Ernst & Young ShinNihon LLC

Building a better working world

Independent Auditor's Report

The Board of Directors
Keihan Holdings Co., Ltd.

We have audited the accompanying consolidated financial statements of Keihan Holdings Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at 31 March 2017, 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 2017, 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.

20 June 2017
Osaka, Japan

Ernst & Young ShinNihon LLC

Consolidated Balance Sheet
Keihan Holdings Co., Ltd. and Consolidated Subsidiaries
31 March 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	**2017**	2016	**2017**
CURRENT ASSETS:			
Cash and deposits (Notes 9, 20 and 21)	**¥ 18,372**	¥ 25,072	**$ 163,763**
Notes and accounts receivable (Note 21)	**25,760**	23,702	**229,618**
Short-term investments (Notes 5 and 21)	**70**	2,188	**624**
Land and buildings for sale	**99,541**	100,742	**887,256**
Inventories	**1,878**	1,976	**16,746**
Deferred tax assets (Note 16)	**2,670**	2,533	**23,805**
Other	**9,970**	12,565	**88,871**
Allowance for doubtful accounts	**(609)**	(270)	**(5,435)**
Total current assets	**157,655**	168,510	**1,405,251**
PROPERTY, PLANT AND EQUIPMENT (Note 6):			
Buildings and structures, net (Notes 7, 9, 15 and 18)	**198,409**	198,994	**1,768,512**
Machinery, equipment and vehicles, net (Notes 7, 9 and 18)	**16,575**	13,466	**147,747**
Land (Notes 7, 8, 9 and 15)	**222,847**	213,810	**1,986,341**
Construction in progress	**10,623**	6,076	**94,688**
Other, net (Note 9)	**8,464**	8,898	**75,448**
Total property, plant and equipment, net	**456,920**	441,247	**4,072,738**
INTANGIBLE ASSETS	**8,044**	8,245	**71,702**
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 5, 9 and 21)	**38,229**	39,959	**340,761**
Long-term loans receivable	**682**	388	**6,085**
Deferred tax assets (Note 16)	**7,209**	2,208	**64,264**
Assets for retirement benefits (Note 12)	**266**	21	**2,371**
Other	**10,843**	9,811	**96,649**
Allowance for doubtful accounts	**(219)**	(59)	**(1,959)**
Total investments and other assets	**57,011**	52,329	**508,173**
TOTAL ASSETS (Note 25)	**¥ 679,631**	¥ 670,333	**$ 6,057,865**

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheet (continued)
Keihan Holdings Co., Ltd. and Consolidated Subsidiaries
31 March 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
LIABILITIES AND NET ASSETS	**2017**	2016	**2017**
CURRENT LIABILITIES:			
Notes and accounts payable (Notes 9 and 21)	¥ **11,248**	¥ 10,775	$ **100,266**
Short-term loans (Notes 9, 10 and 21)	**65,363**	68,780	**582,612**
Short-term bonds (Notes 10 and 21)	**—**	5,000	**—**
Current portion of bonds (Notes 10 and 21)	**45**	10,245	**409**
Income taxes payable (Note 16)	**5,990**	5,619	**53,392**
Deferred tax liabilities (Note 16)	**—**	1	**—**
Advances received	**6,979**	8,011	**62,213**
Allowance for employees' bonuses	**2,630**	2,667	**23,451**
Provision for unutilised gift tickets	**508**	407	**4,529**
Other (Notes 9 and 24)	**43,450**	40,829	**387,291**
Total current liabilities	**136,217**	152,337	**1,214,165**
NONCURRENT LIABILITIES:			
Bonds (Notes 10 and 21)	**90,191**	80,257	**803,916**
Long-term loans (Notes 9, 10, 21 and 22)	**158,938**	161,430	**1,416,692**
Long-term payables - other	**685**	654	**6,111**
Deferred tax liabilities (Note 16)	**11,236**	7,944	**100,159**
Deferred tax liabilities for land revaluation (Notes 8 and 16)	**33,168**	31,087	**295,643**
Accrued retirement benefits for directors and audit and supervisory board members	**437**	447	**3,898**
Liability for retirement benefits (Note 12)	**20,011**	18,933	**178,371**
Other (Note 24)	**25,289**	25,448	**225,415**
Total noncurrent liabilities	**339,959**	326,204	**3,030,209**
Total liabilities	**476,176**	478,542	**4,244,375**
COMMITMENTS AND CONTINGENT LIABILITIES (Note 23)			
NET ASSETS (Note 13) :			
Common stock:			
Authorised, 1,595,886,000 shares as at 31 March 2017 and 2016; Issued, 565,913,515 shares as at 31 March 2017 and 2016	**51,466**	51,466	**458,743**
Capital surplus	**28,782**	28,794	**256,551**
Retained earnings	**98,392**	79,103	**877,013**
Treasury stock, at cost, 29,912,535 shares as at 31 March 2017, and 24,193,867 shares as at 31 March 2016	**(21,580)**	(17,199)	**(192,356)**
Total shareholders' equity	**157,060**	142,165	**1,399,952**
Accumulated other comprehensive income:			
Net unrealised holding gain on securities (Note 5)	**11,266**	12,221	**100,425**
Revaluation reserve for land (Note 8)	**35,584**	37,557	**317,177**
Foreign currency translation adjustments	**(2)**	—	**(21)**
Retirement benefit liability adjustment (Note 12)	**(3,338)**	(2,815)	**(29,759)**
Total accumulated other comprehensive income, net	**43,509**	46,962	**387,821**
Stock acquisition rights	**27**	—	**248**
Non-controlling interests	**2,857**	2,662	**25,467**
Total net assets	**203,455**	191,790	**1,813,490**
TOTAL LIABILITIES AND NET ASSETS	¥ **679,631**	¥ 670,333	$ **6,057,865**

See accompanying notes to consolidated financial statements.

Consolidated Statement of Income
Keihan Holdings Co., Ltd. and Consolidated Subsidiaries
Year Ended 31 March 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	**2017**
OPERATING REVENUES (Notes 7 and 25)	**¥ 302,917**	¥ 300,188	**$ 2,700,039**
OPERATING EXPENSES:			
Transportation, other service expenses and cost of sales (Note 14)	**232,252**	240,069	**2,070,171**
Selling, general and administrative expenses (Notes 7 and 13)	**38,320**	28,594	**341,572**
Total operating expenses	**270,573**	268,663	**2,411,743**
Operating income (Note 25)	**32,343**	31,524	**288,295**
OTHER INCOME (EXPENSES):			
Interest and dividend income	**850**	790	**7,584**
Interest expense	**(2,802)**	(3,581)	**(24,979)**
Loss on impairment of property, plant and equipment (Notes 7, 15 and 25)	**(1,359)**	(61)	**(12,120)**
Shares of (loss) profit of affiliates, net	**(16)**	21	**(145)**
Gain on contribution received for construction	**292**	842	**2,605**
Subsidies	**1,417**	1,680	**12,638**
Compensation income	**602**	—	**5,366**
Gain on sales of investment securities, net (Note 5)	**2,776**	348	**24,746**
Loss on sales or disposal of property, plant and equipment, net (Note 7)	**(996)**	(511)	**(8,878)**
Loss on deduction of contributions received for construction from acquisition costs of property, plant and equipment	**(911)**	(1,475)	**(8,128)**
Special retirement expenses (Note 12)	**(85)**	—	**(765)**
Gain on bargain purchase	**—**	4,709	**—**
Loss on step acquisitions	**—**	(2,119)	**—**
Other, net	**(407)**	(99)	**(3,636)**
Other (expenses) income, net	**(641)**	544	**(5,713)**
PROFIT BEFORE INCOME TAXES	**31,702**	32,069	**282,581**
INCOME TAXES (Note 16):			
Current	**10,255**	9,094	**91,411**
Deferred	**(1,401)**	274	**(12,492)**
Total income taxes	**8,853**	9,369	**78,919**
PROFIT	**22,848**	22,699	**203,662**
PROFIT ATTRIBUTABLE TO:			
Non-controlling interests	**212**	313	**1,895**
Owners of parent (Note 19)	**¥ 22,636**	¥ 22,385	**$ 201,767**

See accompanying notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income
Keihan Holdings Co., Ltd. and Consolidated Subsidiaries
Year Ended 31 March 2017

	Millions of Yen				Thousands of U.S. Dollars (Note 1)	
		2017		2016		**2017**
PROFIT	**¥**	**22,848**	¥	22,699	**$**	**203,662**
OTHER COMPREHENSIVE INCOME (Note 17):						
Net unrealised holding loss on securities		**(941)**		(2,981)		**(8,390)**
Revaluation reserve for land		**(2,087)**		1,625		**(18,611)**
Retirement benefit liability adjustment		**(522)**		(934)		**(4,660)**
Share of other comprehensive loss of affiliates accounted for using the equity method		**(2)**		—		**(21)**
Total other comprehensive loss		**(3,554)**		(2,289)		**(31,684)**
COMPREHENSIVE INCOME	**¥**	**19,294**	¥	20,409	**$**	**171,978**
COMPREHENSIVE INCOME ATTRIBUTABLE TO:						
Owners of parent	**¥**	**19,068**	¥	20,111	**$**	**169,965**
Non-controlling interests		**225**		298		**2,013**

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 2017

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 2015	¥ 51,466	¥ 28,819	¥ 60,525	¥ (1,497)	¥ 139,314	¥ 15,187	¥ 35,496	¥ −	¥ (1,881)	¥ 48,801	¥ −	¥ 2,398	¥ 190,513
Cash dividends	−	−	(3,372)	−	(3,372)	−	−	−	−	−	−	−	(3,372)
Profit attributable to owners of parent for the period	−	−	22,385	−	22,385	−	−	−	−	−	−	−	22,385
Purchase of treasury stock	−	−	−	(15,703)	(15,703)	−	−	−	−	−	−	−	(15,703)
Disposal of treasury stock	−	0	−	0	1	−	−	−	−	−	−	−	1
Change in treasury shares of parent arising from transactions with non-controlling interests	−	(25)	−	−	(25)	−	−	−	−	−	−	−	(25)
Reversal of revaluation reserve for land	−	−	(435)	−	(435)	−	−	−	−	−	−	−	(435)
Net changes in items other than shareholders' equity	−	−	−	−	−	(2,965)	2,060	−	(934)	(1,839)	−	264	(1,574)
BALANCE at 1 APRIL 2016	**51,466**	**28,794**	**79,103**	**(17,199)**	**142,165**	**12,221**	**37,557**	**−**	**(2,815)**	**46,962**	**−**	**2,662**	**191,790**
Cash dividends	**−**	**−**	**(3,233)**	**−**	**(3,233)**	**−**	**−**	**−**	**−**	**−**	**−**	**−**	**(3,233)**
Profit attributable to owners of parent for the period	**−**	**−**	**22,636**	**−**	**22,636**	**−**	**−**	**−**	**−**	**−**	**−**	**−**	**22,636**
Purchase of treasury stock	**−**	**−**	**−**	**(4,381)**	**(4,381)**	**−**	**−**	**−**	**−**	**−**	**−**	**−**	**(4,381)**
Disposal of treasury stock	**−**	**0**	**−**	**0**	**0**	**−**	**−**	**−**	**−**	**−**	**−**	**−**	**0**
Change in treasury shares of parent arising from transactions with non-controlling interests	**−**	**(12)**	**−**	**−**	**(12)**	**−**	**−**	**−**	**−**	**−**	**−**	**−**	**(12)**
Reversal of revaluation reserve for land	**−**	**−**	**(114)**	**−**	**(114)**	**−**	**−**	**−**	**−**	**−**	**−**	**−**	**(114)**
Net changes in items other than shareholders' equity	**−**	**−**	**−**	**−**	**−**	**(954)**	**(1,973)**	**(2)**	**(522)**	**(3,453)**	**27**	**194**	**(3,230)**
BALANCE at 31 MARCH 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**

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 2016	**$ 458,743**	**$ 256,661**	**$ 705,088**	**$ (153,310)**	**$ 1,267,184**	**$ 108,934**	**$ 334,765**	**$ −**	**$ (25,099)**	**$ 418,600**	**$ −**	**$ 23,735**	**$ 1,709,519**
Cash dividends	**−**	**−**	**(28,819)**	**−**	**(28,819)**	**−**	**−**	**−**	**−**	**−**	**−**	**−**	**(28,819)**
Profit attributable to owners of parent for the period	**−**	**−**	**201,767**	**−**	**201,767**	**−**	**−**	**−**	**−**	**−**	**−**	**−**	**201,767**
Purchase of treasury stock	**−**	**−**	**−**	**(39,051)**	**(39,051)**	**−**	**−**	**−**	**−**	**−**	**−**	**−**	**(39,051)**
Disposal of treasury stock	**−**	**0**	**−**	**5**	**5**	**−**	**−**	**−**	**−**	**−**	**−**	**−**	**5**
Change in treasury shares of parent arising from transactions with non-controlling interests	**−**	**(110)**	**−**	**−**	**(110)**	**−**	**−**	**−**	**−**	**−**	**−**	**−**	**(110)**
Reversal of revaluation reserve for land	**−**	**−**	**(1,023)**	**−**	**(1,023)**	**−**	**−**	**−**	**−**	**−**	**−**	**−**	**(1,023)**
Net changes in items other than shareholders' equity	**−**	**−**	**−**	**−**	**−**	**(8,508)**	**(17,588)**	**(21)**	**(4,660)**	**(30,778)**	**248**	**1,732**	**(28,797)**
BALANCE at 31 MARCH 2017	**$ 458,743**	**$ 256,551**	**$ 877,013**	**$ (192,356)**	**$ 1,399,952**	**$ 100,425**	**$ 317,177**	**$ (21)**	**$ (29,759)**	**$ 387,821**	**$ 248**	**$ 25,467**	**$ 1,813,490**

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows
Keihan Holdings Co., Ltd. and Consolidated Subsidiaries
Year Ended 31 March 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	**2017**
OPERATING ACTIVITIES:			
Profit before income taxes	¥ **31,702**	¥ 32,069	$ **282,581**
Adjustments for:			
Depreciation and amortisation	**18,460**	17,949	**164,546**
Loss on impairment of property, plant and equipment	**1,359**	61	**12,120**
Gain on bargain purchase	**—**	(4,709)	**—**
Loss on step acquisitions	**—**	2,119	**—**
Loss on sales or disposal of property, plant and equipment, net	**750**	643	**6,692**
Loss on deduction of contributions received for construction from acquisition costs of property, plant and equipment	**911**	1,475	**8,128**
Gain on contribution received for construction	**(292)**	(842)	**(2,605)**
Gain on sales of investment securities, net	**(2,776)**	(348)	**(24,746)**
Share of loss (profit) of affiliates	**16**	(21)	**145**
Interest and dividend income	**(850)**	(790)	**(7,584)**
Interest expense	**2,802**	3,581	**24,979**
Special retirement expenses	**85**	—	**765**
Increase (decrease) in allowance for doubtful accounts	**499**	(3)	**4,450**
(Decrease) increase in allowance for employees' bonuses	**(36)**	23	**(327)**
Increase (decrease) in liability for retirement benefits	**95**	(369)	**848**
Increase in assets for retirement benefits	**(254)**	(296)	**(2,270)**
(Increase) decrease in trade receivables	**(2,409)**	6,817	**(21,478)**
Decrease in inventories	**1,260**	342	**11,232**
Increase (decrease) in trade payables	**194**	(753)	**1,737**
Other, net	**(714)**	(9,969)	**(6,365)**
Subtotal	**50,805**	46,977	**452,851**
Interest and dividend income received	**852**	837	**7,600**
Interest expenses paid	**(2,855)**	(3,604)	**(25,449)**
Income taxes paid	**(10,147)**	(7,874)	**(90,449)**
Sepecial retirement payments	**(85)**	—	**(765)**
Net cash provided by operating activities	**38,569**	36,334	**343,786**
INVESTING ACTIVITIES:			
Increase in time deposits, net	**(0)**	(0)	**(0)**
Purchase of property, plant and equipment	**(34,079)**	(28,696)	**(303,763)**
Proceeds from sales of property, plant and equipment	**466**	930	**4,155**
Proceeds from contribution received for construction	**496**	1,315	**4,428**
Purchase of investment securities	**(1,630)**	(2,111)	**(14,529)**
Proceeds from sales of investment securities	**5,357**	349	**47,750**
Increase in loans receivable	**(1,023)**	(17)	**(9,123)**
Other, net	**814**	481	**7,263**
Net cash used in investing activities	**(29,597)**	(27,750)	**(263,817)**
FINANCING ACTIVITIES:			
Decrease in short-term loans, net	**(7,995)**	(10,701)	**(71,266)**
(Decrease) increase in short-term bonds, net	**(5,000)**	5,000	**(44,567)**
Proceeds from long-term loans	**31,867**	75,672	**284,049**
Repayments of long-term loans	**(29,781)**	(75,099)	**(265,452)**
Proceeds from issuance of bonds	**9,936**	29,938	**88,568**
Redemption of bonds	**(10,245)**	(10,251)	**(91,326)**
Repayments of long-term payables - other	—	(15)	—
Cash dividends paid	**(3,235)**	(3,372)	**(28,840)**
Dividends paid to non-controlling interests	**(26)**	(25)	**(232)**
Purchase of treasury stock	**(4,381)**	(15,703)	**(39,051)**
Other, net	**(1,159)**	(1,208)	**(10,331)**
Net cash used in financing activities	**(20,020)**	(5,768)	**(178,450)**
Net (decrease) increase in cash and cash equivalents	**(11,048)**	2,816	**(98,481)**
Cash and cash equivalents at beginning of year	**29,372**	26,552	**261,814**
Increase in cash and cash equivalents resulting from mergers with unconsolidated subsidiaries	**—**	4	**—**
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 20)	¥ **18,324**	¥ 29,372	$ **163,332**

See accompanying notes to consolidated financial statements.

Keihan Holdings Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements
Year Ended 31 March 2017

1. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation. Such reclassification had no effect on consolidated profit or net assets.

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 ¥112.19 to $1, the approximate rate of exchange at 31 March 2017. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Investments in two affiliates are accounted for by the equity method for the year ended 31 March 2017.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

a. Consolidation (continued)

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

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

b. Securities **-** Securities are classified into two categories: held-to-maturity debt securities or other securities. Held-to-maturity securities are stated at amortised cost, and amortisation for each period through to the maturity date is determined on a straight-line basis. Marketable securities 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 (loss) 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 as other securities are stated at cost determined primarily by the moving-average method.

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

Merchandise: Primarily by retail cost method

Land and buildings for sale: Specific identification method

Supplies: Primarily by moving-average method

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

j. ***Provision for Unutilised Gift Tickets***

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

k. ***Employees' Retirement Benefits***

(1) Attribution method of retirement benefits over the service period
The assets and liability for retirement benefits are provided based on the amount of the projected benefit obligation after deducting plan assets at fair value at the end of the year.

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

(2) Accounting for actuarial gains and losses and prior service costs
Prior service costs are amortised as incurred by the straight-line method over a period of primarily 15 years, which is within the estimated average remaining years of service of the eligible employees.

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

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

(Additional Information)
Since certain consolidated subsidiaries decided to abolish the retirement benefits for their directors and audit and supervisory board members at the Board of Directors' meeting held in June 2016, accrued retirement benefits for directors and audit and supervisory board members have not been additionally recorded after the abolishment.

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

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

(1) Method of accounting
For interest rate swap contracts that meet certain conditions, the special accounting treatment is applied.

(2) Hedging instruments
Interest rate swaps

(3) Hedged items

Interest on loans

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

n. Hedge Accounting (continued)

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

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

o. ***Contributions for Construction* -** Three consolidated subsidiaries receive contributions for construction as part of construction cost from local authorities and others at railway track business. Contribution 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 CHANGE

Application of Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016

Effective from the fiscal year ended 31 March 2017, the Group adopted "Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016" (Accounting Standards Board of Japan ("ASBJ") Practical Issues Task Force ("PITF") No.32 issued on 17 June 2016) in accordance with the revision of the Corporation Tax Act of Japan. Accordingly, the Group changed the depreciation method for facilities attached to buildings and for other structures acquired on or after 1 April 2016 from the declining-balance method to the straight-line method.

The effect on the consolidated financial statements for the year ended and as of 31 March 2017 was immaterial.

4. ADDITIONAL INFORMATION

Application of Revised Implementation Guidance on Recoverability of Deferred Tax Assets

Effective from the fiscal year ended 31 March 2017, the Group adopted “Revised Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No.26, issued on 28 March 2016).

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 2017 and 2016.

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

	Millions of Yen		
	2016		
	Carrying value	Fair value	Difference
Securities with fair value exceeding carrying value:			
National and municipal bonds	¥ 172	¥ 172	¥ 0
Corporate bonds	1,401	1,496	94
Other	300	304	4
Total	¥ 1,873	¥ 1,973	¥ 99

	Thousands of U.S. Dollars		
	2017		
	Carrying value	Fair value	Difference
Securities with fair value exceeding carrying value:			
National and municipal bonds	**$ 514**	**$ 516**	**$ 2**
Corporate bonds	**12,491**	**13,173**	**681**
Other	**1,782**	**1,807**	**24**
Total	**$ 14,788**	**$ 15,497**	**$ 708**

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 2017 and 2016.

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

	Millions of Yen		
	2016		
	Carrying value	Acquisition cost	Difference
Securities with carrying value exceeding acquisition cost:			
Equity securities	¥ 24,673	¥ 8,413	¥ 16,259
Other	2,080	1,509	570
Sub total	26,753	9,923	16,829
Securities with carrying value not exceeding acquisition cost:			
Equity securities	76	88	(12)
Debt securities	307	307	–
Sub total	383	396	(12)
Total	¥ 27,137	¥ 10,320	¥ 16,816

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

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

	Thousands of U.S. Dollars		
	2017		
	Carrying value	Acquisition cost	Difference
Securities with carrying value exceeding acquisition cost:			
Equity securities	**$ 194,316**	**$ 55,434**	**$ 138,881**
Other	**13,673**	**10,784**	**2,889**
Sub total	**207,989**	**66,218**	**141,770**
Securities with carrying value not exceeding acquisition cost:			
Equity securities	**164**	**166**	**(1)**
Debt securities	**2,707**	**2,707**	**–**
Sub total	**2,872**	**2,873**	**(1)**
Total	**$ 210,862**	**$ 69,092**	**$ 141,769**

Unlisted equity securities with a carrying value of ¥3,965 million ($35,343 thousand) and ¥4,546 million as at 31 March 2017 and 2016, 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 2017 and 2016. Gain on sales are included in gain on sales of investment securities, net in the consolidated statement of income.

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

	Millions of Yen		
	2016		
	Proceeds	Gain on sale	Loss on sale
Equity securities	¥ 0	¥ 0	¥ –

	Thousands of U.S. Dollars		
	2017		
	Proceeds	Gain on sale	Loss on sale
Equity securities	**$ 44,403**	**$ 24,075**	**$ –**
Other	**$ 3,346**	**$ 671**	**$ –**

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 2017 and 2016 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Investments in unconsolidated subsidiaries and affiliates	¥ **9,019**	¥ 8,590	$ **80,391**

6. PROPERTY, PLANT AND EQUIPMENT

Accumulated depreciation included in property, plant and equipment as at 31 March 2017 and 2016 amounted to ¥435,109 million ($3,878,326 thousand) and ¥426,606 million, respectively.

Accumulated contributions deducted from the acquisition costs of property, plant and equipment as at 31 March 2017 and 2016 amounted to ¥180,769 million ($1,611,281 thousand) and ¥180,593 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 2017, rental income, net of related expenses, relevant to these properties amounted to ¥9,727 million ($86,705 thousand) and net gain on sales of these properties amounted to ¥17 million ($153 thousand). Furthermore, loss on impairment of these real estate properties was recognised in the amount of ¥3 million ($27 thousand).

For the year ended 31 March 2016, rental income, net of related expenses, relevant to these properties amounted to ¥9,508 million and net gain on sales of these properties amounted to ¥41 million.

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

Increases/(decreases) in the carrying value during the years ended 31 March 2017 and 2016, and the fair value of the rental properties as at 31 March 2017 and 2016 are as follows:

7. RENTAL PROPERTIES (continued)

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

Millions of Yen			
2016			
Carrying value			Fair value
1 April 2015	Increase/(Decrease)	31 March 2016	31 March 2016
¥ 142,930	¥ 12,315	¥ 155,245	¥ 206,366

Thousands of U.S. Dollars			
2017			
Carrying value			Fair value
1 April 2016	Increase/(Decrease)	31 March 2017	31 March 2017
$ 1,383,744	**$ 66,021**	**$ 1,449,795**	**$ 1,976,634**

Notes: 1. Carrying value recognised in the consolidated balance sheet represents the acquisition cost less accumulated depreciation and accumulated losses on impairment.

2. The main components of net changes in the carrying value during the years ended 31 March 2017 and 2016 are the increase due to the acquisition of office buildings of ¥8,361 million ($74,529 thousand) and the increase due to consolidation of a new subsidiary of ¥6,960 million and construction of logistics facilities of ¥4,428 million.

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 revaluate 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 2017 are summarised as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	2017		2017	
	Total	The Group's Railway foundation mortgage	Total	The Group's Railway foundation mortgage
Assets pledged as collateral:				
Cash and deposits	**¥ 1**	**¥ (–)**	**$ 8**	**$ (–)**
Buildings and structures	**66,183**	**(62,937)**	**589,923**	**(560,991)**
Machinery, equipment and vehicles	**13,153**	**(13,153)**	**117,238**	**(117,238)**
Land	**54,557**	**(53,564)**	**486,293**	**(477,446)**
Other property, plant and equipment	**711**	**(711)**	**6,345**	**(6,345)**
Investment securities	**800**	**(–)**	**7,130**	**(–)**
Total	**¥ 135,406**	**¥ (130,367)**	**$ 1,206,940**	**$ (1,162,022)**

	Millions of Yen		Thousands of U.S. Dollars	
	2017		2017	
	Total	The Group's Railway foundation mortgage	Total	The Group's Railway foundation mortgage
Corresponding liabilities:				
Accounts payables	**¥ 35**	**¥ (–)**	**$ 318**	**$ (–)**
Long-term loans (including current portion of long-term loans)	**49,402**	**(48,014)**	**440,346**	**(427,971)**
Total	**¥ 49,438**	**¥ (48,014)**	**$ 440,664**	**$ (427,971)**

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 rates applicable to the short-term bank loans, which are calculated as the weighted-average rates to the year end balances, were 0.536% and 0.626% for the years ended 31 March 2017 and 2016, respectively. The Company had issued short-term bonds of ¥5,000 million as at 31 March 2016.

Long-term debt as at 31 March 2017 and 2016 is summarised as follows:

Bonds

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Euro-yen zero coupon unsecured convertible bonds with stock acquisition rights in yen, due 30 March 2021	**¥ 20,079**	¥ 20,099	**$ 178,981**
Unsecured Keihan Holdings bonds, payable in yen at rates ranging from 0.725% to 1.89%, due from 2017 through 2026	**70,000**	70,000	**623,941**
Unsecured Keifuku Electric Railroad bonds, payable in yen at rates of 0.206%, due from 2017 through 2020	**157**	403	**1,403**
Less current portion	**(45)**	(10,245)	**(409)**
Bonds, less current portion	**¥ 90,191**	¥ 80,257	**$ 803,916**

The aggregate annual maturities of bonds subsequent to 31 March 2017 are summarised as follows:

Year ending 31 March,	Millions of Yen	Thousands of U.S. Dollars
2018	**¥ 45**	**$ 409**
2019	**10,045**	**89,543**
2020	**10,045**	**89,543**
2021	**20,019**	**178,444**
2022	**10,000**	**89,134**
2023 and thereafter	**40,079**	**357,250**
Total	**¥ 90,237**	**$ 804,326**

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 ¥1,063 ($9.47) per share in the period from 13 April 2016 to 16 March 2021 subject to adjustment in certain circumstances.

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

Loans

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Loans from banks and other financial institutions, due serially from 2018 to 2037 at weighted-average rates ranging from 0.808% to 1.143%	**¥ 181,827**	¥ 179,740	**$ 1,620,707**
Less current portion	**(22,888)**	(18,309)	**(204,015)**
Long-term loans, less current portion	**¥ 158,938**	¥ 161,430	**$ 1,416,692**

The aggregate annual maturities of long-term loans subsequent to 31 March 2017 are summarised as follows:

Year ending 31 March,	Millions of Yen	Thousands of U.S. Dollars
2018	**¥ 22,888**	**$ 204,015**
2019	**38,668**	**344,674**
2020	**48,129**	**428,995**
2021	**8,220**	**73,270**
2022	**3,858**	**34,390**
2023 and thereafter	**60,062**	**535,362**
Total	**¥ 181,827**	**$ 1,620,707**

11. OVERDRAFT AND LOAN COMMITMENTS

The Company and seventeen consolidated subsidiaries entered into overdraft and loan commitment agreements with 22 banks for efficient funding of working capital as at 31 March 2017.

The unused portions of the credit line under these agreements as at 31 March 2017 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2017	**2017**
Total overdraft limits and loan commitments	**¥ 83,344**	**$ 742,887**
Loan executions	**(38,626)**	**(344,295)**
Unused credit line	**¥ 44,718**	**$ 398,591**

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 maintains a retirement benefit trust.

(1) The changes in the defined benefit obligation for the years ended 31 March 2017 and 2016 (except for the retirement benefit obligation calculated by the simplified method presented in (3) below) are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Balance at the beginning of year	**¥ 32,578**	¥ 32,643	**$ 290,387**
Service costs	**1,377**	1,292	**12,280**
Interest cost	**86**	273	**768**
Actuarial loss	**2,069**	640	**18,447**
Retirement benefits paid	**(1,425)**	(2,504)	**(12,709)**
Other	**(241)**	233	**(2,150)**
Balance at the end of year	**¥ 34,444**	¥ 32,578	**$ 307,023**

(2) The changes in plan assets for the years ended 31 March 2017 and 2016 (except for plan assets calculated by the simplified method presented in (3) below) are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Balance at the beginning of year	**¥ 16,173**	¥ 16,932	**$ 144,164**
Expected return on plan assets	**342**	388	**3,054**
Actuarial (loss) gain	**600**	(1,374)	**5,355**
Contributions by the Group	**881**	1,273	**7,857**
Retirement benefits paid	**(897)**	(1,295)	**(8,002)**
Other	**(259)**	249	**(2,315)**
Balance at the end of year	**¥ 16,841**	¥ 16,173	**$ 150,114**

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 2017 and 2016 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Balance at the beginning of year	**¥ 2,507**	¥ 2,489	**$ 22,350**
Retirement benefit expenses	**204**	218	**1,827**
Retirement benefits paid	**(267)**	(202)	**(2,379)**
Contributions to pension plans	**(48)**	(72)	**(430)**
Increase due to consolidation of a new subsidiary	**–**	76	**–**
Other	**(255)**	(2)	**(2,277)**
Balance at the end of year	**¥ 2,141**	¥ 2,507	**$ 19,089**

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 2017 and 2016 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Funded retirement benefit obligation	**¥ 16,129**	¥ 15,852	**$ 143,767**
Plan assets at fair value	**(17,221)**	(16,554)	**(153,506)**
	(1,092)	(701)	**(9,738)**
Unfunded retirement benefit obligation	**20,837**	19,613	**185,738**
Net of asset and liability for retirement benefits in the consolidated balance sheet	**19,745**	18,912	**175,999**
Liability for retirement benefit	**20,011**	18,933	**178,371**
Asset for retirement benefits	**(266)**	(21)	**(2,371)**
Net liability for retirement benefits in the consolidated balance sheet	**¥ 19,745**	¥ 18,912	**$ 175,999**

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 2017 and 2016 are as follows:

	Millions of Yen				Thousands of U.S. Dollars	
	2017		2016		**2017**	
Service costs	**¥**	**1,377**	¥	**1,292**	**$**	**12,280**
Interest cost		**86**		**273**		**768**
Expected return on plan assets		**(342)**		**(388)**		**(3,054)**
Amortisation of actuarial loss		**749**		**962**		**6,678**
Amortisation of prior service costs		**(273)**		**(249)**		**(2,434)**
Retirement benefit expenses calculated by the simplified method		**204**		**218**		**1,827**
Other				**38**		
Retirement benefit expenses for defined benefit plans	**¥**	**1,802**	¥	**2,147**	**$**	**16,065**

In addition to the above table, special retirement benefit of ¥85 million ($765 thousand) were recorded as other expenses in the consolidated statement of income.

(6) The components of retirement benefit liability adjustment (before tax effects) in other comprehensive income for the years ended 31 March 2017 and 2016 are as follows:

	Millions of Yen				Thousands of U.S. Dollars	
	2017		2016		**2017**	
Prior service costs	**¥**	**273**	¥	249	**$**	**2,434**
Actuarial loss		**719**		1,052		**6,413**
Total	**¥**	**992**	¥	1,302	**$**	**8,847**

(7) The components of retirement benefit liability adjustment (before tax effects) in accumulated other comprehensive income as at 31 March 2017 and 2016 are as follows:

	Millions of Yen				Thousands of U.S. Dollars	
	2017		2016		**2017**	
Unrecognised prior service costs	**¥**	**(2,309)**	¥	(2,582)	**$**	**(20,584)**
Unrecognised actuarial gain		**7,382**		6,662		**65,801**
Total	**¥**	**5,072**	¥	4,080	**$**	**45,217**

12. RETIREMENT BENEFITS (continued)

(8) Plan assets

a. The components of plan assets by major category as at 31 March 2017 and 2016 are as follows:

	2017	2016
Debt securities	**43%**	43%
Equity securities	**36**	32
Insurance company general accounts	**13**	14
Cash and deposits	**2**	5
Other	**6**	6
Total	**100%**	100%

Note: 20% and 20% of the total plan assets were in the retirement benefit trust as at 31 March 2017 and 2016, 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 2017 and 2016 are set forth as follows:

	2017	2016
Discount rates	**0.0-0.7%**	0.1-0.9%
Long-term expected rates of return on plan assets	**2.5-3.0%**	1.0-4.0%

(10) Defined contribution plans for the years ended 31 March 2017 and 2016

The total contributions to be paid by the Company and its consolidated subsidiaries to defined contribution plans were ¥562 million ($5,017 thousand) and ¥554 million for the years ended 31 March 2017 and 2016, 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 year ended 31 March, 2017 amounted to ¥27 million ($248 thousand).

The stock option plan of the Company as of 31 March 2017 is summarised as follows:

	The 2016 Plan
Individuals covered by the plan	5 Directors (excluding outside directors) 8 Executive officers
Class and number of options granted	Common stock 40,000 shares
Grant date	4 July 2016
Vesting conditions	None
Vesting period for services received	No vesting period for services received has been stipulated.
Exercisable period	From 5 July 2016 to 4 July 2046

Size and movement of stock options are summarised as follows:

	The 2016 plan
Number of stock options not yet vested:	
Outstanding at 31 March 2016	–
Granted	40,000
Forfeited	–
Vested	40,000
Outstanding at 31 March 2017	–
Number of stock options already vested:	
Outstanding at 31 March 2016	–
Vested	40,000
Exercised	–
Forfeited	–
Outstanding at 31 March 2017	40,000

13. SHAREHOLDERS' EQUITY (continued)

The fair value of stock options for the stock option plan of the Company during the year ended 31 March 2017 is summarised as follows:

	Yen	*U.S. dollars*
	The 2016 plan	The 2016 plan
Exercise price	¥ 1	$ 0
Average stock price at the exercise date	–	–
Fair value as of the grant date	697	6

The number of existing stock options as of 31 March 2017 represents the corresponding number of shares.

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

Major assumptions	Note	The 2016 plan
Expected volatility	(a)	22.496%
Expected holding period	(b)	2.8 years
Expected dividend	(c)	¥6 per share ($0 per share)
Risk-free rate	(d)	(0.334%)

(a) Expected volatility was computed by the weekly historical volatility of the Company's stock during the period from 16 September 2013 to 4 July 2016.

(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 2016.

(d) Risk-free rate was computed by the average of the compound interest of long-term interest-bearing government bonds with redemption dates within the before and after three months based on the date which the expected holding period elapse from the grant date the stock acquisition rights.

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

13. SHAREHOLDERS' EQUITY (continued)

Common stock and treasury stock

(1) Movements in issued shares of common stock and treasury stock during the years ended 31 March 2017 and 2016 are as follows:

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

Notes: 1. The increase in the number of shares of treasury stock of 5,678,000 shares was due to purchase of treasury stock under resolution of the Board of Directors and of 41,503 shares was due to repurchases of fractional shares of less than one voting unit.
2. The decrease in the number of shares of treasury stock of 835 shares was due to sales of fractional shares of less than one voting unit.

	Number of shares			
	2016			
	1 April 2015	Increase	Decrease	31 March 2016
Issued shares:				
Common stock	565,913,515	–	–	565,913,515
Treasury stock (Notes 1 and 2)	3,822,672	20,373,309	2,114	24,193,867

Notes: 1. The increase in the number of shares of treasury stock of 20,303,000 shares was due to purchase of treasury stock under resolution of the Board of Directors and of 70,309 shares was due to repurchases of fractional shares of less than one voting unit.
2. The decrease in the number of shares of treasury stock of 2,114 shares 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 2017 and 2016 is as follows:

For the year ended 31 March 2017

a. Dividend payment:

2017

Resolutions	Type of shares	Dividends paid	Dividend per share	Record dates	Effective dates
General shareholders' meeting held on 17 June 2016	Common stock	**¥1,625 million (\$14,485 thousand)**	**¥3.0 (\$0.02)**	31 March 2016	20 June 2016
Board meeting held on 31 October 2016	Common stock	**¥1,608 million (\$14,333 thousand)**	**¥3.0 (\$0.02)**	30 September 2016	1 December 2016

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

2017

Resolution	Type of shares	Dividends paid	Source of dividend	Dividend per share	Record date	Effective date
General shareholders' meeting held on 20 June 2017	Common stock	**¥1,608 million (\$14,332 thousand)**	Retained earnings	**¥3.0 (\$0.02)**	31 March 2017	21 June 2017

For the year ended 31 March 2016

a. Dividend payment:

2016

Resolutions	Type of shares	Dividends paid	Dividend per share	Record dates	Effective dates
General shareholders' meeting held on 17 June 2015	Common stock	¥1,686 million	¥3.0	31 March 2015	18 June 2015
Board meeting held on 29 October 2015	Common stock	¥1,686 million	¥3.0	30 September 2015	1 December 2015

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

2016

Resolution	Type of shares	Dividends paid	Source of dividend	Dividend per share	Record date	Effective date
General shareholders' meeting held on 17 June 2016	Common stock	¥1,625 million	Retained earnings	¥3.0	31 March 2016	20 June 2016

14. COST OF SALES

Cost of sales included loss on devaluation of inventories of ¥222 million ($1,982 thousand) and ¥746 million for the years ended 31 March 2017 and 2016, 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 ¥1,359 million ($12,120 thousand) and ¥61 million for the years ended 31 March 2017 and 2016, respectively. The details are summarised as follows:

For the year ended 31 March 2017

		2017		
Usage	Location	Classification	Millions of Yen	Thousands of U.S. Dollars
Marine business assets	Otsu, Shiga and other	Buildings and structures	**¥ 305**	**$ 2,725**
		Machinery, equipment and vehicles	**66**	**588**
		Land	**83**	**746**
		Lease assets	**362**	**3,234**
		Other	**98**	**873**
		Sub-total	**916**	**8,169**
Idle assets	Hirakata, Osaka	Buildings and structures	**8**	**73**
		Land	**239**	**2,131**
		Sub-total	**247**	**2,205**
Rental properties	Sakyo-ku, Kyoto	Buildings and structures	**3**	**27**
		Land	**127**	**1,139**
		Other	**1**	**12**
		Sub-total	**132**	**1,180**
Hotel facilities	Sakyo-ku, Kyoto	Buildings and structures	**29**	**267**
		Machinery, equipment and vehicles	**1**	**13**
		Other	**2**	**18**
		Sub-total	**33**	**298**
Commercial stores	Ritto, Shiga and other	Buildings and structures	**14**	**129**
		Machinery, equipment and vehicles	**0**	**1**
		Other	**15**	**135**
		Sub-total	**29**	**266**
		Total	**¥ 1,359**	**$ 12,120**

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

For the year ended 31 March 2016

2016			
Usage	Location	Classification	Millions of Yen
Idle assets	Tsuzukigun, Kyoto	Land	¥ 30
		Sub-total	30
Hotel facilities	Sakyo-ku, Kyoto	Buildings and structures	8
		Other	15
		Sub-total	23
Commercial stores	Nishi-ku, Nagoya	Buildings and structures	6
		Other	0
		Sub-total	6
		Total	¥ 61

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

For assets, such as idle assets, rental properties, hotel facilities and commercial stores as a decline in market value was observed, a decline in profitability was expected to continue, or a decision to sell or dismantlement was made, respectively, the Group wrote down the carrying value of the asset to the recoverable amount and loss on impairment of property, plant and equipment was recorded as other expense for the year ended 2016.

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

The recoverable amounts of idle assets were determined using net realisable value basically based on the valuation used for property tax purposes, and the appraisal value assessed by an external appraiser for the years ended 31 March 2017 and 2016, respectively.

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

The recoverable amounts of 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 2017 and 2016.

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 negative for the year ended 31 March 2017and as future cash flow was not expected due to a decision to withdraw from the business for the year ended 31 March 2016.

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 30.8% and 33.0% for the years ended 31 March 2017 and 2016.

The tax effects of significant temporary differences and tax loss carry forwards which resulted in net deferred tax assets and liabilities at 31 March 2017 and 2016 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Deferred tax assets:			
Liability for retirement benefits	**¥ 10,267**	¥ 8,984	**$ 91,515**
Difference arising from company split	**4,238**	–	**37,783**
Loss on impairment of property, plant and equipment	**1,746**	1,338	**15,568**
Loss on devaluation of land, buildings and structures for sale	**1,420**	1,445	**12,660**
Tax loss carry forwards	**1,246**	1,297	**11,108**
Unrealised gain	**1,074**	1,125	**9,575**
Allowance for employees' bonuses	**887**	866	**7,910**
Loss on devaluation of securities	**683**	972	**6,094**
Others	**3,130**	3,124	**27,900**
Sub-total	**24,694**	19,154	**220,116**
Valuation allowance	**(9,900)**	(6,852)	**(88,247)**
Total deferred tax assets	**14,794**	12,302	**131,869**
Offset by deferred tax liabilities	**(4,913)**	(7,560)	**(43,799)**
Net deferred tax assets	**¥ 9,880**	¥ 4,741	**$ 88,070**
Deferred tax liabilities:			
Difference on valuation of assets of consolidated subsidiaries	**¥ (8,172)**	¥ **(8,085)**	**$ (72,847)**
Net unrealised holding gain on securities	**(4,531)**	**(4,515)**	**(40,394)**
Gain on securities contributed to employee retirement benefit trust	**(2,774)**	**(2,461)**	**(24,733)**
Reserve for deduction in costs of property, plant and equipment	**(167)**	**(187)**	**(1,496)**
Others	**(503)**	**(256)**	**(4,486)**
Total deferred tax liabilities	**(16,150)**	**(15,506)**	**(143,959)**
Offset by deferred tax assets	**4,913**	**7,560**	**43,799**
Net deferred tax liabilities	**¥ (11,236)**	¥ **(7,946)**	**$ (100,159)**

16. INCOME TAXES (continued)

A reconciliation between the statutory tax rates and the effective tax rates reflected in the accompanying consolidated statement of income for the years ended 31 March 2017 and 2016 is as follows:

	2017	2016
Statutory tax rates	**30.8%**	33.0%
Effect of:		
Permanent non-deductible expenses	**0.3**	0.6
Permanent non-taxable income	**(0.2)**	(0.2)
Per capita portion of inhabitants' tax	**0.4**	0.4
Effect of change in corporate tax rates	**–**	(0.1)
Valuation allowance	**(3.6)**	(2.3)
Amortisation of goodwill	**0.3**	0.3
Gain on bargain purchase	**–**	(4.9)
Loss on step acquisitions	**–**	2.2
Others	**(0.1)**	0.2
Effective tax rates	**27.9**	29.2

17. OTHER COMPREHENSIVE INCOME

Reclassification adjustments and related income tax effects on components of other comprehensive loss for the years ended 31 March 2017 and 2016 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Net unrealised holding loss on securities:			
Amount arising during the year	**¥ 1,684**	¥ (4,683)	**$ 15,016**
Reclassification adjustments for gain included in profit	**(2,609)**	(0)	**(23,261)**
Before tax effect	**(925)**	(4,683)	**(8,245)**
Tax effect	**(16)**	1,702	**(145)**
Total	**(941)**	(2,981)	**(8,390)**
Revaluation reserve for land:			
Amount arising during the year	**–**	–	**–**
Reclassification adjustments for gain included in profit	**–**	–	**–**
Before tax effect	**–**	–	**–**
Tax effect	**(2,087)**	1,625	**(18,611)**
Total	**(2,087)**	1,625	**(18,611)**
Retirement benefit liability adjustment:			
Amount arising during the year	**(1,468)**	(2,015)	**(13,091)**
Reclassification adjustments for loss included in profit	**476**	712	**4,244**
Before tax effect	**(992)**	(1,302)	**(8,847)**
Tax effect	**469**	368	**4,187**
Total	**(522)**	(934)	**(4,660)**
Share of comprehensive loss of affiliates accounted for using equity method			
Amount arising during the year	**(2)**	–	**(21)**
Other comprehensive loss, net	**¥ (3,554)**	¥ (2,289)	**$ (31,684)**

18. LEASES

(1) Finance Leases (as Lessee)

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

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

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

(2) Operating Leases

Future minimum lease payments under non-cancelable operating leases as at 31 March 2017 and 2016 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Future minimum lease payments:			
Due within one year	**¥ 1,480**	¥ 1,480	**$ 13,195**
Due after one year	**4,262**	5,742	**37,990**
Total	**¥ 5,742**	¥ 7,222	**$ 51,185**

19. AMOUNTS PER SHARE

	Yen		U.S. Dollars
	2017	2016	**2017**
Net assets	**¥ 374.20**	¥ 349.13	**$ 3.33**
Profit attributable to owners of parent:			
Basic	**¥ 42.20**	¥ 39.95	**$ 0.37**
Diluted	**¥ 42.20**	–	**$ 0.37**

Diluted profit attributable to owners of parent per share for the years ended 31 March 2016 is not presented since there were no potentially dilutive securities.

The financial data used in the computation of basic and diluted profit attributable to owners of parent for the years ended 31 March 2017 and 2016 in the table above is summarised as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Profit attributable to owners of parent	**¥ 22,636**	¥ 22,385	**$ 201,767**

	Thousands of shares	
	2017	2016
Weighted-average number of shares of common stock outstanding	**536,367**	560,357
Increase in shares of common stock	**29**	–

Potential shares which do not have dilutive effect for the years ended 31 March 2017 and 2016 are euro-yen zero coupon convertible bonds with stock acquisition rights (2,000 units) in yen, due 30 March 2021 in the aggregate amount of ¥20,000 million ($178,269 thousand).

20. CASH AND CASH EQUIVALENTS

The balances of cash and deposits reflected in the accompanying consolidated balance sheet as at 31 March 2017 and 2016 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
	2017	2016	**2017**
Cash and deposits	**¥ 18,372**	¥ 25,072	**$ 163,763**
Time deposits with a maturity of more than three months	**(48)**	(48)	**(431)**
Deposits included in other of current assets	**–**	4,349	**–**
Cash and cash equivalents	**¥ 18,324**	¥ 29,372	**$ 163,332**

The Company acquired all shares in Osaka Merchandise Mart Corporation (currently, Keihan Tatemono Co., Ltd.) which became a newly consolidated subsidiary. Major components of assets and liabilities of the newly consolidated subsidiary due to acquisition of shares during the year ended 31 March 2016 are as follows:

	Millions of yen
Current assets	¥ 2,676
Non-current assets	9,054
Total assets	11,731
Current liabilities	528
Non-current liabilities	1,921
Total liabilities	¥ 2,450

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.

21. FINANCIAL INSTRUMENTS (continued)

(1) Overview (continued)

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

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

	Millions of Yen		
	2016		
	Carrying value	Fair value	Difference
(1) Cash and deposits	¥ 25,072	¥ 25,072	¥ –
(2) Notes and accounts receivable	23,702	23,702	–
(3) Short-term investments and investment securities:			
Held-to-maturity debt securities	1,873	1,973	99
Other securities	27,137	27,137	–
Total assets	¥ 77,785	¥ 77,884	¥ 99
(4) Notes and accounts payable	10,775	10,775	–
(5) Short-term loans	50,470	50,470	–
(6) Short-term bonds	5,000	5,000	–
(7) Bonds (including current portion)	90,503	94,657	4,154
(8) Long-term loans (including current portion)	179,740	184,420	4,679
Total liabilities	¥ 336,489	¥ 345,323	¥ 8,833
(9) Derivative transactions	¥ –	¥ –	¥ –

21. FINANCIAL INSTRUMENTS (continued)

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

	Thousands of U.S. Dollars		
	2017		
	Carrying value	Fair value	Difference
(1) Cash and deposits	**$ 163,763**	**$ 163,763**	**$ –**
(2) Notes and accounts receivable	**229,618**	**229,618**	**–**
(3) Short-term investments and investment securities:			
Held-to-maturity debt securities	**14,788**	**15,497**	**708**
Other securities	**210,862**	**210,862**	**–**
Total assets	**$ 619,033**	**$ 619,741**	**$ 708**
(4) Notes and accounts payable	**100,266**	**100,266**	**–**
(5) Short-term loans	**378,596**	**378,596**	**–**
(6) Bonds (including current portion)	**804,326**	**828,580**	**24,254**
(7) Long-term loans (including current portion)	**1,620,707**	**1,663,272**	**42,565**
Total liabilities	**$ 2,903,896**	**$ 2,970,716**	**$ 66,819**
(8) Derivative transactions	**$ –**	**$ –**	**$ –**

Notes:

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

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

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

(3) Short-term investments and investment securities

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

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

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

(6) Bonds

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

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.

(8) Derivative transactions

See Note 22 "DERIVATIVE FINANCIAL INSTRUMENTS."

2. Financial instruments for which it is extremely difficult to determine the fair value as at 31 March 2017 and 2016 are summarised as follows:

	Millions of Yen		Thousands of U.S. Dollars
Category	**2017**	2016	**2017**
Unlisted stocks	**¥ 3,965**	¥ 4,546	**$ 35,343**

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 2017 are as follows:

	Millions of Yen			
	2017			
	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	¥ **16,843**	¥ **–**	¥ **–**	¥ **–**
Notes and accounts receivable	**25,760**	**–**	**–**	**–**
Short-term investments and investment securities:				
Held-to-maturity debt securities				
National and municipal bonds	**–**	**1,157**	**300**	**200**
Other securities with maturities				
Corporate bonds	**3**	**–**	**–**	**300**
Total	¥ **42,607**	¥ **1,157**	¥ **300**	¥ **500**

	Thousands of U.S. Dollars			
	2017			
	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	$ **150,131**	$ **–**	$ **–**	$ **–**
Notes and accounts receivable	**229,618**	**–**	**–**	**–**
Short-term investments and investment securities:				
Held-to-maturity debt securities				
National and municipal bonds	**–**	**10,318**	**2,674**	**1,782**
Other securities with maturities				
Corporate bonds	**33**	**–**	**–**	**2,674**
Total	$ **379,783**	$ **10,318**	$ **2,674**	$ **4,456**

5. The redemption schedules for short-term loans, bonds and long-term loans as at 31 March 2017

   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 2017 and 2016 are as follows:

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

			Millions of Yen		
			2016		
			Contractual value		
Hedge accounting method	Transaction type	Major hedged items	Notional amount	Due after 1 year	Fair value
Special accounting treatment of interest rate swaps	Interest rate swap Receive-floating/ pay-fixed	Long-term loans	¥ 3,472	¥ 3,052	(Note)

			Thousands of U.S. Dollars		
			2017		
			Contractual value		
Hedge accounting method	Transaction type	Major hedged items	Notional amount	Due after 1 year	Fair value
Special accounting treatment of interest rate swaps	Interest rate swap Receive-floating/ pay-fixed	Long-term loans	**$ 27,203**	**$ 22,213**	(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 companies, which are other than consolidated subsidiaries, as at 31 March 2017 as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2017	**2017**
Nakanoshima Rapid Railway Co., Ltd.	**¥ 23,957**	**$ 213,542**
Bunkazai Service Co., Ltd.	**115**	**1,025**
Hachikenya Co., Ltd.	**5**	**49**
Total	**¥ 24,077**	**$ 214,616**

24. ASSET RETIREMENT OBLIGATIONS

(1) General information about asset retirement obligations

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

(2) Basis of measurement for asset retirement obligations

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

(3) Changes in the balance of asset retirement obligations for the years ended 31 March 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Balance at the beginning of year	**¥ 357**	¥ 384	**$ 3,188**
Increase due to consolidation of a new subsidiary	**–**	34	**–**
Increase due to acquisition of property, plant and equipment	**142**	–	**1,273**
Adjustment with passing of time	**4**	4	**37**
Increase due to changes in estimate (Note)	**–**	3	**–**
Decrease due to settlement	**(7)**	(8)	**(66)**
Other	**–**	(61)	**–**
Balance at the end of year	**¥ 497**	¥ 357	**$ 4,431**

Note: The amount of asset retirement obligations before change increased by ¥3 million for the year ended 31 March 2016, due to a change in the estimated costs to be incurred at the time of retirement of certain assets.

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 2017 and 2016

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

Notes: 1. Details of adjustments are as follows:

(1) "Adjustments" to "Segment income" represented elimination of inter-segment transactions and profit or loss of the Company not allocated to each reportable segment.

(2) "Adjustments" to "Segment assets" represented elimination of inter-segment transactions and the Company assets not allocated to each reportable segment. The Company assets amounted to ¥34,957 million ($311,591 thousand) and principally consist of the Company's surplus funds (cash and deposits), long-term investment assets (investment securities).

(3) "Adjustments" to "Increase in property, plant and equipment, and intangible assets" represented the Company assets not allocated to each reportable segment.

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

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 2017 and 2016 (continued)

	Millions of Yen							
	2016							
	Reportable Segments							
	Transportation	Real Estate	Retail Distribution	Leisure and Service	Others	Total	Adjustments (Note 1)	Consolidated (Note 2)
Operating revenues:								
External customers	¥ 92,195	¥ 76,649	¥ 98,490	¥ 31,775	¥ 1,077	¥ 300,188	¥ –	¥ 300,188
Inter-segment operating revenues or transfers	1,367	12,383	384	37	678	14,852	(14,852)	–
Total	¥ 93,562	¥ 89,033	¥ 98,875	¥ 31,813	¥ 1,755	¥ 315,040	¥ (14,852)	¥ 300,188
Segment income (loss)	¥ 10,193	¥ 13,882	¥ 2,826	¥ 4,599	¥ (12)	¥ 31,490	¥ 34	¥ 31,524
Segment assets	266,694	303,245	28,664	34,871	7,006	640,481	29,851	670,333
Other items:								
Depreciation and amortisation	10,788	4,333	1,284	1,145	17	17,571	–	17,571
Increase in property, plant and equipment, and intangible assets	12,749	13,392	1,609	3,924	120	31,796	(398)	31,398

Notes: 1. Details of adjustments are as follows:

(1) "Adjustments" to "Segment income (loss)" represented elimination of inter-segment transactions.

(2) "Adjustments" to "Segment assets" represented elimination of inter-segment transactions and corporate assets. Corporate assets amounted to ¥43,502 million and principally consist of the Company's surplus funds (cash and deposits), long-term investment assets (investment securities) and deferred tax assets.

(3) "Adjustments" to "Increase in property, plant and equipment, and intangible assets" represented elimination of inter-segment transactions.

2. Segment profit (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 2017 and 2016 (continued)

	Thousands of U.S. Dollars							
	2017							
	Reportable Segments							
	Transportation	Real Estate	Retail Distribution	Leisure and Service	Others	Total	Adjustments (Note 1)	Consolidated (Note 2)
Operating revenues:								
External customers	**$ 821,838**	**$ 720,208**	**$ 873,935**	**$ 274,009**	**$ 10,030**	**$ 2,700,023**	**$ 15**	**$ 2,700,039**
Inter-segment operating revenues or transfers	**19,630**	**117,783**	**3,976**	**541**	**5,943**	**147,876**	**(147,876)**	**–**
Total	**$ 841,469**	**$ 837,992**	**$ 877,912**	**$ 274,550**	**$ 15,974**	**$ 2,847,899**	**$ (147,860)**	**$ 2,700,039**
Segment income	**$ 88,926**	**$ 129,173**	**$ 23,502**	**$ 42,389**	**$ 660**	**$ 284,651**	**$ 3,644**	**$ 288,295**
Segment assets	**2,195,997**	**3,066,519**	**273,186**	**301,513**	**64,675**	**5,901,892**	**155,973**	**6,057,865**
Other items:								
Depreciation and amortisation	**95,574**	**42,183**	**11,382**	**9,821**	**274**	**159,236**	**1,870**	**161,106**
Increase in property, plant and equipment, and intangible assets	**157,685**	**147,544**	**20,873**	**16,739**	**308**	**343,151**	**6,021**	**349,173**

(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 2017 and 2016, 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 2017 and 2016, 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							
	2017							
	Reportable Segments							
	Transportation	Real Estate	Retail Distribution	Leisure and Service	Others	Total	Adjustments	Consolidated
Impairment losses	**¥ 132**	**¥ –**	**¥ –**	**¥ 1,266**	**¥ –**	**¥ 1,398**	**¥ (38)**	**¥ 1,359**

	Millions of Yen							
	2016							
	Reportable Segments							
	Transportation	Real Estate	Retail Distribution	Leisure and Service	Others	Total	Adjustments	Consolidated
Impairment losses	¥ 37	¥ –	¥ –	¥ 23	¥ –	¥ 61	¥ –	¥ 61

	Thousands of U.S. Dollars							
	2017							
	Reportable Segments							
	Transportation	Real Estate	Retail Distribution	Leisure and Service	Others	Total	Adjustments	Consolidated
Impairment losses	**$ 1,180**	**$ –**	**$ –**	**$ 11,287**	**$ –**	**$ 12,467**	**$ (347)**	**$ 12,120**

(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 2017 and 2016 and for the years then ended was omitted because the amounts were immaterial.

(7) Information on negative goodwill by reportable segment

Relating to the segment "Real Estate," the Company acquired additional shares of Osaka Merchandise Mart Corporation, making it a consolidated subsidiary. As a result, the Company recognised gain on bargain purchase of ¥4,709 million and loss on step acquisitions of ¥2,119 million for the year ended 31 March 2016.

26. RELATED PARTY TRANSACTIONS

Transactions of the Company with related parties as at and for the years ended 31 March 2017 and 2016 are as follows:

Company's unconsolidated subsidiaries and affiliates

2017

Category	Company name	Location	Capital	Business	Percentage of voting rights	Relationship	Transaction	Transaction amount	Account	Year-end balance
Affiliates	Nakano-shima Rapid Railway Co., Ltd.	Chuo-ku, Osaka	**¥26,135 million ($232,959 thousand)**	Railway operations	(Direct voting rights) 33.50%	Reservation of guarantees on loans Holding concurrent position of directors	Guarantees (Note 1)	**¥23,957 million ($213,542 thousand)**	–	–

2016

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)	¥25,210 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 ¥23,957 million ($213,542 thousand) and ¥25,210 million for the years ended 31 March 2017 and 2016, respectively.

27. BUSINESS COMBINATION

Transaction under common control

(i) Company split

1) Outline of transaction

(a) Businesses to be divested
The Company's railway business, amusement park business and real estate sales business.

(b) Date of business combination
1 April 2016

(c) Legal form of business combination
Company split, in which the Company is the splitting company and Keihan Electric Railway Co., Ltd. and Keihan Dentetsu Real Estate Co., Ltd. are the succeeding companies in this absorption-type split.

(d) Name of companies after business combination
Keihan Holdings Co., Ltd., Keihan Electric Railway Co., Ltd. and Keihan Dentetsu Real Estate Co., Ltd.

27. BUSINESS COMBINATION (continued)

(i) Company split (continued)

1) Outline of transaction (continued)

Other items
The Company shifted to a holding company structure for sustainable growth and improving corporate value by addressing issues such as further strengthening the competitiveness of each business, expanding the Company's group business, creating new business by utilizing alliances with different industries and M&A, and improving the value of areas along the railway line in view of the mid- and long-term.

2) Outline of accounting treatment

The Company split was accounted as a transaction under common control in accordance with the "Accounting Standard for Business Combinations" and the "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures".

(ii) Merger

1) Outline of transaction

(a) Name and business of combined company
a. Acquiring company (the Company's consolidated subsidiary)
Name of acquiring company Kyoto Tower Co., Ltd.
Business description Hotel business
b. Acquired company (the Company's consolidated subsidiary)
Name of acquired company BIWAKO HOTEL CO., Ltd., Kyoto Century Hotel Co., Ltd.
Business description Hotel business

(b) Date of business combination
1 October 2016

(c) Legal form of business combination
Absorption-type merger in which Kyoto Tower Co., Ltd. is the surviving company and BIWAKO HOTEL CO., Ltd. and Kyoto Century Hotel Co., Ltd. are the absorbed companies.

(d) Name of company after business combination
Keihan Hotels & Resorts Co.,Ltd.

(e) Other items regarding outline of transaction
The purposes of this transaction are to strengthen the management foundation and brand power as a hotel management company and realise improvement of operations by consolidation of functions and human resources.

2) Outline of accounting procedure adopted

The Company split was accounted as a transaction under common control in accordance with the "Accounting Standard for Business Combinations" and the "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures".

28. SUBSEQUENT EVENTS

(i) Change in the number of shares per share unit and the share consolidation

The Company resolved to change to the number of shares per share unit and put forward the proposal on a share consolidation at the 95th Ordinary General Meeting of Shareholders on 20 June 2017 at the Board of Directors' meeting held on 28 April 2017. The proposal on the share consolidation was subsequently approved at that general shareholders' meeting.

1) Purpose of the change in the number of shares per share unit and the share consolidation

   For the greater convenience of investors, Japanese stock exchanges are promoting a plan to consolidate trading units for common shares of domestic companies to 100 shares per unit based on "Action Plan for Consolidating Trading Units." In light of the intent of this action plan, the Company has decided to change the number of shares per share unit as a trading unit for the Company's shares from the present 1,000 shares to 100 shares.

   Along with the change in the share unit, the Company decided to consolidate five shares into one share to adjust the investment units of the Company's shares to appropriate levels while taking the security exchanges preferred investment unit level and medium- to long-term share price trends into consideration.

2) Details of change in the number of shares per share unit

   As of 1 October 2017, the number of shares per share unit will be changed from the current 1,000 shares to 100 shares.

3) Share consolidation
   Details of share consolidation

   (a) Type of shares to be consolidated

   Common stock

   (b) Method and ratio of share consolidation

   With respect to the shares owned by the shareholders recorded in the shareholder register as of 30 September 2017 (substantially 29 September 2017), five shares will be consolidated into one share as of 1 October 2017.

   (c) Decrease in number of shares due to share consolidation

Total number of outstanding shares before share consolidation (As of 31 March 2017)	565,913,515 shares
Decrease in number of shares due to share consolidation	452,730,812 shares
Total number of outstanding shares after share consolidation	113,182,703 shares

   The decrease in the number of shares due to the share consolidation and the total number of outstanding shares after the share consolidation are theoretical numbers calculated by multiplying the total number of outstanding shares before the share consolidation by the share consolidation ratio.

28. SUBSEQUENT EVENTS (continued)

(i) Change in the number of shares per share unit and the share consolidation (continued)

4) Impact of this change on per share information

Per share information calculated as if the share consolidation had been implemented at the beginning of the fiscal year ended March 31, 2016, for the years ended 31 March, 2017 and 2016 is as follows:

	2017	2016	**2017**
	(Yen)		*(U.S. dollars)*
Net assets	**¥ 1,870.99**	¥ 1,745.63	**$ 16.67**
Profit attributable to owners of the parent:			
Basic	**211.01**	199.75	**1.88**
Diluted	**211.00**	–	**1.88**

Diluted profit attributable to owners of the parent per share for the year ended 31 March, 2016 is not presented since there were no potentially dilutive shares.

(ii) Transfer of subsidiary's shares

At the Board of Directors' meeting held on 28 February 2017, the Company resolved to transfer all of the shares of Keihan Life Support Co., Ltd., which is a consolidated subsidiary of the Company, to The Kansai Electric Power Co., Inc. and KANDEN Security of Society, Inc. and concluded a share transfer agreement on 11 April 2017 and transferred these shares on 26 April 2017.

1) Reason for business transfer

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

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

2) Name of transferee

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

3) Date of business transfer

26 April 2017

4) Name of the subsidiary, business description and relationship with the Company

(a) Name	Keihan Life Support Co., Ltd.
(b) Business description	Home-visit nursing care business, day care nursing business, and senior citizen facility business
(c) Relationship with the Company	The Group leases the subsidiary's head office, day service facility, and land and buildings of senior citizen facilities.

28. SUBSEQUENT EVENTS (continued)

(ii) Transfer of subsidiary's shares (continued)

5) Number of shares transferred, transfer price, gain or loss on business transfer and share holding after transfer

(a)	Number of shares transferred	4,000 shares
(b)	Transfer price	¥2,929 million ($26,113 thousand)
(c)	Gain on business transfer	¥3,164 million ($28,206 thousand)
(d)	Shareholding after transfer	– %

(iii) Acquisition of subsidiary

At the Board of Directors' meeting held on 29 May 2017, the Company resolved to acquire the shares of Zero Corporation Co., Ltd. ("Zero Corporation") to make it a consolidated subsidiary and concluded a share purchase agreement on the same date.

1) Reason for share acquisition
Zero Corporation has developed a ready-built housing and order-made building business and others business mainly in Kyoto and has received support from many customers since it was established in 1982. It is a leading real estate company in the Kinki region with strengths in development know-how of "*Machinaka* ready-built business," especially in the built-up areas.
The Keihan Group had been working on urban development of so-called large-scale new towns mainly "Kuzuha Rose Town" and "Keihan East Rose Town". However, the Company decided to welcome Zero Corporation as a member of the Keihan Group so that the Company can propose various other forms of town creation in addition to the large-scale development in the Keihan Group by expanding to areas along the Keihan Railway lines utilizing the know-how of Zero Corporation related to already developed areas.

2) Name of parent of acquired company
Zero Holdings, Inc.

3) Name of acquired company, business description and scale

(a)	Name of acquired company	Zero Corporation Co., Ltd.
(b)	Business description	Ready-built housing business, order-made building business and others
(c)	Common stock	¥80 million ($713 thousand)

4) Date of share acquisition
3 July 2017 (planned)

5) Number of shares to be acquired, acquisition price and shareholding ratio after acquisition

(a)	Number of shares to be acquired	1,600 shares
(b)	Acquisition price	¥751 million ($6,694 thousand) (planned)
(c)	Shareholding ratio after acquisition	100%

6) Method of fundraising and method of payment
Cash consideration using internal funding