Japan Transcity Corporation

Consolidated Financial Statements

March 31, 2018 and 2017

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, 2018 and 2017, 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, 2018 and 2017, 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, 2018 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, 2018
Nagoya, Japan

Japan Transcity Corporation and Consolidated Subsidiaries
Consolidated Balance Sheets
March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Current assets:			
Cash and cash equivalents (Note 3)	¥ 9,526	¥ 10,746	$ 89,868
Short-term investments (Notes 3 and 4)	760	521	7,170
Trade receivables (Note 3)	14,970	13,014	141,226
Allowance for doubtful accounts	(28)	(17)	(264)
	14,942	12,997	140,962
Inventories	89	102	840
Deferred tax assets (Note 10)	369	184	3,481
Other current assets	3,288	2,487	31,019
Total current assets	28,974	27,037	273,340
Property and equipment:			
Land (Note 5)	32,420	32,528	305,849
Buildings and structures (Note 5)	72,967	54,766	688,368
Machinery and equipment	14,654	13,068	138,245
Vehicles and vessels	7,561	7,123	71,330
Construction in progress	174	12,661	1,642
Total property and equipment	127,776	120,146	1,205,434
Less accumulated depreciation	(57,386)	(55,270)	(541,377)
Net property and equipment	70,390	64,876	664,057
Investments and other assets:			
Investment securities (Notes 3 and 4)	8,741	8,103	82,462
Investments in unconsolidated subsidiaries and affiliates (Note 3)	6,699	6,452	63,198
Employee retirement benefit asset (Note 6)	3,495	3,090	32,972
Deferred tax assets (Note 10)	591	578	5,575
Other assets	2,346	2,724	22,132
Allowance for doubtful accounts	(19)	(22)	(179)
Total investments and other assets	21,853	20,925	206,160
Total assets	¥ 121,217	¥ 112,838	$ 1,143,557

	Millions of yen				Thousands of U.S. dollars	
	2018		2017		2018	
Current liabilities:						
Short-term borrowings (Notes 3 and 5)	¥	2,361	¥	2,390	$	22,274
Current maturities of long-term debt (Notes 3 and 5)		4,757		800		44,877
Trade payables (Note 3)		8,907		8,407		84,028
Accrued expenses		1,810		1,681		17,076
Income taxes payable		217		1,212		2,047
Deferred tax liabilities (Note 10)		-		182		-
Other current liabilities (Note 5)		2,632		6,260		24,830
Total current liabilities		20,684		20,932		195,132
Long-term liabilities:						
Long-term debt (Notes 3 and 5)		29,403		24,798		277,387
Employee retirement benefit liability (Note 6)		1,980		1,910		18,679
Guarantee deposits received (Notes 3 and 5)		2,655		2,824		25,047
Deferred tax liabilities for revaluation		3,773		3,775		35,594
Deferred tax liabilities (Note 10)		2,926		2,277		27,604
Other long-term liabilities (Note 5)		1,204		374		11,359
Total long-term liabilities		41,941		35,958		395,670
Total liabilities		62,625		56,890		590,802
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		79,509
Capital surplus		6,764		6,753		63,812
Retained earnings		40,341		38,847		380,575
Less treasury stock, at cost: 3,030,650 shares in 2018 and 3,235,740 shares in 2017		(1,190)		(1,270)		(11,226)
Total shareholders’ equity		54,343		52,758		512,670
Accumulated other comprehensive income:						
Net unrealized gains on available-for-sale securities		2,743		2,325		25,878
Land revaluation decrement		(1,184)		(1,182)		(11,170)
Foreign currency translation adjustments		235		256		2,217
Retirement benefit adjustment (Note 6)		547		74		5,160
Total accumulated other comprehensive income		2,341		1,473		22,085
Noncontrolling interests		1,908		1,717		18,000
Total net assets		58,592		55,948		552,755
Total liabilities and net assets	¥	121,217	¥	112,838	$	1,143,557

See accompanying Notes to Consolidated Financial Statements.

Japan Transcity Corporation and Consolidated Subsidiaries
Consolidated Statements of Income
For the Years Ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Operating revenue (Note 13)	¥ 95,609	¥ 91,332	$ 901,972
Operating costs and expenses (Notes 6 and 9)	93,264	88,352	879,849
Operating income	2,345	2,980	22,123
Other income (expenses):			
Interest and dividend income	403	400	3,802
Interest expense	(171)	(155)	(1,613)
Equity in net earnings of unconsolidated subsidiaries and affiliates	495	397	4,669
(Loss) gain on sale or disposal of property and equipment, net	(30)	2,000	(283)
Others, net	83	336	783
	780	2,978	7,358
Income before income taxes	3,125	5,958	29,481
Income taxes (Note 10):			
Current	1,029	1,837	9,707
Deferred	(123)	(64)	(1,160)
Total income taxes	906	1,773	8,547
Net income	2,219	4,185	20,934
Net income attributable to noncontrolling interests	135	163	1,274
Net income attributable to owners of the Company	¥ 2,084	¥ 4,022	$ 19,660

	Yen		U.S. dollars
Per share:			
Net income	¥ 32.55	¥ 62.85	$ 0.31
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, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Net income	¥ 2,219	¥ 4,185	$ 20,934
Other comprehensive income (Note 11):			
Net unrealized gains on available-for-sale securities	424	924	4,000
Foreign currency translation adjustments	47	(91)	444
Retirement benefit adjustment	473	694	4,462
Share of other comprehensive income of unconsolidated subsidiaries and affiliates accounted for using equity method	10	(8)	94
Total other comprehensive income	954	1,519	9,000
Comprehensive income	¥ 3,173	¥ 5,704	$ 29,934
Comprehensive income attributable to:			
Owners of the Company	¥ 2,979	¥ 5,552	$ 28,104
Noncontrolling interests	194	152	1,830

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, 2018 and 2017

		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, 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
Net income attributable to owners of the Company	-	-	-	2,084	-	2,084	-	-	-	-	-	-	2,084
Cash dividends	-	-	-	(640)	-	(640)	-	-	-	-	-	-	(640)
Change in scope of consolidation	-	-	-	48	-	48	-	-	-	-	-	-	48
Disposal of treasury stock and fractional shares, net of purchase	-	-	9	-	80	89	-	-	-	-	-	-	89
Purchase of additional shares of consolidated subsidiaries	-	-	2	-	-	2	-	-	-	-	-	-	2
Reversal of land revaluation decrement	-	-	-	2	-	2	-	-	-	-	-	-	2
Net changes other than changes in shareholders' equity	-	-	-	-	-	-	418	(2)	(21)	473	868	191	1,059
Balance at March 31, 2018	67,142,417	¥ 8,428	¥ 6,764	¥ 40,341	¥ (1,190)	¥ 54,343	¥ 2,743	¥ (1,184)	¥ 235	¥ 547	¥ 2,341	¥ 1,908	¥ 58,592

	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
	Thousands of U.S. dollars											
Balance at March 31, 2017	$ 79,509	$ 63,708	$ 366,481	$ (11,981)	$ 497,717	$ 21,934	$ (11,151)	$ 2,415	$ 698	$ 13,896	$ 16,198	$ 527,811
Net income attributable to owners of the Company	-	-	19,660	-	19,660	-	-	-	-	-	-	19,660
Cash dividends	-	-	(6,038)	-	(6,038)	-	-	-	-	-	-	(6,038)
Change in scope of consolidation	-	-	453	-	453	-	-	-	-	-	-	453
Disposal of treasury stock and fractional shares, net of purchase	-	85	-	755	840	-	-	-	-	-	-	840
Purchase of additional shares of consolidated subsidiaries	-	19	-	-	19	-	-	-	-	-	-	19
Reversal of land revaluation decrement	-	-	19	-	19	-	-	-	-	-	-	19
Net changes other than changes in shareholders' equity	-	-	-	-	-	3,944	(19)	(198)	4,462	8,189	1,802	9,991
Balance at March 31, 2018	$ 79,509	$ 63,812	$ 380,575	$ (11,226)	$ 512,670	$ 25,878	$ (11,170)	$ 2,217	$ 5,160	$ 22,085	$ 18,000	$ 552,755

See accompanying Notes to Consolidated Financial Statements.

Japan Transcity Corporation and Consolidated Subsidiaries
Consolidated Statements of Cash Flows
For the Years Ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Cash flows from operating activities:			
Income before income taxes	¥ 3,125	¥ 5,958	$ 29,481
Adjustments for:			
Depreciation	3,365	2,639	31,745
Net change in employee retirement benefit asset/liability	342	395	3,226
Loss (gain) on sale or disposal of property and equipment, net	30	(2,000)	283
(Increase) decrease in trade receivables	(2,045)	369	(19,292)
Decrease (increase) in inventories	13	(14)	123
Increase in trade payables	618	305	5,830
Others, net	(970)	(1,200)	(9,151)
Subtotal	4,478	6,452	42,245
Interest and dividends received	655	629	6,179
Interest paid	(164)	(155)	(1,547)
Income taxes paid	(2,075)	(1,389)	(19,575)
Net cash provided by operating activities	2,894	5,537	27,302
Cash flows from investing activities:			
Increase in property and equipment and intangible assets	(11,795)	(14,282)	(111,274)
Decrease in property and equipment and intangible assets	78	2,362	736
Increase in short-term investments	(200)	(156)	(1,887)
Others, net	29	1,511	274
Net cash used in investing activities	(11,888)	(10,565)	(112,151)
Cash flows from financing activities:			
Increase in long-term debt	9,800	8,000	92,453
Repayment of long-term debt	(1,237)	(1,842)	(11,670)
Decrease in short-term borrowings	(34)	(52)	(321)
Dividends paid	(640)	(672)	(6,038)
Others, net	(184)	(340)	(1,735)
Net cash (used in) provided by financing activities	7,705	5,094	72,689
Effect of exchange rate changes on cash and cash equivalents	(25)	20	(236)
Net (decrease) increase in cash and cash equivalents	(1,314)	86	(12,396)
Cash and cash equivalents at beginning of year	10,746	10,660	101,377
Increase in cash and cash equivalents upon inclusion of additional subsidiaries on consolidation	94	-	887
Cash and cash equivalents at end of year	¥ 9,526	¥ 10,746	$ 89,868

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 ("IFRS").

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, 2018, which was approximately ¥106 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, 2018 and 2017 were as follows.

	2018	2017
Consolidated subsidiaries:		
Domestic	25	25
Overseas	8	7
Unconsolidated subsidiaries and affiliates accounted for using the equity method	9	9
Unconsolidated subsidiaries stated at cost	10	10
Affiliates stated at cost	6	4

All intercompany accounts and transactions have been eliminated on consolidation.

The accompanying consolidated financial statements include the accounts of overseas consolidated subsidiaries (eight subsidiaries in 2018 and seven subsidiaries in 2017). 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 using straight-line method over 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 at March 31, 2018 and 2017 were as follows.

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Building	¥ 100	¥ 100	$ 943
Land	100	-	943

(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 the 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 net selling price or value in use. Fixed assets include intangible assets as well as land, buildings and other forms of property and are to be grouped at the lowest level for which there are identifiable cash flows 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 grouped principally into cash generating units such as regional business divisions.

While no impairment loss was recorded for the year ended March 2017, the Japan Transcity Group recognized impairment loss for the following idle properties for the year ended March 31, 2018.

	Millions of yen	Thousands of U.S. dollars
Buildings and structures	¥ 44	$ 415
Land	7	66
	¥ 51	$ 481

(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, 2018 and 2017, 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 ¥8,931 million ($84,255 thousand) and ¥9,033 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) 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.

(m) 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.

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.

(n) Enterprise taxes

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

(o) 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.

(p) Per share data

Net income per share is computed by dividing income available to common shareholders by the weighted average 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, 2018 or 2017 due to the lack of any dilutive shares.

(q) Accounting standards and guidance not yet adopted

The following standard and guidance have been issued but not yet adopted.

- Accounting Standard on Revenue Recognition (Corporate Accounting Standards No. 29, March 30, 2018 Accounting Standards Board of Japan)
- Implementation Guidelines on Accounting Standard on Revenue Recognition (Corporate Accounting Standards Application Guideline No.30, March 30, 2018 Accounting Standards Board of Japan)

① Overview

The International Accounting Standards Board (IASB) and US Financial Accounting Standards Board (FASB) co-developed a new comprehensive revenue recognition standard and published “Revenue from Contracts with Customers” in May 2014 (IFRS No. 15 in IASB, Topic 606 in FASB). Considering IFRS No. 15 will be applied from the fiscal year starting January 1, 2018 and Topic 606 from the fiscal year starting December 15, 2017, the Accounting Standards Board of Japan developed comprehensive Accounting Standards on Revenue Recognition and published them together with implementation guidelines.

In developing the Accounting Standards on Revenue Recognition, the Accounting Standards Board of Japan decided to incorporate the fundamental policy of IFRS No. 15 as the starting point from the perspective of comparability of financial statements, achieving consistency with IFRS No. 15. If matters arise in actual practice in Japan that require alternative handling, treatment will be added within a range that will not impair financial statement comparability.

② Planned date of application

We are planning to apply the Accounting Standards on Revenue Recognition from the beginning of the fiscal year ending in March 2022.

③ Impact of application on these accounting standards, etc.

We are currently assessing the impact the Accounting Standards on Revenue Recognition will have on the consolidated financial statements.

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 notes and accounts receivable 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 notes and accounts payable 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, 2018 and 2017 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, 2018:						
(1) Cash and cash equivalents	¥	9,526	¥	9,526	¥	-
(2) Short-term investments		760		760		-
(3) Trade receivables		14,970		14,970		-
(4) Investment securities:						
Marketable securities		8,244		8,244		-
Total assets	¥	33,500	¥	33,500	¥	-
(1) Trade payables	¥	8,907	¥	8,907	¥	-
(2) Short-term borrowings		2,361		2,361		-
(3) Long-term debt		34,160		34,136		(24)
Total liabilities	¥	45,428	¥	45,404	¥	(24)
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

	Carrying value		Fair value		Difference	
	Thousands of U.S. dollars					
At March 31, 2018:						
(1) Cash and cash equivalents	$	89,868	$	89,868	$	-
(2) Short-term investments		7,170		7,170		-
(3) Trade receivables		141,226		141,226		-
(4) Investment securities:						
Marketable securities		77,774		77,774		-
Total assets	$	316,038	$	316,038	$	-
(1) Trade payables	$	84,028	$	84,028	$	-
(2) Short-term borrowings		22,274		22,274		-
(3) Long-term debt		322,264		322,038		(226)
Total liabilities	$	428,566	$	428,340	$	(226)

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 ($2,830 thousand) at both March 31, 2018 and 2017. 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
	2018	2017	2018
Contract amount (*1)	¥ 2,000	¥ 2,000	$ 18,868
Contract amount due after one year included in (*1)	2,000	2,000	18,868
Fair value	(27)	(39)	(255)

(*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
	2018	2017	2018
Nonmarketable securities (*1)	¥ 497	¥ 494	$ 4,688
Stocks of nonconsolidated subsidiaries and affiliates (*1)	6,699	6,452	63,198
Guarantee deposits received (*2)	2,655	2,824	25,047
Derivative relating to earthquakes (*3)	19	17	179

(*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, 2018 and 2017, the Company entered into a derivative contract relating to earthquakes for hedging purposes. The outstanding contract amount was ¥300 million ($2,830 thousand) at both March 31, 2018 and 2017. 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	
	2018		2017		2018	
Cash and cash equivalents	¥ 9,526	¥ -	¥ 10,746	¥ -	$ 89,868	$ -
Short-term investments	760	-	521	-	7,170	-
Trade receivables	14,970	-	13,014	-	141,226	-
Total	¥ 25,256	¥ -	¥ 24,281	¥ -	$ 238,264	$ -

4. Investments

At March 31, 2018 and 2017, short-term investments consisted of time deposits with an original maturity of more than three months.

At March 31, 2018 and 2017, investment securities consisted of the following.

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Marketable securities:			
Equity securities	¥ 8,235	¥ 7,600	$ 77,689
Other	9	9	85
	8,244	7,609	77,774
Other nonmarketable securities	497	494	4,688
	¥ 8,741	¥ 8,103	$ 82,462

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, 2018 and 2017, 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, 2018:				
Equity securities	¥ 4,197	¥ 4,182	¥ (144)	¥ 8,235
Other	8	1	-	9
	¥ 4,205	¥ 4,183	¥ (144)	¥ 8,244
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

	Cost	Gross unrealized gains	Gross unrealized losses	Fair and carrying value
	Thousands of U.S. dollars			
Available-for-sale securities at March 31, 2018:				
Equity securities	$ 39,594	$ 39,453	$ (1,358)	$ 77,689
Other	76	9	-	85
	$ 39,670	$ 39,462	$ (1,358)	$ 77,774

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

At March 31, 2018 and 2017, short-term borrowings consisted of the following.

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Unsecured short-term bank loans and bank overdrafts with interest rates ranging from 0.13% to 4.35% per annum at March 31, 2018	¥ 2,361	¥ 2,390	$ 22,274

At March 31, 2018 and 2017, long-term debt consisted of the following.

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Unsecured long-term loans from banks and other financial institutions due through 2027 with interest rates ranging from 0.09% to 2.0% per annum at March 31, 2018	34,160	25,598	322,264
Less portions with current maturities	(4,757)	(800)	(44,877)
	¥ 29,403	¥ 24,798	$ 277,387

The aggregate amounts of long-term debt due annually at March 31, 2018 were as follows.

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2019	¥ 4,757	$ 44,877
2020	7,585	71,556
2021	5,477	51,670
2022	2,716	25,623
2023	6,325	59,670
2024 and thereafter	7,300	68,868
	¥ 34,160	$ 322,264

The aggregate amounts of long-term lease obligations, which were included in other current liabilities and other long-term liabilities, due annually at March 31, 2018 were as follows.

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2019	¥ 134	$ 1,264
2020	75	708
2021	40	377
2022	22	208
2023	11	104
2024 and thereafter	8	75
	¥ 290	$ 2,736

At March 31, 2018 and 2017, the following assets were pledged as collateral for current and noncurrent payables.

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Buildings	¥ 5,701	¥ -	$ 53,783

Land of ¥795 million was available for pledges subject to the security of guarantee deposits received of ¥40 million at March 31, 2017.

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, 2018 and 2017.

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

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Movement in retirement benefit obligations:			
Balance at beginning of the year	¥ 7,986	¥ 8,228	$ 75,340
Service cost	406	409	3,830
Interest cost	19	11	179
Actuarial differences	90	(165)	849
Benefits paid	(343)	(497)	(3,236)
Other	(1)	-	(9)
Balance at end of the year	¥ 8,157	¥ 7,986	$ 76,953

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Movement in plan assets:			
Balance at beginning of the year	¥ 10,130	¥ 9,751	$ 95,566
Expected return on plan assets	103	98	971
Actuarial differences	497	492	4,689
Contributions paid by the employer	253	251	2,387
Benefits paid	(332)	(462)	(3,132)
Other	(1)	-	(9)
Balance at end of the year	¥ 10,650	¥ 10,130	$ 100,472

	Millions of yen				Thousands of U.S. dollars	
	2018		2017		2018	
Reconciliation from retirement benefit obligations and plan assets to liability (asset) for retirement benefits:						
Funded retirement benefit obligations	¥	7,200	¥	7,083	$	67,925
Plan assets		(10,650)		(10,130)		(100,472)
	¥	(3,450)	¥	(3,047)	$	(32,547)
Unfunded retirement benefit obligations		957		903		9,028
Total net liability (asset) for employee retirement benefit at end of the year	¥	(2,493)	¥	(2,144)	$	(23,519)
Employee retirement benefit liability		975		919		9,198
Employee retirement benefit asset		(3,468)		(3,063)		(32,717)
Total net liability (asset) for retirement benefits at end of the year	¥	(2,493)	¥	(2,144)	$	(23,519)

	Millions of yen				Thousands of U.S. dollars	
	2018		2017		2018	
Retirement benefit costs:						
Service cost	¥	406	¥	409	$	3,830
Interest cost		19		11		179
Expected return on plan assets		(103)		(98)		(971)
Actuarial differences amortization		288		355		2,717
Past service costs amortization		(18)		(18)		(170)
Total retirement benefit costs for the year	¥	592	¥	659	$	5,585

	Millions of yen				Thousands of U.S. dollars	
	2018		2017		2018	
Retirement benefit adjustment, before taxes, included in other comprehensive income:						
Actuarial differences	¥	(695)	¥	(1,013)	$	(6,557)
Past service costs		18		18		170
Total balance at end of the year	¥	(677)	¥	(995)	$	(6,387)

	Millions of yen				Thousands of U.S. dollars	
	2018		2017		2018	
Retirement benefit adjustment, before taxes, included in accumulated other comprehensive income:						
Actuarial differences that are yet to be recognized	¥	(770)	¥	(75)	$	(7,264)
Past service costs that are yet to be recognized		(13)		(31)		(123)
Total balance at end of the year	¥	(783)	¥	(106)	$	(7,387)

Plan assets

	2018	2017
(1) Plan assets:		
Bonds	20%	16%
Equity securities	29%	27%
General account	5%	8%
Commingled funds	31%	32%
Other	15%	17%
Total	100%	100%

At March 31, 2018 and 2017, assets under the retirement benefit trust set up for corporate pension plans accounted for 27% and 26% of the total plan assets, respectively.

Both at March 31, 2018 and 2017, 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, 2018 and 2017 expressed as weighted averages

	2018	2017
Discount rate	0.1%	0.2%
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
	2018	2017	2018
Movement in liability for retirement benefits:			
Balance at beginning of the year	¥ 964	¥ 943	$ 9,094
Retirement benefit costs	175	166	1,651
Benefits paid	(71)	(51)	(670)
Contributions paid by the employer	(91)	(94)	(858)
Other	1	-	9
Balance at end of the year	¥ 978	¥ 964	$ 9,226

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Reconciliation from retirement benefit obligations and plan assets to liability (asset) for retirement benefits:			
Funded retirement benefit obligations	¥ 2,122	¥ 2,021	$ 20,019
Plan assets	(1,349)	(1,265)	(12,727)
	¥ 773	¥ 756	$ 7,292
Unfunded retirement benefit obligations	205	208	1,934
Total net liability (asset) for employee retirement benefits at end of the year	¥ 978	¥ 964	$ 9,226
Employee retirement benefit liability	1,005	991	9,481
Employee retirement benefit asset	(27)	(27)	(255)
Total net liability (asset) for retirement benefit at end of the year	¥ 978	¥ 964	$ 9,226

Total retirement benefit costs for the fiscal years ended March 31, 2018 and 2017 based on the simplified method were as follows:

Millions of yen		Thousands of U.S. dollars
2018	2017	2018
¥ 175	¥ 166	$ 1,651

Defined contribution plan:
For the years ended March 31, 2018 and 2017, the required contribution of the consolidated subsidiaries to the defined contribution plan amounted to ¥42 million ($396 thousand) and ¥44 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, 2018 and 2017, 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 ($11,321 thousand) at both March 31, 2018 and 2017.

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, 2018, the Company paid interim dividends of ¥5.0 per share amounting to ¥321 million ($3,028 thousand). In addition, at the annual shareholders' meeting held on June 28, 2018, the shareholders approved cash dividends of ¥5.0 per share amounting to ¥321 million ($3,028 thousand). These appropriations have not yet been accrued in the consolidated financial statements as of March 31, 2018 as such appropriations are recognized in the period in which they are approved by the shareholders.

8. Contingent Liabilities

At March 31, 2018 and 2017, the Japan Transcity Group was contingently liable for reserved guarantees of indebtedness of a certain unconsolidated subsidiary in the amounts of ¥172 million ($1,623 thousand) and ¥199 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 the years ended March 31, 2018 and 2017, lease expenses under noncancelable lease agreements which were categorized as finance leases entered into before March 31, 2008 amounted to ¥82 million ($774 thousand) and ¥117 million, respectively .

The aggregate future minimum payments for noncancelable operating leases and finance leases, including imputed interest, at March 31, 2018 and 2017 were as follows.

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Operating leases:			
Due within one year	¥ 1,175	¥ 1,121	$ 11,085
Due after one year	1,323	1,168	12,481
	¥ 2,498	¥ 2,289	$ 23,566
Finance leases which were entered into before March 31, 2008 and not capitalized:			
Due within one year	¥ -	¥ 82	$ -
Due after one year	-	-	-
	¥ -	¥ 82	$ -

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, 2018 and 2017 were as follows.

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Deferred tax assets:			
Enterprise tax accruals	¥ 28	¥ 77	$ 264
Accrued bonuses to employees	334	330	3,151
Employee retirement benefit liability	333	333	3,141
Intercompany capital gains	243	240	2,292
Net operating loss carryforwards	290	301	2,736
Impairment loss on fixed assets	1,196	1,184	11,283
Others	469	433	4,425
	2,893	2,898	27,292
Less valuation allowance	(1,588)	(1,584)	(14,981)
Deferred tax assets	1,305	1,314	12,311
Deferred tax liabilities:			
Employee retirement benefit asset	(89)	-	(840)
Deferred capital gain	(1,291)	(1,331)	(12,179)
Unrealized gains on available-for-sale securities	(1,236)	(1,046)	(11,661)
Others	(655)	(634)	(6,179)
Deferred tax liabilities	(3,271)	(3,011)	(30,859)
Net deferred tax liabilities	¥ (1,966)	¥ (1,697)	$ (18,548)

At March 31, 2018 and 2017, deferred tax assets and liabilities were as follows.

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Deferred tax assets:			
Current	¥ 369	¥ 184	$ 3,481
Noncurrent	591	578	5,575
Deferred tax liabilities:			
Current	¥ -	¥ 182	$ -
Noncurrent	2,926	2,277	27,604

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, 2018 and 2017, 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 years ended March 31, 2018 and 2017 were not disclosed because the differences were immaterial.

11. Comprehensive Income

The amounts reclassified to profit (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, 2018 and 2017 were as follows.

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Net unrealized gains on available-for-sale securities:			
Increase during the year	¥ 613	¥ 1,420	$ 5,783
Reclassification adjustments to profit or loss	-	(86)	-
Subtotal, before tax	613	1,334	5,783
Tax (expense)	(189)	(410)	(1,783)
Subtotal, net of tax	424	924	4,000
Foreign currency translation adjustments:			
Increase (decrease) during the year	47	(91)	444
Retirement benefit adjustment:			
Increase during the year	407	658	3,840
Reclassification adjustments to profit or loss	270	337	2,547
Subtotal, before tax	677	995	6,387
Tax (expense)	(204)	(301)	(1,925)
Subtotal, net of tax	473	694	4,462
Share of other comprehensive income of unconsolidated subsidiaries and affiliates accounted for using equity method:			
Increase (decrease) during the year	10	(8)	94
Total other comprehensive income	¥ 954	¥ 1,519	$ 9,000

12. Related Party Transaction

ASBJ Statement No. 11, "Accounting Standard for Related Party Disclosures", and ASBJ Guidance No. 13, "Guidance on Accounting Standard for Related Party Disclosures", both issued by ASBJ on October 17, 2006, require certain additional related party disclosures. Pursuant to the Statement and Guidance, information on a material affiliate, Chubu Coal Center Co., Ltd., has been disclosed for the year ended March 31, 2018 as follows:

	Millions of yen	Thousands of U.S. dollars
Total current assets	¥ 844	$ 7,962
Total fixed assets	8,942	84,359
Total current liabilities	1,324	12,491
Total fixed liabilities	280	2,641
Total net assets	8,182	77,189
Operating revenue	¥ 3,445	$ 32,500
Income before income taxes	1,120	10,566
Net income	778	7,340

13. 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.

3. Information about reportable segment profit, segment assets and other material items
Information by segment as at or for the years ended March 31, 2018 and 2017 is as follows.

	Integrated Logistics Services	Others	Total	Adjustment	Consolidated
	Millions of yen				
For the year ended March 31, 2018:					
Operating revenue:					
External customers	¥ 94,513	¥ 1,096	¥ 95,609	¥ -	¥ 95,609
Intersegment sales	26	2,179	2,205	(2,205)	-
Total operating revenue	94,539	3,275	97,814	(2,205)	95,609
Operating income	¥ 2,218	¥ 179	¥ 2,397	¥ (52)	¥ 2,345
Identifiable assets	¥ 121,066	¥ 2,516	¥ 123,582	¥ (2,365)	¥ 121,217
Depreciation	3,300	65	3,365	-	3,365
Investments in unconsolidated subsidiaries and affiliates accounted for using the equity method	6,386	-	6,386	-	6,386
Capital expenditures	8,878	50	8,928	-	8,928
Impairment loss on fixed assets	51	-	51	-	51
Amortization of goodwill	14	-	14	-	14
Balance of goodwill	14	-	14	-	14
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
Impairment loss on fixed assets	-	-	-	-	-
Amortization of goodwill	14	-	14	-	14
Balance of goodwill	28	-	28	-	28

	Integrated Logistics Services	Others	Total	Adjustment	Consolidated
	Thousands of U.S. dollars				
For the year ended March 31, 2018:					
Operating revenue:					
External customers	$ 891,632	$ 10,340	$ 901,972	$ -	$ 901,972
Intersegment sales	246	20,556	20,802	(20,802)	-
Total operating revenue	891,878	30,896	922,774	(20,802)	901,972
Operating income	$ 20,925	$ 1,688	$ 22,613	$ (490)	$ 22,123
Identifiable assets	$ 1,142,132	$ 23,736	$ 1,165,868	$ (22,311)	$ 1,143,557
Depreciation	31,132	613	31,745	-	31,745
Investments in unconsolidated subsidiaries and affiliates accounted for using the equity method	60,245	-	60,245	-	60,245
Capital expenditures	83,755	471	84,226	-	84,226
Impairment loss on fixed assets	481	-	481	-	481
Amortization of goodwill	132	-	132	-	132
Balance of goodwill	132	-	132	-	132

(Related information)

1. Information about products and services

	Warehousing	Coastal shipping	Trucking	International multimodal transportation	Total
	Millions of yen				
Operating revenue to external customers:					
For the year ended March 31, 2018	¥ 37,377	¥ 20,931	¥ 18,396	¥ 17,809	¥ 94,513
For the year ended March 31, 2017	34,790	19,813	17,814	17,770	90,187
	Thousands of U.S. dollars				
Operating revenue to external customers:					
For the year ended March 31, 2018	$ 352,613	$ 197,462	$ 173,547	$ 168,010	$ 891,632

2. Information about geographic areas

(1) Operating revenue

The information about geographic areas for the years ended March 31, 2018 and 2017 is as follows.

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Operating revenue:			
Japan	¥ 85,702	¥ 81,219	$ 808,510
Other	9,907	10,113	93,462
	¥ 95,609	¥ 91,332	$ 901,972

(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

Information on operating revenue from major customers for the year ended March 31, 2018 is as follows.

Customer's name	Relevant reportable segment	Millions of Yen	Thousands of U.S. Dollars
Aeon Global SCM Co., Ltd.	Integrated logistics services	¥ 9,634	$ 90,887

For the year ended March 31, 2017, 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
	2018	2017	2018
Current assets:			
Cash and cash equivalents	¥ 6,932	¥ 7,667	$ 65,396
Short-term investments	7	6	66
Trade receivables, net of allowance for doubtful accounts	13,848	11,927	130,642
Inventories	21	17	198
Deferred tax assets	194	-	1,830
Other current assets	2,296	1,556	21,660
Total current assets	23,298	21,173	219,792
Property and equipment, at cost	96,194	91,615	907,491
Less accumulated depreciation	(40,483)	(39,060)	(381,915)
Net property and equipment	55,711	52,555	525,576
Investments and other assets:			
Investment securities	7,880	7,366	74,340
Investments in and long-term loans to subsidiaries and affiliates	5,427	5,106	51,198
Prepaid pension cost	2,505	2,712	23,632
Other assets	2,189	2,266	20,651
Allowance for doubtful accounts	(1,334)	(1,239)	(12,585)
Total investments and other assets	16,667	16,211	157,236
Total assets	¥ 95,676	¥ 89,939	$ 902,604

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Current liabilities:			
Short-term borrowings	¥ 9,003	¥ 8,121	$ 84,934
Current maturities of long-term debt	3,715	540	35,047
Trade payables	6,781	6,541	63,972
Accrued expenses	874	822	8,245
Income taxes payable	50	1,052	472
Other current liabilities	1,639	1,918	15,462
Deferred tax liabilities	-	182	-
Total current liabilities	22,062	19,176	208,132
Long-term liabilities:			
Long-term debt	23,582	22,485	222,472
Employee retirement benefit liability	780	660	7,359
Deferred tax liabilities for revaluation	3,773	3,775	35,594
Provision for loss on business of subsidiaries	1,469	1,567	13,859
Deferred tax liabilities	2,307	1,899	21,764
Other long-term liabilities	319	279	3,009
Total long-term liabilities	32,230	30,665	304,057
Total liabilities	54,292	49,841	512,189
Net assets:			
Shareholder's equity:			
Common stock	8,428	8,428	79,509
Capital surplus	6,742	6,733	63,604
Retained earnings	26,078	25,227	246,019
Less treasury stock, at cost	(1,190)	(1,270)	(11,226)
Total shareholders' equity	40,058	39,118	377,906
Accumulated gains (losses) from valuation adjustment:			
Net unrealized gains on available-for-sale securities	2,510	2,162	23,679
Land revaluation decrement	(1,184)	(1,182)	(11,170)
Total accumulated gains from valuation adjustment	1,326	980	12,509
Total net assets	41,384	40,098	390,415
Total liabilities and net assets	¥ 95,676	¥ 89,939	$ 902,604

Nonconsolidated Statements of Income
Japan Transcity Corporation (Parent)
For the Years Ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Operating revenue	¥ 83,457	¥ 79,073	$ 787,330
Operating costs and expenses	81,933	77,278	772,953
Operating income	1,524	1,795	14,377
Other income (expenses):			
Interest and dividend income	704	687	6,642
Interest expenses	(140)	(132)	(1,321)
(Loss) gain on sale or disposal of property and equipment, net	(55)	1,938	(519)
Miscellaneous, net	73	362	689
	582	2,855	5,491
Income before income taxes	2,106	4,650	19,868
Income taxes:			
Current	738	1,392	6,963
Deferred	(121)	(41)	(1,142)
Total income taxes	617	1,351	5,821
Net income	¥ 1,489	¥ 3,299	$ 14,047

	Yen		U.S. dollars
Per share:			
Net income	¥ 23.26	¥ 51.56	$ 0.22
Cash dividends	10.00	10.00	0.09

Nonconsolidated Statements of Changes in Net Assets
Japan Transcity Corporation (Parent)
For the Years Ended March 31, 2018 and 2017

	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 from valuation adjustment	Total net assets
	Millions of yen								
Balance at April 1, 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
Net income for the year	-	-	1,489	-	1,489	-	-	-	1,489
Cash dividends	-	-	(640)	-	(640)	-	-	-	(640)
Disposal of treasury stock and fractional shares, net of purchase	-	9	-	80	89	-	-	-	89
Reversal of land revaluation decrement	-	-	2	-	2	-	-	-	2
Net changes other than shareholders' equity	-	-	-	-	-	348	(2)	346	346
Balance at March 31, 2018	¥ 8,428	¥ 6,742	¥ 26,078	¥ (1,190)	¥ 40,058	¥ 2,510	¥ (1,184)	¥ 1,326	¥ 41,384
	Thousands of U.S. dollars								
Balance at March 31, 2017	$ 79,509	$ 63,519	$ 237,991	$ (11,981)	$ 369,038	$ 20,396	$ (11,151)	$ 9,245	$ 378,283
Net income for the year	-	-	14,047	-	14,047	-	-	-	14,047
Cash dividends	-	-	(6,038)	-	(6,038)	-	-	-	(6,038)
Disposal of treasury stock and fractional shares, net of purchase	-	85	-	755	840	-	-	-	840
Reversal of land revaluation decrement	-	-	19	-	19	-	-	-	19
Net changes other than shareholders' equity	-	-	-	-	-	3,283	(19)	3,264	3,264
Balance at March 31, 2018	$ 79,509	$ 63,604	$ 246,019	$ (11,226)	$ 377,906	$ 23,679	$ (11,170)	$ 12,509	$ 390,415