Japan Transcity Corporation

Consolidated Financial Statements

March 31, 2017 and 2016

KPMG

Independent Auditor's Report

To the Board of Directors of Japan Transcity Corporation :

We have audited the accompanying consolidated financial statements of Japan Transcity Corporation and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2017 and 2016, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

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 such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and 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 our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control 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, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. 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 present fairly, in all material respects, the financial position of Japan Transcity Corporation and its consolidated subsidiaries as at March 31, 2017 and 2016, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2017 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 of the Notes to the consolidated financial statements.

KPMG AZSA LLC

July 31, 2017
Nagoya, Japan

Japan Transcity Corporation and Consolidated Subsidiaries
Consolidated Balance Sheets
March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Current assets:			
Cash and cash equivalents (Note 3)	¥ 10,746	¥ 10,660	$ 95,946
Short-term investments (Notes 3 and 4)	521	369	4,652
Trade receivables (Note 3)	13,014	13,505	116,197
Allowance for doubtful accounts	(17)	(14)	(152)
	12,997	13,491	116,045
Inventories	102	88	911
Deferred tax assets (Note 10)	184	374	1,643
Other current assets	2,487	1,826	22,205
Total current assets	27,037	26,808	241,402
Property and equipment:			
Land (Note 5)	32,528	31,008	290,429
Buildings and structures	54,766	53,434	488,982
Machinery and equipment	13,068	13,098	116,678
Vehicles and vessels	7,123	6,905	63,598
Construction in progress	12,661	1,681	113,045
Total property and equipment	120,146	106,126	1,072,732
Less accumulated depreciation	(55,270)	(54,851)	(493,482)
Net property and equipment	64,876	51,275	579,250
Investments and other assets:			
Investment securities (Notes 3 and 4)	8,103	8,023	72,348
Investments in unconsolidated subsidiaries and affiliates (Note 3)	6,452	6,300	57,607
Employee retirement benefit asset (Note 6)	3,090	2,440	27,589
Deferred tax assets (Note 10)	578	618	5,160
Lease deposits	609	630	5,438
Other assets	2,115	1,609	18,884
Allowance for doubtful accounts	(22)	(15)	(196)
Total investments and other assets	20,925	19,605	186,830
Total assets	¥ 112,838	¥ 97,688	$ 1,007,482

	Millions of yen 2017	Millions of yen 2016	Thousands of U.S. dollars 2017
Current liabilities:			
Short-term borrowings (Notes 3 and 5)	¥ 2,390	¥ 2,457	$ 21,339
Current maturities of long-term debt (Notes 3 and 5)	800	1,742	7,143
Trade payables (Note 3)	8,407	8,113	75,063
Accrued expenses	1,681	1,662	15,009
Income taxes payable	1,212	687	10,821
Deferred tax liabilities (Note 10)	182	-	1,625
Other current liabilities (Note 5)	6,260	3,185	55,893
Total current liabilities	20,932	17,846	186,893
Long-term liabilities:			
Long-term debt (Notes 3 and 5)	24,798	17,698	221,411
Employee retirement benefit liability (Note 6)	1,910	1,860	17,054
Guarantee deposits received (Notes 3 and 5)	2,824	2,949	25,214
Deferred tax liabilities for revaluation	3,775	3,850	33,705
Deferred tax liabilities (Note 10)	2,277	1,967	20,330
Accrued severance indemnities for directors	21	18	187
Other long-term liabilities (Note 5)	353	508	3,152
Total long-term liabilities	35,958	28,850	321,053
Total liabilities	56,890	46,696	507,946
Commitments and contingent liabilities (Notes 8 and 9)			
Net assets (Note 7):			
Shareholders' equity:			
Common stock: 240,000,000 shares authorized and 67,142,417 shares issued	8,428	8,428	75,250
Capital surplus	6,753	6,751	60,295
Retained earnings	38,847	35,324	346,849
Less treasury stock, at cost: 3,235,740 shares in 2017 and 3,031,834 shares in 2016	(1,270)	(1,198)	(11,340)
Total shareholders' equity	52,758	49,305	471,054
Accumulated other comprehensive income:			
Net unrealized gains on available-for-sale securities	2,325	1,410	20,759
Land revaluation decrement	(1,182)	(1,009)	(10,554)
Foreign currency translation adjustments	256	332	2,286
Retirement benefit adjustment (Note 6)	74	(620)	661
Total accumulated other comprehensive income	1,473	113	13,152
Noncontrolling interests	1,717	1,574	15,330
Total net assets	55,948	50,992	499,536
Total liabilities and net assets	¥ 112,838	¥ 97,688	$ 1,007,482

See accompanying Notes to Consolidated Financial Statements.

Japan Transcity Corporation and Consolidated Subsidiaries
Consolidated Statements of Income
For the Years Ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Operating revenue (Note 12)	¥ 91,332	¥ 93,218	$ 815,464
Operating costs and expenses			
(Notes 6 and 9)	88,352	89,436	788,857
Operating income	2,980	3,782	26,607
Other income (expenses):			
Interest and dividend income	400	444	3,571
Interest expense	(155)	(197)	(1,384)
Equity in net earnings of unconsolidated subsidiaries and affiliates	397	386	3,545
Gain on sale or disposal of property and equipment, net	2,000	34	17,857
Others, net	336	103	3,000
	2,978	770	26,589
Income before income taxes	5,958	4,552	53,196
Income taxes (Note 10):			
Current	1,837	1,308	16,402
Deferred	(64)	100	(572)
Total income taxes	1,773	1,408	15,830
Net income	4,185	3,144	37,366
Net income attributable to noncontrolling interests	163	180	1,455
Net income attributable to owners of the Company	¥ 4,022	¥ 2,964	$ 35,911

	Yen		U.S. dollars
Per share:			
Net income	¥ 62.85	¥ 46.13	$ 0.56
Cash dividends (Note 7)	10.00	10.00	0.09

See accompanying Notes to Consolidated Financial Statements.

Japan Transcity Corporation and Consolidated Subsidiaries
Consolidated Statements of Comprehensive Income
For the Years Ended March 31, 2017 and 2016

	Millions of yen				Thousands of U.S. dollars	
	2017		2016		2017	
Net income	¥	4,185	¥	3,144	$	37,366
Other comprehensive income (Note 11):						
Net unrealized gains on available-for-sale securities		924		(935)		8,250
Land revaluation decrement		-		204		-
Foreign currency translation adjustments		(91)		(188)		(812)
Retirement benefit adjustment		694		(693)		6,196
Share of other comprehensive income of unconsolidated subsidiaries and affiliates accounted for using equity method		(8)		(25)		(71)
Total other comprehensive income		1,519		(1,637)		13,563
Comprehensive income	¥	5,704	¥	1,507	$	50,929
Comprehensive income attributable to:						
Owners of the Company	¥	5,552	¥	1,424	$	49,572
Noncontrolling interests		152		83		1,357

See accompanying Notes to Consolidated Financial Statements.

Japan Transcity Corporation and Consolidated Subsidiaries
Consolidated Statements of Changes in Net Assets
For the Years Ended March 31, 2017 and 2016

		Shareholders' equity					Accumulated other comprehensive income						
	Number of shares of common stock issued	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains on available-for-sale securities	Land revaluation decrement	Foreign currency translation adjustments	Retirement benefit adjustment	Total accumulated other comprehensive income	Minority interests	Total net assets
		Millions of yen											
Balance at April 1, 2015	67,142,417	¥ 8,428	¥ 6,733	¥ 32,771	¥ (1,107)	¥ 46,825	¥ 2,335	¥ (1,075)	¥ 434	¥ 73	¥ 1,767	¥ 1,484	¥ 50,076
Net income attributable to owners of the Company	-	-	-	2,964	-	2,964	-	-	-	-	-	-	2,964
Cash dividends	-	-	-	(643)	-	(643)	-	-	-	-	-	-	(643)
Change in scope of consolidation	-	-	-	94	-	94	-	-	-	-	-	-	94
Purchase of treasury stock and fractional shares, net	-	-	-	-	(91)	(91)	-	-	-	-	-	-	(91)
Purchase of additional shares of consolidated subsidiaries	-	-	18	-	-	18	-	-	-	-	-	-	18
Reversal of land revaluation decrement	-	-	-	138	-	138	-	-	-	-	-	-	138
Net changes other than changes in shareholders' equity	-	-	-	-	-	-	(925)	66	(102)	(693)	(1,654)	90	(1,564)
Balance at March 31, 2016	67,142,417	8,428	6,751	35,324	(1,198)	49,305	1,410	(1,009)	332	(620)	113	1,574	50,992
Net income attributable to owners of the Company	-	-	-	4,022	-	4,022	-	-	-	-	-	-	4,022
Cash dividends	-	-	-	(672)	-	(672)	-	-	-	-	-	-	(672)
Purchase of treasury stock and fractional shares, net	-	-	-	-	(72)	(72)	-	-	-	-	-	-	(72)
Purchase of additional shares of consolidated subsidiaries	-	-	2	-	-	2	-	-	-	-	-	-	2
Reversal of land revaluation decrement	-	-	-	173	-	173	-	-	-	-	-	-	173
Net changes other than changes in shareholders' equity	-	-	-	-	-	-	915	(173)	(76)	694	1,360	143	1,503
Balance at March 31, 2017	67,142,417	¥ 8,428	¥ 6,753	¥ 38,847	¥ (1,270)	¥ 52,758	¥ 2,325	¥ (1,182)	¥ 256	¥ 74	¥ 1,473	¥ 1,717	¥ 55,948
		Thousands of U.S. dollars											
Balance at March 31, 2016		$ 75,250	$ 60,277	$ 315,393	$ (10,697)	$ 440,223	$ 12,589	$ (9,009)	$ 2,964	$ (5,535)	$ 1,009	$ 14,054	$ 455,286
Net income attributable to owners of the Company		-	-	35,911	-	35,911	-	-	-	-	-	-	35,911
Cash dividends		-	-	(6,000)	-	(6,000)	-	-	-	-	-	-	(6,000)
Purchase of treasury stock and fractional shares, net		-	-	-	(643)	(643)	-	-	-	-	-	-	(643)
Purchase of additional shares of consolidated subsidiaries		-	18	-	-	18	-	-	-	-	-	-	18
Reversal of land revaluation decrement		-	-	1,545	-	1,545	-	-	-	-	-	-	1,545
Net changes other than changes in shareholders' equity		-	-	-	-	-	8,170	(1,545)	(678)	6,196	12,143	1,276	13,419
Balance at March 31, 2017		$ 75,250	$ 60,295	$ 346,849	$ (11,340)	$ 471,054	$ 20,759	$ (10,554)	$ 2,286	$ 661	$ 13,152	$ 15,330	$ 499,536

See accompanying Notes to Consolidated Financial Statements.

Japan Transcity Corporation and Consolidated Subsidiaries
Consolidated Statements of Cash Flows
For the Years Ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Cash flows from operating activities:			
Income before income taxes	¥ 5,958	¥ 4,552	$ 53,196
Adjustments for:			
Depreciation	2,639	2,400	23,562
Net change in employee retirement benefit asset/liability	395	(296)	3,527
Gain on sale or disposal of property and equipment, net	(2,000)	(34)	(17,857)
Decrease in trade receivables	369	259	3,295
(Increase) decrease in inventories	(14)	1	(125)
Increase (decrease) in trade payables	305	(100)	2,723
Others, net	(1,200)	(1,012)	(10,714)
Subtotal	6,452	5,770	57,607
Interest and dividends received	629	654	5,616
Interest paid	(155)	(200)	(1,384)
Income taxes paid	(1,389)	(948)	(12,401)
Net cash provided by operating activities	5,537	5,276	49,438
Cash flows from investing activities:			
Increase in property and equipment and intangible assets	(14,282)	(2,122)	(127,518)
Decrease in property and equipment and intangible assets	2,362	416	21,089
Increase in short-term investments	(156)	(350)	(1,393)
Others, net	1,511	(40)	13,491
Net cash used in investing activities	(10,565)	(2,096)	(94,331)
Cash flows from financing activities:			
Increase in long-term debt	8,000	5,000	71,428
Repayment of long-term debt	(1,842)	(8,242)	(16,446)
Decrease in short-term borrowings	(52)	-	(464)
Purchase of treasury stock and fractional shares, net	(72)	(91)	(643)
Dividends paid	(672)	(643)	(6,000)
Purchase of stocks of subsidiaries not resulting in change in scope of consolidation	-	(118)	-
Others, net	(268)	(288)	(2,393)
Net cash provided by (used in) financing activities	5,094	(4,382)	45,482
Effect of exchange rate changes on cash and cash equivalents	20	(47)	178
Net increase (decrease) in cash and cash equivalents	86	(1,249)	767
Cash and cash equivalents at beginning of year	10,660	11,653	95,179
Increase in cash and cash equivalents upon inclusion of additional subsidiaries on consolidation	-	256	-
Cash and cash equivalents at end of year	¥ 10,746	¥ 10,660	$ 95,946

See accompanying Notes to Consolidated Financial Statements.

Japan Transcity Corporation and Consolidated Subsidiaries
Notes to Consolidated Financial Statements

1. Basis of Consolidated Financial Statements

The accompanying consolidated financial statements of Japan Transcity Corporation (the "Company") and its consolidated subsidiaries (together with the Company, the "Japan Transcity Group") have been prepared in accordance with the provisions set forth in the Financial Instrument and Exchange Law of Japan 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 application and disclosure requirements from International Financial Reporting Standards.

The accompanying consolidated financial statements have been restructured and translated into English from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instrument and Exchange Law of Japan. Certain supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, has not been presented in the accompanying consolidated financial statements.

Comparative figures have been reclassified to conform to the current year's presentation.

The translation of the Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2017, which was approximately ¥112 to U.S. $1.00. Such translation should not be construed as a representation that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. Summary of Significant Accounting Policies

(a) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries. Investments in certain unconsolidated subsidiaries and significant affiliates are accounted for using the equity method. Investments in unconsolidated subsidiaries and affiliates not accounted for using the equity method are stated at cost. Differences between the acquisition cost of investments in subsidiaries and the underlying equity in their net assets, adjusted based on the fair value at the time of acquisition, are principally deferred as goodwill and amortized over five years or recognized as gain on negative goodwill.

The numbers of consolidated subsidiaries, unconsolidated subsidiaries and affiliates for the years ended March 31, 2017 and 2016 were as follows.

	2017	2016
Consolidated subsidiaries:		
Domestic	25	25
Overseas	7	6
Unconsolidated subsidiaries and affiliates accounted for using the equity method	9	9
Unconsolidated subsidiaries stated at cost	10	11
Affiliates stated at cost	4	4

All intercompany accounts and transactions have been eliminated on consolidation.

The accompanying consolidated financial statements include the accounts of overseas consolidated subsidiaries (seven subsidiaries in 2017 and six subsidiaries in 2016). These overseas consolidated subsidiaries close their books at December 31, which is three months earlier than the closing of the books of the Company and its domestic consolidated subsidiaries. The Company consolidated its overseas subsidiaries' financial statements as of their year-end date. Significant transactions for the period between the subsidiaries' year-end date and the Company's year-end date have been adjusted on consolidation.

Unification of accounting policies applied to foreign subsidiaries for consolidated financial statements
The "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" issued by the Accounting Standards Board of Japan ("ASBJ") (Practical Issues Task Force ("PITF") No. 18) generally requires that accounting policies and procedures applied by a parent company and its subsidiaries to similar transactions and events under similar circumstances be unified for the preparation of the consolidated financial statements. As a tentative measure, however, PITF No. 18 allows a parent company to prepare consolidated financial statements using foreign subsidiaries' financial statements prepared in accordance with either International Financial Reporting Standards or U.S. generally accepted accounting principles. In this case, adjustments for the following four items are required in the consolidation process so that their impact on net income is accounted for in accordance with Japanese GAAP, unless such impact is immaterial.

(a) Goodwill not subject to amortization
(b) Actuarial gains and losses of defined benefit retirement plans recognized outside profit or loss
(c) Capitalized expenditures for research and development activities
(d) Fair value measurement of investment properties and revaluation of property and equipment and intangible assets

For the consolidation purposes of the Company, the accounts of the Company's overseas consolidated subsidiaries have been prepared in accordance with either International Financial Reporting Standards or U.S. generally accepted accounting principles, with adjustments having been made for the four items specified above as needed.

(b) Cash equivalents

The Japan Transcity Group considers highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

(c) Investments and marketable securities

The Japan Transcity Group classifies certain investments in debt and equity securities as "held-to-maturity," "trading" or "available-for-sale" securities for the purpose of determining the applicable accounting method as stipulated by the accounting standard for financial instruments. Marketable available-for-sale securities with available market quotations are stated at fair value, and net unrealized gains and losses on these securities, net of applicable income taxes, are reported as accumulated other comprehensive income. Gains and losses on the disposition of available-for-sale securities are computed based on the moving average method. Nonmarketable available-for-sale securities without available market quotations are carried at cost determined by the moving average method. Adjustments in the carrying values of individual securities are charged to income through write-downs when a decline in value is deemed other than temporary.

(d) Accounting for derivatives

Derivatives are valued at fair value if hedge accounting is not appropriate or where there is no hedging designation, and gains and losses on the derivatives are recognized in current earnings. Under the special treatment permitted by the accounting standard for financial instruments, hedging interest rate swaps are accounted for on an accrual basis and recorded net of interest expenses generated from the hedged borrowings if certain conditions are met.

(e) Inventories

Inventories consist of supplies and others. Inventories are stated at the lower of cost, determined by the moving average method, or net realizable value.

(f) Allowance for doubtful accounts

An allowance for doubtful accounts is provided for certain doubtful or troubled receivables at the aggregate amount of estimated credit losses based on individual financial reviews. For other receivables, a general reserve calculated based on historical loss experience for a certain past period is provided.

(g) Property and equipment, and depreciation, except for leases

Property and equipment, including significant renewals and additions, are stated at cost and depreciated based on the estimated useful life of the asset. Expenditures on maintenance and repairs are charged to operating income as incurred. The capital gains directly offset against the acquisition costs of tangible fixed assets to obtain tax benefits amounted to ¥100 million ($893 thousand) at March 31, 2017 and 2016, respectively.

Changes in accounting policy difficult to distinguish from changes in accounting estimates
Until the year ended March 31, 2015, the Company and its domestic consolidated subsidiaries depreciated property and equipment, except for buildings acquired on or after April 1, 1998 that are depreciated using the straight-line method, using the declining balance method. Effective from the year ended March 31, 2016, the Company and its domestic consolidated subsidiaries changed their depreciation method for all properties to the straight-line method. This change is based on the Japan Transcity Group's judgment that employing the depreciation method as a cost allocation of property and equipment equally over the useful life would be more appropriate in response to the steady contributions for investment and earnings as a result of a reassessment of the recent actual use of the properties associated with a detailed construction plan for a distribution center in Saitama prefecture under the medium-term management plan. As a result, operating income and income before income taxes for the year ended March 31, 2016 were ¥431 million and ¥434 million more, respectively, than the amounts that would have been reported without the change.

(h) Accounting for leases

Assets of finance leases that transfer ownership of the leased property to the lessee are depreciated using the same method for nonlease property. Assets of finance leases that do not transfer ownership of the leased property to the lessee are capitalized and depreciated over the lease term using the straight-line method with the assumption that the residual value, or guaranteed residual value when set by agreement, is zero.

Prior to April 1, 2008, the Company's domestic consolidated subsidiary accounted for finance leases which do not transfer ownership of the leased property to the lessee as operating leases, provided they disclosed certain “as if capitalized” information in the notes to the consolidated financial statements. The Company and its domestic consolidated subsidiaries have adopted ASBJ Statement No. 13, entitled the “Accounting Standard for Lease Transactions,” and ASBJ Guidance No. 16, entitled the “Guidance on Accounting Standard for Lease Transactions.” The accounting standard requires that all finance lease transactions be treated as capital leases. As permitted, finance leases which do not transfer ownership of leased property to the lessee that commenced prior to April 1, 2008 and have been accounted for as operating leases continue to be accounted for as such provided that certain “as if capitalized” information has been disclosed.

(i) Accounting standard for impairment of fixed assets

The Company and its domestic consolidated subsidiaries adopted the “Accounting Standard for Impairment of Fixed Assets” issued by the Business Accounting Council of Japan and related practical guidance issued by ASBJ. The standard requires that a fixed asset be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such asset may not be recoverable. Impairment loss is to be recognized in the income statement by reducing the carrying amount of the impaired asset or group of assets to the recoverable amount, measured at the higher of the net selling price or value in use. Fixed assets include land, buildings and other forms of property as well as intangible assets and are to be grouped at the lowest level for which there are identifiable cash flows separate from those of other groups of assets. For the purpose of recognition and measurement of impairment loss, fixed assets other than idle or unused property are principally grouped into cash generating units such as regional business divisions.

(j) Revaluation of land

In accordance with the Law Concerning Revaluation of Land (the “Revaluation Law”), the Company elected a one time revaluation to restate the cost of land used for the Company’s business at values rationally reassessed effective on March 31, 2002, reflecting adjustments for land shape and other factors and based on municipal property tax bases. In accordance with the Revaluation Law, an amount equivalent to the tax effect on the difference between the original book value and the reassessed value was recorded as deferred tax liability under the revaluation account. The remaining difference, net of the tax effects, was recorded as a land revaluation decrement account included in accumulated other comprehensive income in the accompanying consolidated balance sheets. At March 31, 2017 and 2016, the differences in the carrying value of land used for the Company’s business after reassessment over the current market value at the fiscal year-end amounted to ¥9,033 million ($80,652 thousand) and ¥8,883 million, respectively.

(k) Employee retirement benefits

Employees who terminate their service with the Japan Transcity Group are entitled to retirement benefits generally determined by current basic rates of pay, length of service and conditions under which the termination has occurred.

In accordance with the accounting standard for employee retirement benefits, the Japan Transcity Group recognizes retirement benefits for employees, including pension costs and related liabilities, based on the actuarial present value of retirement benefit obligation using the actuarial appraisal approach and the value of pension plan assets available for benefits at the fiscal year-end. In calculating retirement benefit obligations, the Company has adopted the benefit formula basis as the method for attributing the expected retirement benefits to accounting periods. Some consolidated subsidiaries provide accrued retirement benefits for their employees mainly at the amounts of the projected benefit obligations calculated using the simplified method as permitted by the accounting standard for retirement benefits.

Actuarial differences arising from changes in the retirement benefit obligation or pension plan assets not anticipated under previous assumptions or from changes in the assumptions themselves that are yet to be recognized are amortized on a straight-line basis over ten years, a period not exceeding the average remaining service period of employees, from the year following the year in which they arise. Past service costs that are yet to be recognized are amortized on a straight-line basis over ten years, a period not exceeding the average remaining service period of the employees, from the year in which such costs arise. Actuarial differences and past service costs that are yet to be recognized in profit or loss have been recognized as retirement benefit adjustment under a component of accumulated other comprehensive income within the net assets section, after adjusting for tax effects, and the difference between retirement benefit obligations and plan assets has been recognized as employee retirement benefit liability or asset, without any adjustments, in the accompanying consolidated balance sheets.

(l) Accrued severance indemnities for directors

Some domestic consolidated subsidiaries may pay severance indemnities to directors, subject to the approval of the shareholders. Some domestic consolidated subsidiaries have provided for the full amounts of the liabilities for the directors' severance indemnities at the respective balance sheet dates.

(m) Translation of foreign currency accounts

Receivables, payables and securities other than stocks of subsidiaries and certain other securities are translated into Japanese yen at year-end exchange rates. Transactions in foreign currencies are recorded at the prevailing exchange rates on the transaction dates. Resulting translation gains and losses are included in current earnings.

For financial statement items of overseas consolidated subsidiaries, all asset and liability accounts are translated into Japanese yen by applying the exchange rates in effect at the fiscal year-end. All income and expense accounts are translated at the average rates of exchange prevailing during the fiscal year. Translation differences have been reported as foreign currency translation adjustments under a component of accumulated other comprehensive income and noncontrolling interests in the accompanying consolidated balance sheets.

(n) Income taxes

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

(o) Enterprise taxes

The Japan Transcity Group records enterprise taxes based on the "added value" and "capital" amounts when levied as sizebased corporate taxes for local government enterprise taxes and includes such taxes in operating costs and expenses.

(p) Appropriation of retained earnings

Cash dividends are recorded in the fiscal year when a proposed appropriation of retained earnings is approved by the board of directors and/or shareholders.

(q) Per share data

Net income per share is computed by dividing income available to common shareholders by the weightedaverage number of shares of common stock outstanding during the fiscal year. Cash dividends per share for each fiscal year in the accompanying consolidated statements of income represent dividends declared by the Company as applicable to the respective years. Diluted net income per share was not presented as of March 31, 2017 or 2016 due to the lack of any dilutive shares.

(r) Change in accounting policy

The Company and its domestic consolidated subsidiaries adopted “Revised Accounting Standard for Business Combinations” (ASBJ Statement No. 21, September 13, 2013 (hereinafter, “Statement No. 21”)), “Revised Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22, September 13, 2013 (hereinafter, “Statement No. 22”)) and “Revised Accounting Standard for Business Divestitures” (ASBJ Statement No. 7, September 13, 2013 (hereinafter, “Statement No. 7”)) (together, the “Business Combination Accounting Standards”) from the year ended March 31, 2016. As a result, the Company changed its accounting policies to recognize in capital surplus the differences arising from the changes in the Company’s ownership interest of subsidiaries over which the Company continues to maintain control and to record acquisition related costs as expenses in the fiscal year in which the costs are incurred. In addition, the Company changed its accounting policy for the reallocation of acquisition costs to complete following provisional accounting such reallocation in the consolidated financial statements for the fiscal year in which the business combination took place. The Company also changed the presentation of net income, and the term “noncontrolling interests” is used instead of “minority interests.” Certain amounts in the prior year comparative information were reclassified to conform to the changes in the current year presentation.

With regard to the application of the Business Combination Accounting Standards, the Company followed the provisional treatments in Article 58-2 (4) of Statement No. 21, Article 44-5 (4) of Statement No. 22 and Article 57-4 (4) of Statement No. 7 with application from the beginning of the year ended March 31, 2016 prospectively.

In the consolidated statement of cash flows, cash flows from acquisition or disposal of shares of subsidiaries with no changes in the scope of consolidation are included in “Cash flows from financing activities,” and cash flows from acquisition related costs for shares of subsidiaries with changes in the scope of consolidation or costs related to the acquisition or disposal of shares of subsidiaries with no changes in the scope of consolidation are included in “Cash flows from operating activities”.

The effect of these changes on the consolidated financial statements for the year ended March 31, 2016 was not material.

(s) Additional information

The Company and its domestic consolidated subsidiaries adopted “Revised Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No. 26, March 28, 2016) from the year ended March 31, 2017.

3. Fair Values of Financial Instruments

(a) Qualitative information on financial instruments:

① Policies for using financial instruments

The Company limits the use of excess funds to short-term deposits and raises funds through bank loans and bond issuances. Derivative instruments are mainly used to hedge against variable interest rate risk and to compensate loss when an earthquake occurs and are not used for speculative purposes.

② Details of financial instruments, risks and risk management system

Trade receivable notes and accounts carry credit risk of the company's trading partners. In response to such risk and pursuant to internal regulations of the Company, the due dates and balances of such receivables are managed for each counterparty, and the credit risks of the Company's main trading partners are identified every half year.

Although investments in securities are exposed to market price fluctuation risk, the Company stays abreast of the fair values of the shares of companies with which the Company has business relationships on a regular basis.

Trade payable notes and accounts are due within one year.

Loans payable and short-term borrowings are mainly used to raise capital for operational dealings, and long-term debt is used to fund capital investment.

Loans with variable interest rates involve the risk of interest rate fluctuation. For hedging purposes, the Japan Transcity Group is a party to derivative instruments such as interest rate swap contracts in the normal course of business to reduce its exposure to fluctuations in interest rates. Evaluating hedge effectiveness has not been required because of the exceptional treatment of interest rate swaps.

Guarantee deposits received consist mainly of deposit money for golf club memberships.

The Company enters into derivative contracts with financial institutions of high creditworthiness to reduce credit risk.

The Japan Transcity Group controls liquidity risk associated with operating payables and loans by its cash management systems, which control the funds of the Japan Transcity Group as a whole.

③ Supplemental information on fair values:

The contract amounts of derivative instruments under Note 3, "Fair Values of Financial Instruments," do not necessarily represent the market risk of the derivatives themselves.

(b) Fair values of financial instruments:

The carrying values of financial instruments included in the consolidated balance sheets and their fair values at March 31, 2017 and 2016 are set forth in the table below. Some financial instruments were excluded because it was extremely difficult to identify their fair values.

	Carrying value		Fair value		Difference	
	Millions of yen					
At March 31, 2017:						
(1) Cash and cash equivalents	¥	10,746	¥	10,746	¥	-
(2) Short-term investments		521		521		-
(3) Trade receivables		13,014		13,014		-
(4) Investment securities						
Marketable securities		7,609		7,609		-
Total assets	¥	31,890	¥	31,890	¥	-
(1) Trade payables	¥	8,407	¥	8,407	¥	-
(2) Short-term borrowings		2,390		2,390		-
(3) Long-term debt		25,598		25,649		51
Total liabilities	¥	36,395	¥	36,446	¥	51
At March 31, 2016:						
(1) Cash and cash equivalents	¥	10,660	¥	10,660	¥	-
(2) Short-term investments		369		369		-
(3) Trade receivables		13,505		13,505		-
(4) Investment securities						
Marketable securities		7,529		7,529		-
Total assets	¥	32,063	¥	32,063	¥	-
(1) Trade payables	¥	8,113	¥	8,113	¥	-
(2) Short-term borrowings		2,457		2,457		-
(3) Long-term debt		19,440		19,651		211
Total liabilities	¥	30,010	¥	30,221	¥	211

	Carrying value		Fair value		Difference	
	Thousands of U.S. dollars					
At March 31, 2017:						
(1) Cash and cash equivalents	$	95,946	$	95,946	$	-
(2) Short-term investments		4,652		4,652		-
(3) Trade receivables		116,197		116,197		-
(4) Investment securities						
Marketable securities		67,937		67,937		-
Total assets	$	284,732	$	284,732	$	-
(1) Trade payables	$	75,063	$	75,063	$	-
(2) Short-term borrowings		21,339		21,339		-
(3) Long-term debt		228,554		229,009		455
Total liabilities	$	324,956	$	325,411	$	455

Note 1. Methods used to calculate the fair values of financial instruments and other matters concerning securities and derivatives

Assets

(1) Cash and cash equivalents, (2) Short-term investments and (3) Trade receivables

The carrying values of cash and cash equivalents, short-term investments and trade receivables approximate their fair values because of their short maturities.

(4) Investment securities

The fair values of listed equity shares in investment securities are based on quoted market prices. For matters concerning securities classified by the purpose for which they are held, see Note 4, Investments.

Liabilities

(1) Trade payables and (2) Short-term borrowings

The carrying values of trade payables and short-term borrowings approximate their fair values because of their short maturities.

(3) Long-term debt

The fair value of long-term debt is computed based on the total amount of principal and interest discounted at an interest rate applicable to new loans under the same conditions.

Derivatives

① Derivative transactions to which hedge accounting was not applied: a derivative relating to earthquakes, whose outstanding contract amount was ¥300 million ($2,679 thousand) at both March 31, 2017 and 2016. As the fair value for the contract was not considered determinable, the contract has not been accounted for at fair value.

② Derivative transactions to which hedge accounting was applied: the contract amounts or amounts equivalent to the principal set forth in the contracts as of the fiscal year-end date were as follows.

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Contract amount (*1)	¥ 2,000	¥ 2,000	$ 17,857
Contract amount due after one year included in (*1)	2,000	2,000	17,857
Fair value	(39)	(55)	(348)

(*1) Method of hedge accounting applied: exceptional treatment for interest rate swaps
Type of derivative transaction: interest rate swap (fixed rate payment, floating rate receipt)
Hedged item: long-term debt
The fair value is measured in reference to the price obtained from the applicable financial institution.

Note 2. Financial instruments whose fair values could not be reliably determined:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Nonmarketable securities (*1)	¥ 494	¥ 494	$ 4,411
Stocks of nonconsolidated subsidiaries and affiliates (*1)	6,452	6,300	57,607
Guarantee deposits received (*2)	2,824	2,949	25,214
Derivative relating to earthquakes (*3)	17	17	152

(*1) It is extremely difficult to determine the fair values of nonmarketable securities because they do not have quoted market prices and their future cash flows cannot be estimated. Therefore, they were excluded from item (4), "Investment securities," in the table above.

(*2) It is extremely difficult to determine the fair values of guarantee deposits received because their scheduled redemption amounts cannot be estimated.

(*3) During the years ended March 31, 2007 and 2016, the Company entered into a derivative contract relating to earthquakes for hedging purposes. The outstanding contract amount was ¥300 million ($2,679 thousand) at both March 31, 2017 and

2016. As the fair value for the contract was not considered determinable, the contract has not been accounted for at fair value.

Note 3. Scheduled redemption amounts after the fiscal year-end date for monetary claims and securities with maturity periods:

	Due in one year or less	Due after one year	Due in one year or less	Due after one year	Due in one year or less	Due after one year
	Millions of yen				Thousands of U.S. dollars	
	2017		2016		2017	
Cash and cash equivalents	¥ 10,746	¥ -	¥ 10,660	¥ -	$ 95,946	$ -
Short-term investments	521	-	369	-	4,652	-
Trade receivables	13,014	-	13,505	-	116,197	-
Total	¥ 24,281	¥ -	¥ 24,534	¥ -	$ 216,795	$ -

4. Investments

At March 31, 2017 and 2016, short-term investments consisted of time deposits with an original maturity of more than three months.

At March 31, 2017 and 2016, investment securities consisted of the following.

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Marketable securities:			
Equity securities	¥ 7,600	¥ 7,519	$ 67,857
Other	9	10	80
	7,609	7,529	67,937
Other nonmarketable securities	494	494	4,411
	¥ 8,103	¥ 8,023	$ 72,348

Marketable investment securities classified as available-for-sale securities are stated at fair value with unrealized gains and losses excluded from current earnings and reported as a net amount within net assets until realized. At March 31, 2017 and 2016, gross unrealized gains and losses for marketable securities classified as available-for-sale securities were as follows.

	Cost	Gross unrealized gains	Gross unrealized losses	Fair and carrying value
	Millions of yen			
Available-for-sale securities at March 31, 2017:				
Equity securities	¥ 4,175	¥ 3,574	¥ (149)	¥ 7,600
Other	9	-	-	9
	¥ 4,184	¥ 3,574	¥ (149)	¥ 7,609
Available-for-sale securities at March 31, 2016:				
Equity securities	¥ 5,428	¥ 2,338	¥ (247)	¥ 7,519
Other	9	1	-	10
	¥ 5,437	¥ 2,339	¥ (247)	¥ 7,529

	Cost	Gross unrealized gains	Gross unrealized losses	Fair and carrying value
	Thousands of U.S. dollars			
Available-for-sale securities at March 31, 2017:				
Equity securities	$ 37,277	$ 31,911	$ (1,331)	$ 67,857
Other	80	-	-	80
	$ 37,357	$ 31,911	$ (1,331)	$ 67,937

5. Short-term Borrowings, Long-term Debt and Collateral

At March 31, 2017 and 2016, short-term borrowings consisted of the following.

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Unsecured short-term bank loans and bank overdrafts with interest rates ranging from 0.101% to 4.35% per annum at March 31, 2017	¥ 2,390	¥ 2,457	$ 21,339

At March 31, 2017 and 2016, long-term debt consisted of the following.

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Unsecured long-term loans from banks and other financial institutions due through 2026 with interest rates ranging from 0.1% to 2.0% per annum at March 31, 2017	25,598	19,440	228,554
Less portions with current maturities	(800)	(1,742)	(7,143)
	¥ 24,798	¥ 17,698	$ 221,411

The aggregate amounts of long-term debt due annually at March 31, 2017 were as follows.

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2018	¥ 800	$ 7,143
2019	2,983	26,634
2020	6,310	56,339
2021	5,102	45,554
2022	553	4,938
2023 and thereafter	9,850	87,946
	¥ 25,598	$ 228,554

The aggregate amounts of long-term lease obligations, which were other current liabilities and other long-term liabilities, due annually at March 31, 2017 were as follows.

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2018	¥ 203	$ 1,812
2019	95	848
2020	71	634
2021	35	313
2022	10	89
2023 and thereafter	-	-
	¥ 414	$ 3,696

Land of ¥795 million ($7,098 thousand) was available for pledges subject to the security of guarantee deposits received of ¥40 million ($357 thousand) at March 31, 2017 and 2016, respectively.

As is customary in Japan, substantially all loans from banks, including short-term loans, are made under general agreements which provide that, at the request of the relevant bank, the Japan Transcity Group is required to provide collateral or guarantees, and additional collateral or guarantees as appropriate, with respect to loans and that all assets pledged as collateral under such agreements will be used as collateral for all present and future indebtedness to the bank concerned. The Japan Transcity Group has not received such requests. The general agreements further provide that the banks have the right as indebtedness matures or becomes due prematurely by reason of default thereon to offset any deposits at the banks against indebtedness due.

6. Employee Retirement Benefits

The Company has defined benefit retirement plans. Some of the consolidated subsidiaries have defined benefit plans to which the simplified method is applied. In addition, some consolidated subsidiaries have defined contribution pension plans under certain pension funds organized by third parties.

The following table reconciles the retirement benefit liability (asset) and retirement benefit costs as at and for the years ended March 31, 2017 and 2016.

Defined benefit plans except those to which the simplified method has been applied:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Movement in retirement benefit obligations:			
Balance at beginning of the year	¥ 8,228	¥ 7,959	$ 73,464
Service cost	409	364	3,652
Interest cost	11	51	98
Actuarial differences	(165)	430	(1,473)
Benefits paid	(497)	(573)	(4,437)
Other	-	(3)	-
Balance at end of the year	¥ 7,986	¥ 8,228	$ 71,304

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Movement in plan assets:			
Balance at beginning of the year	¥ 9,751	¥ 11,357	$ 87,062
Expected return on plan assets	98	104	875
Actuarial differences	492	(471)	4,393
Contributions paid by the employer	251	543	2,241
Benefits paid	(462)	(514)	(4,125)
Partial return of assets from retirement benefits trust	-	(1,267)	-
Other	-	(1)	-
Balance at end of the year	¥ 10,130	¥ 9,751	$ 90,446

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Reconciliation from retirement benefit obligations and plan assets to liability (asset) for retirement benefits:			
Funded retirement benefit obligations	¥ 7,083	¥ 7,346	$ 63,241
Plan assets	(10,130)	(9,751)	(90,446)
	¥ (3,047)	¥ (2,405)	$ (27,205)
Unfunded retirement benefit obligations	903	882	8,063
Total net liability (asset) for employee retirement benefit at end of the year	¥ (2,144)	¥ (1,523)	$ (19,142)
Employee retirement benefit liability	919	892	8,206
Employee retirement benefit asset	(3,063)	(2,415)	(27,348)
Total net liability (asset) for retirement benefits at end of the year	¥ (2,144)	¥ (1,523)	$ (19,142)

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Retirement benefit costs:			
Service cost	¥ 409	¥ 364	$ 3,652
Interest cost	11	51	98
Expected return on plan assets	(98)	(104)	(875)
Actuarial differences amortization	355	24	3,170
Past service costs amortization	(18)	(18)	(161)
Effect on partial return of assets from retirement benefits trust	-	(253)	-
Total retirement benefit costs for the year	¥ 659	¥ 64	$ 5,884

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Retirement benefit adjustment, before taxes, included in other comprehensive income:			
Actuarial differences	¥ (1,013)	¥ 978	$ (9,045)
Past service costs	18	18	161
Total balance at end of the year	¥ (995)	¥ 996	$ (8,884)

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Retirement benefit adjustment, before taxes, included in accumulated other comprehensive income:			
Actuarial differences that are yet to be recognized	¥ (75)	¥ 938	$ (670)
Past service costs that are yet to be recognized	(31)	(50)	(277)
Total balance at end of the year	¥ (106)	¥ 888	$ (947)

Plan assets

	2017	2016
(1) Plan assets:		
Bonds	16%	14%
Equity securities	27%	23%
General account	8%	11%
Commingled funds	32%	35%
Other	17%	17%
Total	100%	100%

At March 31, 2017 and 2016, assets under the retirement benefit trust set up for corporate pension plans accounted for 26% and 22% of the total plan assets, respectively.

Both at March 31, 2017 and 2016, commingled funds consisted of bonds (66%) and equity securities (34%).

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

Principal actuarial assumptions at March 31, 2017 and 2016 expressed as weighted averages

	2017	2016
Discount rate	0.2%	0.1%
Long-term expected rate of return	1.0%	1.0%

Defined benefit plans to which the simplified method has been applied:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Movement in liability for retirement benefits:			
Balance at beginning of the year	¥ 943	¥ 955	$ 8,419
Retirement benefit costs	166	192	1,482
Benefits paid	(51)	(109)	(455)
Contributions paid by employer	(94)	(94)	(839)
Other	-	(1)	-
Balance at end of the year	¥ 964	¥ 943	$ 8,607

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Reconciliation from retirement benefit obligations and plan assets to liability (asset) for retirement benefits:			
Funded retirement benefit obligations	¥ 2,021	¥ 1,964	$ 18,045
Plan assets	(1,265)	(1,223)	(11,295)
	¥ 756	¥ 741	$ 6,750
Unfunded retirement benefit obligations	208	202	1,857
Total net liability (asset) for employee retirement benefits at end of the year	¥ 964	¥ 943	$ 8,607
Employee retirement benefit liability	991	968	8,848
Employee retirement benefit asset	(27)	(25)	(241)
Total net liability (asset) for retirement benefit at end of the year	¥ 964	¥ 943	$ 8,607

Total retirement benefit costs for the fiscal years ended March 31, 2017 and 2016 based on the simplified method were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
	¥ 166	¥ 192	$ 1,482

Defined contribution plan:
For the years ended March 31, 2017 and 2016, the required contribution of the consolidated subsidiaries to the defined contribution plan amounted to ¥44 million ($393 thousand) and ¥53 million, respectively.

7. Net Assets

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the board of directors, designate an amount not exceeding one-half of the prices of the new shares as additional paid-in capital, which is included in capital surplus.

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

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

At both March 31, 2017 and 2016, capital surplus principally consisted of additional paid-in capital. In addition, retained earnings included the legal earnings reserve of the Company in the amount of ¥1,200 million ($10,714 thousand) at both March 31, 2017 and 2016.

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

During the year ended March 31, 2017, the Company paid interim dividends of ¥5.0 per share amounting to ¥320 million ($2,857 thousand). In addition, at the annual shareholders' meeting held on June 29, 2017, the shareholders approved cash dividends of ¥5.0 per share amounting to ¥320 million ($2,857 thousand). These appropriations have not yet been accrued in the consolidated financial statements as of March 31, 2017 as such appropriations are recognized in the period in which they are approved by the shareholders.

8. Contingent Liabilities

At March 31, 2017 and 2016, the Japan Transcity Group was contingently liable for reserved guarantees of indebtedness of a certain unconsolidated subsidiary in the amounts of ¥199 million ($1,777 thousand) and ¥226 million, respectively.

9. Lease Commitments

The Japan Transcity Group leases, as lessee, land and buildings to be used for office spaces and warehouses principally under long-term cancelable and noncancelable operating lease agreements. The Japan Transcity Group also leases computer equipment, other equipment and vehicles under leases which are generally noncancelable.

For both the years ended March 31, 2017 and 2016, lease expenses under noncancelable lease agreements which were categorized as finance leases entered into before March 31, 2008 amounted to ¥117 million ($1,045 thousand).

The aggregate future minimum payments for noncancelable operating leases and finance leases, including imputed interest, at March 31, 2017 and 2016 were as follows.

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Operating leases:			
Due within one year	¥ 1,121	¥ 1,125	$ 10,009
Due after one year	1,168	1,571	10,429
	¥ 2,289	¥ 2,696	$ 20,438
Finance leases which were entered into before March 31, 2008 and not capitalized:			
Due within one year	¥ 82	¥ 117	$ 732
Due after one year	-	82	-
	¥ 82	¥ 199	$ 732

10. Income Taxes

The tax effects of temporary differences that gave rise to a significant portion of deferred tax assets and liabilities at March 31, 2017 and 2016 were as follows.

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Deferred tax assets:			
Enterprise tax accruals	¥ 77	¥ 52	$ 688
Accrued bonuses to employees	330	326	2,946
Employee retirement benefit liability	333	319	2,973
Intercompany capital gains	240	236	2,143
Net operating loss carryforwards	301	244	2,688
Impairment loss on fixed assets	1,184	1,194	10,571
Others	433	612	3,866
	2,898	2,983	25,875
Less valuation allowance	(1,584)	(1,526)	(14,143)
Deferred tax assets	1,314	1,457	11,732
Deferred tax liabilities:			
Deferred capital gain	(876)	(773)	(7,822)
Unrealized gains on available-for-sale securities	(1,046)	(636)	(9,339)
Others	(1,089)	(1,023)	(9,723)
Deferred tax liabilities	(3,011)	(2,432)	(26,884)
Net deferred tax liabilities	¥ (1,697)	¥ (975)	$ (15,152)

At March 31, 2017 and 2016, deferred tax assets and liabilities were as follows.

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Deferred tax assets:			
Current	¥ 184	¥ 374	$ 1,643
Noncurrent	578	618	5,160
Deferred tax liabilities:			
Current	¥ 182	¥ -	$ 1,625
Noncurrent	2,277	1,967	20,330

In assessing the realizability of deferred tax assets, management of the Japan Transcity Group considers whether part or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. At March 31, 2017 and 2016, a valuation allowance was provided to reduce the deferred tax assets to amounts management believed would be realizable.

Reconciliation of the difference between the Japanese statutory tax rate and the effective income tax rate on pretax income reflected in the accompanying consolidated statements of income for the year ended March 31, 2016 was as follows.

	Percentage of pre-tax income
	2016
Japanese statutory tax rate	32.6%
Increase (decrease) due to:	
Permanently nondeductible expenses	0.8
Tax exempt income	(2.1)
Local minimum taxes per capita levy	0.9
Effect of elimination of dividend income from subsidiaries for consolidation purpose	1.6
Equity in net earnings of unconsolidated subsidiaries and affiliates	(2.8)
Valuation allowance	(0.8)
Others	0.7
Effective income tax rate	30.9%

Reconciliation for the year ended March 31, 2017 was not disclosed because the difference was immaterial.

On March 29, 2016, amendments to the Japanese tax regulations were enacted into law. Based on the amendments, the effective statutory tax rate used in the fiscal year to measure deferred tax assets and liabilities expected to be settled or realized on or after April 1, 2016 was changed from the previous rate of 31.8% to 30.4% for temporary differences expected to be resolved during the period from April 1, 2016 to March 31, 2018 and to 30.2% for temporary differences expected to be resolved on or after April 1, 2018. As a result of the change, deferred tax liabilities, net of deferred tax assets, were ¥74 million less, net unrealized gains on available-for-sale securities ¥33 million more and retirement benefit adjustment ¥14 million less at March 31, 2016 than the amounts that would have been reported without the change. Deferred income taxes for the year ended March 31, 2016 were ¥55 million less than the amounts that would have been reported without the change. At March 31, 2016, deferred tax liabilities for revaluation were ¥204 million less than the amounts that would have been reported without the change and land revaluation decrement was the same.

11. Comprehensive Income

The amounts reclassified to net income (loss) in the current period that were recognized in other comprehensive income in the current or previous periods and the tax effects for each component of other comprehensive income for the years ended March 31, 2017 and 2016 were as follows.

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Net unrealized gains on available-for-sale securities			
Increase (decrease) during the year	¥ 1,420	¥ (1,426)	$ 12,679
Reclassification adjustments to profit or loss	(86)	2	(768)
Subtotal, before tax	1,334	(1,424)	11,911
Tax (expense) or benefit	(410)	489	(3,661)
Subtotal, net of tax	924	(935)	8,250
Land revaluation decrement			
Tax (expense) or benefit	-	204	-
Foreign currency translation adjustments			
Decrease during the year	(91)	(188)	(812)
Retirement benefit adjustment			
Increase (decrease) during the year	658	(900)	5,875
Reclassification adjustments to profit or loss	337	(96)	3,009
Subtotal, before tax	995	(996)	8,884
Tax (expense) or benefit	(301)	303	(2,688)
Subtotal, net of tax	694	(693)	6,196
Share of other comprehensive income of unconsolidated subsidiaries and affiliates accounted for using equity method:			
Decrease during the year	(8)	(25)	(71)
Total other comprehensive income	¥ 1,519	¥ (1,637)	$ 13,563

12. Segment Information

1. General information about reportable segments

The reportable segments are constituent business units of the Japan Transcity Group for which separate financial information is obtained and examined regularly by the Board of Directors to evaluate business performance. The Japan Transcity Group provides mainly integrated logistics services that consist of warehousing, coastal shipping, trucking and international multimodal transportation. Therefore, the Japan Transcity Group's reported segment is "Integrated Logistics Services."

2. Basis of measurement about reported segment profit, segment assets and other material items

The principle of accounting for the segment is presented on an operating income basis. Intersegment operating revenues or transfer amounts are based on market price.

Changes in accounting policies for depreciation method of property and equipment

As disclosed in Note 2(g), until the year ended March 31, 2015, the Company and its domestic consolidated subsidiaries depreciated property and equipment, except for buildings acquired on or after April 1, 1998 and lease assets, using the declining balance method. From the year ended March 31, 2016, the Company and its domestic consolidated subsidiaries changed their depreciation method for all properties to the straight-line method. As a result, for the year ended March 31, 2016, operating income in the "Integrated Logistics Services" and the "Others" segment was ¥421 million and ¥10 million more, respectively, than the amounts that would have been recorded without the change.

3. Information about reportable segment profit, segment assets and other material items

Information by segment as at or for the years ended March 31, 2017 and 2016 is as follows.

	Integrated Logistics Services	Others	Total	Adjustment	Consolidated
			Millions of yen		
For the year ended March 31, 2017:					
Operating revenue:					
External customers	¥ 90,187	¥ 1,145	¥ 91,332	¥ -	¥ 91,332
Intersegment sales	28	1,662	1,690	(1,690)	-
Total operating revenue	90,215	2,807	93,022	(1,690)	91,332
Operating income	¥ 2,853	¥ 198	¥ 3,051	¥ (71)	¥ 2,980
Identifiable assets	¥ 112,290	¥ 2,077	¥ 114,367	¥ (1,529)	¥ 112,838
Depreciation	2,569	70	2,639	-	2,639
Investments in unconsolidated subsidiaries and affiliates accounted for using the equity method	6,136	-	6,136	-	6,136
Capital expenditures	16,977	94	17,071	-	17,071
Amortization of goodwill	14	-	14	-	14
Balance of goodwill	28	-	28	-	28
For the year ended March 31, 2016:					
Operating revenue:					
External customers	¥ 92,074	¥ 1,144	¥ 93,218	¥ -	¥ 93,218
Intersegment sales	25	1,213	1,238	(1,238)	-
Total operating revenue	92,099	2,357	94,456	(1,238)	93,218
Operating income	¥ 3,601	¥ 184	¥ 3,785	¥ (3)	¥ 3,782
Identifiable assets	¥ 97,233	¥ 1,950	¥ 99,183	¥ (1,495)	¥ 97,688
Depreciation	2,332	68	2,400	-	2,400
Investments in unconsolidated subsidiaries and affiliates accounted for using the equity method	5,973	-	5,973	-	5,973
Capital expenditures	3,055	28	3,083	-	3,083
Amortization of goodwill	14	-	14	-	14
Balance of goodwill	42	-	42	-	42

	Integrated Logistics Services	Others	Total	Adjustment	Consolidated
	Thousands of U.S. dollars				
For the year ended March 31, 2017:					
Operating revenue:					
External customers	$ 805,241	$ 10,223	$ 815,464	$ -	$ 815,464
Intersegment sales	250	14,839	15,089	(15,089)	-
Total operating revenue	805,491	25,062	830,553	(15,089)	815,464
Operating income	$ 25,473	$ 1,768	$ 27,241	$ (634)	$ 26,607
Identifiable assets	$ 1,002,589	$ 18,545	$ 1,021,134	$ (13,652)	$ 1,007,482
Depreciation	22,937	625	23,562	-	23,562
Investments in unconsolidated subsidiaries and affiliates accounted for using the equity method	54,786	-	54,786	-	54,786
Capital expenditures	151,581	839	152,420	-	152,420
Amortization of goodwill	125	-	125	-	125
Balance of goodwill	250	-	250	-	250

(Related information)

1. Information about product and service

	Warehousing	Coastal shipping	Trucking	International multimodal transportation	Total
	Millions of yen				
For the year ended March 31, 2017:					
Operating revenue to external customers	¥ 34,790	¥ 19,813	¥ 17,814	¥ 17,770	¥ 90,187
For the year ended March 31, 2016:					
Operating revenue to external customers	¥ 34,605	¥ 19,155	¥ 17,518	¥ 20,796	¥ 92,074
	Thousands of U.S. dollars				
For the year ended March 31, 2017:					
Operating revenue to external customers	$ 310,625	$ 176,902	$ 159,053	$ 158,661	$ 805,241

2. Information about geographic areas

(1) Operating revenue

The information about geographic areas for the years ended March 31, 2017 and 2016 is as follows.

	Millions of Yen		Thousands of U.S. Dollars
Operating revenue	2017	2016	2017
Japan	¥ 81,219	¥ 81,093	$ 725,169
Other	10,113	12,125	90,295
	¥ 91,332	¥ 93,218	$ 815,464

(2) Property and equipment

The Company has omitted the disclosure of property and equipment because property and equipment in Japan accounted for more than 90% of the amounts of property and equipment reported in the consolidated balance sheets.

3. Information about major customers

The Company has omitted the disclosure of information about major customers because no customer had contributed 10% or more to operating revenue in the consolidated statements of income.

14. Condensed Financial Statements of Japan Transcity Corporation (Parent)

Presented below are the condensed nonconsolidated balance sheets, nonconsolidated statements of income and changes in net assets of Japan Transcity Corporation, the parent company.

Nonconsolidated Balance Sheets (Unaudited)
Japan Transcity Corporation (Parent)

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Current assets:			
Cash and cash equivalents	¥ 7,667	¥ 8,113	$ 68,455
Short-term investments	6	3	54
Trade receivables, net of allowance for doubtful accounts	11,927	12,048	106,491
Inventories	17	16	152
Deferred tax assets	-	192	-
Other current assets	1,556	1,464	13,893
Total current assets	21,173	21,836	189,045
Property and equipment, at cost	91,615	80,918	817,991
Less accumulated depreciation	(39,060)	(38,081)	(348,750)
Net property and equipment	52,555	42,837	469,241
Investments and other assets:			
Investment securities	7,366	7,510	65,768
Investments in and long-term loans to subsidiaries and affiliates	5,106	5,031	45,589
Prepaid pension cost	2,712	2,987	24,214
Lease deposits	458	460	4,089
Other assets	1,808	1,585	16,143
Allowance for doubtful accounts	(1,239)	(1,240)	(11,062)
Total investments and other assets	16,211	16,333	144,741
Total assets	¥ 89,939	¥ 81,006	$ 803,027

	Millions of yen 2017	2016	Thousands of U.S. dollars 2017
Current liabilities:			
Short-term borrowings	¥ 8,121	¥ 8,295	$ 72,509
Current maturities of long-term debt	540	1,450	4,821
Trade payables	6,541	6,236	58,,402
Accrued expenses	822	805	7,339
Income taxes payable	1,052	482	9,393
Other current liabilities	1,918	2,157	17,125
Deferred tax liabilities	182	-	1,625
Total current liabilities	19,176	19,425	171,214
Long-term liabilities:			
Long-term debt	22,485	16,625	200,759
Employee retirement benefit liability	660	563	5,893
Deferred tax liabilities for revaluation	1,899	1,897	16,955
Provision for loss on business of subsidiaries	1,567	1,567	13,991
Deferred tax liabilities	3,775	3,849	33,705
Other long-term liabilities	279	331	2,492
Total long-term liabilities	30,665	24,832	273,795
Total liabilities	49,841	44,257	445,009
Net assets:			
Shareholder's equity:			
Common stock	8,428	8,428	75,250
Capital surplus	6,733	6,733	60,116
Retained earnings	25,227	22,427	225,242
Less treasury stock, at cost	(1,270)	(1,198)	(11,340)
Total shareholders' equity	39,118	36,390	349,268
Accumulated gains (losses) from valuation adjustment:			
Net unrealized gains on available-for-sale securities	2,162	1,368	19,304
Land revaluation decrement	(1,182)	(1,009)	(10,554)
Total accumulated gains (losses) from valuation adjustment	980	359	8,750
Total net assets	40,098	36,749	358,018
Total liabilities and net assets	¥ 89,939	¥ 81,006	$ 803,027

Nonconsolidated Statements of Income (Unaudited)
Japan Transcity Corporation (Parent)
For the Years Ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Operating revenue	¥ 79,073	¥ 79,379	$ 706,009
Operating costs and expenses	77,278	77,116	689,982
Operating income	1,795	2,263	16,027
Other income (expenses):			
Interest and dividend income	687	657	6,134
Interest expenses	(132)	(177)	(1,179)
Gain on sale or disposal of property and equipment	1,938	32	17,304
Miscellaneous, net	362	91	3,232
	2,855	603	25,491
Income before income taxes	4,650	2,866	41,518
Income taxes:			
Current	1,392	793	12,429
Deferred	(41)	66	(366)
Total income taxes	1,351	859	12,063
Net income	¥ 3,299	¥ 2,007	$ 29,455

	Yen		U.S. dollars
Per share:			
Net income	¥ 51.56	¥ 31.24	$ 0.46
Cash dividends	10.00	10.00	0.09

Nonconsolidated Statements of Changes in Net Assets (Unaudited)
Japan Transcity Corporation (Parent)
For the Years Ended March 31, 2017 and 2016

	Shareholders' equity					Accumulated gains (losses) from valuation adjustment			
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains on available-for-sale securities	Land revaluation decrement	Total accumulated gains (losses) from valuation adjustment	Total net assets
	Millions of yen								
Balance at April 1, 2015	¥ 8,428	¥ 6,733	¥ 20,925	¥ (1,107)	¥ 34,979	¥ 2,210	¥ (1,075)	¥ 1,135	¥ 36,114
Net income for the year	-	-	2,007	-	2,007	-	-	-	2,007
Cash dividends	-	-	(643)	-	(643)	-	-	-	(643)
Purchase of treasury stock and fractional shares, net	-	0	-	(91)	(91)	-	-	-	(91)
Reversal of land revaluation decrement	-	-	138	-	138	-	-	-	138
Net changes other than shareholders' equity	-	-	-	-	-	(842)	66	(776)	(776)
Balance at March 31, 2016	¥ 8,428	¥ 6,733	¥ 22,427	¥ (1,198)	¥ 36,390	¥ 1,368	¥ (1,009)	¥ 359	¥ 36,749
Net income for the year	-	-	3,299	-	3,299	-	-	-	3,299
Cash dividends	-	-	(672)	-	(672)	-	-	-	(672)
Purchase of treasury stock and fractional shares, net	-	-	-	(72)	(72)	-	-	-	(72)
Reversal of land revaluation decrement	-	-	173	-	173	-	-	-	173
Net changes other than shareholders' equity	-	-	-	-	-	794	(173)	621	621
Balance at March 31, 2017	¥ 8,428	¥ 6,733	¥ 25,227	¥ (1,270)	¥ 39,118	¥ 2,162	¥ (1,182)	¥ 980	¥ 40,098
	Thousands of U.S. dollars								
Balance at March 31, 2016	$ 75,250	$ 60,116	$ 200,242	$ (10,697)	$ 324,911	$ 12,214	$ (9,009)	$ 3,205	$ 328,116
Net income for the year	-	-	29,455	-	29,455	-	-	-	29,455
Cash dividends	-	-	(6,000)	-	(6,000)	-	-	-	(6,000)
Purchase of treasury stock and fractional shares, net	-	-	-	(643)	(643)		-	-	(643)
Reversal of land revaluation decrement	-	-	1,545	-	1,545	-	-	-	1,545
Net changes other than shareholders' equity	-	-	-	-	-	7,090	(1,545)	5,545	5,545
Balance at March 31, 2017	$ 75,250	$ 60,116	$ 225,242	$ (11,340)	$ 349,268	$ 19,304	$ (10,554)	$ 8,750	$ 358,018