (Note 11)	—	(85)	—
Gain on sale of shares of subsidiaries (Note 26)	3,179	—	29,926
Loss on valuation of shares of subsidiaries	(310)	—	(2,918)
Compensation for damage	(152)	—	(1,437)
Other, net	185	(407)	1,748
Other income (expenses), net	2,225	(641)	20,947
PROFIT BEFORE INCOME TAXES	33,684	31,702	317,058
INCOME TAXES (Note 15):			
Current	10,701	10,255	100,733
Deferred	(27)	(1,401)	(258)
Total income taxes	10,674	8,853	100,475
PROFIT	23,009	22,848	216,583
PROFIT ATTRIBUTABLE TO:			
Non-controlling interests	297	212	2,800
Owners of parent (Note 18)	¥ 22,712	¥ 22,636	\$ 213,782

See accompanying notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income
Keihan Holdings Co., Ltd. and Consolidated Subsidiaries
Year Ended 31 March 2018

	Millions of Yen		2017	Thousands of U.S. Dollars (Note 1)
	¥	2018	2017	2018
PROFIT	¥	23,009	¥	\$ 216,583
OTHER COMPREHENSIVE INCOME (LOSS) (Note 16):				
Net unrealised holding loss on securities		(456)	(941)	(4,300)
Revaluation reserve for land		—	(2,087)	—
Retirement benefit liability adjustment		797	(522)	7,510
Share of other comprehensive income (loss) of affiliates accounted for using the equity method		8	(2)	81
Total other comprehensive income (loss)		349	(3,554)	3,291
COMPREHENSIVE INCOME	¥	23,359	¥	\$ 219,874
COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owners of parent	¥	23,039	¥	\$ 216,863
Non-controlling interests		319	225	3,011

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Net Assets
Keihan Holdings Co., Ltd. and Consolidated Subsidiaries
Year Ended 31 March 2018

Millions of Yen

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Total Shareholders' Equity	Net Unrealised Holding Gain on Securities	Revaluation Reserve for Land	Foreign currency translation adjustments	Retirement Benefit Liability Adjustment	Total Accumulated Other Comprehensive Income, Net	Stock Acquisition Rights	Non- controlling Interests	Total Net Assets
BALANCE at 1 APRIL 2016	¥ 51,466	¥ 28,794	¥ 79,103	¥ (17,199)	¥ 142,165	¥ 12,221	¥ 37,557	¥ —	¥ (2,815)	¥ 46,962	¥ —	¥ 2,662	¥ 191,790
Cash dividends	—	—	(3,233)	—	(3,233)	—	—	—	—	—	—	—	(3,233)
Profit attributable to owners of parent for the period	—	—	22,636	—	22,636	—	—	—	—	—	—	—	22,636
Purchase of treasury stock	—	—	—	(4,381)	(4,381)	—	—	—	—	—	—	—	(4,381)
Disposal of treasury stock	—	0	—	0	0	—	—	—	—	—	—	—	0
Change in treasury shares of parent arising from transactions with non-controlling interests	—	(12)	—	—	(12)	—	—	—	—	—	—	—	(12)
Reversal of revaluation reserve for land	—	—	(114)	—	(114)	—	—	—	—	—	—	—	(114)
Net changes in items other than shareholders' equity	—	—	—	—	—	(954)	(1,973)	(2)	(522)	(3,453)	27	194	(3,230)
BALANCE at 1 APRIL 2017	51,466	28,782	98,392	(21,580)	157,060	11,266	35,584	(2)	(3,338)	43,509	27	2,857	203,455
Cash dividends	—	—	(3,215)	—	(3,215)	—	—	—	—	—	—	—	(3,215)
Profit attributable to owners of parent for the period	—	—	22,712	—	22,712	—	—	—	—	—	—	—	22,712
Purchase of treasury stock	—	—	—	(36)	(36)	—	—	—	—	—	—	—	(36)
Disposal of treasury stock	—	(0)	—	13	12	—	—	—	—	—	—	—	12
Change in treasury shares of parent arising from transactions with non-controlling interests	—	5	—	—	5	—	—	—	—	—	—	—	5
Reversal of revaluation reserve for land	—	—	(504)	—	(504)	—	—	—	—	—	—	—	(504)
Net changes in items other than shareholders' equity	—	—	—	—	—	(479)	504	8	797	831	16	282	1,130
BALANCE at 31 MARCH 2018	¥ 51,466	¥ 28,787	¥ 117,384	¥ (21,603)	¥ 176,033	¥ 10,787	¥ 36,088	¥ 6	¥ (2,540)	¥ 44,341	¥ 44	¥ 3,139	¥ 223,559

Thousands of U.S. Dollars (Note 1)

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Total Shareholders' Equity	Net Unrealised Holding Gain on Securities	Revaluation Reserve for Land	Foreign currency translation adjustments	Retirement Benefit Liability Adjustment	Total Accumulated Other Comprehensive Income, Net	Stock Acquisition Rights	Non- controlling Interests	Total Net Assets
BALANCE at 1 APRIL 2017	\$ 484,435	\$ 270,919	\$ 926,131	\$ (203,129)	\$ 1,478,357	\$ 106,049	\$ 334,941	\$ (23)	\$ (31,426)	\$ 409,541	\$ 262	\$ 26,893	\$ 1,915,055
Cash dividends	—	—	(30,270)	—	(30,270)	—	—	—	—	—	—	—	(30,270)
Profit attributable to owners of parent for the period	—	—	213,782	—	213,782	—	—	—	—	—	—	—	213,782
Purchase of treasury stock	—	—	—	(346)	(346)	—	—	—	—	—	—	—	(346)
Disposal of treasury stock	—	(5)	—	125	120	—	—	—	—	—	—	—	120
Change in treasury shares of parent arising from transactions with non-controlling interests	—	48	—	—	48	—	—	—	—	—	—	—	48
Reversal of revaluation reserve for land	—	—	(4,747)	—	(4,747)	—	—	—	—	—	—	—	(4,747)
Net changes in items other than shareholders' equity	—	—	—	—	—	(4,510)	4,747	81	7,510	7,827	159	2,657	10,644
BALANCE at 31 MARCH 2018	\$ 484,435	\$ 270,963	\$ 1,104,895	\$ (203,350)	\$ 1,656,943	\$ 101,538	\$ 339,688	\$ 58	\$ (23,916)	\$ 417,369	\$ 421	\$ 29,551	\$ 2,104,286

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows
Keihan Holdings Co., Ltd. and Consolidated Subsidiaries
Year Ended 31 March 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
	¥	¥	\$
OPERATING ACTIVITIES:			
Profit before income taxes	33,684	31,702	317,058
Adjustments for:			
Depreciation and amortisation	19,512	18,460	183,663
Loss on impairment of property, plant and equipment	61	1,359	582
Loss on sales or disposal of property, plant and equipment, net	677	750	6,380
Loss on deduction of contributions received for construction from acquisition costs of property, plant and equipment	1,042	911	9,816
Gain on contribution received for construction	(516)	(292)	(4,859)
Loss on valuation of shares of subsidiaries	310	—	2,918
Gain on sales of shares of subsidiaries	(3,179)	—	(29,926)
Gain on sales of investment securities	(916)	(2,776)	(8,623)
Share of loss of affiliates, net	59	16	559
Interest and dividend income	(854)	(850)	(8,040)
Interest expense	2,561	2,802	24,109
Special retirement expenses	—	85	—
(Decrease) increase in allowance for doubtful accounts	(269)	499	(2,532)
Decrease in allowance for employees' bonuses	(94)	(36)	(889)
(Decrease) increase in liability for retirement benefits	(404)	95	(3,808)
Increase in assets for retirement benefits	(109)	(254)	(1,032)
Increase in trade receivables	(5,600)	(2,409)	(52,713)
Decrease in inventories	8,159	1,260	76,802
Increase in trade payables	1,039	194	9,788
Other, net	3,223	(714)	30,342
Subtotal	58,388	50,805	549,594
Interest and dividend income received	854	852	8,039
Interest expenses paid	(2,628)	(2,855)	(24,745)
Income taxes paid	(12,175)	(10,147)	(114,600)
Special retirement payments	—	(85)	—
Net cash provided by operating activities	44,438	38,569	418,287
INVESTING ACTIVITIES:			
Decrease (increase) in time deposits, net	140	(0)	1,327
Purchase of property, plant and equipment	(41,018)	(34,079)	(386,094)
Proceeds from sales of property, plant and equipment	8,637	466	81,301
Proceeds from contribution received for construction	140	496	1,320
Purchase of investment securities	(5,251)	(1,630)	(49,426)
Proceeds from sales of investment securities	1,022	5,357	9,621
Proceeds from purchase of shares of subsidiaries	490	—	4,616
resulting in change in scope of consolidation (Note 19)			
Proceeds from sales of shares of subsidiaries	2,826	—	26,606
resulting in change in scope of consolidation (Note 19)			
Decrease (increase) in loans receivable	1,911	(1,023)	17,994
Other, net	(1,503)	814	(14,156)
Net cash used in investing activities	(32,603)	(29,597)	(306,888)
FINANCING ACTIVITIES:			
Decrease in short-term loans, net	(1,655)	(7,995)	(15,586)
Decrease in short-term bonds, net	—	(5,000)	—
Proceeds from long-term loans	30,781	31,867	289,730
Repayments of long-term loans	(34,595)	(29,781)	(325,637)
Proceeds from issuance of bonds	—	9,936	—
Redemption of bonds	(45)	(10,245)	(432)
Cash dividends paid	(3,218)	(3,235)	(30,293)
Dividends paid to non-controlling interests	(15)	(26)	(145)
Purchase of treasury stock	(36)	(4,381)	(346)
Other, net	(1,071)	(1,159)	(10,083)
Net cash used in financing activities	(9,858)	(20,020)	(92,794)
Net increase (decrease) in cash and cash equivalents	1,976	(11,048)	18,604
Cash and cash equivalents at beginning of year	18,324	29,372	172,479
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 19)	¥ 20,300	¥ 18,324	\$ 191,084

See accompanying notes to consolidated financial statements.

Keihan Holdings Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements Year Ended 31 March 2018

1. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Keihan Holdings Co., Ltd. (the “Company”) and its consolidated subsidiaries (collectively, 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 conformity with accounting principles generally accepted in Japan (“Japanese GAAP”), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

Japanese yen figures less than one million yen are rounded down to the nearest million yen and U.S. dollar figures less than one thousand dollars are rounded down to the nearest thousand dollars, except for per share data. As a result, the totals shown in the accompanying consolidated financial statements in Japanese yen and U.S. dollars do not necessarily agree with the sums of the individual amounts.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, the notes to the accompanying consolidated financial statements include information which is not required under Japanese GAAP but is presented herein as additional information.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥106.24 to \$1, the approximate rate of exchange at 31 March 2018. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. Consolidation* - The accompanying consolidated financial statements include the accounts of the Company and the significant companies which it controls directly or indirectly. Companies over which the Company exercises significant influence in terms of their operating and financial policies have been included in the accompanying consolidated financial statements on an equity basis.

For the purpose of consolidation, all significant intercompany balances and transactions have been eliminated in consolidation.

Certain subsidiaries are excluded from the scope of consolidation because the effect of their total assets, net sales, net profit or loss, and retained earnings (each amount of net profit or loss and retained earnings in proportion to the interest held by the Group) on the accompanying consolidated financial statements is not significant individually or in the aggregate.

Investments in two affiliates are accounted for by the equity method for the year ended 31 March 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

a. *Consolidation (continued)*

Investments in unconsolidated subsidiaries are not accounted for by the equity method but stated at cost, because the effect of their net profit or loss and retained earnings (each amount in proportion to the interest held by the Group) on the accompanying consolidated financial statements is not significant individually or in the aggregate.

The fiscal year end of the consolidated subsidiaries is 31 March, which is same as that of the Company.

b. *Securities* - Securities are classified into two categories: held-to-maturity debt securities or other securities. Held-to-maturity securities are stated at amortised cost, and amortisation for each period through to the maturity date is determined on a straight-line basis. Marketable securities classified as other securities are stated at fair value determined primarily by the average market price for one month prior to the year-end. Unrealised gains and losses on these securities are reported, net of applicable income taxes, as "Net unrealised holding gain on securities" in a separate component of net assets through the consolidated statement of comprehensive income. The cost of securities sold is determined primarily by the moving-average method. Non-marketable securities classified as other securities are stated at cost determined primarily by the moving-average method.

c. *Inventories* - Inventories are stated at lower of cost or net selling value, determined by the following methods.

Merchandise: Primarily by retail cost method

Land and buildings for sale: Specific identification method

Supplies: Primarily by moving-average method

d. *Property, Plant and Equipment (excluding Leased Assets)* - Property, plant and equipment excluding leased assets are stated at cost. Depreciation is determined primarily by the declining-balance method. However, certain assets are depreciated using the straight-line method over the estimated useful lives of the respective assets.

e. *Intangible Assets (excluding Leased Assets)* - Intangible assets excluding leased assets are amortised using the straight-line method. Software for internal use is amortised over its estimated useful life of 5 years.

f. *Leased Assets* - Leased assets under finance lease transactions which do not transfer ownership to the lessee are capitalised and depreciated over the respective lease terms to a nil residual value by the straight-line method. Finance lease transactions commencing on or before 31 March 2008 other than those in which the ownership of the leased assets is transferred to the lessee are accounted for in the same manner as operating leases.

g. *Goodwill* - Goodwill is amortised using the straight-line method over its estimated useful life. Insignificant amounts of goodwill are charged to expense as incurred.

h. *Allowance for Doubtful Accounts* - Allowance for doubtful accounts is provided at an amount calculated based on the Company's historical experience of bad debts on ordinary receivables and loan receivables plus an additional estimate of probable specific bad debts from customers experiencing financial difficulties.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

i. Allowance for Employees' Bonuses - Allowance for employees' bonuses is provided at an estimated amount of bonuses to be paid to employees.

j. Provision for Unutilised Gift Tickets

Unutilised gift tickets are credited to income after a certain period has passed from their respective dates of issuance. Provision for unutilised gift tickets is provided at a reasonably estimated amount of future utilisation.

k. Employees' Retirement Benefits

(1) Attribution method of retirement benefits over the service period

The assets and liability for retirement benefits are provided based on the amount of the projected benefit obligation after deducting plan assets at fair value at the end of the year.

The retirement benefit obligation is attributed to each period by the straight-line method.

(2) Accounting for actuarial gains and losses and prior service costs

Prior service costs are amortised as incurred by the straight-line method over a period of primarily 15 years, which is within the estimated average remaining years of service of the eligible employees.

Actuarial gains and losses are amortised from the year following the year in which the gain or loss is recognised, by the straight-line method over a period of primarily 15 years, which is within the estimated average remaining years of service of the eligible employees.

l. Retirement Benefits for Directors and Audit and Supervisory Board Members - Certain consolidated subsidiaries provide liability for retirement benefits for directors and audit and supervisory board members based on the amount required at the balance sheet date in accordance with the internal policies of such consolidated subsidiaries.

m. Income Taxes - Income taxes are calculated based on taxable income and charged to income on an accrual basis. Certain temporary differences exist between taxable income and profit reported for financial reporting purposes which enter into the determination of taxable income in a different period.

n. Significant Hedge Accounting - The Company and three consolidated subsidiaries adopt hedge accounting. Under Japanese GAAP, interest rate swaps which meet certain conditions are accounted for as if the interest rates of the swaps had originally been applied of the underlying debt (the "special accounting treatment").

(1) Method of accounting

For interest rate swap contracts that meet certain conditions, the special accounting treatment is applied.

(2) Hedging instruments

Interest rate swaps

(3) Hedged items

Interest on loans

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

n. *Hedge Accounting (continued)*

(4) *Hedging policy*

Interest rate swaps are used to mitigate the fluctuation risk of interest rates on loans, and the hedged items are identified by individual contracts.

(5) *Assessment of hedge effectiveness*

Hedge effectiveness is not assessed as the notional principal, contractual terms (interest rates and dates of receipt and payment of interest), and maturities of the interest rate swap transactions are almost same as those of the respective hedged items, and thus, these transactions meet the criteria for application of the special accounting treatment.

- o. ***Contributions for Construction*** - Three consolidated subsidiaries receive contributions for construction as part of construction cost from local authorities and others at railway track business. Contributions received are deducted directly from the acquisition costs of the related assets at the time of completion of construction of the railway business.

Gain on contributions received for construction is included in other income (expenses) and the amount directly deducted from the acquisition costs of the assets is recorded as loss on deduction of contributions received for construction from the acquisition costs of property, plant and equipment in other income (expenses) in the consolidated statement of income.

- p. ***Cash and Cash Equivalents*** - For the purpose of the consolidated statement of cash flows, cash and cash equivalents are composed of cash on hand, bank deposits available for withdrawal on demand, deposits and short-term investments which are readily convertible to cash and subject to little risk of any change in their value, and which were purchased with an original maturity of three months or less.
- q. ***Consumption Taxes*** - Consumption taxes, in general, are not included in income and expenses but recorded at the net amount on the consolidated balance sheet.

3. ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

- Implementation Guidance on Tax Effect Accounting
- Implementation Guidance on Recoverability of Deferred Tax Assets

(1) Summary

On 16 February 2018, the Accounting Standards Board of Japan (hereinafter referred to as the “ASBJ”) issued “Revised Implementation Guidance on Tax Effect Accounting” (ASBJ Guidance No.28) and “Revised Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No.26). The ASBJ made the following necessary revisions while adhering fundamentally to the framework outlined in “Practical Guidelines on Accounting Standards for Tax Effect Accounting.”

The authority for providing related accounting guidance has been transferred from the Japanese Institute of Certified Public Accountants to the ASBJ.

3. ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

(1) Summary (continued)

(Major revised accounting treatments)

- Accounting treatment of taxable temporary differences related to investments in subsidiaries, etc. when an entity prepares separate financial statements
- Accounting treatment related to the recoverability of deferred tax assets in entities that qualify as Category 1 when the company has recorded sufficient taxable income to exceed the amount of the deductible temporary differences in the current and prior three years.

(2) Scheduled date of adoption

The Company expects to adopt the revised implementation guidance from the beginning of the fiscal year ending 31 March 2019.

(3) Effect of the adoption of implementation guidance

The Company is currently assessing the effect of the adoption of the revised implementation guidance on its consolidated financial statements.

• Accounting Standard and Implementation Guidance for Revenue Recognition

(1) Summary

On 30 March 2018, the ASBJ issued “Accounting Standard for Revenue Recognition” (ASBJ Statement No.29) and “Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No.30). The International Accounting Standards Board (hereinafter referred to as the “IASB”) and the Financial Accounting Standards Board (hereinafter referred to as the “FASB”) in the United States co-developed comprehensive accounting standards for revenue recognition and issued “Revenue from Contracts with Customers” (issued as IFRS 15 by the IASB and Topic 606 by the FASB) in May 2014. The ASBJ developed comprehensive accounting standards on revenue recognition and issued them in conjunction with the implementation guidance based on the fact that IFRS 15 will be applied from fiscal years starting on or after 1 January 2018 and Topic 606 will be applied from fiscal years starting after 15 December 2017.

As the basic policy in developing accounting standards for revenue recognition, the ASBJ defined the accounting standard starting with incorporating the basic principle of IFRS 15 from a standpoint of comparability between financial statements, which is one benefit of ensuring consistency with IFRS 15. Furthermore, the ASBJ added alternative accounting treatment without impairing comparability when there are matters to be considered related to accounting practices, etc. common in Japan.

(2) Scheduled date of adoption

The Company expects to adopt the accounting standard and implementation guidance from the beginning of the fiscal year ending 31 March 2022.

(3) Effect of the adoption of accounting standard and implementation guidance

The Company is currently assessing the effect of the adoption of the accounting standard and the implementation guidance on its consolidation financial statements.

4. SHORT-TERM INVESTMENTS AND INVESTMENT SECURITIES

(1) Held-to-maturity securities

The following table summarises the carrying value and fair value of held-to-maturity securities as at 31 March 2018 and 2017.

	Millions of Yen		
	2018		
	Carrying value	Fair value	Difference
Securities with fair value exceeding carrying value:			
National and municipal bonds	¥ 227	¥ 234	¥ 7
Corporate bonds	1,400	1,459	58
Other	200	200	0
Total	¥ 1,828	¥ 1,894	¥ 65

	Millions of Yen		
	2017		
	Carrying value	Fair value	Difference
Securities with fair value exceeding carrying value:			
National and municipal bonds	¥ 57	¥ 57	¥ 0
Corporate bonds	1,401	1,477	76
Other	200	202	2
Total	¥ 1,659	¥ 1,738	¥ 79

	Thousands of U.S. Dollars		
	2018		
	Carrying value	Fair value	Difference
Securities with fair value exceeding carrying value:			
National and municipal bonds	\$ 2,142	\$ 2,210	\$ 67
Corporate bonds	13,187	13,735	548
Other	1,882	1,887	5
Total	\$ 17,212	\$ 17,833	\$ 621

4. SHORT-TERM INVESTMENTS AND INVESTMENT SECURITIES (continued)

(2) Marketable securities classified as other securities

The following table summarises the carrying value and acquisition cost of marketable securities classified as other securities as at 31 March 2018 and 2017.

	Millions of Yen		
	2018		
	Carrying value	Acquisition cost	Difference
Securities with carrying value exceeding acquisition cost:			
Equity securities	¥ 20,961	¥ 6,053	¥ 14,907
Other	1,603	1,209	393
Sub total	22,564	7,263	15,300
Securities with carrying value not exceeding acquisition cost:			
Equity securities	74	79	(4)
Debt securities	300	300	–
Sub total	374	379	(4)
Total	¥ 22,938	¥ 7,642	¥ 15,295

	Millions of Yen		
	2017		
	Carrying value	Acquisition cost	Difference
Securities with carrying value exceeding acquisition cost:			
Equity securities	¥ 21,800	¥ 6,219	¥ 15,581
Other	1,534	1,209	324
Sub total	23,334	7,429	15,905
Securities with carrying value not exceeding acquisition cost:			
Equity securities	18	18	(0)
Debt securities	303	303	–
Sub total	322	322	(0)
Total	¥ 23,656	¥ 7,751	¥ 15,905

4. SHORT-TERM INVESTMENTS AND INVESTMENT SECURITIES (continued)

(2) Marketable securities classified as other securities (continued)

	Thousands of U.S. Dollars		
	2018		
	Carrying value	Acquisition cost	Difference
Securities with carrying value exceeding acquisition cost:			
Equity securities	\$ 197,299	\$ 56,981	\$ 140,318
Other	15,090	11,388	3,702
Sub total	<u>212,390</u>	<u>68,369</u>	<u>144,020</u>
Securities with carrying value not exceeding acquisition cost:			
Equity securities	699	746	(46)
Debt securities	2,823	2,823	–
Sub total	<u>3,523</u>	<u>3,570</u>	<u>(46)</u>
Total	<u>\$ 215,914</u>	<u>\$ 71,939</u>	<u>\$ 143,974</u>

Unlisted equity securities with a carrying value of ¥8,907 million (\$83,844 thousand) and ¥3,965 million as at 31 March 2018 and 2017, respectively, are not included in the above tables because there is no market price and the fair value is not readily determinable.

(3) The following table summarises other securities sold for the years ended 31 March 2018 and 2017. Gain on sales are included in gain on sales of investment securities, net in the consolidated statement of income.

	Millions of Yen		
	2018		
	Proceeds	Gain on sale	Loss on sale
Equity securities	¥ 1,022	¥ 916	¥ –

	Millions of Yen		
	2017		
	Proceeds	Gain on sale	Loss on sale
Equity securities	¥ 4,981	¥ 2,700	¥ –
Other	¥ 375	¥ 75	¥ –

	Thousands of U.S. Dollars		
	2018		
	Proceeds	Gain on sale	Loss on sale
Equity securities	\$ 9,621	\$ 8,623	\$ –

4. SHORT-TERM INVESTMENTS AND INVESTMENT SECURITIES (continued)

(4) Investments in unconsolidated subsidiaries and affiliates

Investments in unconsolidated subsidiaries and affiliates as at 31 March 2018 and 2017 consisted of the following:

	Millions of Yen		Thousands of
	2018	2017	U.S. Dollars
Investments in unconsolidated subsidiaries and affiliates	¥ 10,052	¥ 9,019	\$ 94,618

5. PROPERTY, PLANT AND EQUIPMENT

Accumulated depreciation included in property, plant and equipment as at 31 March 2018 and 2017 amounted to ¥444,658 million (\$4,185,417 thousand) and ¥435,109 million, respectively.

Accumulated contributions deducted from the acquisition costs of property, plant and equipment as at 31 March 2018 and 2017 amounted to ¥181,199 million (\$1,705,568 thousand) and ¥180,769 million, respectively.

6. RENTAL PROPERTIES

The Company and certain consolidated subsidiaries own rental properties including office buildings and commercial facilities in Osaka and other areas in Japan.

For the year ended 31 March 2018, rental income, net of related expenses, relevant to these properties amounted to ¥9,967 million (\$93,818 thousand) and net gain on sales of these properties amounted to ¥232 million (\$2,185 thousand).

For the year ended 31 March 2017, rental income, net of related expenses, relevant to these properties amounted to ¥9,727 million and net gain on sales of these properties amounted to ¥17 million. Furthermore, loss on impairment of these real estate properties was recognised in the amount of ¥3 million.

Income is included in operating revenues and expenses are mainly included in operating expenses in the consolidated statements of income. Net gain on sales and net loss on impairment of these properties are included in other income (expense) in the consolidated statement of income.

6. RENTAL PROPERTIES (continued)

Increases/(decreases) in the carrying value during the years ended 31 March 2018 and 2017, and the fair value of the rental properties as at 31 March 2018 and 2017 are as follows:

Millions of Yen			
2018			
Carrying value			Fair value
1 April 2017	Increase/(Decrease)	31 March 2018	31 March 2018
¥ 162,652	¥ (3,889)	¥ 158,763	¥ 218,788

Millions of Yen			
2017			
Carrying value			Fair value
1 April 2016	Increase/(Decrease)	31 March 2017	31 March 2017
¥ 155,245	¥ 7,406	¥ 162,652	¥ 221,758

Thousands of U.S. Dollars			
2018			
Carrying value			Fair value
1 April 2017	Increase/(Decrease)	31 March 2018	31 March 2018
\$ 1,530,991	\$ (36,607)	\$ (1,494,384)	\$ 2,059,380

- Notes: 1. Carrying value recognised in the consolidated balance sheet represents the acquisition cost less accumulated depreciation and accumulated losses on impairment.
2. The main components of net changes in the carrying value during the years ended 31 March 2018 and 2017 are the decrease due to the sales of real estate of ¥5,346 million (\$50,328 thousand) and the increase due to the acquisition of office buildings of ¥8,361 million, respectively.
3. Fair values of the major rental properties as at each year end are estimated in accordance with the appraisal standards for valuing real estate properties. Fair values of the other rental properties are estimated internally by the Group based on certain assessments and property indices that are considered to reflect applicable market value.

7. REVALUATION OF LAND

In accordance with the “Act on Revaluation of Land” (Act No. 34 promulgated on 31 March 1998) and the “Act for Partial Revision of the Act on Revaluation of Land” (Act No. 19 promulgated on 31 March 2001), the Company and two consolidated subsidiaries revalue its land held for business. The resulting revaluation difference, net of applicable tax effect on revaluation gains has been stated as “Revaluation reserve for land” in net assets. The applicable tax effect has been stated as “deferred tax liabilities for land revaluation” in liabilities.

Details of the revaluation are as follows:

- Method of revaluation
Fair values are determined based on the appraisal value publicly announced for tax assessment purposes with certain reasonable adjustments in accordance with Article 2-3 and 2-5 of the “Ordinance for Enforcement of the Act on Revaluation of Land” (Cabinet Ordinance No. 119 promulgated on 31 March 1998)
- Date of revaluation
31 March 2002

8. PLEDGED ASSETS

Assets pledged as collateral and the corresponding liabilities as at 31 March 2018 are summarised as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	2018		2018	
	Total	The Group's Railway foundation mortgage	Total	The Group's Railway foundation mortgage
Assets pledged as collateral:				
Buildings and structures	¥ 67,318	¥(63,354)	\$ 633,646	\$ (596,332)
Machinery, equipment and vehicles	13,422	(13,422)	126,337	(126,337)
Land	54,118	(53,630)	509,394	(504,803)
Other property, plant and equipment	760	(760)	7,158	(7,158)
Investment securities	800	(-)	7,530	(-)
Total	¥ 136,419	¥(131,167)	\$ 1,284,066	\$ (1,234,631)
	Millions of Yen		Thousands of U.S. Dollars	
	2018		2018	
	Total	The Group's Railway foundation mortgage	Total	The Group's Railway foundation mortgage
Corresponding liabilities:				
Accounts payables	¥ 41	¥(-)	\$ 392	\$ (-)
Long-term loans (including current portion of long-term loans)	52,671	(50,660)	495,776	(476,847)
Total	¥ 52,712	¥(50,660)	\$ 496,168	\$ (476,847)

Figures in parentheses in the above table represent the amounts of assets pledged as the Group's railway foundation mortgage and the corresponding liabilities.

9. SHORT-TERM LOANS, BONDS AND LONG-TERM LOANS

The average interest rates applicable to the short-term bank loans, which are calculated as the weighted-average rates to the year end balances, were 0.526% and 0.536% for the years ended 31 March 2018 and 2017, respectively.

Long-term debt as at 31 March 2018 and 2017 is summarised as follows:

Bonds

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Euro-yen zero coupon unsecured convertible bonds with stock acquisition rights in yen, due 30 March 2021	¥ 20,059	¥ 20,079	\$ 188,816
Unsecured Keihan Holdings bonds, payable in yen at rates ranging from 0.34% to 1.89%, due from 2019 through 2026	70,000	70,000	658,885
Unsecured Keifuku Electric Railroad bonds, payable in yen at rates of 0.226%, due from 2018 through 2020	111	157	1,049
Total	90,171	90,237	848,752
Less current portion	(10,045)	(45)	(94,558)
Bonds, less current portion	¥ 80,125	¥ 90,191	\$ 754,193

The aggregate annual maturities of bonds subsequent to 31 March 2018 are summarised as follows:

Year ending 31 March,	Millions of Yen	Thousands of U.S. Dollars
2019	¥ 10,045	\$ 94,558
2020	10,045	94,558
2021	20,019	188,438
2022	10,000	94,126
2023	10,000	94,126
2024 and thereafter	30,059	282,943
Total	¥ 90,171	\$ 848,752

Euro-yen zero coupon unsecured convertible bonds in the nominal amount of ¥20,000 million with stock acquisition rights issued on 30 March 2016 are convertible at ¥5,315 (\$50.02) per share in the period from 13 April 2016 to 16 March 2021 subject to adjustment in certain circumstances.

From 1 April 2018, these bonds are convertible at ¥5,307.1 (\$49.95). The price was adjusted pursuant to the clauses on price adjustment of the bonds because the proposal on dividend per share of ¥20 (\$0.18) was approved at the 96th Ordinary General Meeting of Shareholders held on 19 June 2018.

9. SHORT-TERM LOANS, BONDS AND LONG-TERM LOANS (continued)

Loans

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Loans from banks and other financial institutions, due serially from 2019 to 2038 at weighted-average rates ranging from 0.767% to 0.824%	¥ 180,135	¥ 181,827	\$ 1,695,553
Less current portion	(34,109)	(22,888)	(321,059)
Long-term loans, less current portion	¥ 146,026	¥ 158,938	\$ 1,374,494

The aggregate annual maturities of long-term loans subsequent to 31 March 2018 are summarised as follows:

Year ending 31 March,	Millions of Yen	Thousands of U.S. Dollars
2019	¥ 34,109	\$ 321,059
2020	52,484	494,020
2021	9,058	85,262
2022	5,046	47,498
2023	20,490	192,867
2024 and thereafter	58,946	554,845
Total	¥ 180,135	\$ 1,695,553

10. OVERDRAFT AND LOAN COMMITMENTS

The Company and 17 consolidated subsidiaries entered into overdraft and loan commitment agreements with 21 banks for efficient funding of working capital as at 31 March 2018.

The unused portions of the credit line under these agreements as at 31 March 2018 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2018	2018
Total overdraft limits and loan commitments	¥ 87,742	\$ 825,889
Loan executions	(42,035)	(395,669)
Unused credit line	¥ 45,706	\$ 430,220

11. RETIREMENT BENEFITS

The Company and its consolidated subsidiaries provide several defined benefit plans, such as defined benefit corporate pension plans, retirement lump-sum benefit plans and smaller enterprise retirement allowance mutual aid plans, and defined contribution pension plans. Certain consolidated subsidiaries maintain a retirement benefit trust.

- (1) The changes in the defined benefit obligation for the years ended 31 March 2018 and 2017 (except for the retirement benefit obligation calculated by the simplified method presented in (3) below) are as follows:

	Millions of Yen		Thousands of
	2018	2017	U.S. Dollars
Balance at the beginning of year	¥ 34,444	¥ 32,578	\$ 324,218
Service costs	1,332	1,377	12,547
Interest cost	91	86	856
Actuarial loss	21	2,069	199
Retirement benefits paid	(2,341)	(1,425)	(22,043)
Other	—	(241)	—
Balance at the end of year	¥ 33,548	¥ 34,444	\$ 315,776

- (2) The changes in plan assets for the years ended 31 March 2018 and 2017 (except for plan assets calculated by the simplified method presented in (3) below) are as follows:

	Millions of Yen		Thousands of
	2018	2017	U.S. Dollars
Balance at the beginning of year	¥ 16,841	¥ 16,173	\$ 158,521
Expected return on plan assets	282	342	2,654
Actuarial gain	344	600	3,247
Contributions by the Group	1,374	881	12,938
Retirement benefits paid	(1,152)	(897)	(10,844)
Other	—	(259)	—
Balance at the end of year	¥ 17,690	¥ 16,841	\$ 166,517

11. RETIREMENT BENEFITS (continued)

- (3) The changes in the assets and liabilities for retirement benefits calculated by the simplified method for the years ended 31 March 2018 and 2017 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Balance at the beginning of year	¥ 2,141	¥ 2,507	\$ 20,159
Retirement benefit expenses	275	204	2,590
Retirement benefits paid	(173)	(267)	(1,630)
Contributions to pension plans	(61)	(48)	(576)
Increase due to consolidation of a new subsidiary	45	–	429
Other	–	(255)	–
Balance at the end of year	¥ 2,228	¥ 2,141	\$ 20,972

Under the simplified method, the retirement benefit obligation is calculated at the amount payable at the year-end if all eligible employees terminated their services voluntarily.

- (4) Reconciliation of the ending balances of the retirement benefit obligation and plan assets and asset and liability for retirement benefits recorded in the consolidated balance sheet as at 31 March 2018 and 2017 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Funded retirement benefit obligation	¥ 15,850	¥ 16,129	\$ 149,199
Plan assets at fair value	(18,255)	(17,221)	(171,836)
	(2,404)	(1,092)	(22,637)
Unfunded retirement benefit obligation	20,490	20,837	192,869
Net of asset and liability for retirement benefits in the consolidated balance sheet	18,085	19,745	170,231
Liability for retirement benefit	18,790	20,011	176,867
Asset for retirement benefits	(704)	(266)	(6,635)
Net liability for retirement benefits in the consolidated balance sheet	¥ 18,085	¥ 19,745	\$ 170,231

Note: The above table includes the retirement benefit obligation calculated by the simplified method.

11. RETIREMENT BENEFITS (continued)

- (5) The components of retirement benefit expenses for the years ended 31 March 2018 and 2017 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Service costs	¥ 1,332	¥ 1,377	\$ 12,544
Interest cost	91	86	856
Expected return on plan assets	(282)	(342)	(2,654)
Amortisation of actuarial loss	1,123	749	10,576
Amortisation of prior service costs	(256)	(273)	(2,410)
Retirement benefit expenses calculated by the simplified method	275	204	2,590
Retirement benefit expenses for defined benefit plans	¥ 2,284	¥ 1,802	\$ 21,503

In addition to the above table, special retirement benefit of ¥85 million was recorded as other expenses in the consolidated statement of income for the year ended 31 March 2017.

- (6) The components of retirement benefit liability adjustment (before tax effects) in other comprehensive income for the years ended 31 March 2018 and 2017 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Prior service costs	¥ 256	¥ 273	\$ 2,410
Actuarial (gain) loss	(1,447)	719	(13,624)
Total	¥ (1,191)	¥ 992	\$ (11,213)

- (7) The components of retirement benefit liability adjustment (before tax effects) in accumulated other comprehensive income as at 31 March 2018 and 2017 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Unrecognised prior service costs	¥ (2,053)	¥ (2,309)	\$ (19,326)
Unrecognised actuarial gain	5,934	7,382	55,862
Total	¥ 3,881	¥ 5,072	\$ 36,535

11. RETIREMENT BENEFITS (continued)

(8) Plan assets

a. The components of plan assets by major category as at 31 March 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Debt securities	43%	43%
Equity securities	36	36
Insurance company general accounts	13	13
Cash and deposits	2	2
Other	6	6
Total	<u>100%</u>	<u>100%</u>

Note: 20% and 20% of the total plan assets were in the retirement benefit trust as at 31 March 2018 and 2017, respectively.

b. Method of determining long-term expected rate of return on plan assets

The long-term expected rate of return on plan assets is determined as a result of consideration of both the portfolio allocation at present and in the future, and long-term expected rate of return from multiple plan assets at present and in the future.

(9) Assumptions used in accounting for the defined benefit plans for the years ended 31 March 2018 and 2017 are set forth as follows:

	<u>2018</u>	<u>2017</u>
Discount rates	0.0-0.7%	0.0-0.7%
Long-term expected rates of return on plan assets	1.5-3.0%	2.5-3.0%

(10) Defined contribution plans for the years ended 31 March 2018 and 2017

The total contributions to be paid by the Company and its consolidated subsidiaries to defined contribution plans were ¥566 million (\$5,328 thousand) and ¥562 million for the years ended 31 March 2018 and 2017, respectively.

12. SHAREHOLDERS' EQUITY

The Companies Act of Japan (the "Act") provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account. Such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met.

Under the Act, upon the issuance of new shares of common stock, the entire amount of the proceeds is required to be accounted for as common stock, although a company may, by resolution of the Board of Directors, account for an amount not exceeding one-half of the proceeds of new shares as additional paid-in capital included in capital surplus.

Under the Act, the distribution of retained earnings with respect to a given financial period is made by resolution of the shareholders at a general meeting held subsequent to the close of the financial period. The distribution of retained earnings with respect to the interim financial period is made by resolution of the Board of Directors. The accounts for the period do not reflect such distributions.

Stock options

The Company has stock option plans. Stock option expenses, included in selling, general and administrative expenses, charged to profit or loss for the year ended 31 March 2018 and 2017 amounted to ¥27 million (\$257 thousand) and ¥27 million, respectively.

The stock option plan of the Company as of 31 March 2018 is summarised as follows:

	The 2016 Plan	The 2017 Plan
Individuals covered by the plan	5 Directors (excluding outside directors) 8 Executive officers	6 Directors (excluding Audit and Supervisory Committee Members and outside directors) 7 Executive officers
Class and number of options granted	Common stock 8,000 shares	Common stock 8,000 shares
Grant date	4 July 2016	6 July 2017
Vesting conditions	None	None
Vesting period for services received	No vesting period for services received has been stipulated.	No vesting period for services received has been stipulated.
Exercisable period	From 5 July 2016 to 4 July 2046	From 7 July 2017 to 6 July 2047

Size and movement of stock options are summarised as follows:

	The 2016 plan	The 2017 plan
Number of stock options not yet vested:		
Outstanding at 31 March 2017	–	–
Granted	–	8,000
Forfeited	–	–
Vested	–	8,000
Outstanding at 31 March 2018	–	–
Number of stock options already vested:		
Outstanding at 31 March 2017	8,000	–
Vested	–	8,000
Exercised	3,000	–
Forfeited	–	–
Outstanding at 31 March 2018	5,000	8,000

12. SHAREHOLDERS' EQUITY (continued)

The fair value of stock options for the stock option plan of the Company during the year ended 31 March 2018 is summarised as follows:

	<i>Yen</i>	<i>U.S. dollars</i>	<i>Yen</i>	<i>U.S. dollars</i>
	<u>The 2016 plan</u>	<u>The 2016 plan</u>	<u>The 2017 plan</u>	<u>The 2017 plan</u>
Exercise price	¥ 1	\$ 0	¥ 1	\$ 0
Average stock price at the exercise date	3,605	33	-	-
Fair value as of the grant date	3,485	32	3,425	32

The number of existing stock options as of 31 March 2018 represents the corresponding number of shares.

In addition, the number of shares has been converted due to the consolidation of the Company's common stock at a ratio of 1 share for 5 shares on 1 October 2017.

The valuation method for estimating fair value was the Black-Scholes model. The major assumptions used are as follows:

<u>Major assumptions</u>	<u>Note</u>	<u>The 2017 plan</u>
Expected volatility	(a)	21.926%
Expected holding period	(b)	3.7 years
Expected dividend	(c)	¥30 per share (\$0 per share)
Risk-free rate	(d)	(0.075%)

- (a) Expected volatility was computed by the weekly historical volatility of the Company's stock during the period from 24 October 2013 to 6 July 2017.
- (b) Expected holding period was computed by estimating the expected tenure of new stock option holders and weighted average unit of stock options granted to each new stock option holder.
- (c) Expected dividend was calculated based on the actual amounts paid for the year ended 31 March 2017, which was converted on the basis of the number of shares after the consolidation of the Company's common stock at a ratio of 1 share for 5 shares on 1 October 2017.
- (d) Risk-free rate was computed by the average of the compound interest of long-term interest-bearing government bonds with redemption dates within the before and after three months based on the date which the expected holding period elapse from the grant date the stock acquisition rights.

The number of vested stock options is the same as the number of granted stock options as they vested on the grant date.

12. SHAREHOLDERS' EQUITY (continued)

Common stock and treasury stock

- (1) Movements in issued shares of common stock and treasury stock during the years ended 31 March 2018 and 2017 are as follows:

	Number of shares			
	2018			
	1 April 2017	Increase	Decrease	31 March 2018
Issued shares:				
Common stock (Notes 1 and 2)	565,913,515	–	452,730,812	113,182,703
Treasury stock (Notes 1, 3 and 4)	29,912,535	28,191	23,951,155	5,989,571

- Notes:
- The Company executed a share consolidation at a ratio of 1 share for 5 shares on 1 October 2017.
 - The decrease in the number of shares of common stock of 452,730,812 was due to the share consolidation.
 - The increase in the number of shares of treasury stock of 26,367 shares (21,783 shares before the date of the consolidation of shares, and 4,584 shares after the date) was due to repurchase of fractional shares of less than one voting unit, and of 1,824 shares was due to repurchase of fractional shares of less than one voting unit as a result of the consolidation of shares.
 - The decrease in the number of shares of treasury stock of 15,000 shares (before the date of the consolidation of shares) was due to disposal of treasury stock as a result of exercise of stock options, of 23,934,691 shares was due to the consolidation of shares, and of 1,464 shares (954 shares before the date of the consolidation of shares, and 510 shares after the date) was due to sales of fractional shares of less than one voting unit.

	Number of shares			
	2017			
	1 April 2016	Increase	Decrease	31 March 2017
Issued shares:				
Common stock	565,913,515	–	–	565,913,515
Treasury stock (Notes 1 and 2)	24,193,867	5,719,503	835	29,912,535

- Notes:
- The increase in the number of shares of treasury stock of 5,678,000 shares was due to purchase of treasury stock under resolution of the Board of Directors and of 41,503 shares was due to repurchases of fractional shares of less than one voting unit.
 - The decrease in the number of shares of treasury stock of 835 shares was due to sales of fractional shares of less than one voting unit.

12. SHAREHOLDERS' EQUITY (continued)

- (2) Information regarding dividend payments during the years ended 31 March 2018 and 2017 is as follows:

For the year ended 31 March 2018

- a. Dividend payment:

2018					
Resolutions	Type of shares	Dividends paid	Dividend per share	Record dates	Effective dates
General shareholders' meeting held on 20 June 2017	Common stock	¥1,608 million (\$15,135 thousand)	¥3.0 (\$0.02)	31 March 2017	21 June 2017
Board meeting held on 30 October 2017	Common stock	¥1,607 million (\$15,135 thousand)	¥3.0 (\$0.02)	30 September 2017	1 December 2017

Notes: The Company executed a share consolidation at a ratio of 1 share for 5 shares on 1 October 2017. Dividend per share by the resolution of Board meeting held on 30 October 2017 represents the amount on the basis of the number of shares before the share consolidation.

- b. Dividend payment with an effective date in the following fiscal year:

2018						
Resolution	Type of shares	Dividends paid	Source of dividend	Dividend per share	Record date	Effective date
General shareholders' meeting held on 19 June 2018	Common stock	¥2,143 million (\$20,179 thousand)	Retained earnings	¥20 (\$0.18)	31 March 2018	20 June 2018

For the year ended 31 March 2017

- a. Dividend payment:

2017					
Resolutions	Type of shares	Dividends paid	Dividend per share	Record dates	Effective dates
General shareholders' meeting held on 17 June 2016	Common stock	¥1,625 million	¥3.0	31 March 2016	20 June 2016
Board meeting held on 31 October 2016	Common stock	¥1,608 million	¥3.0	30 September 2016	1 December 2016

- b. Dividend payment with an effective date in the following fiscal year:

2017						
Resolution	Type of shares	Dividends paid	Source of dividend	Dividend per share	Record date	Effective date
General shareholders' meeting held on 20 June 2017	Common stock	¥1,608 million	Retained earnings	¥3.0	31 March 2017	21 June 2017

13. COST OF SALES

Cost of sales included loss on devaluation of inventories of ¥331 million (\$3,119 thousand) and ¥222 million for the years ended 31 March 2018 and 2017, respectively.

14. LOSS ON IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are assessed for impairment either on an individual asset basis such as property or store, or on a group basis such as business segment, which is determined based on the managerial accounting segment.

The Group recognised loss on impairment of property, plant and equipment in the amounts of ¥61 million (\$582 thousand) and ¥1,359 million for the years ended 31 March 2018 and 2017, respectively. The details are summarised as follows:

For the year ended 31 March 2018

2018				
Usage	Location	Classification	Millions of Yen	Thousands of U.S. Dollars
Commercial stores	Hirakata, Osaka and other	Buildings and structures	¥ 54	\$ 513
		Other	1	18
		Sub-total	56	531
Hotel facilities	Sakyo-ku, Kyoto	Buildings and structures	5	50
		Sub-total	5	50
		Total	¥ 61	\$ 582

For the year ended 31 March 2017

2017				
Usage	Location	Classification	Millions of Yen	
Marine business assets	Otsu, Shiga and other	Buildings and structures	¥	305
		Machinery, equipment and vehicles		66
		Land		83
		Lease assets		362
		Other		98
		Sub-total		916
Idle assets	Hirakata, Osaka	Buildings and structures		8
		Land		239
		Sub-total		247
Rental properties	Sakyo-ku, Kyoto	Buildings and structures		3
		Land		127
		Other		1
		Sub-total		132
Hotel facilities	Sakyo-ku, Kyoto	Buildings and structures		29
		Machinery, equipment and vehicles		1
		Other		2
		Sub-total		33
Commercial stores	Ritto, Shiga and other	Buildings and structures		14
		Machinery, equipment and vehicles		0
		Other		15
		Sub-total		29
Total			¥	1,359

14. LOSS ON IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT (continued)

For commercial stores as a decision to withdraw from the business was made or a decline in profitability was expected, and for hotel facilities as a decline in profitability was expected to continue, the Group wrote down the carrying value of the asset to the recoverable amount and loss on impairment of property, plant and equipment was recorded as other expense for the year ended 31 March 2018.

For assets, such as marine business assets, rental properties, hotel facilities, and commercial stores as a decline in profitability was expected to continue, or for idle assets when a decline in market value was observed, the Group wrote down the carrying value of the asset to the recoverable amount and loss on impairment of property, plant and equipment was recorded as other expense for the year ended 31 March 2017.

The recoverable amounts of commercial stores were determined using value in use. Commercial stores were written down to the nominal value as future cash flow was not expected due to a decision to withdraw from the business for the year ended 31 March 2018, and as future cash flow was negative for the year ended 31 March 2017.

The recoverable amounts of hotel facilities were determined using net realisable value basically based on the appraisal value assessed by an external appraiser for the years ended 31 March 2018 and 2017.

The recoverable amounts of marine business assets were determined using net realisable value basically based on the valuation used for property tax purposes for the year ended 31 March 2017.

The recoverable amounts of rental properties were determined using net realisable value basically based on the appraisal value assessed by an external appraiser for the year ended 31 March 2017.

The recoverable amounts of idle assets were determined using net realisable value basically based on the valuation used for property tax purposes for the year ended 31 March 2017.

15. INCOME TAXES

Income taxes applicable to the Company and its domestic subsidiaries comprise corporation tax, inhabitants' taxes and enterprise taxes which, in the aggregate, resulted in a normal statutory tax rate of approximately 30.8% for the years ended 31 March 2018 and 2017.

The tax effects of significant temporary differences and tax loss carry forwards which resulted in net deferred tax assets and liabilities at 31 March 2018 and 2017 are as follows:

	Millions of Yen		Thousands of
	2018	2017	U.S. Dollars
Deferred tax assets:			
Liability for retirement benefits	¥ 9,831	¥ 10,267	\$ 92,538
Difference arising from company split	4,248	4,238	39,991
Loss on impairment of property, plant and equipment	1,383	1,746	13,023
Loss on devaluation of land, buildings and structures for sale	1,712	1,420	16,114
Tax loss carry forwards	1,097	1,246	10,327
Unrealised gain	1,129	1,074	10,627
Allowance for employees' bonuses	861	887	8,112
Loss on devaluation of securities	795	683	7,483
Others	3,255	3,130	30,644
Sub-total	24,314	24,694	228,863
Valuation allowance	(9,624)	(9,900)	(90,595)
Total deferred tax assets	14,689	14,794	138,268
Offset by deferred tax liabilities	(4,768)	(4,913)	(44,884)
Net deferred tax assets	¥ 9,921	¥ 9,880	\$ 93,383
Deferred tax liabilities:			
Difference on valuation of assets of consolidated subsidiaries	¥ (8,250)	¥ (8,172)	\$ (77,662)
Net unrealised holding gain on securities	(4,353)	(4,531)	(40,974)
Gain on securities contributed to employee retirement benefit trust	(2,774)	(2,774)	(26,118)
Reserve for deduction in costs of property, plant and equipment	(158)	(167)	(1,493)
Others	(567)	(503)	(5,343)
Total deferred tax liabilities	(16,105)	(16,150)	(151,593)
Offset by deferred tax assets	4,768	4,913	44,884
Net deferred tax liabilities	¥ (11,336)	¥ (11,236)	\$ 106,708

15. INCOME TAXES (continued)

A reconciliation between the statutory tax rate and the effective tax rate reflected in the accompanying consolidated statement of income for the year ended 31 March 2017 is as follows:

	2017
Statutory tax rates	30.8%
Effect of:	
Permanent non-deductible expenses	0.3
Permanent non-taxable income	(0.2)
Per capita portion of inhabitants' tax	0.4
Valuation allowance	(3.6)
Amortisation of goodwill	0.3
Others	(0.1)
Effective tax rates	<u>27.9</u>

A reconciliation between the statutory tax rate and the effective tax rate for the year ended 31 March 2018 is omitted as the effective tax rate in the accompanying consolidated statement of income for the year ended 31 March 2018 differs from the statutory tax rate by less than 5%.

16. OTHER COMPREHENSIVE INCOME (LOSS)

Reclassification adjustments and related income tax effects on components of other comprehensive income (loss) for the years ended 31 March 2018 and 2017 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Net unrealised holding loss on securities:			
Amount arising during the year	¥ 275	¥ 1,684	\$ 2,591
Reclassification adjustments for gain included in profit	<u>(910)</u>	<u>(2,609)</u>	<u>(8,573)</u>
Before tax effect	<u>(635)</u>	<u>(925)</u>	<u>(5,982)</u>
Tax effect	<u>178</u>	<u>(16)</u>	<u>1,682</u>
Total	<u>(456)</u>	<u>(941)</u>	<u>(4,300)</u>
Revaluation reserve for land:			
Amount arising during the year	-	-	-
Reclassification adjustments for gain included in profit	<u>-</u>	<u>-</u>	<u>-</u>
Before tax effect	<u>-</u>	<u>-</u>	<u>-</u>
Tax effect	<u>-</u>	<u>(2,087)</u>	<u>-</u>
Total	<u>-</u>	<u>(2,087)</u>	<u>-</u>
Retirement benefit liability adjustment:			
Amount arising during the year	323	(1,468)	3,047
Reclassification adjustments for loss included in profit	<u>867</u>	<u>476</u>	<u>8,165</u>
Before tax effect	<u>1,191</u>	<u>(992)</u>	<u>11,213</u>
Tax effect	<u>(393)</u>	<u>469</u>	<u>(3,703)</u>
Total	<u>797</u>	<u>(522)</u>	<u>7,510</u>
Share of comprehensive income (loss) of affiliates accounted for using equity method			
Amount arising during the year	8	(2)	81
Other comprehensive income (loss), net	<u>¥ 349</u>	<u>¥ (3,554)</u>	<u>\$ 3,291</u>

17. LEASES

(1) Finance Leases (as Lessee)

Leased assets under finance lease transactions which do not transfer ownership to the lessee mainly consist of machinery, equipment and vehicles, such as buses used for the transportation business.

As described in Note 2 “SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (f) Leased Assets,” leased assets under finance lease transactions which do not transfer ownership to the lessee are capitalised and depreciated over the respective lease terms to a nil residual value by the straight-line method.

Finance lease transactions commencing on or before 31 March 2008 other than those in which the ownership of the leased assets is transferred to the lessee are accounted for in the same manner as operating leases. The details of these finance lease transactions are omitted because the amounts are immaterial.

(2) Operating Leases

Future minimum lease payments under non-cancelable operating leases as at 31 March 2018 and 2017 are as follows:

	Millions of Yen		Thousands of
	2018	2017	U.S. Dollars
Future minimum lease payments:			2018
Due within one year	¥ 1,439	¥ 1,480	\$ 13,550
Due after one year	41,668	4,262	392,214
Total	¥ 43,108	¥ 5,742	\$ 405,764

18. AMOUNTS PER SHARE

	Yen		U.S. Dollars
	2018	2017	2018
Net assets	¥ 2,055.87	¥ 1,870.99	\$ 19.35
Profit attributable to owners of parent:			
Basic	¥ 211.87	¥ 211.01	\$ 1.99
Diluted	¥ 211.85	¥ 211.00	\$ 1.99

The Company executed a share consolidation at a ratio of 1 share for 5 shares on 1 October 2017. Per share information noted above was calculated as if the share consolidation had been implemented at the beginning of the year ended 31 March 2017.

The financial data used in the computation of basic and diluted profit attributable to owners of parent for the years ended 31 March 2018 and 2017 in the table above is summarised as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Profit attributable to owners of parent	¥ 22,712	¥ 22,636	\$ 213,782
	Thousands of shares		
	2018	2017	
Weighted-average number of shares of common stock outstanding	107,197	107,273	
Increase in shares of common stock for the calculation of dilutive effect	11	5	

Potential shares which do not have dilutive effect for the years ended 31 March 2018 and 2017 are euro-yen zero coupon convertible bonds with stock acquisition rights (400 units) in yen, due 30 March 2021 in the aggregate amount of ¥20,000 million (\$188,253 thousand).

19. CASH AND CASH EQUIVALENTS

The balances of cash and deposits reflected in the accompanying consolidated balance sheet as at 31 March 2018 and 2017 are reconciled with cash and cash equivalents presented in the accompanying consolidated statement of cash flows for the years then ended as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Cash and deposits	¥ 20,317	¥ 18,372	\$ 191,239
Time deposits with a maturity of more than three months	(16)	(48)	(155)
Cash and cash equivalents	¥ 20,300	¥ 18,324	\$ 191,084

The Company acquired all shares in Zero Corporation Co., Ltd., which became a newly consolidated subsidiary. Major components of assets and liabilities of the newly consolidated subsidiary due to acquisition of shares, acquisition cost of its shares, and proceeds from the acquisition during the year ended 31 March 2018 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018		2018
Current assets	¥ 9,760		\$ 91,871
Non-current assets	618		5,818
Goodwill	317		2,990
Current liabilities	(6,942)		(65,342)
Non-current liabilities	(2,700)		(25,416)
Acquisition cost of shares	1,054		9,920
Cash and cash equivalents	(1,544)		(14,537)
Proceeds from purchase of shares of a subsidiary resulting in change in scope of consolidation	¥ 490		\$ 4,616

The Company sold all shares in Keihan Life Support Co., Ltd., which was excluded from the scope of consolidation. Major components of assets and liabilities excluded from consolidation due to sales of shares, selling price of its shares, and proceeds from the sales of shares during the year ended 31 March 2018 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018		2018
Current assets	¥ 684		\$ 6,443
Non-current assets	3,885		36,575
Current liabilities	(1,613)		(15,191)
Non-current liabilities	(3,242)		(30,515)
Gain on sale of shares of a subsidiary	3,164		29,785
Incidental costs related to sales of shares	50		479
Selling price of shares	2,929		27,576
Incidental costs related to sales of shares	(50)		(479)
Cash and cash equivalents	(52)		(491)
Proceeds from sales of shares of a subsidiary resulting in change in scope of consolidation	¥ 2,826		\$ 26,606

20. FINANCIAL INSTRUMENTS

(1) Overview

a. Group policy for financial instruments

The Group restricts its investment activities of surplus cash to short-term deposits and others. In terms of financing activities, the Group mainly raises funds by loans from banks and other financial institutions and the issuance of bonds. Derivative transactions are utilised, not for speculative purposes, but to avoid the risks described below.

b. Nature of financial instruments, their related risk and risk management for financial instruments

Trade receivables, such as notes and accounts receivable, are exposed to the credit risk of customers. The Group mitigates the credit risk mainly by managing due dates and outstanding balances by individual customers.

Short-term investments and investment securities mainly consist of held-to-maturity debt securities and equity securities issued by companies with which the Group has business relationships. Since these securities are exposed to the risk of market price fluctuations, the Group regularly monitors the fair value of the securities and financial conditions of the issuers.

Trade payables, such as notes and accounts payable, are mostly due in one year or less.

Proceeds from short-term loans are mainly used for working capital, and proceeds from bonds and long-term loans are mainly used for capital investments. Among them, those to which variable interest rates apply are exposed to the risk of interest rate fluctuations. However, for certain long-term loans, the derivative transactions (such as interest rate swaps) by individual contracts are used as hedging instruments to hedge the risk of fluctuations of interest rates and stabilise interest payments.

Hedge effectiveness is not assessed as the interest rate swaps meet the criteria for application of the special accounting treatment.

Derivative transactions are executed and managed by the treasury department of the Company and three consolidated subsidiaries which utilise derivative instruments upon the approval of the decision-making authority. In addition, the counterparties of the derivative transactions are limited to highly-rated financial institutions in order to mitigate credit risk.

In addition, trade payables and loans are exposed to liquidity risk. However, the Group manages liquidity risk mainly by preparing monthly cash flow management plans.

c. Supplementary explanation on fair value of financial instruments and related matters

The fair value of financial instruments is based on quoted market prices, if available. If a quoted market price is not available, fair value is reasonably estimated. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in different fair value. In addition, the notional amounts of derivatives in Note 21 “DERIVATIVE FINANCIAL INSTRUMENTS” are not necessarily indicative of the actual market risk involved in the derivative transactions.

20. FINANCIAL INSTRUMENTS (continued)

(2) Fair value of financial instruments and related matters

Carrying value, fair value and the difference between them are as follows:

	Millions of Yen		
	2018		
	Carrying value	Fair value	Difference
(1) Cash and deposits	¥ 20,317	¥ 20,317	¥ –
(2) Notes and accounts receivable	31,199	31,199	–
(3) Short-term investments and investment securities:			
Held-to-maturity debt securities	1,828	1,894	65
Other securities	22,938	22,938	–
Total assets	<u>¥ 76,284</u>	<u>¥ 76,350</u>	<u>¥ 65</u>
(4) Notes and accounts payable	11,588	11,588	–
(5) Short-term loans	46,092	46,092	–
(6) Bonds (including current portion)	90,171	92,196	2,025
(7) Long-term loans (including current portion)	180,135	183,883	3,747
Total liabilities	<u>¥ 327,988</u>	<u>¥ 333,761</u>	<u>¥ 5,772</u>
(8) Derivative transactions	¥ –	¥ –	¥ –

	Millions of Yen		
	2017		
	Carrying value	Fair value	Difference
(1) Cash and deposits	¥ 18,372	¥ 18,372	¥ –
(2) Notes and accounts receivable	25,760	25,760	–
(3) Short-term investments and investment securities:			
Held-to-maturity debt securities	1,659	1,738	79
Other securities	23,656	23,656	–
Total assets	<u>¥ 69,449</u>	<u>¥ 69,528</u>	<u>¥ 79</u>
(4) Notes and accounts payable	11,248	11,248	–
(5) Short-term loans	42,474	42,474	–
(6) Bonds (including current portion)	90,237	92,958	2,721
(7) Long-term loans (including current portion)	181,827	186,602	4,775
Total liabilities	<u>¥ 325,788</u>	<u>¥ 333,284</u>	<u>¥ 7,496</u>
(8) Derivative transactions	¥ –	¥ –	¥ –

20. FINANCIAL INSTRUMENTS (continued)

(2) Fair value of financial instruments and related matters (continued)

	Thousands of U.S. Dollars		
	2018		
	Carrying value	Fair value	Difference
(1) Cash and deposits	\$ 191,239	\$ 191,239	\$ –
(2) Notes and accounts receivable	293,671	293,671	–
(3) Short-term investments and investment securities:			
Held-to-maturity debt securities	17,212	17,833	621
Other securities	215,914	215,914	–
Total assets	<u>\$ 718,037</u>	<u>\$ 718,658</u>	<u>\$ 621</u>
(4) Notes and accounts payable	109,078	109,078	–
(5) Short-term loans	433,856	433,856	–
(6) Bonds (including current portion)	848,752	867,813	19,061
(7) Long-term loans (including current portion)	1,695,553	1,730,827	35,274
Total liabilities	<u>\$ 3,087,240</u>	<u>\$ 3,141,576</u>	<u>\$ 54,335</u>
(8) Derivative transactions	\$ –	\$ –	\$ –

Notes:

- Method to determine the estimated fair value of financial instruments and other matters related to securities and derivative transactions

(1) Cash and deposits and (2) Notes and accounts receivable

As these items are settled in a short period of time, their carrying value approximates fair value.

(3) Short-term investments and investment securities

The fair value of equity securities is estimated based on the market price on stock exchanges, and the fair value of debt securities is estimated based on the market price on stock exchanges or the quoted price from the counterparty financial institutions.

(4) Notes and accounts payable and (5) Short-term loans

As these items are settled in a short period of time, their carrying value approximates the fair value.

(6) Bonds

The fair value of bonds issued by the Group is estimated mainly based on the quoted market price.

20. FINANCIAL INSTRUMENTS (continued)

(2) Fair value of financial instruments and related matters (continued)

Notes: (continued)

(7) Long-term loans

As long-term loans with variable interest rates reflect market interest rates in a short period of time, the carrying value approximates the fair value. The fair value of long-term loans with fixed interest rates is estimated based on the present value of the total amounts of principal and interest payments discounted at an interest rate to be applied if similar new loans are made. In terms of long-term loans hedged by interest rate swaps accounted for by the special accounting treatment (see Note 21 “DERIVATIVE FINANCIAL INSTRUMENTS”), the fair value is estimated based on the present value of the total amounts of principal and interest payments which are accounted for by the special accounting treatment discounted by the interest rates to be applied assuming that new loans under similar conditions to the existing loans are made.

(8) Derivative transactions

See Note 21 “DERIVATIVE FINANCIAL INSTRUMENTS.”

2. Financial instruments for which it is extremely difficult to determine the fair value as at 31 March 2018 and 2017 are summarised as follows:

Category	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Unlisted stocks	¥ 8,907	¥ 3,965	\$ 83,844

Because a quoted market price is not available and the future cash flows cannot be reasonably estimated for these instruments, it is extremely difficult to determine their fair value. Therefore, the above financial instruments are not included in the tables above.

3. Investments in unconsolidated subsidiaries and affiliates are not included in the table above.

20. FINANCIAL INSTRUMENTS (continued)

(2) Fair value of financial instruments and related matters (continued)

Notes: (continued)

4. The redemption schedules for cash and deposits, notes and accounts receivable and short-term investments and investment securities with maturities as at 31 March 2018 are as follows:

	Millions of Yen			
	2018			
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and deposits	¥ 18,658	¥ –	¥ –	¥ –
Notes and accounts receivable	31,199	–	–	–
Short-term investments and investment securities:				
Held-to-maturity debt securities				
National and municipal bonds	51	1,406	170	200
Other securities with maturities				
Corporate bonds	–	–	–	300
Total	¥ 49,909	¥ 1,406	¥ 170	¥ 500
	Thousands of U.S. Dollars			
	2018			
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and deposits	\$ 175,626	\$ –	\$ –	\$ –
Notes and accounts receivable	293,671	–	–	–
Short-term investments and investment securities:				
Held-to-maturity debt securities				
National and municipal bonds	480	13,239	1,604	1,882
Other securities with maturities				
Corporate bonds	–	–	–	2,823
Total	\$ 469,778	\$ 13,239	\$ 1,604	\$ 4,706

5. The redemption schedules for short-term loans, bonds and long-term loans as at 31 March 2018

Refer to Note 9. SHORT-TERM LOANS, BONDS AND LONG-TERM LOANS.

21. DERIVATIVE FINANCIAL INSTRUMENTS

The notional amounts and the estimated fair value of the derivative positions outstanding qualifying for hedge accounting as at 31 March 2018 and 2017 are as follows:

		Millions of Yen			
		2018			
		Contractual value			
Hedge accounting method	Transaction type	Major hedged items	Notional amount	Due after 1 year	Fair value
Special accounting treatment of interest rate swaps	Interest rate swap Receive-floating/ pay-fixed	Long-term loans	¥ 2,482	¥ 2,212	(Note)

		Millions of Yen			
		2017			
		Contractual value			
Hedge accounting method	Transaction type	Major hedged items	Notional amount	Due after 1 year	Fair value
Special accounting treatment of interest rate swaps	Interest rate swap Receive-floating/ pay-fixed	Long-term loans	¥ 3,052	¥ 2,482	(Note)

		Thousands of U.S. Dollars			
		2018			
		Contractual value			
Hedge accounting method	Transaction type	Major hedged items	Notional amount	Due after 1 year	Fair value
Special accounting treatment of interest rate swaps	Interest rate swap Receive-floating/ pay-fixed	Long-term loans	\$ 23,362	\$ 20,820	(Note)

Note: Because interest rate swaps are accounted for as if the interest rates applied to the swaps had been originally applied to the long-term loans, their fair value was included in long-term loans.

22. CONTINGENT LIABILITIES

The Company provides guarantees for the borrowings of the following company, which is other than consolidated subsidiaries, as at 31 March 2018 as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2018	2018
Nakanoshima Rapid Railway Co., Ltd.	¥ 22,644	\$ 213,143
Total	¥ 22,644	\$ 213,143

23. ASSET RETIREMENT OBLIGATIONS

(1) General information about asset retirement obligations

Asset retirement obligations included in the “Other” of current and noncurrent liabilities are mainly legal obligations for the removal of asbestos under the Ordinance on Prevention of Asbestos Hazards and the restoration under certain real estate lease agreements.

(2) Basis of measurement for asset retirement obligations

Asset retirement obligations are calculated individually based on individual estimates of the usage period depending on the situation of each asset retirement obligation, and the discount rates of Japanese government bonds at the time of application of the relevant accounting standards or at the time of acquisition of the assets.

(3) Changes in the balance of asset retirement obligations for the years ended 31 March 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. Dollars
	2018	2017	2018
Balance at the beginning of year	¥ 497	¥ 357	\$ 4,680
Increase due to acquisition of property, plant and equipment	41	142	388
Adjustment with passing of time	4	4	40
Decrease due to settlement	(2)	(7)	(19)
Decrease due to changes in estimate (Note)	(23)	–	(223)
Other	(13)	–	(125)
Balance at the end of year	¥ 503	¥ 497	\$ 4,740

Note: As a result of obtaining new information, the amount of asset retirement obligations decreased by ¥23 million (\$223 thousand) for the year ended 31 March 2018, due to a change in the estimated restoration costs to be incurred under real estate lease agreements at the time of vacating stores.

24. SEGMENT INFORMATION

(1) Outline of reportable segments

The Group's reportable segments are divisions of the Group for which separate financial information is available, and whose operating results are regularly reviewed by the Board of Directors of the Company in order to allocate management resources and assess performance of operations.

The Group is engaged in transportation and various other businesses and has five business segments: "Transportation," "Real Estate," "Retail Distribution," "Leisure and Service" and "Others."

"Transportation" involves mainly railway and bus services. "Real Estate" mainly involves sales or leasing of real estate, wholesale of construction materials, and surveying and designing of real estate. "Retail Distribution" involves mainly operations of department stores, other stores, and malls. "Leisure and Service" involves mainly hotel and sightseeing cruise businesses. "Others" involves credit card business.

(2) Calculation method used for operating revenues, income or loss, assets, and other items of each reportable segment

The accounting policies of the reportable segments are substantially the same as those described in Note 2 "SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES."

The segment income or loss is based on the operating income of each reportable segment.

Inter-segment operating revenues or transfers are determined based on market prices.

24. SEGMENT INFORMATION (continued)

- (3) Information about operating revenues, income or loss, assets and other items by reportable segment for the years ended 31 March 2018 and 2017

	Millions of Yen							
	2018							
	Reportable Segments					Total	Adjustments (Note 1)	Consolidated (Note 2)
Transportation	Real Estate	Retail Distribution	Leisure and Service	Others				
Operating revenues:								
External customers	¥ 90,040	¥ 99,993	¥ 100,216	¥ 30,882	¥ 1,140	¥ 322,273	¥ 3	¥ 322,276
Inter-segment operating revenues or transfers	2,222	13,139	492	416	684	16,954	(16,954)	–
Total	¥ 92,262	¥ 113,132	¥ 100,709	¥ 31,298	¥ 1,824	¥ 339,228	¥ (16,951)	¥ 322,276
Segment income	¥ 9,180	¥ 15,316	¥ 2,845	¥ 4,877	¥ 34	¥ 32,254	¥ (795)	¥ 31,458
Segment assets	243,838	366,220	31,049	35,533	7,680	684,322	14,884	699,207
Other items:								
Depreciation and amortisation	11,289	5,017	1,326	1,163	37	18,833	279	19,113
Increase in property, plant and equipment, and intangible assets	14,952	21,345	1,187	1,958	7	39,452	293	39,745

Notes: 1. Details of adjustments are as follows:

- (1) “Adjustments” to “Segment income” represented elimination of inter-segment transactions and profit or loss of the Company not allocated to each reportable segment.
- (2) “Adjustments” to “Segment assets” represented elimination of inter-segment transactions and the Company assets not allocated to each reportable segment. The Company assets amounted to ¥31,884 million (\$300,113 thousand) and principally consist of the Company’s surplus funds (cash and deposits), long-term investment assets (investment securities).
- (3) “Adjustments” to “Increase in property, plant and equipment, and intangible assets” represented the Company assets not allocated to each reportable segment.

2. Segment profit was adjusted to operating income in the consolidated statement of income.

24. SEGMENT INFORMATION (continued)

- (3) Information about operating revenues, income or loss, assets and other items by reportable segment for the years ended 31 March 2018 and 2017 (continued)

	Millions of Yen								
	2017								
	Reportable Segments					Total	Adjustments (Note 1)	Consolidated (Note 2)	
Transportation	Real Estate	Retail Distribution	Leisure and Service	Others					
Operating revenues:									
External customers	¥ 92,202	¥ 80,800	¥ 98,046	¥ 30,741	¥ 1,125	¥ 302,915	¥ 1	¥ 302,917	
Inter-segment operating revenues or transfers	2,202	13,214	446	60	666	16,590	(16,590)	–	
Total	¥ 94,404	¥ 94,014	¥ 98,493	¥ 30,801	¥ 1,792	¥ 319,505	¥ (16,588)	¥ 302,917	
Segment income	¥ 9,976	¥ 14,491	¥ 2,636	¥ 4,755	¥ 74	¥ 31,935	¥ 408	¥ 32,343	
Segment assets	246,368	344,032	30,648	33,826	7,255	662,133	17,498	679,631	
Other items:									
Depreciation and amortisation	10,722	4,732	1,276	1,101	30	17,864	209	18,074	
Increase in property, plant and equipment, and intangible assets	17,690	16,553	2,341	1,877	34	38,498	675	39,173	

Notes: 1. Details of adjustments are as follows:

- (1) “Adjustments” to “Segment income” represented elimination of inter-segment transactions and profit or loss of the Company not allocated to each reportable segment.
- (2) “Adjustments” to “Segment assets” represented elimination of inter-segment transactions and the Company assets not allocated to each reportable segment. The Company assets amounted to ¥34,957 million and principally consist of the Company’s surplus funds (cash and deposits), long-term investment assets (investment securities).
- (3) “Adjustments” to “Increase in property, plant and equipment, and intangible assets” represented the Company assets not allocated to each reportable segment.

2. Segment profit was adjusted to operating income in the consolidated statement of income.

24. SEGMENT INFORMATION (continued)

- (3) Information about operating revenues, income or loss, assets and other items by reportable segment for the years ended 31 March 2018 and 2017 (continued)

	Thousands of U.S. Dollars							
	2018							
	Reportable Segments					Total	Adjustments (Note 1)	Consolidated (Note 2)
Transportation	Real Estate	Retail Distribution	Leisure and Service	Others				
Operating revenues:								
External customers	\$ 847,518	\$ 941,204	\$ 943,304	\$ 290,685	\$ 10,733	\$ 3,033,446	\$ 29	\$ 3,033,475
Inter-segment operating revenues or transfers	20,915	123,675	4,635	3,919	6,442	159,588	(159,588)	–
Total	\$ 868,434	\$ 1,064,880	\$ 947,939	\$ 294,605	\$ 17,176	\$ 3,193,035	\$ (159,559)	\$ 3,033,475
Segment income	\$ 86,415	\$ 144,171	\$ 26,779	\$ 45,911	\$ 320	\$ 303,598	\$ (7,487)	\$ 296,111
Segment assets	2,295,168	3,447,106	292,258	334,466	72,290	6,441,290	140,104	6,581,394
Other items:								
Depreciation and amortisation	106,260	47,228	12,484	10,948	350	177,272	2,632	179,905
Increase in property, plant and equipment, and intangible assets	140,742	200,915	11,177	18,438	74	371,348	2,762	374,110

- (4) Related information

- a. Information by product and service

Information by product and service was omitted because it was the same as that of reportable segment information.

- b. Geographical information

Operating revenues

As revenue located in Japan accounted for more than 90% of revenue recognised in the consolidated statement of income for the years ended 31 March 2018 and 2017, information on revenue by geographical segment was omitted.

Property, plant and equipment

As the balance of property, plant and equipment located in Japan accounted for more than 90% of the balance of property, plant and equipment recognised in the consolidated balance sheet as at 31 March 2018 and 2017, information on property, plant and equipment by geographical segment was omitted.

- c. Information by major customer

As operating revenues to any single external customer do not exceed 10% of operating revenues in the consolidated statement of income, information by major customer was omitted.

24. SEGMENT INFORMATION (continued)

(5) Information about loss on impairment of property, plant and equipment by reportable segment

		Millions of Yen									
		2018									
		Reportable Segments									
		Transportation	Real Estate	Retail Distribution	Leisure and Service	Others	Total	Adjustments	Consolidated		
Impairment losses		¥ 12	¥ -	¥ 44	¥ 5	¥ -	¥ 61	¥ -	¥ 61		

		Millions of Yen									
		2017									
		Reportable Segments									
		Transportation	Real Estate	Retail Distribution	Leisure and Service	Others	Total	Adjustments	Consolidated		
Impairment losses		¥ 132	¥ -	¥ -	¥ 1,266	¥ -	¥ 1,398	¥ (38)	¥ 1,359		

		Thousands of U.S. Dollars									
		2018									
		Reportable Segments									
		Transportation	Real Estate	Retail Distribution	Leisure and Service	Others	Total	Adjustments	Consolidated		
Impairment losses		\$ 113	\$ -	\$ 417	\$ 50	\$ -	\$ 582	\$ -	\$ 582		

(6) Information on amortisation of goodwill and remaining unamortised balance by reportable segment

Information on amortisation of goodwill and remaining unamortised balance by reportable segment as at 31 March 2018 and 2017 and for the years then ended was omitted because the amounts were immaterial.

(7) Information on negative goodwill by reportable segment

There was no gain on negative goodwill recognised for the years ended 31 March 2018 and 2017.

25. RELATED PARTY TRANSACTIONS

Transactions of the Company with related parties as at and for the years ended 31 March 2018 and 2017 are as follows:

Company's unconsolidated subsidiaries and affiliates

2018										
Category	Company name	Location	Capital	Business	Percentage of voting rights	Relationship	Transaction	Transaction amount	Account	Year-end balance
Affiliates	Nakano-shima Rapid Railway Co., Ltd.	Chuo-ku, Osaka	¥26,135 million (\$246,006 thousand)	Railway operations	(Direct voting rights) 33.50%	Reservation of guarantees on loans Holding concurrent position of directors	Guarantees (Note 1)	¥22,644 million (\$213,143 thousand)	–	–
2017										
Category	Company name	Location	Capital	Business	Percentage of voting rights	Relationship	Transaction	Transaction amount	Account	Year-end balance
Affiliates	Nakano-shima Rapid Railway Co., Ltd.	Chuo-ku, Osaka	¥26,135 million	Railway operations	(Direct voting rights) 33.50%	Reservation of guarantees on loans Holding concurrent position of directors	Guarantees (Note 1)	¥23,957 million	–	–

Note: 1. Guarantees are provided for the loans of the affiliate obtained from the Development Bank of Japan and other banks in the amounts of ¥22,644 million (\$213,143 thousand) and ¥23,957 million for the years ended 31 March 2018 and 2017, respectively.

26. BUSINESS COMBINATION

(i) Business Divestiture

1. Summary

1) Names of the parties to whom the Company transferred the divested business

The Kansai Electric Power Co., Inc.
KANDEN Security of Society, Inc.

2) Business being divested

(a) Name of the former operator of businesses

Keihan Life Support Co., Ltd., which was a consolidated subsidiary of the Company

(b) Business description

Home-visit nursing care business, day care nursing business, and senior citizen facility business

26. BUSINESS COMBINATION (continued)

(i) Business Divestiture (continued)

1. Summary (continued)

3) Reason for business divestiture

The Group shifted to a holding company structure on 1 April 2016 and set up the creation of sightseeing spots, revitalisation of areas along the Keihan railway lines and contents creation as its main strategies, and it has been promoting “implementation of cross-sectional strategies of group businesses”, “creation of new business models” and “effective allocation of management resources.”

Under such circumstances, in order to respond to changes in society promptly and to improve the Group’s business quality, comprehensively considering the effective allocation of management resources and synergies among the Group, the Company concluded that transferring the nursing care business to the Kansai Electric Power Group, which is attempting further advancement of the business, is the best way for improving value of areas along railway lines in the future.

4) Date of business divestiture

26 April 2017

5) Other items on summary of transaction including legal form of business divestiture

Transfer of shares for a cash consideration

2. Outline of accounting treatment

1) Amount of gain on business transfer

Gain on sale of shares of a subsidiary ¥3,164 million (\$29,785 thousand)

2) Assets and liabilities transferred as at the date of business divestiture are as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2018	2018
Current assets	¥ 684	\$ 6,443
Non-current assets	3,885	36,575
Total assets	4,570	43,018
Current liabilities	1,613	15,191
Non-current liabilities	3,242	30,515
Total liabilities	¥ 4,855	\$ 45,707

3) Accounting treatment

The difference amount between the book value of shares of the subsidiary in the consolidated financial statements and the sales price was accounted for as gain on sale of shares of a subsidiary.

3. Reportable segment to which the divested business belonged

Transportation

26. BUSINESS COMBINATION (continued)

(i) Business Divestiture (continued)

4. The estimate amount of profit or loss attributable to the operations of the divested business, which is accounted for in the consolidated statement of income for the year ended 31 March 2018.

The Company deems that the business divestiture was executed at the beginning date of the year ended 31 March 2018. Accordingly, the profit or loss attributable to the operations of the divested business is not included in the consolidated statement of income for the year ended 31 March 2018.

(ii) Acquisition of a subsidiary

1. Summary

1) Name of acquired company and business description

- | | |
|------------------------------|---|
| (a) Name of acquired company | Zero Corporation Co., Ltd. |
| (b) Business description | Ready-built housing business, order-made building business and others |

2) Reason for share acquisition

The Company expects to propose various other forms of town creation in addition to the large-scale development in the Keihan Group by expanding to areas along the Keihan Railway lines utilizing the know-how of Zero Corporation related to existing developed areas.

3) Date of business combination

3 July 2017

4) Legal form of business combination

Share acquisition for a cash consideration

5) Name of acquired company after acquisition

No change

6) Shareholding ratio after acquisition

100%

7) Determination of the acquirer

The Company has acquired 100% of shares of Zero Corporation Co., Ltd. through a share acquisition for a cash consideration.

2. Period for which profit or loss of the acquired company is included in the Company's consolidated statement of income for the fiscal year ended 31 March 2018.

From 1 July 2017 to 31 March 2018

26. BUSINESS COMBINATION (continued)

(ii) Acquisition of a subsidiary (continued)

3. Acquisition cost

	Millions of Yen	Thousands of U.S. Dollars
	2018	2018
Cash consideration	¥ 1,054	\$ 9,920
Acquisition cost	¥ 1,054	\$ 9,920

4. Details and amount of major acquisition-related costs

Advisory fee etc. ¥43 million (\$406 thousand)

5. Amount of goodwill recognised arising from the acquisition, reason for recognition, and amortisation method and period

(a) Amount of goodwill arising from this acquisition

¥317 million (\$2,990 thousand)

(b) Reason for recognition

Goodwill resulted from the acquiree's excess earning power that the Company expects to realise in business operations in the future.

(c) Amortisation method and period

Straight-line method for 3 years

6. The amounts and major breakdown of assets acquired and liabilities assumed on the acquisition date

	Millions of Yen	Thousands of U.S. Dollars
	2018	2018
Current assets	¥ 9,760	\$ 91,871
Non-current assets	618	5,818
Total assets	10,378	97,689
Current liabilities	6,942	65,342
Non-current liabilities	2,700	25,416
Total liabilities	¥ 9,642	\$ 90,759

7. Approximate amount of impact on the consolidated statement of income for the year ended 31 March 2018 assuming that the business combination was completed at the beginning of the fiscal year ended 31 March 2018, and the calculation method.

The disclosure has been omitted because the estimated impact is immaterial.

27. SUBSEQUENT EVENT

There was no significant subsequent event.