

## 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 2019, 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 2019, 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 2019  
Osaka, Japan

**Consolidated Balance Sheet**  
**Keihan Holdings Co., Ltd. and Consolidated Subsidiaries**  
**31 March 2019**

<b>ASSETS</b>	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
<b>CURRENT ASSETS:</b>			
Cash and deposits (Notes 20 and 21)	¥ 21,385	¥ 20,317	\$ 192,675
Notes and accounts receivable (Note 21)	31,189	31,199	281,009
Short-term investments (Notes 5 and 21)	809	51	7,289
Land and buildings for sale	112,710	105,070	1,015,505
Inventories	1,813	1,772	16,339
Other	12,440	10,099	112,083
Allowance for doubtful accounts	(267)	(243)	(2,407)
Total current assets	180,080	168,266	1,622,496
<b>PROPERTY, PLANT AND EQUIPMENT (Note 6):</b>			
Buildings and structures, net (Notes 7, 9 and 15)	207,375	193,388	1,868,419
Machinery, equipment and vehicles, net (Notes 9 and 18)	17,686	16,672	159,352
Land (Notes 7, 8, 9 and 15)	218,789	217,866	1,971,254
Construction in progress	19,272	19,065	173,645
Other, net (Note 9)	10,397	8,632	93,679
Total property, plant and equipment, net	473,522	455,624	4,266,351
<b>INTANGIBLE ASSETS</b>	9,210	9,267	82,980
<b>INVESTMENTS AND OTHER ASSETS:</b>			
Investment securities (Notes 5, 9 and 21)	45,362	43,676	408,703
Long-term loans receivable	539	689	4,860
Deferred tax assets (Notes 4 and 16)	9,904	9,500	89,233
Assets for retirement benefits (Note 12)	1,072	704	9,666
Other	12,331	11,340	111,106
Allowance for doubtful accounts	(272)	(283)	(2,457)
Total investments and other assets	68,937	65,627	621,112
<b>TOTAL ASSETS (Notes 4 and 25)</b>	¥ 731,750	¥ 698,786	\$ 6,592,941

**Consolidated Balance Sheet (continued)**  
**Keihan Holdings Co., Ltd. and Consolidated Subsidiaries**  
**31 March 2019**

LIABILITIES AND NET ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
<b>CURRENT LIABILITIES:</b>			
Notes and accounts payable (Notes 9 and 21)	¥ 11,544	¥ 11,588	\$ 104,014
Short-term loans and current portion of long-term loans (Notes 9, 10, 11 and 21)	96,076	80,202	865,634
Current portion of bonds (Notes 10 and 21)	10,045	10,045	90,511
Income taxes payable (Note 16)	5,505	4,524	49,603
Advances received	8,439	7,521	76,039
Provision for employees' bonuses	2,867	2,555	25,839
Provision for unutilised gift tickets	634	565	5,717
Other	43,196	44,596	389,188
Total current liabilities	178,310	161,600	1,606,548
<b>NONCURRENT LIABILITIES:</b>			
Bonds (Notes 10 and 21)	90,059	80,125	811,420
Long-term loans (Notes 9, 10, 21 and 22)	138,164	146,026	1,244,838
Long-term payables - other	442	536	3,982
Deferred tax liabilities (Note 4 and 16)	9,110	10,915	82,082
Deferred tax liabilities for land revaluation (Notes 8 and 16)	33,047	33,137	297,751
Accrued retirement benefits for directors and audit and supervisory board members	297	345	2,680
Liability for retirement benefits (Note 12)	18,360	18,790	165,426
Other (Note 24)	25,262	23,749	227,606
Total noncurrent liabilities	314,744	313,626	2,835,789
Total liabilities	493,055	475,226	4,442,338
<b>COMMITMENTS AND CONTINGENT LIABILITIES (Note 23)</b>			
<b>NET ASSETS (Note 13) :</b>			
Common stock:			
Authorised, 319,177,200 shares as at 31 March 2019 and 2018;	51,466	51,466	463,703
Issued, 113,182,703 shares as at 31 March 2019 and 2018			
Capital surplus	28,789	28,787	259,390
Retained earnings	134,559	117,384	1,212,354
Treasury stock, at cost, 5,994,904 shares as at 31 March 2019, and 5,989,571 shares as at 31 March 2018	(21,626)	(21,603)	(194,849)
Total shareholders' equity	193,189	176,033	1,740,599
Accumulated other comprehensive income:			
Net unrealised holding gain on securities	8,191	10,787	73,803
Revaluation reserve for land (Note 8)	36,373	36,088	327,722
Foreign currency translation adjustments	(20)	6	(189)
Retirement benefit liability adjustment (Note 12)	(2,597)	(2,540)	(23,402)
Total accumulated other comprehensive income, net	41,946	44,341	377,933
Stock acquisition rights	75	44	678
Non-controlling interests	3,484	3,139	31,391
Total net assets	238,695	223,559	2,150,603
<b>TOTAL LIABILITIES AND NET ASSETS</b>	¥ 731,750	¥ 698,786	\$ 6,592,941

See accompanying notes to consolidated financial statements.

**Consolidated Statement of Income**  
**Keihan Holdings Co., Ltd. and Consolidated Subsidiaries**  
**Year Ended 31 March 2019**

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
<b>REVENUES (Notes 7 and 25)</b>	¥ 326,159	¥ 322,276	\$ 2,938,636
<b>OPERATING EXPENSES:</b>			
Transportation, other service expenses and cost of sales (Note 14)	249,885	248,780	2,251,419
Selling, general and administrative expenses (Notes 7 and 13)	42,558	42,037	383,442
Total operating expenses	292,443	290,817	2,634,862
Operating income (Note 25)	33,715	31,458	303,774
<b>OTHER INCOME (EXPENSES):</b>			
Interest and dividend income	937	854	8,443
Interest expense	(2,401)	(2,561)	(21,633)
Loss on impairment of property, plant and equipment (Notes 7, 15 and 25)	(1,333)	(61)	(12,013)
Shares of loss of affiliates, net	(85)	(59)	(773)
Gain on contribution received for construction	318	516	2,866
Subsidies	1,366	1,473	12,308
Compensation income	132	—	1,189
Gain on sales of investment securities, net (Note 5)	1,922	916	17,324
Loss on sales or disposal of property, plant and equipment, net (Note 7)	(869)	(711)	(7,832)
Loss on deduction of contributions received for construction from acquisition costs of property, plant and equipment	(862)	(1,042)	(7,772)
Gain on sale of shares of subsidiaries	—	3,179	—
Loss on valuation of shares of subsidiaries	—	(310)	—
Compensation for damage	—	(152)	—
Insurance income related to disaster	210	—	1,896
Loss on disaster	(936)	—	(8,439)
Other, net	(64)	185	(586)
Other (expenses) income, net	(1,666)	2,225	(15,019)
<b>PROFIT BEFORE INCOME TAXES</b>	<b>32,048</b>	<b>33,684</b>	<b>288,755</b>
<b>INCOME TAXES (Note 16):</b>			
Current	11,322	10,701	102,014
Deferred	(1,160)	(27)	(10,454)
Total income taxes	10,162	10,674	91,560
<b>PROFIT</b>	<b>21,886</b>	<b>23,009</b>	<b>197,195</b>
<b>PROFIT ATTRIBUTABLE TO:</b>			
Non-controlling interests	405	297	3,656
Owners of parent	¥ 21,480	¥ 22,712	\$ 193,538

See accompanying notes to consolidated financial statements.

**Consolidated Statement of Comprehensive Income**  
**Keihan Holdings Co., Ltd. and Consolidated Subsidiaries**  
**Year Ended 31 March 2019**

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
<b>PROFIT</b>	¥ <b>21,886</b>	¥ 23,009	<b>\$ 197,195</b>
<b>OTHER COMPREHENSIVE (LOSS) INCOME (Note 17):</b>			
Net unrealised holding loss on securities	(2,627)	(456)	(23,669)
Retirement benefit liability adjustment	(56)	797	(509)
Share of other comprehensive (loss) income of affiliates accounted for using the equity method	(27)	8	(245)
Total other comprehensive (loss) income	(2,710)	349	(24,423)
<b>COMPREHENSIVE INCOME</b>	¥ <b>19,175</b>	¥ 23,359	<b>\$ 172,771</b>
<b>COMPREHENSIVE INCOME ATTRIBUTABLE TO:</b>			
Owners of parent	¥ <b>18,801</b>	¥ 23,039	<b>\$ 169,393</b>
Non-controlling interests	<b>374</b>	319	<b>3,377</b>

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 2019

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 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
Reversal of revaluation reserve for land	—	—	(504)	—	(504)	—	—	—	—	—	—	—	(504)
Change in treasury shares of parent arising from transactions with non-controlling interests	—	5	—	—	5	—	—	—	—	—	—	—	5
Purchase of treasury stock	—	—	—	(36)	(36)	—	—	—	—	—	—	—	(36)
Disposal of treasury stock	—	(0)	—	13	12	—	—	—	—	—	—	—	12
Net changes in items other than shareholders' equity	—	—	—	—	—	(479)	504	8	797	831	16	282	1,130
<b>BALANCE at 1 APRIL 2018</b>	<b>51,466</b>	<b>28,787</b>	<b>117,384</b>	<b>(21,603)</b>	<b>176,033</b>	<b>10,787</b>	<b>36,088</b>	<b>6</b>	<b>(2,540)</b>	<b>44,341</b>	<b>44</b>	<b>3,139</b>	<b>223,559</b>
Cash dividends	—	—	(4,019)	—	(4,019)	—	—	—	—	—	—	—	(4,019)
Profit attributable to owners of parent for the period	—	—	21,480	—	21,480	—	—	—	—	—	—	—	21,480
Reversal of revaluation reserve for land	—	—	(285)	—	(285)	—	—	—	—	—	—	—	(285)
Change in scope of consolidation	—	—	(0)	—	(0)	—	—	—	—	—	—	—	(0)
Change in treasury shares of parent arising from transactions with non-controlling interests	—	2	—	—	2	—	—	—	—	—	—	—	2
Purchase of treasury stock	—	—	—	(23)	(23)	—	—	—	—	—	—	—	(23)
Disposal of treasury stock	—	0	—	0	0	—	—	—	—	—	—	—	0
Net changes in items other than shareholders' equity	—	—	—	—	—	(2,596)	285	(27)	(56)	(2,394)	30	344	(2,019)
<b>BALANCE at 31 MARCH 2019</b>	<b>¥ 51,466</b>	<b>¥ 28,789</b>	<b>¥ 134,559</b>	<b>¥ (21,626)</b>	<b>¥ 193,189</b>	<b>¥ 8,191</b>	<b>¥ 36,373</b>	<b>¥ (20)</b>	<b>¥ (2,597)</b>	<b>¥ 41,946</b>	<b>¥ 75</b>	<b>¥ 3,484</b>	<b>¥ 238,695</b>

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 2018	\$ 463,703	\$ 259,366	\$ 1,057,609	\$ (194,647)	\$ 1,586,032	\$ 97,193	\$ 325,150	\$ 56	\$ (22,892)	\$ 399,507	\$ 403	\$ 28,286	\$ 2,014,230
Cash dividends	—	—	(36,216)	—	(36,216)	—	—	—	—	—	—	—	(36,216)
Profit attributable to owners of parent for the period	—	—	193,538	—	193,538	—	—	—	—	—	—	—	193,538
Reversal of revaluation reserve for land	—	—	(2,571)	—	(2,571)	—	—	—	—	—	—	—	(2,571)
Change in scope of consolidation	—	—	(5)	—	(5)	—	—	—	—	—	—	—	(5)
Change in treasury shares of parent arising from transactions with non-controlling interests	—	22	—	—	22	—	—	—	—	—	—	—	22
Purchase of treasury stock	—	—	—	(207)	(207)	—	—	—	—	—	—	—	(207)
Disposal of treasury stock	—	0	—	6	6	—	—	—	—	—	—	—	6
Net changes in items other than shareholders' equity	—	—	—	—	—	(23,390)	2,571	(245)	(509)	(21,573)	274	3,104	(18,194)
<b>BALANCE at 31 MARCH 2019</b>	<b>\$ 463,703</b>	<b>\$ 259,390</b>	<b>\$ 1,212,354</b>	<b>\$ (194,849)</b>	<b>\$ 1,740,599</b>	<b>\$ 73,803</b>	<b>\$ 327,722</b>	<b>\$ (189)</b>	<b>\$ (23,402)</b>	<b>\$ 377,933</b>	<b>\$ 678</b>	<b>\$ 31,391</b>	<b>\$ 2,150,603</b>

See accompanying notes to consolidated financial statements.

**Consolidated Statement of Cash Flows**  
**Keihan Holdings Co., Ltd. and Consolidated Subsidiaries**  
**Year Ended 31 March 2019**

Thousands of  
U.S. Dollars  
(Note 1)

	Millions of Yen		2019
	2019	2018	
<b>OPERATING ACTIVITIES:</b>			
Profit before income taxes	¥ 32,048	¥ 33,684	\$ 288,755
Adjustments for:			
Depreciation and amortisation	20,228	19,512	182,253
Loss on impairment of property, plant and equipment	1,333	61	12,013
Loss on sales or disposal of property, plant and equipment, net	358	677	3,230
Loss on deduction of contributions received for construction from acquisition costs of property, plant and equipment	862	1,042	7,772
Gain on contribution received for construction	(318)	(516)	(2,866)
Loss on valuation of shares of subsidiaries	—	310	—
Gain on sales of shares of subsidiaries	—	(3,179)	—
Gain on sales of investment securities	(1,916)	(916)	(17,268)
Share of loss of affiliates, net	85	59	773
Interest and dividend income	(937)	(854)	(8,443)
Interest expense	2,401	2,561	21,633
Increase (decrease) in allowance for doubtful accounts	12	(269)	116
Increase (decrease) in provision for employees' bonuses	312	(94)	2,814
Increase (decrease) in liability for retirement benefits	104	(404)	942
Increase in assets for retirement benefits	(975)	(109)	(8,792)
Decrease (increase) in trade receivables	406	(5,600)	3,662
(Increase) decrease in inventories	(7,042)	8,159	(63,453)
Increase in trade payables	97	1,039	882
Other, net	1,169	3,223	10,538
Subtotal	48,232	58,388	434,564
Interest and dividend income received	939	854	8,460
Interest expenses paid	(2,394)	(2,628)	(21,577)
Income taxes paid	(10,303)	(12,175)	(92,830)
Net cash provided by operating activities	36,473	44,438	328,616
<b>INVESTING ACTIVITIES:</b>			
Decrease in time deposits, net	9	140	82
Purchase of property, plant and equipment	(43,329)	(41,018)	(390,390)
Proceeds from sales of property, plant and equipment	502	8,637	4,531
Proceeds from contribution received for construction	315	140	2,841
Purchase of investment securities	(5,867)	(5,251)	(52,867)
Proceeds from sales of investment securities	2,353	1,022	21,202
Proceeds from purchase of shares of subsidiaries			
resulting in change in scope of consolidation (Note 20)	—	490	—
Proceeds from sales of shares of subsidiaries			
resulting in change in scope of consolidation (Note 20)	—	2,826	—
Decrease in loans receivable	37	1,911	334
Other, net	(2,079)	(1,503)	(18,740)
Net cash used in investing activities	(48,059)	(32,603)	(433,006)
<b>FINANCING ACTIVITIES:</b>			
Increase (decrease) in short-term loans, net	2,400	(1,655)	21,630
Proceeds from long-term loans	44,923	30,781	404,748
Repayments of long-term loans	(39,310)	(34,595)	(354,184)
Proceeds from issuance of bonds	19,862	—	178,958
Redemption of bonds	(10,045)	(45)	(90,511)
Cash dividends paid	(4,012)	(3,218)	(36,149)
Dividends paid to non-controlling interests	(26)	(15)	(235)
Purchase of treasury stock	(23)	(36)	(207)
Other, net	(1,112)	(1,071)	(10,021)
Net cash used in financing activities	12,655	(9,858)	114,026
Net increase in cash and cash equivalents	1,069	1,976	9,636
Cash and cash equivalents at beginning of year	20,300	18,324	182,906
Increase in cash and cash equivalents from newly consolidated subsidiary	7	—	66
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 20)</b>	<b>¥ 21,377</b>	<b>¥ 20,300</b>	<b>\$ 192,609</b>

See accompanying notes to consolidated financial statements.

## Keihan Holdings Co., Ltd. and Consolidated Subsidiaries

### Notes to Consolidated Financial Statements Year Ended 31 March 2019

#### 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 (“IFRS”).

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 ¥110.99 to \$1, the approximate rate of exchange at 31 March 2019. 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, operating revenue, 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 years ended 31 March 2018 and 2019.



## 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 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. Provision for Employees' Bonuses* - Provision 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

*(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.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### n. *Hedge Accounting (continued)*

#### (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

- Accounting Standard and Implementation Guidance for Revenue Recognition

### (1) Summary

On 30 March 2018, the Accounting Standards Board of Japan (hereinafter referred to as 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 is being applied from fiscal years starting on or after 1 January 2018 and Topic 606 is being 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 common in Japan.

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

#### **(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. CHANGE IN PRESENTATION**

- Partial Amendments to Accounting Standard for Tax Effect Accounting

The Company and its consolidated subsidiaries have adopted “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No.28, 16 February 2018) (hereinafter, the Partial Amendments”) from the beginning of the fiscal year ended 31 March 2019. As such, deferred tax assets and deferred tax liabilities are included within investments and other assets and noncurrent liabilities, respectively, and related income tax disclosures have been expanded.

As a result, in the consolidated balance sheet as of 31 March 2018, deferred tax assets in current assets have decreased by ¥3,223 million, and deferred tax assets in investments and other assets have increased by ¥2,802 million, and deferred tax liabilities in noncurrent liabilities have decreased by ¥420 million. Also, as deferred tax assets and deferred tax liabilities under the same taxable entity are offset, total assets have decreased by ¥420 million in comparison with the amount before the change.

## 5. 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 2019 and 2018.

	Millions of Yen		
	2019		
	Carrying value	Fair value	Difference
Securities with fair value exceeding carrying value:			
National and municipal bonds	¥ 176	¥ 183	¥ 7
Corporate bonds	1,400	1,439	38
Total	¥ 1,577	¥ 1,623	¥ 45

	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

	Thousands of U.S. Dollars		
	2019		
	Carrying value	Fair value	Difference
Securities with fair value exceeding carrying value:			
National and municipal bonds	\$ 1,591	\$ 1,656	\$ 64
Corporate bonds	12,618	12,966	348
Total	\$ 14,210	\$ 14,623	\$ 412

## 5. 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 2019 and 2018.

	Millions of Yen		
	2019		
	Carrying value	Acquisition cost	Difference
Securities with carrying value exceeding acquisition cost:			
Equity securities	¥ 16,854	¥ 5,625	¥ 11,229
Other	1,556	1,209	346
Sub total	18,410	6,835	11,575
Securities with carrying value not exceeding acquisition cost:			
Equity securities	60	69	(9)
Debt securities	300	300	–
Sub total	360	369	(9)
Total	¥ 18,771	¥ 7,204	¥ 11,566

	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

## 5. SHORT-TERM INVESTMENTS AND INVESTMENT SECURITIES (continued)

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

	Thousands of U.S. Dollars		
	<b>2019</b>		
	Carrying value	Acquisition cost	Difference
Securities with carrying value exceeding acquisition cost:			
Equity securities	\$ 151,856	\$ 50,683	\$ 101,172
Other	14,022	10,900	3,122
Sub total	<u>165,878</u>	<u>61,584</u>	<u>104,294</u>
Securities with carrying value not exceeding acquisition cost:			
Equity securities	544	626	(82)
Debt securities	2,702	2,702	–
Sub total	<u>3,247</u>	<u>3,329</u>	<u>(82)</u>
Total	<u>\$ 169,126</u>	<u>\$ 64,913</u>	<u>\$ 104,212</u>

Unlisted equity securities with a carrying value of ¥14,573 million (\$131,302 thousand) and ¥8,907 million as at 31 March 2019 and 2018, 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 2019 and 2018. Gain on sales are included in gain on sales of investment securities, net and loss on sales are included in other , net in other income (expenses) in the consolidated statement of income, respectively.

	Millions of Yen		
	<b>2019</b>		
	Proceeds	Gain on sale	Loss on sale
Equity securities	¥ 2,353	¥ 1,922	¥ 6

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

	Thousands of U.S. Dollars		
	<b>2019</b>		
	Proceeds	Gain on sale	Loss on sale
Equity securities	\$ 21,202	\$ 17,324	\$ 55

## 5. SHORT-TERM INVESTMENTS AND INVESTMENT SECURITIES (continued)

### (4) Investments in unconsolidated subsidiaries and affiliates

Investments in unconsolidated subsidiaries and affiliates as at 31 March 2019 and 2018 consisted of the following:

	Millions of Yen		Thousands of
	2019	2018	U.S. Dollars
Investments in unconsolidated subsidiaries and affiliates	¥ 11,249	¥ 10,052	\$ 101,354

## 6. PROPERTY, PLANT AND EQUIPMENT

Accumulated depreciation included in property, plant and equipment as at 31 March 2019 and 2018 amounted to ¥454,172 million (\$4,092,009 thousand) and ¥444,658 million, respectively.

Accumulated contributions deducted from the acquisition costs of property, plant and equipment as at 31 March 2019 and 2018 amounted to ¥180,953 million (\$1,630,361 thousand) and ¥181,199 million, respectively.

## 7. 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 2019, rental income, net of related expenses, relevant to these properties amounted to ¥10,640 million (\$95,865 thousand) and loss on impairment of these properties was recognised in the amount of ¥1,171 million (\$10,551 thousand).

For the year ended 31 March 2018, rental income, net of related expenses, relevant to these properties amounted to ¥9,967 million and net gain on sales of these properties amounted to ¥232 million.

Rental 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 Loss on sales or disposal of property, plant and equipment, net and Loss on impairment of property, plant and equipment, respectively, in other income (expenses) in the consolidated statement of income.



## 7. RENTAL PROPERTIES (continued)

Movements in the carrying value during the years ended 31 March 2019 and 2018, and the fair value of the rental properties as at 31 March 2019 and 2018 are as follows:

Millions of Yen			
<b>2019</b>			
Carrying value			Fair value
1 April 2018	Net change	31 March 2019	31 March 2019
¥ 158,763	¥ (6,717)	¥ 152,046	¥ 225,909

Millions of Yen			
<b>2018</b>			
Carrying value			Fair value
1 April 2017	Net Change	31 March 2018	31 March 2018
¥ 162,652	¥ (3,889)	¥ 158,763	¥ 218,788

Thousands of U.S. Dollars			
<b>2019</b>			
Carrying value			Fair value
1 April 2018	Net Change	31 March 2019	31 March 2019
\$ 1,430,429	\$ (60,522)	\$ 1,369,907	\$ 2,035,405

- Notes: 1. Carrying value recognised in the consolidated balance sheet represents the acquisition cost less accumulated depreciation and accumulated loss on impairment.
2. The main components of net changes in the carrying value during the years ended 31 March 2019 and 2018 are the decrease due to changes of holding purpose of properties of ¥4,857 million (\$43,776 thousand) and the decrease due to the sales of real estate of ¥5,346 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.

## 8. 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

## 9. PLEDGED ASSETS

Assets pledged as collateral and the corresponding liabilities as at 31 March 2019 are summarised as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	2019		2019	
	Total	The Group's Railway foundation mortgage	Total	The Group's Railway foundation mortgage
Assets pledged as collateral:				
Buildings and structures	¥ 64,282	¥( 64,072 )	\$ 579,175	\$( 577,277 )
Machinery, equipment and vehicles	14,562	( 14,562 )	131,209	( 131,209 )
Land	53,676	( 53,627 )	483,619	( 483,171 )
Other property, plant and equipment	953	( 953 )	8,587	( 8,587 )
Investment securities	800	( - )	7,207	( - )
Total	¥ 134,275	¥( 133,215 )	\$ 1,209,800	\$( 1,200,246 )
	Millions of Yen		Thousands of U.S. Dollars	
	2019		2019	
	Total	The Group's Railway foundation mortgage	Total	The Group's Railway foundation mortgage
Corresponding liabilities:				
Accounts payables	¥ 58	¥( - )	\$ 529	\$( - )
Long-term loans (including current portion of long-term loans)	55,376	( 55,224 )	498,928	( 497,559 )
Total	¥ 55,434	¥( 55,224 )	\$ 499,457	\$( 497,559 )

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

## 10. SHORT-TERM LOANS, BONDS AND LONG-TERM LOANS

The average interest rate applicable to the short-term bank loans, which is calculated as the weighted-average rate to the year end balances, was 0.526% for the years ended 31 March 2019 and 2018.

Long-term debt as at 31 March 2019 and 2018 is summarised as follows:

### Bonds

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Euro-yen zero coupon unsecured convertible bonds with stock acquisition rights in yen, due 30 March 2021	¥ 20,039	¥ 20,059	\$ 180,556
Unsecured Keihan Holdings bonds, payable in yen at rates ranging from 0.34% to 1.89%, due from 2020 through 2038	80,000	70,000	720,785
Unsecured Keifuku Electric Railroad bonds, payable in yen at rate of 0.210%, due 30 September 2020	65	111	591
Total	100,105	90,171	901,932
Less current portion	(10,045)	(10,045)	(90,511)
Bonds, less current portion	¥ 90,059	¥ 80,125	\$ 811,420

The aggregate annual maturities of bonds subsequent to 31 March 2019 are summarised as follows:

Year ending 31 March,	Millions of Yen	Thousands of U.S. Dollars
2020	¥ 10,045	\$ 90,511
2021	20,019	180,373
2022	10,000	90,098
2023	10,000	90,098
2024	10,000	90,098
2025 and thereafter	40,039	360,752
Total	¥ 100,105	\$ 901,932

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 ¥5,307.1 (\$47.81) per share in the period from 13 April 2016 to 16 March 2021 subject to adjustment in certain circumstances.

From 1 April 2019, these bonds are convertible at ¥5,301.2 (\$47.76). The price was adjusted pursuant to the clauses on price adjustment of the bonds because the proposal on dividend per share of ¥17.5 (\$0.15) was approved at the 97th Ordinary General Meeting of Shareholders held on 19 June 2019.

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

### Long-term loans

	Millions of Yen		Thousands of U.S. Dollars
	<u>2019</u>	<u>2018</u>	<u>2019</u>
Loans from banks and other financial institutions, due serially from 2020 to 2039 at weighted-average rates ranging from 0.516% to 0.727%	¥ 185,747	¥ 180,135	\$ 1,673,553
Less current portion	<u>(47,583)</u>	<u>(34,109)</u>	<u>(428,714)</u>
Long-term loans, less current portion	<u>¥ 138,164</u>	<u>¥ 146,026</u>	<u>\$ 1,244,838</u>

The aggregate annual maturities of long-term loans subsequent to 31 March 2019 are summarised as follows:

Year ending 31 March,	Millions of Yen	Thousands of U.S. Dollars
2020	¥ 47,583	\$ 428,714
2021	33,438	301,273
2022	8,133	73,277
2023	21,329	192,175
2024	9,593	86,438
2025 and thereafter	65,669	591,673
Total	<u>¥ 185,747</u>	<u>\$ 1,673,553</u>

## 11. OVERDRAFT AND LOAN COMMITMENTS

The Company and 16 consolidated subsidiaries entered into overdraft and loan commitment agreements with 19 banks for efficient funding of working capital as at 31 March 2019.

The unused portions of the credit line under these agreements as at 31 March 2019 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
	<u>2019</u>	<u>2019</u>
Total overdraft limits and loan commitments	¥ 90,692	\$ 817,123
Loan executions	<u>(44,252)</u>	<u>(398,708)</u>
Unused credit line	<u>¥ 46,439</u>	<u>\$ 418,414</u>

## 12. 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 2019 and 2018 (except for the retirement benefit obligation calculated by the simplified method presented in (3) below) are as follows:

	Millions of Yen		Thousands of
	2019	2018	U.S. Dollars
Balance at the beginning of year	¥ 33,548	¥ 34,444	\$ 302,262
Service costs	1,280	1,332	11,539
Interest cost	86	91	778
Actuarial (loss) gain	(563)	21	(5,079)
Retirement benefits paid	(2,371)	(2,341)	(21,371)
Balance at the end of year	¥ 31,979	¥ 33,548	\$ 288,129

- (2) The changes in plan assets for the years ended 31 March 2019 and 2018 (except for plan assets calculated by the simplified method presented in (3) below) are as follows:

	Millions of Yen		Thousands of
	2019	2018	U.S. Dollars
Balance at the beginning of year	¥ 17,690	¥ 16,841	\$ 159,391
Expected return on plan assets	295	282	2,663
Actuarial (gain) loss	(605)	344	(5,454)
Contributions by the Group	705	1,374	6,353
Retirement benefits paid	(1,155)	(1,152)	(10,414)
Balance at the end of year	¥ 16,930	¥ 17,690	\$ 152,539

## 12. 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 2019 and 2018 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Balance at the beginning of year	¥ 2,228	¥ 2,141	\$ 20,074
Retirement benefit expenses	253	275	2,285
Retirement benefits paid	(178)	(173)	(1,605)
Contributions to pension plans	(64)	(61)	(585)
Increase due to consolidation of a new subsidiary	–	45	–
Balance at the end of year	¥ 2,238	¥ 2,228	\$ 20,169

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 2019 and 2018 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Funded retirement benefit obligation	¥ 15,099	¥ 15,850	\$ 136,047
Plan assets at fair value	(17,523)	(18,255)	(157,885)
	(2,423)	(2,404)	(21,837)
Unfunded retirement benefit obligation	19,711	20,490	177,597
Net liability for retirement benefits	17,287	18,085	155,759
Liability for retirement benefits	18,360	18,790	165,426
Asset for retirement benefits	(1,072)	(704)	(9,666)
Net liability for retirement benefits	¥ 17,287	¥ 18,085	\$ 155,759

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

## 12. RETIREMENT BENEFITS (continued)

- (5) The components of retirement benefit expenses for the years ended 31 March 2019 and 2018 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Service costs	¥ 1,280	¥ 1,332	\$ 11,539
Interest cost	86	91	778
Expected return on plan assets	(295)	(282)	(2,663)
Amortisation of actuarial loss	234	1,123	2,115
Amortisation of prior service costs	(266)	(256)	(2,404)
Retirement benefit expenses calculated by the simplified method	253	275	2,285
Retirement benefit expenses for defined benefit plans	¥ 1,293	¥ 2,284	\$ 11,651

- (6) The components of retirement benefit liability adjustment (before tax effects) in other comprehensive income for the years ended 31 March 2019 and 2018 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Prior service costs	¥ 266	¥ 256	\$ 2,404
Actuarial gain	(193)	(1,447)	(1,741)
Total	¥ 73	¥ (1,191)	\$ 663

- (7) The components of retirement benefit liability adjustment (before tax effects) in accumulated other comprehensive income as at 31 March 2019 and 2018 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Unrecognised prior service costs	¥ (1,786)	¥ (2,053)	\$ (16,095)
Unrecognised actuarial gain	5,741	5,934	51,730
Total	¥ 3,955	¥ 3,881	\$ 35,635

## 12. RETIREMENT BENEFITS (continued)

### (8) Plan assets

- a. The components of plan assets by major category as at 31 March 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Debt securities	45%	43%
Equity securities	33	36
Insurance company general accounts	13	13
Cash and deposits	4	2
Other	5	6
Total	<u>100%</u>	<u>100%</u>

Note: 18% and 20% of the total plan assets were in the retirement benefit trust as at 31 March 2019 and 2018, 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 2019 and 2018 are set forth as follows:

	<u>2019</u>	<u>2018</u>
Discount rates	0.0-0.7%	0.0-0.7%
Long-term expected rates of return on plan assets	1.5-3.0%	1.5-3.0%

- (10) Defined contribution plans for the years ended 31 March 2019 and 2018

The total contributions to be paid by the Company and its consolidated subsidiaries to defined contribution plans were ¥562 million (\$5,067 thousand) and ¥566 million for the years ended 31 March 2019 and 2018, respectively.



### 13. 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 years ended 31 March 2019 and 2018 amounted to ¥30 million (\$270 thousand) and ¥27 million, respectively.

The stock option plans of the Company as of 31 March 2019 are summarised as follows:

	The 2016 Plan	The 2017 Plan	The 2018 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	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	Common stock 8,000 shares
Grant date	4 July 2016	6 July 2017	6 July 2018
Vesting conditions	None	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.	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	From 7 July 2018 to 6 July 2048

### 13. SHAREHOLDERS' EQUITY (continued)

Size and movement of stock options are summarised as follows:

	The 2016 plan	The 2017 plan	The 2018 plan
<b>Number of stock options not yet vested:</b>			
Outstanding at 31 March 2018	–	–	–
Granted	–	–	8,000
Forfeited	–	–	–
Vested	–	–	8,000
Outstanding at 31 March 2019	–	–	–
<b>Number of stock options already vested:</b>			
Outstanding at 31 March 2018	5,000	8,000	–
Vested	–	–	8,000
Exercised	–	–	–
Forfeited	–	–	–
Outstanding at 31 March 2019	5,000	8,000	8,000

The fair value of stock options for the stock option plan of the Company during the year ended 31 March 2019 is summarised as follows:

	<i>Yen</i>		<i>U.S. dollars</i>		<i>Yen</i>		<i>U.S. dollars</i>		<i>Yen</i>		<i>U.S. dollars</i>	
	The 2016 plan	The 2016 plan	The 2016 plan	The 2016 plan	The 2017 plan	The 2017 plan	The 2017 plan	The 2017 plan	The 2018 plan	The 2018 plan	The 2018 plan	The 2018 plan
Exercise price	¥	1	\$	0	¥	1	\$	0	¥	1	\$	0
Average stock price at the exercise date		–		–		–		–		–		–
Fair value as of the grant date		3,485		32		3,425		32		3,811		34

The number of existing stock options as of 31 March 2019 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:

Major assumptions	Note	The 2018 plan
Expected volatility	(a)	21.776%
Expected holding period	(b)	3.0 years
Expected dividend	(c)	¥35 per share (\$0 per share)
Risk-free rate	(d)	(0.123%)

- (a) Expected volatility was computed by the weekly historical volatility of the Company's stock during the period from 7 July 2015 to 6 July 2018.
- (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 2018, 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.

### 13. SHAREHOLDERS' EQUITY (continued)

- (d) Risk-free rate was computed using the average of compound interest on long-term interest-bearing government bonds with redemption dates within a period of three months before and after the end of the holding period from the grant date of 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.

#### *Common stock and treasury stock*

- (1) Movements in issued shares of common stock and treasury stock during the years ended 31 March 2019 and 2018 are as follows:

	Number of shares			
	2019			
	1 April 2018	Increase	Decrease	31 March 2019
Issued shares:				
Common stock	<b>113,182,703</b>	–	–	<b>113,182,703</b>
Treasury stock (Notes 1 and 2)	<b>5,989,571</b>	<b>5,519</b>	<b>186</b>	<b>5,994,904</b>

- Notes: 1. The increase in the number of shares of treasury stock of 5,519 shares was due to repurchase of fractional shares of less than one voting unit.  
2. The decrease in the number of shares of treasury stock of 186 shares was due to sales of fractional shares of less than one voting unit.

	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: 1. The Company executed a share consolidation at a ratio of 1 share for 5 shares on 1 October 2017.  
2. The decrease in the number of shares of common stock of 452,730,812 was due to the share consolidation.  
3. 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.  
4. 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.

### 13. SHAREHOLDERS' EQUITY (continued)

- (2) Information regarding dividend payments during the years ended 31 March 2019 and 2018 is as follows:

For the year ended 31 March 2019

- a. Dividend payment:

2019					
Resolutions	Type of shares	Dividends paid	Dividend per share	Record dates	Effective dates
General shareholders' meeting held on 19 June 2018	Common stock	<b>¥2,143 million</b> <b>(\$19,315 thousand)</b>	<b>¥20.0</b> <b>(\$0.18)</b>	31 March 2018	20 June 2018
Board meeting held on 5 November 2018	Common stock	<b>¥1,875 million</b> <b>(\$16,900 thousand)</b>	<b>¥17.5</b> <b>(\$0.15)</b>	30 September 2018	3 December 2018

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

2019						
Resolution	Type of shares	Dividends paid	Source of dividend	Dividend per share	Record date	Effective date
General shareholders' meeting held on 19 June 2019	Common stock	<b>¥1,875 million</b> <b>(\$16,900 thousand)</b>	Retained earnings	<b>¥17.5</b> <b>(\$0.15)</b>	31 March 2019	20 June 2019

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	¥3.0	31 March 2017	21 June 2017
Board meeting held on 30 October 2017	Common stock	¥1,607 million	¥3.0	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	Retained earnings	¥20.0	31 March 2018	20 June 2018

### 14. COST OF SALES

Cost of sales included loss on devaluation of inventories of ¥903 million (\$8,138 thousand) and ¥331 million for the years ended 31 March 2019 and 2018, respectively.

## 15. 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 ¥1,333 million (\$12,013 thousand) and ¥61 million for the years ended 31 March 2019 and 2018, respectively. The details are summarised as follows:

### For the year ended 31 March 2019

<b>2019</b>				
Usage	Location	Classification	Millions of Yen	Thousands of U.S. Dollars
Rental properties	Chuo-ku, Osaka and other	Buildings and structures	¥ 1,290	\$ 11,625
		Land	24	219
		Other	2	20
		Sub-total	<u>1,317</u>	<u>11,866</u>
Commercial stores	Yawata, Kyoto and other	Buildings and structures	8	74
Idle assets	Katsuyama, Fukui	Land	6	55
Hotel facilities	Sakyo-ku, Kyoto	Buildings and structures	1	12
		Other	0	4
		Sub-total	<u>1</u>	<u>17</u>
Total			<u>¥ 1,333</u>	<u>\$ 12,013</u>

### For the year ended 31 March 2018

<b>2018</b>			
Usage	Location	Classification	Millions of Yen
Commercial stores	Hirakata, Osaka and other	Buildings and structures	¥ 54
		Other	1
		Sub-total	<u>56</u>
Hotel facilities	Sakyo-ku, Kyoto	Buildings and structures	5
		Total	<u>¥ 61</u>

## **15. LOSS ON IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT (continued)**

For rental properties, as a decision to dismantle the corresponding properties was made or a decline in profitability was expected; for commercial stores, as a decision to withdraw from the business was made; for idle assets, as the usage of the assets was changed from assets used for business to idle assets; and for hotel facilities, as a decline in profitability was expected to continue, the Group wrote down the carrying value of the assets to the recoverable amount and loss on impairment of property, plant and equipment was recorded as other expenses for the year ended 31 March 2019.

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 expenses for the year ended 31 March 2018.

The recoverable amounts of rental properties were determined using value in use or net realisable value. When using value in use, rental properties were written down to the nominal value as future cash flow was not expected due to decision to dismantle the corresponding properties was made, and when using net realisable value, the recoverable amounts of rental properties were determined basically based on the valuation used for property tax purposes for the year ended 31 March 2019.

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 years ended 31 March 2019 and 2018.

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 2019.

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 2019 and 2018.

## 16. 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 normal statutory tax rates of approximately 30.6% and 30.8% for the years ended 31 March 2019 and 2018, respectively.

The tax effects of significant temporary differences and tax loss carry forwards which resulted in net deferred tax assets and liabilities at 31 March 2019 and 2018 are as follows:

	Millions of Yen		Thousands of
	2019	2018	U.S. Dollars
Deferred tax assets:			
Liability for retirement benefits	¥ 9,455	¥ 9,831	\$ 85,188
Difference arising from company split	4,248	4,248	38,279
Loss on impairment of property, plant and equipment	2,026	1,383	18,257
Loss on devaluation of land, buildings and structures for sale	1,615	1,712	14,558
Tax loss carry forwards	1,296	1,097	11,678
Unrealised gain	1,143	1,129	10,306
Provision for employees' bonuses	950	861	8,559
Loss on devaluation of securities	786	795	7,083
Others	3,681	3,255	33,166
Sub-total	25,203	24,314	227,078
Valuation allowance	(9,154)	(9,624)	(82,481)
Total deferred tax assets	16,048	14,689	144,597
Offset by deferred tax liabilities	(6,144)	(5,189)	(55,363)
Net deferred tax assets	¥ 9,904	¥ 9,500	\$ 89,233
Deferred tax liabilities:			
Difference on valuation of assets of consolidated subsidiaries	¥ (8,312)	¥ (8,250)	\$ (74,892)
Net unrealised holding gain on securities	(3,231)	(4,353)	(29,111)
Gain on securities contributed to employee retirement benefit trust	(2,774)	(2,774)	(25,000)
Reserve for deduction in costs of property, plant and equipment	(150)	(158)	(1,356)
Others	(786)	(567)	(7,085)
Total deferred tax liabilities	(15,255)	(16,105)	(137,446)
Offset by deferred tax assets	6,144	5,189	55,363
Net deferred tax liabilities	¥ (9,110)	¥ (10,915)	\$ (82,082)

Reconciliations between the statutory tax rate and the effective tax rate for the years ended 31 March 2019 and 2018 are omitted as the effective tax rate in the accompanying consolidated statement of income for the years ended 31 March 2019 and 2018 differs from the statutory tax rate by less than 5%.

## 17. OTHER COMPREHENSIVE (LOSS) INCOME

Reclassification adjustments and related income tax effects on components of other comprehensive (loss) income for the years ended 31 March 2019 and 2018 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Net unrealised holding loss on securities:			
Amount arising during the year	¥ (1,848)	¥ 275	\$ (16,652)
Reclassification adjustments for gain included in profit	(1,900)	(910)	(17,125)
Before tax effect	(3,749)	(635)	(33,778)
Tax effect	1,122	178	10,109
Total	(2,627)	(456)	(23,669)
Retirement benefit liability adjustment:			
Amount arising during the year	(41)	323	(374)
Reclassification adjustments for (gain) loss included in profit	(32)	867	(288)
Before tax effect	(73)	1,191	(663)
Tax effect	17	(393)	153
Total	(56)	797	(509)
Share of comprehensive (loss) income of affiliates accounted for using equity method			
Amount arising during the year	(27)	8	(245)
Other comprehensive (loss) income, net	¥ (2,710)	¥ 349	\$ (24,423)

## 18. LEASES

### (1) Finance Leases

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.



## 18. LEASES (continued)

### (2) Operating Leases

Future minimum lease payments under non-cancelable operating leases as at 31 March 2019 and 2018 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Future minimum lease payments:			
Due within one year	¥ 1,983	¥ 1,439	\$ 17,871
Due after one year	45,268	41,668	407,857
Total	¥ 47,251	¥ 43,108	\$ 425,728

## 19. AMOUNTS PER SHARE

	Yen		U.S. Dollars
	2019	2018	2019
Net assets	¥ 2,193.68	¥ 2,055.87	\$ 19.76
Profit attributable to owners of parent:			
Basic	¥ 200.40	¥ 211.87	\$ 1.80
Diluted	¥ 200.36	¥ 211.85	\$ 1.80

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 2018.

The financial data used in the computation of basic and diluted profit attributable to owners of parent for the years ended 31 March 2019 and 2018 in the table above is summarised as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Profit attributable to owners of parent	¥ 21,480	¥ 22,712	\$ 193,538

  

	Thousands of shares	
	2019	2018
Weighted-average number of shares of common stock outstanding	107,190	107,197
Increase in shares of common stock for the calculation of dilutive effect	18	11

Potential shares which do not have dilutive effect for the years ended 31 March 2019 and 2018 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 (\$180,196 thousand).

## 20. CASH AND CASH EQUIVALENTS

The balances of cash and deposits reflected in the accompanying consolidated balance sheet as at 31 March 2019 and 2018 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
	2019	2018	2019
Cash and deposits	¥ 21,385	¥ 20,317	\$ 192,675
Time deposits with a maturity of more than three months	(7)	(16)	(66)
Cash and cash equivalents	¥ 21,377	¥ 20,300	\$ 192,609

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
	2018
Current assets	¥ 9,760
Non-current assets	618
Goodwill	317
Current liabilities	(6,942)
Non-current liabilities	(2,700)
Acquisition cost of shares	1,054
Cash and cash equivalents	(1,544)
Proceeds from purchase of shares of a subsidiary resulting in change in scope of consolidation	¥ 490

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
	2018
Current assets	¥ 684
Non-current assets	3,885
Current liabilities	(1,613)
Non-current liabilities	(3,242)
Gain on sale of shares of a subsidiary	3,164
Incidental costs related to sales of shares	50
Selling price of shares	2,929
Incidental costs related to sales of shares	(50)
Cash and cash equivalents	(52)
Proceeds from sales of shares of a subsidiary resulting in change in scope of consolidation	¥ 2,826

## 21. 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 22 “DERIVATIVE FINANCIAL INSTRUMENTS” are not necessarily indicative of the actual market risk involved in the derivative transactions.

## 21. 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		
	2019		
	Carrying value	Fair value	Difference
(1) Cash and deposits	¥ 21,385	¥ 21,385	¥ –
(2) Notes and accounts receivable	31,189	31,189	–
(3) Short-term investments and investment securities:			
Held-to-maturity debt securities	1,577	1,623	45
Other securities	18,771	18,771	–
Total assets	<u>¥ 72,922</u>	<u>¥ 72,968</u>	<u>¥ 45</u>
(4) Notes and accounts payable	11,544	11,544	–
(5) Short-term loans	48,493	48,493	–
(6) Bonds (including current portion)	100,105	103,111	3,006
(7) Long-term loans (including current portion)	185,747	188,612	2,864
Total liabilities	<u>¥ 345,891</u>	<u>¥ 351,762</u>	<u>¥ 5,870</u>

	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>

## 21. FINANCIAL INSTRUMENTS (continued)

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

	Thousands of U.S. Dollars		
	<b>2019</b>		
	Carrying value	Fair value	Difference
(1) Cash and deposits	\$ 192,675	\$ 192,675	\$ –
(2) Notes and accounts receivable	281,009	281,009	–
(3) Short-term investments and investment securities:			
Held-to-maturity debt securities	14,210	14,623	412
Other securities	169,126	169,126	–
Total assets	<u>\$ 657,022</u>	<u>\$ 657,434</u>	<u>\$ 412</u>
(4) Notes and accounts payable	104,014	104,014	–
(5) Short-term loans	436,919	436,919	–
(6) Bonds (including current portion)	901,932	929,017	27,084
(7) Long-term loans (including current portion)	1,673,553	1,699,364	25,811
Total liabilities	<u>\$ 3,116,420</u>	<u>\$ 3,169,316</u>	<u>\$ 52,895</u>

#### Notes:

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

- 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.

- 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.

- 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.

- Bonds

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

## 21. 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 22 “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.

2. Financial instruments for which it is extremely difficult to determine the fair value as at 31 March 2019 and 2018 are summarised as follows:

Category	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Unlisted stocks	¥ 14,573	¥ 8,907	\$ 131,302

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.

## 21. 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 2019 are as follows:

	Millions of Yen			
	2019			
	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	¥ 19,627	¥ –	¥ –	¥ –
Notes and accounts receivable	31,189	–	–	–
Short-term investments and investment securities:				
Held-to-maturity debt securities				
National and municipal bonds	306	1,176	94	–
Other securities with maturities				
Corporate bonds	–	–	–	300
Total	¥ 51,123	¥ 1,176	¥ 94	¥ 300

	Thousands of U.S. Dollars			
	2019			
	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	\$ 176,842	\$ –	\$ –	\$ –
Notes and accounts receivable	281,009	–	–	–
Short-term investments and investment securities:				
Held-to-maturity debt securities				
National and municipal bonds	2,762	10,595	851	–
Other securities with maturities				
Corporate bonds	–	–	–	2,702
Total	\$ 460,614	\$ 10,595	\$ 851	\$ 2,702

5. The redemption schedules for short-term loans, bonds and long-term loans as at 31 March 2019

Refer to Note 10. SHORT-TERM LOANS, BONDS AND LONG-TERM LOANS.

## 22. DERIVATIVE FINANCIAL INSTRUMENTS

The notional amounts and the estimated fair value of the derivative positions outstanding qualifying for hedge accounting as at 31 March 2019 and 2018 are as follows:

		Millions of Yen			
		<b>2019</b>			
		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	¥ 2,194	¥ 1,955	(Note)

  

		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)

  

		Thousands of U.S. Dollars			
		<b>2019</b>			
		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	\$ 19,767	\$ 17,614	(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.



### 23. CONTINGENT LIABILITIES

The Company provides guarantees for the borrowings of the following company, which is other than consolidated subsidiaries, as at 31 March 2019 as follows:

	Millions of Yen	Thousands of U.S. Dollars
	<u>2019</u>	<u>2019</u>
Nakanoshima Rapid Railway Co., Ltd.	¥ <b>21,511</b>	\$ <b>193,810</b>

### 24. ASSET RETIREMENT OBLIGATIONS

#### (1) General information about asset retirement obligations

Asset retirement obligations included in the “Other” of 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 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. Dollars
	<u>2019</u>	2018	<u>2019</u>
Balance at the beginning of year	¥ <b>503</b>	¥ 497	\$ <b>4,537</b>
Increase due to acquisition of property, plant and equipment	<b>649</b>	41	<b>5,851</b>
Adjustment with passing of time	<b>5</b>	4	<b>49</b>
Decrease due to settlement	<b>(3)</b>	(2)	<b>(32)</b>
Decrease due to changes in estimate (Note)	–	(23)	–
Other	–	(13)	–
Balance at the end of year	<u>¥ <b>1,154</b></u>	<u>¥ 503</u>	<u>\$ <b>10,405</b></u>

Note: As a result of obtaining new information, the amount of asset retirement obligations decreased by ¥23 million 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. There have been no significant changes in the estimation during the year ended 31 March 2019.

## 25. 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.

## 25. SEGMENT INFORMATION (continued)

- (3) Information about operating revenues, income or loss, assets and other items by reportable segment for the years ended 31 March 2019 and 2018

	Millions of Yen							
	2019							
	Reportable Segments					Total	Adjustments (Note 1)	Consolidated (Note 2)
Transportation	Real Estate	Retail Distribution	Leisure and Service	Others				
Operating revenues:								
External customers	¥ 91,715	¥ 104,921	¥ 98,248	¥ 30,124	¥ 1,145	¥ 326,155	¥ 3	¥ 326,159
Inter-segment operating revenues or transfers	2,211	13,685	479	496	698	17,570	(17,570)	–
Total	¥ 93,926	¥ 118,607	¥ 98,727	¥ 30,621	¥ 1,843	¥ 343,726	¥ (17,567)	¥ 326,159
Segment income (loss)	¥ 11,221	¥ 17,468	¥ 2,923	¥ 1,817	¥ (57)	¥ 33,373	¥ 342	¥ 33,715
Segment assets	244,887	396,874	31,783	37,446	7,802	718,795	12,954	731,750
Other items:								
Depreciation	11,898	5,197	1,306	1,116	37	19,556	262	19,819
Increase in property, plant and equipment, and intangible assets	14,609	26,080	1,428	3,364	9	45,492	(1,860)	43,631

Notes: 1. Details of adjustments are as follows:

- (1) “Adjustments” to “Segment income (loss)” represented elimination of inter-segment transactions and operating income 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 ¥31,637 million (\$285,043 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 elimination of inter-segment transactions amounted to ¥2,132 million (\$19,600 thousand) and the Company assets not allocated to each reportable segment amounted to ¥271 million (\$2,497 thousand).
2. Segment income (loss) was adjusted to operating income in the consolidated statement of income.

## 25. SEGMENT INFORMATION (continued)

- (3) Information about operating revenues, income or loss, assets and other items by reportable segment for the years ended 31 March 2019 and 2018 (continued)

	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	243,758	366,165	31,049	35,430	7,680	684,084	14,701	698,786	
Other items:									
Depreciation	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 operating income 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 ¥31,700 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 income (loss) was adjusted to operating income in the consolidated statement of income.

## 25. SEGMENT INFORMATION (continued)

- (3) Information about operating revenues, income or loss, assets and other items by reportable segment for the years ended 31 March 2019 and 2018 (continued)

	Thousands of U.S. Dollars							
	2019							
	Reportable Segments					Total	Adjustments (Note 1)	Consolidated (Note 2)
Transportation	Real Estate	Retail Distribution	Leisure and Service	Others				
Operating revenues:								
External customers	\$ 826,342	\$ 945,327	\$ 885,201	\$ 271,417	\$ 10,316	\$ 2,938,604	\$ 31	\$ 2,938,636
Inter-segment operating revenues or transfers	19,922	123,302	4,319	4,477	6,289	158,311	(158,311)	–
Total	\$ 846,264	\$ 1,068,629	\$ 889,521	\$ 275,894	\$ 16,606	\$ 3,096,916	\$ (158,279)	\$ 2,938,636
Segment income (loss)	\$ 101,102	\$ 157,389	\$ 26,338	\$ 16,376	\$ (522)	\$ 300,685	\$ 3,089	\$ 303,774
Segment assets	2,206,396	3,575,770	286,363	337,387	70,302	6,476,220	116,720	6,592,941
Other items:								
Depreciation	107,200	46,830	11,775	10,058	336	176,200	2,367	179,567
Increase in property, plant and equipment, and intangible assets	131,628	234,981	12,866	30,315	85	409,877	(16,764)	393,113

- (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 2019 and 2018, 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 2019 and 2018, 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.

## 25. SEGMENT INFORMATION (continued)

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

		Millions of Yen							
		<b>2019</b>							
		Reportable Segments							
		Retail		Leisure and					
	Transportation	Real Estate	Distribution	Service	Others	Total	Adjustments	Consolidated	
Impairment loss	¥ 15	¥ 1,264	¥ 1	¥ 97	¥ –	¥ 1,378	¥ (45)	¥ 1,333	

		Millions of Yen							
		<b>2018</b>							
		Reportable Segments							
		Retail		Leisure and					
	Transportation	Real Estate	Distribution	Service	Others	Total	Adjustments	Consolidated	
Impairment loss	¥ 12	¥ –	¥ 44	¥ 5	¥ –	¥ 61	¥ –	¥ 61	

		Thousands of U.S. Dollars							
		<b>2019</b>							
		Reportable Segments							
		Retail		Leisure and					
	Transportation	Real Estate	Distribution	Service	Others	Total	Adjustments	Consolidated	
Impairment loss	\$ 136	\$ 11,390	\$ 16	\$ 877	\$ –	\$ 12,422	\$ (408)	\$ 12,013	

### (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 2019 and 2018 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 2019 and 2018.

## 26. RELATED PARTY TRANSACTIONS

Transactions of the Company with related parties as at and for the years ended 31 March 2019 and 2018 are as follows:

Company's unconsolidated subsidiaries and affiliates

2019										
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 (\$253,477 thousand)	Railway operations	(Direct voting rights)  33.50%	Reservation of guarantees on loans  Holding concurrent position of directors	Guarantees (Note 1)	¥21,511 million (\$193,810 thousand)	–	–
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	Railway operations	(Direct voting rights)  33.50%	Reservation of guarantees on loans  Holding concurrent position of directors	Guarantees (Note 1)	¥22,644 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 ¥21,511 million (\$193,810 thousand) and ¥22,644 million for the years ended 31 March 2019 and 2018, respectively.